



# **Cyprus Tax Guide**

**2020**

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# Preamble

Our “Cyprus Tