



## Foreword

This publication provides general information about the Cypriot tax system, incorporating some useful notes and relevant tax figures, based on current tax legislation and practices. The tax information contained in this booklet is accurate as at the date of its publication.

The publication is limited for general guidance only and does not constitute professional tax advice. For any specific subject or query, the reader is encouraged to refer to the appropriate tax consultant. Contact details can be found at the end of this booklet.

Baker Tilly's tax team can assist international clients to develop an effective tax strategy consistent with their business objectives. Our mission is to proactively use our expertise that we have gained over years, to help our clients to resolve their needs and problems and to manage their tax risks. Acting on behalf of our clients, our focus is to offer a "one stop shop" approach, enabling our clients to have all their tax requirements catered for through a single point of contact.

Baker Tilly  
Cyprus

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## Definitions

### ***Cyprus tax resident individual***

An individual is considered as resident in Cyprus for income tax purposes if he/she stays physically in Cyprus for a period or periods exceeding 183 days in aggregate during a tax year.

### ***Cyprus tax resident company***

A company is considered as resident in Cyprus for corporate tax purposes if its management and control is exercised in Cyprus.

In general and in line with international tax principles, the following conditions should be considered to determine whether a company qualifies as a tax resident of Cyprus:

- All strategic (and preferably also day-to-day) management decisions are taken in Cyprus by the directors exercising their duties from Cyprus. This is usually achieved by having meetings of the Board of Directors take place in Cyprus and signing contracts, agreements and other relevant company documents relating to the management, control and administrative functions of the company in Cyprus.
- The majority of the directors of the company are preferably tax resident in Cyprus and they exercise their office from Cyprus. These directors should be sufficiently qualified with prior experience in the related industry.
- An actual administrative office is maintained in Cyprus, through where the actual management and control of the company is exercised.
- Hard copies of commercial documentation (agreements, invoices, etc.) are stored in the office facilities of the company.
- Accounting records of the company are prepared and kept in Cyprus.
- The bank accounts of the company are operated from Cyprus, even if the accounts are maintained with banks established outside Cyprus.

### ***Domiciled in Cyprus***

An individual is considered as domiciled in Cyprus if he/she has a domicile of origin in Cyprus as this is defined in the Wills and Succession Law (WSL) (i.e. domicile of the father at the time of birth), except in specified cases. The following individuals are not considered to be domiciled in Cyprus:

- An individual who has obtained and maintained a domicile of choice outside Cyprus in accordance with the Wills and Succession Law, provided that such an individual has not been a tax resident of Cyprus for a period of 20 consecutive years preceding the tax year in which he becomes tax resident of Cyprus; or

- An individual who has not been a tax resident of Cyprus for a period of 20 consecutive years prior to July 2015 (when the relevant changes in the law were introduced).

Notwithstanding the above, an individual, who has been a tax resident of Cyprus for at least 17 years out of the 20 years prior to the tax year, will be considered to be “domiciled in Cyprus”.

### ***Titles***

The term “titles” includes:

- ordinary shares, founder shares, preference shares and options on shares
- debentures and bonds
- short positions on titles, futures/forwards on titles and swaps on titles
- depositary receipts on titles (such as ADRs and GDRs)
- index participations only if they result in titles and repurchase agreements or Repos on titles
- participations in companies (provided that themselves are subject to taxation on their profits)
- units in open-end or closed-end collective investment schemes (which are incorporated, registered and operating according to the provisions of a specific and relevant legislation of the country in which they were founded).

### ***Active / passive interest***

Interest accrued from the ordinary business activities or closely connected to the ordinary business activities of an individual / company is treated as business income and is taxable only under income tax / corporation tax.

Other types of interest are considered as passive interest and are only subject to special defence contribution.

# Personal Income Tax

## Basis of taxation

***Tax residents are taxed on all chargeable income accrued or derived from all sources in Cyprus and abroad, and include:***

- Income from business
- Income from any office or employment
- Dividends and interest
- Rents and royalties
- Pensions and annuities

***Non-tax residents are taxed on certain income accrued or derived from sources in Cyprus, such as:***

- Income from any office or employment
- Pensions derived from past employment
- Rent from property
- The gross income derived by an individual from the exercise in Cyprus of any profession or vocation and the remuneration of public entertainers
- Directors' fees and similar remuneration in their capacity as directors of companies considered to be tax resident companies of Cyprus

## Personal tax rates

**The following income tax rates apply to all individuals:**

| Chargeable income for the tax year | Tax rate | Tax amount | Cumulative tax |
|------------------------------------|----------|------------|----------------|
| €                                  | %        | €          | €              |
| First 19.500                       | Nil      | Nil        | Nil            |
| From 19.501 – 28.000               | 20       | 1.700      | 1.700          |
| From 28.001 – 36.300               | 25       | 2.075      | 3.775          |
| From 36.301 – 60.000               | 30       | 7.110      | 10.885         |
| Over 60.000                        | 35       |            |                |

Foreign pension income is taxed at the flat rate of 5% on amounts over €3.420. However, the taxpayer can elect, on an annual basis, to be taxed at the normal tax rates and bands set out above.

Cyprus source widow(er)'s pension is taxed at the flat rate of 20% on amounts over €19.500. However, the taxpayer can elect, on an annual basis, to be taxed at the normal tax rates and bands set out above.

## Exemptions from employment income

### **50% exemption**

50% exemption applies on remuneration exceeding €100.000 per annum from any office or employment exercised in Cyprus by an individual who was tax resident outside Cyprus prior to the commencement of employment.

This exemption applies for the first ten years of employment. The 50% exemption is not available to an individual whose employment commenced on or after 1 January 2015 if such an individual was:

- tax resident of Cyprus for a period of three out of five years preceding the year of employment; or
- tax resident of Cyprus in the year preceding the year of commencement of employment.

### **20% exemption**

20% exemption applies on remuneration from any office or employment exercised in Cyprus by an individual who was resident outside Cyprus before the commencement of his employment. This exemption applies for a period of five years commencing from 1 January following the year of commencement of employment (provided the employment started during or after 2012). This exemption applies for tax years up to 2020.

In case the 50% exemption is claimed, the 20% exemption does not apply.

### **90 days rule**

Remuneration from salaried services rendered outside Cyprus for more than 90 days in a tax year of assessment to a non-Cypriot tax resident employer or to a foreign permanent establishment of a Cypriot resident employer is exempt from income tax in Cyprus.

## **Other exemptions available**

### **The following income is exempt from income tax:**

- Profits on disposal of shares or securities (titles)
- Lump sum payments on retirement or commutation of pension or a gratuity on death
- Foreign exchange gains (realized and unrealized), unless they result from trading in currencies and/or currency derivatives

### **Dividends**

Dividends received by a Cypriot tax resident individual are exempt from income tax (whether received from a company located in Cyprus or abroad) and instead are taxable under special contribution for defence.

### **Passive interest**

Passive interest received by a Cypriot tax resident individual (i.e. interest not accrued from the ordinary business activities or closely connected to the ordinary business activities) is exempt from income tax and instead is taxable under special contribution for defence.

## Tax deductions

### The following are deducted from taxable income:

- Subscriptions to trade unions or professional bodies
- Donations to approved charitable institutions, supported by receipts
- 20% deduction on rental income and 3% wear and tear allowance on the cost of the building (provided that the rented property is a building)
- Interest paid on a loan used to acquire the rented property
- Expenditure incurred by a person, who is an independent investor, to finance a small or medium sized “innovative business” (subject to conditions)
- Contributions to social insurance, provident fund, pension fund and medical fund (maximum 1,5% of remuneration)
- Life insurance premiums (allowed the lower between 7% of the capital sum insured and the actual amount of premium paid)

The maximum deduction allowed for contributions to the social insurance, provident fund, medical fund and life insurance premiums is up to 1/6 of the total taxable income of the individual.

## Benefits in kind

Benefits in kind paid by an employer to or on behalf of its employee, such as housing, travelling, school fees and food allowances, are taxable in the hands of the employees.

Loans or financial assistance from a company to an individual director, shareholder, or up to a second degree relative, are taxable as a monthly benefit in kind equal to 9% per annum on the amount of the loan or financial assistance, payable on a monthly basis by the company under the PAYE system.



# Corporation Tax

A Cypriot tax resident company is taxed on its income accrued or derived from all chargeable sources in Cyprus and abroad.

A non-Cypriot tax resident company is taxed on certain income accrued or derived from business activities carried out through a permanent establishment in Cyprus. The term “permanent establishment” describes a fixed place of business through which the business of an enterprise is wholly or partly carried on. The term “permanent establishment” includes, amongst others, a place of management, a branch, an office, a factory and / or a workshop.

## Corporate tax rate

The corporation tax rate for all companies is 12,5%.

In the case of insurance companies, where the corporation tax payable on taxable profit of the life insurance business is less than 1,5% of the gross premium, the difference is paid as additional corporation tax.

## Credit for foreign taxes

Any foreign taxes paid on income subject to corporation tax can be offset as a credit against the Cypriot corporation tax paid on such income. The tax credit cannot exceed the corporation tax due on the same income and any unrelieved foreign tax paid remains as a cost to the company.

## Exemptions available

- Passive interest
- Dividends
- Profits of a permanent establishment abroad
- Profits from the sale of securities (titles)
- Foreign exchange gains (realized and unrealized), unless they result from trading in currencies and/or currency derivatives

## Deductions

**Generally, expenses incurred wholly and exclusively in the course of the business, for the production of taxable income and supported by documentary evidence, are deductible for corporate tax purposes. Such expenses include the following:**

- Expenditure on patents, patent rights or intellectual property rights
- Expenditure incurred for research and development including research and development incurred by small and medium sized “innovative businesses”
- Expenses on entertainment for business purposes (lower of 1% of the gross income of the business and €17.086)

- Donations or contributions made for educational, cultural or other charitable purposes (with receipt)
- Employer's contributions to social insurance and approved provident funds on employees' salaries

### ***Deductibility of interest***

Interest expense incurred for the direct or indirect acquisition of 100% of the share capital of a subsidiary company will be treated as deductible for income tax purposes provided that the 100% subsidiary company does not own (directly or indirectly) any assets that are not used in the business. If the subsidiary owns (directly or indirectly) assets not used in the business, then the interest expense deduction is restricted to the amount which relates to assets used in the business. This applies for acquisitions of subsidiaries as from 1 January 2012.

### ***Notional interest deduction (NID)***

Corporate entities (including permanent establishments of foreign companies) are entitled to NID on new equity. The NID equals to the multiple of the reference interest rate and the new equity held and used by a company in the carrying on of its business activities.

“Reference interest rate” means the yield of the 10 year government bond of the country in which the new equity is invested, increased by 3%. The reference interest rate cannot be lower than the yield of the 10 year government bond of the Republic of Cyprus, increased by 3%. The bond yield is the one applicable as at 31 December of the year preceding the relevant tax year.

“New equity” means any equity introduced in the business on or after 1 January 2015 in the form of issued share capital and share premium (provided it is fully paid). New equity does not include amounts that have been capitalized as equity and which have resulted from revaluation of movable or immovable property.

The NID is considered as interest expense and is subject to the same limitation rules as normal interest expense.

The NID granted on new equity cannot exceed 80% of the taxable profit (before allowing for NID) generated from the investment of such equity funds. In the event of losses, the NID will not be available. Effectively, this means that the NID cannot create or increase a tax loss.

Taxpayers can elect not to claim the NID or claim part of it for each tax year.

## **Non - deductible expenses**

**The following expenses are NOT deductible for corporation tax purposes:**

- Expenditure for improvements, alterations or additions to immovable property
- Expenses in relation to the usage of a private motor vehicle
- Interest applicable to the cost of acquiring a private motor vehicle, irrespective of its use, and to the cost of acquiring any other asset not used in the business. This provision applies for 7 years from the date of acquisition of the asset.
- Salaries for which contributions in respect of provident funds, pension funds, social security and other related funds were not paid within the year of due payment are not allowed to be deducted. If paid within two years from the due date, the salaries and the related contributions will be allowed as a tax deductible expense in the year of payment.

## **Intellectual property (IP) rights**

### **New rules**

As from 1 July 2016 new rules apply for taxpayers wishing to obtain benefit under the so called “IP Box Regime”. The rules and conditions, which are applicable for assets which are developed after 1 July 2016, are summarized below.

### **Qualifying intangible assets**

“Qualifying intangible asset” means an asset which was acquired, developed or exploited by a person in furtherance of his business, (excluding intellectual property associated with marketing) and which is the result of research and development activities and includes intangible assets for which only economic ownership exists.

### **These assets are:**

- patents as defined in the Patents Law
- computer software
- other IP assets which are legally protected and they fall under one of the following:
  - > utility models, intellectual property assets which provide protection to plants and genetic material, orphan drug designations and extensions of protections for patents;
  - > non-obvious, useful, and novel, where the person which utilizes them in furtherance of a business does not generate annual gross revenues exceeding €7.500.000 (in case of a group of companies not exceeding €50.000.000), which are certified as such by an Appropriate Authority in Cyprus or abroad.

Business names (including brands), trademarks, image rights and other intellectual property rights used to market products and services are not considered as qualifying intangible assets.

### ***Qualifying expenditure***

“Qualifying expenditure” for qualifying intangible asset is the sum of total research and development costs incurred in any tax year, wholly and exclusively for the development, improvement or creation of qualifying intangible assets and which costs are directly related to the qualifying intangible assets.

### **Qualifying expenditure includes, but is not limited to, the following:**

- wages and salaries
- direct costs
- general expenses relating to installations used for research and development;
- expenses for supplies related to research and development activities
- costs associated with research and development that has been outsourced to non-related person

### **But do not include:**

- cost for the acquisition of intangible assets
- interest paid or payable
- costs relating to the acquisition or construction of immovable property
- amounts paid or payable directly or indirectly to a related person to conduct research and development activities, regardless of whether these amounts relate to cost sharing agreement
- costs which cannot be proved directly connected to a specific eligible intangible asset

### **An up-lift expenditure will be added to the above costs, which means the lower of:**

- 30% of the eligible costs, or
- the total amount of the cost of acquisition and outsourcing to related parties for research and development in relation to the eligible intangible asset.

### ***Qualifying income***

“Qualifying income” means the proportion of the overall income corresponding to the fraction of the qualifying expenditure plus the uplift expenditure over the total expenditure incurred for the qualifying intangible asset.

**Income includes, but is not limited to the following:**

- royalties or other amounts in connection with the use of qualifying intangible asset
- any amount for a license for the operation of qualifying intangible asset
- any amount received from insurance or as compensation in relation to the qualifying intangible asset
- capital gains and other income from the sale of qualifying intangible asset
- embedded income of qualifying intangible asset arising from the sale of products or by using procedures that are directly related to this item

**Overall Profit**

“Overall profit” arising from the qualifying intangible asset means the gross income accrued within the tax year, less the direct costs for generating such income.

**Direct costs****Direct costs include:**

- all direct and indirect costs incurred in earning the income from the qualifying intangible asset
- the amortization of the cost of the intangible
- notional interest on equity contributed to finance the development of the qualifying intangible asset

**Calculation of taxable profit**

80% of the overall profit derived from the qualifying intangible asset is treated as deductible expense. Every year the taxpayer may elect not to claim the whole or part of this allowance. In the case of a resulting loss, only 20% of the loss can be surrendered to other group companies or be carried forward to subsequent years.

**Accounting Records**

Any person who claims benefit under the above regime is obliged to maintain proper books of account and records of income and expenses for each intangible asset.

Assets which do not qualify for the transitional provisions for the IP Box regime

The cost of acquiring an intangible assets which does not qualify for the transitional provisions and which asset is used in furtherance of the business of the person can be amortized over the period of the useful life of the asset in accordance with accepted accounting principles with the maximum period being 20 years. In the case of sale of this intangible then a balancing statement must be prepared, the same way that such statement is calculated for fixed assets. Goodwill does not qualify for amortization.

## **Transitional arrangements for existing IP Box regime**

The existing IP Box regime (which was introduced in Cyprus in 2012) covers intangible assets which are defined in the Patents Law, the Trade Marks Law and the Intellectual Property Rights Law. Effectively, it provides for an exemption from taxation of 80% of the gross income from the use of the intangible, ie after deducting from the total revenues all direct costs (including interest and the amortization of the cost of the intangible over 5 years).

In the case of a resulting loss, only 20% of the loss can be surrendered to other group companies or be carried forward to subsequent years.

There are transitional provisions for persons who have entered the existing IP Box regime, which enables them to continue claiming the benefit until 30 June 2021 with respect to intangible assets which:

- > were acquired before 2 January, 2016; or
- > were acquired directly or indirectly from a related person during the period from 2 January 2016 until 30 June 2016 and which assets at the time of their acquisition were benefiting under the IP Box regime or under a similar scheme for intangible assets in another state; or
- > were acquired from an unrelated person or developed during the period from 2 January 2016 until 30 June 2016.

There are also transitional provisions until 31 December 2016 for intangible assets which were acquired directly or indirectly from a related person during the period from 2 January 2016 until 30 June 2016 and which do not fall under the above provisions.

## **Tax Losses**

### ***Set-off losses against profits of the same year***

The amount of any loss which, if a gain or profit would be subject to tax, is set off against the income of that person from other sources for the same year of assessment. The loss is computed in the same way as computing the profit.

### ***No carry back of losses is allowed***

Under the provisions of the Law the carry back of losses is not allowed.

### ***Carry forward of losses***

Where the amount of a loss, which, if a gain or profit would be subject to tax cannot be wholly set off against the person's income from other sources for that year of assessment, the amount of such loss, to the extent to which it is not set off, is carried forward and is set off against the income of such person for the next five subsequent years.

### ***Losses of a business carried on outside Cyprus***

Losses incurred by any person from any business carried on outside the Republic, whether through a permanent establishment or not, is allowed as a deduction from such person's income from other sources for the same year. To the extent that it cannot be wholly set off in this way, the remaining amount of such loss is carried forward and set off against such person's income for subsequent years.

### ***Surrendering of losses***

Losses may be surrendered by a company resident in Cyprus (the "surrendering company") to another company resident in Cyprus (the "claimant company").

### ***Definition of a group***

Two companies are deemed to be members of a group if:

- one is at least 75% subsidiary of the other; or
- both, each one separately, are at least 75% subsidiaries of a third company.

### ***Set-off of group loss***

Group companies may be a mixture of resident or non-resident companies, provided the non-resident company owns at least 75% of the resident company.

As from 1 January 2015, the group loss relief provisions are extended to cases where a subsidiary company which is tax resident in another EU member state, can surrender its taxable losses to another group member company tax resident in Cyprus, provided the subsidiary has exhausted all the means of surrendering or carrying forward the losses in its member state of residence, or to any intermediary holding company.

## **Reorganizations**

Transfers of assets and liabilities between companies can, subject to conditions, be effected without tax consequences within the framework of a reorganization and tax losses can be carried forward by the receiving entity.

### ***Types of reorganizations:***

- Merger
- Division
- Partial division
- Transfer of assets
- Exchange of shares
- Transfer of registered office of a European company (SE) or a European cooperative company (SCE).

### ***Anti-avoidance provisions for reorganizations***

A reorganization would only be eligible to qualify as tax-free, where the Commissioner is satisfied that such a reorganization has real commercial or financial purpose.

The Tax Commissioner may not exempt from tax, any profits arising from a reorganization, where, in his judgment, the main purpose or one of the main purposes of such a reorganization is the reduction, avoidance or deferment of payment of taxes or the direct or indirect transfer of any assets owned by a business without the payment or reduction or delay of payment of the taxes due.

The Commissioner may request supporting evidence, if, in his judgment, he considers necessary, to establish the purpose of the reorganization. In any case though, the Commissioner's decision not to grant the relevant tax exemptions due to reorganization should be fully justified. Such a decision can in anyway be objected in accordance with the relevant provisions of the Assessment and Collection of Taxes Law.

Should the Commissioner decide to approve the tax exemptions available due to re-organization, he may still enforce conditions in relation to:

- the number of shares which will be issued as a result of the re-organization; and
- the period for which the issued shares must be held by the recipient, which cannot exceed 3 years

Any shares listed in an approved stock exchange and any shares transferred due to hereditary succession are exempt from the holding period limitation. In case the conditions set by the Commissioner are not satisfied, then the reorganization would not qualify under the tax-free reorganization provisions of the Law and any tax initially not due would be considered as payable.

These anti-avoidance provisions apply as from 1 January 2016.



## Annual wear and tear allowances on tangible fixed assets

The following allowances which are given as a percentage on the cost of acquisition of fixed assets are deducted from the chargeable income:

|   | Percentage % |
|---|--------------|
| <b>Plant and Machinery</b>  |              |
| Plant and Machinery   | 10           |
| Furniture and fittings  | 10           |
| <b>Buildings</b>  |              |
| Commercial Buildings / Flats  | 3            |
| Industrial, agricultural and hotel buildings                        | 4            |
| <b>Computer Hardware and Software</b>                               |              |
| Computer hardware and operating systems                             | 20           |
| Application software:   |              |
| Up to €1.708,60   | 100          |
| Over €1.708,60  | 33 1/3       |
| <b>Vehicles and Means of Transportation</b>                         |              |
| Motor vehicles (except for private saloon cars) and motorcycles     | 20           |
| Tractors, excavators, cranes, bulldozers, forklifts and oil barrels | 25           |
| New airplanes   | 8            |
| New Helicopters   | 8            |
| <b>Boats</b>  |              |
| Sailing vessels   | 4,5          |
| Steamers, tugs and fishing boats                                    | 6            |
| Ship motor launches   | 12,5         |
| New cargo vessels   | 8            |
| New passenger vessels   | 6            |
| <b>Other</b>  |              |
| Photovoltaic Systems  | 10           |
| Wind Power Generators   | 10           |
| Tools in general  | 33 1/3       |

- Plant and machinery, vehicles (excluding private motor vehicles) and other assets acquired during the tax years 2012-2016 (inclusive) are eligible to accelerated tax depreciation at the rate of 20% (excluding such assets which are already eligible for a higher annual tax rate of tax depreciation).
- In the case of industrial and hotel building which are acquired during the tax years 2012-2016 (inclusive), an accelerated tax depreciation at the rate of 7% per annum applies.

## Shipping companies

The Cypriot Merchant Shipping Legislation (fully approved by the EU) provides for the exemption from taxation on income for qualifying ship owners, charterers and ship managers from the operation of qualifying ships from a qualifying shipping activity. Instead, annual tonnage tax is paid, based on the net tonnage of the ship.

Exemption is also given in relation to the salaries of officers and crew aboard a Cyprus ship.

### **Ship owners**

Ship owners of Cyprus flag ships automatically fall within the scope of the tonnage tax system.

Ship owners, tax residents of Cyprus, of community flag ships and foreign flag ships may opt to be taxed under the tonnage tax system.

Ship owners of foreign flag ships must comply with certain requirements to qualify for the option to be taxed under the tonnage system. These include the requirement that a share of the fleet be comprised of EU flag ships, which share must not be reduced within a three – year period following the exercise of the option. The commercial and strategic management of the fleet be carried out from the EU/EEA.

Any ship owner opting for the tonnage tax system must remain in the system for ten years.

#### **The exemption applies to:**

- Profits derived from the use/chartering out of the ships
- Interest income relating to the working capital of the company
- Profits from the disposal of qualifying ships
- Dividends received from the above profits at all distribution levels
- Profit from the disposal of ship owning companies and the distribution of this profit

The exemption also applies to the bare boat charterer of a vessel flying the Cyprus flag under parallel registration.

### **Charterers**

Any charterer, tax resident of Cyprus, who charters a ship under bareboat, demise, time or voyage charter is eligible for the tonnage tax system.

The law grants the exemption provided that the option to register for tonnage tax is exercised for all vessels, and provided a composition requirement is met: at least 25% (reduced to 10% under conditions) of the net tonnage of the vessels owned or bare boat chartered in.

A charterer opting for the tonnage tax system must remain in the system for ten years.

**The exemption applies to:**

- Profits derived from the operation of chartered in ships
- Interest income relating to the working capital of the company
- Dividends received from the above profits at all distribution levels

**Ship managers**

A ship manager, tax resident of Cyprus, who provides crew and/or technical management services is eligible for the tonnage tax system provided it satisfies certain criteria, which include:

- Maintain a fully-fledged office in Cyprus with personnel sufficient in number and qualification
- At least 51% of all onshore personnel must be community citizens
- At least 2/3 of the total tonnage under management must be managed within the community (any excess of 1/3 taxed under corporation tax)

A charterer opting for the tonnage tax system must remain in the system for ten years.

Ship managers pay only 25% of the tonnage tax calculated on the net tonnage of the ship.

**The exemption applies to:**

- Profits from technical and/or crew management
- Dividends paid out of these profits at all levels of distribution
- Interest income relating to the working capital of the company

**Tonnage Tax Rates**

| Units of net tonnage | Rate per 100 units of the net tonnage |               |
|----------------------|---------------------------------------|---------------|
|                      | Ship owners / charterers              | Ship managers |
| 0 – 1.000            | €36,50                                | €9,13         |
| 1.001 – 10.000       | €31,03                                | €7,76         |
| 10.001 – 25.000      | €20,08                                | €5,02         |
| 25.001 – 40.000      | €12,78                                | €3,20         |
| In excess of 40.000  | € 7,30                                | €1,83         |

Any residual tonnage of less than 100 units of net tonnage shall be charged proportionally.

**Administration**

Tonnage tax is payable on 31 of March each year and is calculated by reference to the net tonnage of the qualifying ships under one's ownership, charter or management.

# Withholding Taxes

## Dividends

Dividends paid to a non-resident company or individual are not subject to withholding tax. Dividends paid to a resident company are not subject to withholding tax (subject to the four-year rule).

Dividends paid to a resident and domiciled individual are subject to special contribution for defence at the rate of 17% (applied as a withholding tax).

## Interest

No withholding tax is imposed on interest paid to a non-resident company or individual.

Interest paid to a resident company or to a resident and domiciled individual is subject to special contribution for defence (deducted at source) at the rate of 30%.

## Royalties

Royalties paid to a non-resident for the use of rights in Cyprus are subject to a withholding tax of 5% on film royalties and 10% on all other royalties. These rates may be reduced under a tax treaty or the EU interest and royalties directive.

Royalties paid to a non-resident for the use of rights outside Cyprus are exempt from withholding tax.

There is no withholding tax on the payment of royalties by one resident company to another resident company.

## Special Contribution for Defence

Special Contribution for Defence (SDC) is imposed on dividend income, "passive" interest income and rental income earned by companies which are tax resident in Cyprus and by individuals who are both tax resident and domiciled in Cyprus.

Such tax is charged at the rates shown in the table below and is imposed on the gross income received or credited.

### Tax rates

|  | Individuals resident and domiciled % | Individuals resident and non-domiciled % | Legal entities resident in Cyprus % |
|--|--------------------------------------|--|-------------------------------------|
| Dividend income from Cyprus tax resident companies   | 17                                   | Nil                                      | Nil                                 |
| Dividend income from non-Cyprus tax resident companies   | 17                                   | Nil                                      | Nil                                 |
| Interest income arising from the ordinary activities or closely related to the ordinary activities of the business | Nil                                  | Nil                                      | Nil                                 |
| Other interest income ("passive")  | 30                                   | Nil                                      | 30                                  |
| Rental income received from Cyprus or abroad (reduced by 25%)  | 3                                    | Nil                                      | 3                                   |

Passive interest income is taxable under SDC at the rate of 30%. However, interest received by the Social Insurance Fund or a Provident Fund or interest received by a tax resident individual from Cyprus Governments sources (Government savings bonds and development bonds) is subject at the reduced rate of 3% (instead of 30%).

A Cypriot tax resident individual, whose annual income, including interest, does not exceed €12.000, has the right to a refund of the tax withheld on interest in excess of the amount corresponding to 3%.

### Deemed dividend distribution

A Cypriot tax resident company is obliged to pay 17% SDC on a deemed distribution of 70% of the accounting profits after tax and before set-off of losses brought forward from previous years. The deemed distribution takes place two years after the end of the year to which the profits relate to and the amounts subject to the deemed distribution are reduced by any actual dividends paid during the two years.

For example, profits of the tax year 2015 are subject to the deemed distribution rules as at 31 December 2017.

For the purpose of arriving at the profit subject to deemed distribution, any capital expenditure incurred in the acquisition of plant and machinery (excluding private saloon cars), and buildings during the years 2012 to 2014 is deducted from accounting profits after tax.

Deemed distribution does not apply in respect of profits that are directly or indirectly attributable to shareholders

that are not tax resident of Cyprus or to individuals who are tax residents but are not considered to be domiciled in Cyprus.

The rate of SDC for deemed distribution purposes is 17%.

## **Method and dates of payment of SDC**

### ***Dividends***

SDC on dividends paid by a Cypriot tax resident company to individuals who are tax residents of Cyprus (who are also domiciled in Cyprus) is deducted at source by the dividend paying Cypriot tax resident company and must be paid to the Cypriot tax authorities by the end of the following month.

Dividends received by individuals who are tax resident of Cyprus (who are also domiciled in Cyprus) and from which SDC has not been deducted at source (for example, dividends received from a non-tax resident company) are subject to SDC, which must be paid on a self-declaration basis by the individual on a six monthly basis.

### ***Passive Interest***

SDC on interest paid by a Cypriot tax resident company or individual to a tax resident company or to an individual (who is also domiciled in Cyprus), is deducted at source by the interest paying Cypriot tax resident company or individual. The SDC deducted must be paid to the Cypriot tax authorities by the end of the following month.

Interest received by tax resident companies or individuals (who are also domiciled in Cyprus) and from which SDC has not been deducted at source (for example, interest received from a non-tax resident company) is subject to SDC, which must be paid on a self-declaration basis on a six monthly basis.

### ***Rental Income***

75% of the rental income received is subject to SDC at the rate of 3%.

For Cypriot source rental income earned by a landlord who is either a tax resident company or individual (who is also domiciled in Cyprus) and where the tenant is a Cypriot company, partnership, the state, or a local authority, SDC is withheld at source and is payable at the end of the month following the month in which it was withheld.

In all other cases, the SDC on rental income received from Cyprus or abroad by Cypriot tax resident companies or individuals (who are also domiciled in Cyprus) must be paid on a self-declaration basis on a six monthly basis.

# Capital Gains Tax

Capital gains tax in Cyprus is imposed on gains from the disposal of property situated in Cyprus.

Disposal of shares listed on any recognized stock exchange are not subject to capital gains tax.

## Definitions

### ***Determination of profit***

The tax is imposed on the net profit from the disposal of the immovable property. The net profit is calculated as the disposal proceeds, less the greater of the cost or market value on 1 January 1980 adjusted for inflation. Inflation is calculated using the official Retail Price Index.

### ***Property means:***

- Immovable property which is situated in Cyprus
- Shares of companies whose property also consists of immovable property situated in Cyprus
- Shares of companies which directly or indirectly participate in a company or companies which own immovable property situated in Cyprus and at least the 50% of the market value of these shares comes from the market value of the immovable property situated in Cyprus

### ***Immovable property includes:***

- Land
- Buildings and other erections, structures or fixtures affixed to the land or to any buildings
- Other erections or structures
- An undivided share in any property set out above
- Oilfields and pipelines

### ***Chargeable disposals include:***

- A transfer of ownership of the property at the District Lands Office by sale, gift or exchange
- A transfer of a registered lease over 15 years
- An agreement for the sale on the basis of an agreement for sale
- An abandonment of the use or enjoyment of any relevant right

## Capital gains tax rate

Capital gains tax is imposed at the tax rate of 20%.

No other capital gains are taxable in Cyprus.

The tax is payable within one month from the date of disposal of the property.

## Exemptions

**The following disposals of immovable property are not subject to Capital Gains Tax (CGT):**

### ***Gifts***

- A gift made from parent to child or between spouses or relatives within the third degree of kindred.
- A gift of property made by a limited company, where all the shareholders are members of the same family, to any of its shareholders when the property which is gifted was acquired by the company also as a gift. The property must remain to the hands of the donee for a period of at least three years.
- A gift of property made to the Republic or a gift of property made for educational, instructive or other charitable purposes to a local authority or to any charitable institution in Cyprus approved as such by the Council of Ministers.

### ***Transfers***

- A transfer arising by reason of death / inheritance. In case of a future disposal of the property, the cost to be taken into consideration is deemed to be the cost of acquisition of the property by the deceased / donor or its value on 1 January 1980, whichever date is subsequent.
- A transfer of immovable property between estranged spouses after the issue of a divorce court order which constitutes a settlement of property between them under the relevant laws. The donee / transferee may elect, in case the property was acquired by the deceased / donor before 14 July 1974 that the value of the property be deemed to be the value as at 14 July 1974. Thus, effectively, the payment of capital gains tax is deferred until the property is actually sold by the new owner.

### ***Exchanges of shares and reorganizations***

- An exchange or sale of property under the Agricultural Land (Consolidation) Laws.
- An exchange of property where the market values of the exchanged properties are the same.
- A transfer of property in the course of an approved company reorganization. In case of a future disposal of the property, the cost to be taken into consideration is deemed to be the cost of acquisition of the property by the transferor or its value on 1 January 1980, whichever date is subsequent.
- A transfer of shares, under a company reorganization, representing the capital of the receiving or acquiring company to or by a shareholder of the transferring or



acquired company in exchange for shares representing the capital of the latter company. In case of a future disposal of the property, the cost to be taken into consideration is deemed to be the cost of acquisition of the property by the transferor or its value on 1 January 1980, whichever date is subsequent.

### **Property acquired between 16 July 2015 and 31 December 2016**

- Any immovable property (land or building) acquired during the period 16 July 2015 up to 31 December 2016 will be exempt from capital gains tax whenever its disposal takes place, provided that:
  - > The property consists of land, buildings, or land and buildings; and
  - > It is acquired from an independent third party; and
  - > It is not acquired through an exchange of property or through donation / gift.

### **Lifetime exemptions**

| The following can be deducted by individuals from the capital: | €      |
|--|--------|
| • Sale of own residence (subject to certain conditions)        | 85.430 |
| • Sale of agriculture land by a farmer                         | 25.629 |
| • Other sales  | 17.086 |

The combination of the above exemptions cannot exceed €85.430 per individual.

## Value Added Tax (VAT)

VAT is a tax on consumer expenditure, which has been adopted by all the EU member states, as well as a number of countries outside EU. VAT is based on a number of EU Directives which, subject to certain exceptions, have been incorporated into the Cypriot VAT legislation.

Taxable persons charge VAT on their taxable supplies (output tax) and are charged with VAT on goods or services which they receive (input tax). If total output tax in a VAT period exceeds total input tax, a payment has to be made to the state. If input tax exceeds output tax, the excess input tax is carried forward as a credit and set off against future output VAT.

### ***Where VAT is charged***

#### **VAT is charged on:**

- The supply of goods and services made in Cyprus for a consideration, by a taxable person in the course or furtherance of business
- The import of goods to Cyprus, irrespective of whether they are imported for business purposes or not, and whether the importer is a taxable person or not
- The intra-community acquisition of goods into Cyprus (usually by a taxable person)
- On certain services received from abroad by a taxable person

There are special rules for trade with businesses located in other EU member states.

### ***VAT rates***

#### **The legislation provides for the following tax rates:**

- Zero rate (0%)
- Reduced rate of five per cent (5%)
- Reduced rate of nine per cent (9%)
- Standard rate of nineteen per cent (19%)

### ***Taxable person***

#### **Under the provisions of the VAT legislation, a taxable person is a person who:**

- carries on a business, and
- is either registered or is required to be registered for VAT purposes.

A taxable person could be a company, a partnership, a sole trader, a joint venture, a club, a charity etc.

## ***Taxable supplies***

### **Supplies for VAT purposes can be:**

***Taxable supplies:*** A taxable supply is any supply of goods or services made within Cyprus, other than an exempt supply or a supply outside the scope of Cypriot VAT. Taxable supplies may be taxed at the reduced rate of 5% or 9% or at the standard rate of 19%.

***Zero-rated supply:*** This is a taxable supply but at zero rate (0%). Zero-rated supplies are exports and a number of other products and services.

***Exempt supplies:*** These are supplies which are specifically exempted from VAT.

### **Examples include the following exempt supplies:**

- Most banking, financial and insurance services
- Most hospital, medical and dental care services
- Certain cultural educational and sports activities
- Postal services provided by the national postal authority
- Lottery tickets and betting coupons for football and horse racing
- Management services provided to mutual funds
- The letting of immovable property (the letting of immovable property with the right of purchase is not exempt)
- Supplies of real estate (except supply of buildings before their first use) including supplies of land and of second-hand buildings

Persons who make only exempt supplies with EU parties cannot register for VAT purposes, however they should register if they receive services from abroad, which are subject to the reverse charge rules in Cyprus.

***Transactions which are outside the scope of VAT:*** Certain transactions are not considered supplies of goods nor supplies of services and, are therefore outside the scope of VAT.

### ***Difference between zero rate and exempt supplies***

The difference between zero rate and exempt supplies is that businesses that make exempt supplies are not entitled to recover the VAT charged on their purchases, expenses or imports.

## ***Input VAT***

Input VAT is the VAT paid by a taxable person on goods and services supplied to him or imported by him.

### **Input VAT is recoverable provided the following conditions are met:**

- The claimant must be a taxable person when the VAT was incurred
- The supply must have been made to the claimant
- The supply must be supported by the required evidence
- The claimant must use the goods or services for the purpose of carrying out his business

### **Input VAT is normally deductible to the extent it is incurred in making:**

- Taxable supplies (including standard, reduced and zero rated supplies) within Cyprus
- Supplies in the course of business which take place outside Cyprus, but would have been taxable in Cyprus, if they had been made in Cyprus

## ***Irrecoverable input VAT***

### **As an exemption to the general rule, input VAT cannot be recovered in the following circumstances:**

- Acquisitions used for making exempt supplies
- Purchase, import or hire of saloon cars
- Entertainment expenses for customers (those relating to employees and directors are allowed)

## ***VAT Registration***

Registration for VAT purposes can be either Compulsory Registration or Voluntary Registration.

### **A person is obliged to register if:**

- At the end of any month the value of taxable supplies for the last 12 months exceeds €15.600.
- At any time, when there are reasonable grounds to believe that the value of taxable supplies in the next 30 days from that point in time will exceed €15.600.
- At any time, it makes supplies of services to a taxable person in another EU member state which are taxable where that person is established.

A person may decide to register even though his taxable turnover falls below the registration limit, so he can recover the input tax he pays on purchases. However, that person must take into account the cost of compliance of being a VAT registered person.

***Imposition of the reduced rate of 5% on the acquisition and/or construction of residences for use as the primary and permanent place of residence***

The reduced rate of 5% applies to contracts that have been concluded from 1 October 2011 onwards provided they relate to the acquisition and/or construction of residences to be used as the primary and permanent place of residence for the next 10 years.

As from 8 June 2012 eligible persons include residents of non EU Member States, provided that the residence will be used as their primary and permanent place of residence in the Republic.

Certain conditions should apply for submitting the application to the Commissioner of Taxation.

***Imposition of the reduced rate of 5% on the renovation and repair of private residences***

The renovation and repair of old private residences (for which a period of at least three years has elapsed from the date of their first use) is subject to VAT at the reduced rate of VAT of 5%, excluding the value of materials which constitute more than 50% of the value of the services.

In addition the renovation and repair of old private residences (for which a period of at least three years has elapsed from the date of their first use) and which are used as the place of residence of vulnerable groups, or residences that are used as the place of residence and which are located in remote areas are subject to VAT at the reduced rate of 5%.

***VAT declaration – payment / refund of VAT***

VAT returns must be submitted quarterly and the payment of the VAT must be made by the 10th day of the second month that follows the month in which the tax period ends.

VAT registered persons have the right to request for a different filing period, which needs to be approved by the Tax Commissioner. The Tax Commissioner also has the right to request from a taxable person to file his VAT returns for a different period.

Where in a quarter, input tax is higher than output tax, the difference is refunded or is transferred to the next VAT quarters.

Taxpayers who make a claim for VAT refund will be entitled to repayment of the principal amounts together with interest in the event that the repayment is delayed for a period exceeding four months from the date of the submission of the claim.

The grace period for the Tax Department to repay the refundable amounts is extended by four months (i.e. eight months in total) in the event that the Commissioner of Taxation is carrying out an investigation in relation to the submitted claim.

| Thresholds and penalties   | Amount                |
|--|-----------------------|
|  | €                     |
| • Registration threshold (taxable supplies in Cyprus)  | 15.600                |
| • Registration threshold for distance sales (sale of goods to persons not subject to VAT registration in Cyprus, by suppliers resident in another EU Member State) | 35.000                |
| • Registration threshold for acquisition of goods in Cyprus, by suppliers resident in another EU Member State  | 10.252                |
| • Registration threshold for intra-community supply of services  | No threshold          |
| • Registration threshold for receipt of services from abroad for which the recipient must account for VAT under the reverse charge provisions                      | 15.600                |
| • Penalty for late submission of VAT return  | 51 for each return    |
| • Penalty for omission to keep books and records for a period of 6 years   | 341                   |
| • Penalty for late submission of VIES return   | 50 for each return    |
| • Penalty for late submission of corrective VIES return  | 15 for each return    |
| • Omission to submit the VIES return constitutes a criminal offence with a maximum penalty of  | 850                   |
| • Penalty for late registration with the VAT authorities   | 85 per month of delay |

## Transfer Fees by the Department of Land and Surveys

Land registration fees are imposed by the Land and Surveys Department on the transfer and registration of immovable property, which is defined in the Immovable Property (Tenure, Registration and Valuation) Law as follows:

- Land
- Buildings and other erections, structures or fixtures affixed to the land or to any building or other erections or structures
- An undivided share in any property

### Rates of fees

The fees charged by the Department of Land and Surveys of the acquirer for transfers of immovable property are as follows:

| Market Value    | Rate | Fee   | Accumulated Fees |
|-----------------|------|-------|------------------|
| €               | %    | €     | €                |
| 0 – 85.000      | 3    | 2.550 | 2.550            |
| 85.000 – 70.000 | 5    | 4.250 | 6.800            |
| Over 170.000    | 8    |       |                  |

Land transfer fees are not payable on transfers of immobile property from a company to another company under an approved reorganization scheme.

If VAT was paid on the purchase of the property, then no land transfer fees are payable.

## Social Insurance

| Contributions                              | Employee | Employer |
|--|----------|----------|
| Social Insurance                           | 7,8%     | 7,8%     |
| Social Cohesion Fund                       | -        | 2,0%     |
| Redundancy Fund                            | -        | 1,2%     |
| Human Resources Development Authority Fund | -        | 0,5%     |
| Holiday Fund (unless obtained exemption)   | -        | 8,0%     |

- The maximum amount allowed for Social Insurance Contribution purposes is €54.396 per annum for monthly paid employees, €54.392 per annum for weekly paid employees, €4.533 per month for monthly paid employees and €1.046 per week for weekly paid employees.
- The amount of contributions to Social Cohesion Fund is calculated on the total emoluments with no upper limit.
- An employer who has in place an annual vacation leave system which provides for more days than the ones provided under the Central Holiday Fund, he may obtain permission from the Social Insurance Department to be exempted from contributing to the Central Holiday Fund.
- The employer pays to the Social Insurance Department on a monthly basis his share of the contributions together with the amounts deducted from the emoluments of his employees. Penalties apply in case of late payment (maximum of 27%).
- The contributions of self-employed individuals are subject to the rate of 14,6%. It should be mentioned that the amount of the contributions is subject to a lower and a maximum limit, depending on the profession or trade of the self-employed person.
- The lower limits of income on which self-employed persons pay social insurance contributions are:

| Persons exercising a profession:  | €      |
|---|--------|
| > For a period under 10 years   | 19.949 |
| > For a period over 10 years  | 40.351 |
| Wholesales, estate agents and other businessmen   | 40.351 |
| Builders and other related businesses   | 24.483 |
| Guards, messengers, cleaners and shop owners  | 18.589 |
| Drivers of transportation media, operators of Excavators and similar occupations            | 19.496 |
| Farmers, stock breeders, fishermen, traveling salesmen and similar occupations              | 13.602 |
| Agents, musicians, designers and persons not included under any other occupational category | 19.949 |



# Stamp Duty

## Basic rules for instruments liable to duty

**Every instrument (i.e. agreement / contract) is subject to Cypriot stamp duty if:**

- it relates to any property situated in Cyprus, or
- it relates to any matter or thing which is performed or done in Cyprus.

The above obligation arises irrespective of whether the instrument is executed in Cyprus or abroad. It may be relevant to note that in case a document is executed outside of Cyprus and chargeable with duty, such document shall not be treated as executed or brought into force within Cyprus until it has been duly stamped with the proper duty.

When several instruments are executed for the completion of a simple transaction (whether executed at the same time or at different times) only the principal instrument shall be chargeable with the stamp duty and each of the other instruments shall be chargeable with a stamp duty of €2.

## Instruments subject to stamp duty at a fixed fee

| Nature of documents   | €  |
|---|----|
| > All documents embodying any agreement which do not stipulate a fixed amount | 35 |
| > Bill of Lading  | 4  |
| > Transfer of shares without consideration                                    | 8  |
| > Letters of credit   | 2  |
| > Letters of guarantee  | 4  |
| > Surrender of lease without consideration                                    | 4  |

## Instruments which are subject to stamp duty based on the value of the instrument

| Nature of documents   |
|---|
| > Agreements or memorandum of agreement and all documents embodying any agreement with a fixed amount |
| > Lease agreements  |
| > Bills of exchange payable other than on demand  |
| > Bonds   |
| > Promissory notes payable other than on demand   |
| > Surrender of lease with consideration   |
| > Contracts of employment   |

**The stamp duty payable on the value of the above instruments is as follows:**

|                             |  |
|-----------------------------|--|
| For sums €1 – €5.000        | Nil  |
| For sums €5.001 – €170.000  | €1,50 for every €1.000 or part of €1.000           |
| For sums exceeding €170.000 | €2 for every €1.000 or part of €1.000 plus €247,50 |

The maximum stamp duty payable is capped at €20.000.

**Time of payment of stamp duty and penalties payable for late payment**

The stamp duty is payable to the Inland Revenue Department at the time of execution. The stamp duty should be paid within 30 days from the execution date. If the stamp duty is paid within 6 months, penalties may be imposed.

## **Withholding Tax (WHT) tables based on Double Tax Treaties**

### **WHT on dividends, interest and royalties**

Cyprus does not impose a WHT on dividends, interest and royalties paid to non-residents of Cyprus, except in the case of royalties earned on rights used within Cyprus, which are subject to a WHT of 10% (5% in the case of cinematographic films).

Such Cyprus WHT on royalties for rights used within Cyprus may be reduced or eliminated by double tax treaties entered into by Cyprus or by the EU Interest and Royalty Directive as enacted in the Cypriot tax legislation.

### **WHT on other types of income**

Cyprus imposes a 10% WHT on technical services performed by non-residents in Cyprus. However no such WHT is imposed if such services are performed via a permanent establishment in Cyprus of the non-resident person or if performed between 'associated' companies as these are defined by the EU Interest and Royalty Directive (as enacted in the Cypriot tax legislation).

Cyprus also imposes a 10% WHT on the gross income / receipts derived by a non-resident individual from the exercise in Cyprus of any profession or vocation and the remuneration of non-resident public entertainers (such as theatrical, musical including football clubs, other athletic missions etc).

Further, a 5% WHT is imposed on gross income derived from within Cyprus by non-residents with no local permanent establishment relating to extraction, exploration or use of the continental shelf as well as the establishment and use of pipelines and other installations on the ground, on the seabed and on the surface of the sea.

### **WHT on dividend, interest and royalties tables**

Table A below illustrates the applicable Cyprus WHT rates on outbound royalty payments.

Table B, further below, illustrates the WHT rates provided for in the double tax treaties entered into by Cyprus. This table illustrates the maximum tax rates on Cyprus inbound payments which the treaty partner country may charge on such types of income qualifying under the respective treaty. The actual WHT rate charged may be lower / eliminated based on each paying country's domestic law provisions.

**Table A**  
**WHT on outbound payments from Cyprus**

| Paid from Cyprus         |                                       |
|--------------------------|---------------------------------------|
| Paid to                  | Royalties Rights used within Cyprus % |
| Non-treaty countries     | 5/10                                  |
| Armenia                  | 5                                     |
| Austria                  | Nil                                   |
| Bahrain                  | Nil                                   |
| Belarus                  | 5                                     |
| Belgium                  | Nil                                   |
| Bosnia                   | 5/10                                  |
| Bulgaria                 | 5/10                                  |
| Canada                   | 0/5/10                                |
| China                    | 5/10                                  |
| Czech Republic           | 0/10                                  |
| Denmark                  | Nil                                   |
| Egypt                    | 5/10                                  |
| Estonia                  | Nil                                   |
| Finland                  | Nil                                   |
| France                   | 0/5                                   |
| Georgia                  | Nil                                   |
| Germany                  | Nil                                   |
| Greece                   | 0/5                                   |
| Guernsey                 | Nil                                   |
| Hungary                  | Nil                                   |
| Iceland                  | 5                                     |
| India                    | 5/10                                  |
| Ireland                  | 0/5                                   |
| Italy                    | Nil                                   |
| Kuwait                   | 5                                     |
| Latvia                   | 0/5                                   |
| Lebanon                  | Nil                                   |
| Lithuania                | 5                                     |
| Malta                    | 5/10                                  |
| Mauritius                | Nil                                   |
| Moldova                  | 5                                     |
| Montenegro               | 5/10                                  |
| Norway                   | Nil                                   |
| Poland                   | 5                                     |
| Portugal                 | 5/10                                  |
| Qatar                    | 5                                     |
| Romania                  | 0/5                                   |
| Russia                   | Nil                                   |
| San Marino               | Nil                                   |
| Serbia                   | 5/10                                  |
| Seychelles               | 5                                     |
| Singapore                | 5/10                                  |
| Slovak Republic          | 0/5                                   |
| Slovenia                 | 5                                     |
| South Africa             | Nil                                   |
| Spain                    | Nil                                   |
| Sweden                   | Nil                                   |
| Switzerland              | Nil                                   |
| Syria                    | 5/10                                  |
| Thailand                 | 5/10                                  |
| Ukraine                  | 5/10                                  |
| United Arab Emirates     | Nil                                   |
| United Kingdom           | 0/5                                   |
| United States of America | Nil                                   |

*No tax is withheld for payment of dividends and interest to non-residents of Cyprus.*

*No tax is withheld when the royalty is paid for the use outside Cyprus.*

**Table B**  
**Maximum WHT on inbound payments to Cyprus**

| Received in Cyprus       |                |               |                |
|--------------------------|----------------|---------------|----------------|
| Paid from                | Dividends<br>% | Interest<br>% | Royalties<br>% |
| Armenia                  | 0/5            | 5             | 5              |
| Austria                  | 10             | Nil           | Nil            |
| Bahrain                  | Nil            | Nil           | Nil            |
| Belarus                  | 5/10/15        | 5             | 5              |
| Belgium                  | 10/15          | 0/10          | Nil            |
| Bosnia                   | 10             | 10            | 10             |
| Bulgaria                 | 5/10           | 0/7           | 10             |
| Canada                   | 15             | 0/15          | 0/10           |
| China                    | 10             | 10            | 10             |
| Czech Republic           | 0/5            | Nil           | 0/10           |
| Denmark                  | 0/15           | Nil           | Nil            |
| Egypt                    | 15             | 15            | 10             |
| Estonia                  | Nil            | Nil           | Nil            |
| Finland                  | 5/15           | Nil           | Nil            |
| France                   | 10/15          | 0/10          | 0/5            |
| Georgia                  | Nil            | Nil           | Nil            |
| Germany                  | 5/15           | Nil           | Nil            |
| Greece                   | 25             | 10            | 0/5            |
| Guernsey                 | Nil            | Nil           | Nil            |
| Hungary                  | 5/15           | 0/10          | Nil            |
| Iceland                  | 5/10           | Nil           | 5              |
| India                    | 10             | 0/10          | 10             |
| Ireland                  | Nil            | Nil           | 0/5            |
| Italy                    | 15             | 10            | Nil            |
| Kuwait                   | 0              | 0             | 5              |
| Latvia                   | 0/10           | 0/10          | 0/5            |
| Lebanon                  | 5              | 5             | Nil            |
| Lithuania                | 0/5            | Nil           | 5              |
| Malta                    | Nil            | 10            | 10             |
| Mauritius                | Nil            | Nil           | Nil            |
| Moldova                  | 5/10           | 5             | 5              |
| Montenegro               | 10             | 10            | 10             |
| Norway                   | 0/15           | Nil           | Nil            |
| Poland                   | 0/5            | 0/5           | 5              |
| Portugal                 | 10             | 10            | 10             |
| Qatar                    | Nil            | Nil           | 5              |
| Romania                  | 10             | 0/10          | 0/5            |
| Russia                   | 5/10           | Nil           | Nil            |
| San Marino               | Nil            | Nil           | Nil            |
| Serbia                   | 10             | 10            | 10             |
| Seychelles               | Nil            | Nil           | 5              |
| Singapore                | Nil            | 0/7/10        | 10             |
| Slovak Republic          | 10             | 0/10          | 0/5            |
| Slovenia                 | 5              | 5             | 5              |
| South Africa             | 5/10           | Nil           | Nil            |
| Spain                    | 0/5            | Nil           | Nil            |
| Sweden                   | 5/15           | 0/10          | Nil            |
| Switzerland              | 0/15           | Nil           | Nil            |
| Syria                    | 0/15           | 0/10          | 10/15          |
| Thailand                 | 10             | 10/15         | 5/10/15        |
| Ukraine                  | 5/15           | 2             | 5/10           |
| United Arab Emirates     | Nil            | Nil           | Nil            |
| United Kingdom           | 0/15           | 10            | 0/5            |
| United States of America | 5/15           | 0/10          | Nil            |

# Tax Diary

## Corporate tax compliance requirements in Cyprus

Corporate tax is collected through a self-assessment system.

Cyprus tax resident companies pay provisional tax on estimated taxable profits during the year of assessment, in two equal instalments on **31 July** (which is also the deadline for submission of the Provisional Tax Return) and **31 December**. Late payment of any instalment carries interest at the rate set by the Minister of Finance, which as of 1 January 2014 stands at 4% per annum (calculated on the basis of completed months) and a penalty of 5% (see section "Penalties").

The final tax liability, based on the actual taxable profits of a company, is again paid through a self-assessment system on or before **1 August** of the year following the year of assessment. A penalty of 10% is imposed on the final tax assessment, if the provisional tax paid is less than 75% of the final liability for the year.

Company tax returns (form IR4) must be filed not later than **31 December** of the year following the year of assessment (or by **31 March** of the subsequent year for electronic submissions). In the case of late filing an immediate penalty is imposed, with further penalties arising until submission (see section "Penalties").

Legal action may be initiated against the company and its directors for continued non-submission of company tax returns (see section "Penalties").

## Personal tax compliance requirements in Cyprus

Individuals are required to submit personal tax returns only when their gross income exceeds €19.500 annually. Individuals are obliged to submit audited financial statements if their turnover exceeds €70.000 annually.

A self-employed individual pays tax through the provisional and self-assessment systems.

The tax return must be filed by **30 April** following the tax year for an employee, **30 June** for a self-employed individual who is not required to file audited accounts and **31 December** for a self-employed person whose return is accompanied by audited accounts. On **30 September** is the electronic submission deadline of personal tax returns of individuals not required to prepare audited financial statements but whose incomes include income from trade/business, rents, dividends, interest, royalties or income relating to trading goodwill.

Self-employed individual with annual turnover of more than €70.000 must submit their tax return electronically, but the deadline for electronic submission of the return is extended by three months to **31 March** of the subsequent year following the tax year.

## **Employers' tax compliance requirements in Cyprus**

The employer withholds tax on employment income under the PAYE system, which must be paid to the tax authorities **by the end of the following month.**

**31 July** is the deadline date for the electronic submission by employers of the total payroll of the year (Form IR7).

# Penalties

## For late payment or non-payment of taxes

### *Interest for late payment of tax*

Interest is imposed where the tax due is not paid by the prescribed dates, either when the payment is made under a self-assessment or when the payment is made on the basis of an assessment raised by the Tax Commissioner. If an assessment is made by the Tax Commissioner after the lapse of 3 years from the due date of filing of the tax return, no interest is imposed, provided that the tax as per the tax return was paid on the due date and the tax return was filed on the due date.

The interest is calculated for complete months and it is based on the official rate announced by the Ministry of Finance from time to time (currently 4%).

### *5% additional tax*

An additional tax of 5% is imposed on the tax due in the following circumstances:

- In case the tax return was filed on time, but tax as per the return was not paid on time;
- In case neither the tax return was filed on time nor the tax as per the return was paid as at the due date;
- In cases the tax is assessed by the Director and the tax due is not paid within the time shown on the return (usually the end of following month).

### *Administrative penalties*

Administrative penalties apply in the following cases:

- €100, in case a person refuses, fails or neglects to notify or submit a tax return or to supply information or perform any duty within the deadline prescribed by the law.
- €200, in case a person refuses, fails or neglects to notify or submit a tax return or to supply information or to perform a duty (for which the law prescribe a deadline for the submission) within the deadline set by the Commissioner by notice (minimum 60 days).
- €100, in case a person refuses, fails or neglects to notify or submit a tax return or to supply information or to perform a duty (for which the law does not prescribe a deadline for the submission) within the deadline set by the Commissioner by notice (minimum 60 days) and the information required to be furnished relates to a third person.
- 5% of the tax due, in case a person fails to pay the tax due by the due date or within the period prescribed by a notice issued by the Tax Commissioner.



### ***Criminal liability for non-payment of taxes***

- Any person who is fraudulently dealing or omitting to pay taxes
- Any person who delays payment of taxes withheld by him, i.e. from salaries (such as PAYE and special contribution), payments to non-residents (such as films and royalties), as well as defence tax withheld from dividends, interest and rental income is guilty of an offence and is liable to fine plus imprisonment in the case of individuals. In the case of a company the directors, executive managers and accountants are also liable for penalties and imprisonment.

# Baker Tilly

## Baker Tilly in South East Europe

Baker Tilly in South East Europe is a leading firm of auditors, accountants, tax consultants and business advisors which was founded in Cyprus in 1996 and gradually expanded to the Balkans region. Baker Tilly in South East Europe operates through offices in Cyprus (Nicosia, Limassol and Larnaca), Bulgaria (Sofia), Romania (Bucharest), Moldova (Chisinau) and Greece (Athens and Thessaloniki).

## Baker Tilly International

Baker Tilly International is the 8th largest accounting network in the world by fee income and is represented by 165 firms with 745 offices in 141 countries, with a global fee income of \$3,8 billion and 28.000 people worldwide.

Through our membership with the Baker Tilly International network, we are able to draw resources and expertise to help meet the needs of our clients, solve complex business.

Baker Tilly International member firms demonstrate a high professional standard, as well as a strong commitment to the network's core values of integrity, leadership, transparency and ethics. Each member firm offers outstanding personal service combined with the expertise, strength and resources of a truly global network to support you as you grow regionally and globally.

## What sets Baker Tilly apart from the rest?

- ✓ Our highly specialised staff in the areas of audit, tax consulting and compliance services, transfer pricing, VAT, corporate finance, technical training business advisory and other specialist offerings work together under the same umbrella, sharing their knowledge and expertise to offer outstanding service to clients.
- ✓ Our one-stop shop approach. A complete range of services is offered through a single point of contact to ensure quick, proactive response in all areas of service
- ✓ Excellent links with our strong international network. We can help clients no matter where in the world they do business, offering seamless service all through a single point of contact

## One culture, one team

Our strong single-firm culture enables us to:

- ✓ Provide a seamless, holistic service to all our clients
- ✓ Apply uniform procedures and practices internally
- ✓ Adhere to the same, stringent quality control procedures in accordance with Baker Tilly International and Baker Tilly South East Europe requirements
- ✓ Develop our diverse team of high-calibre staff so that each of them is an expert in their field, all working together to exceed client expectations

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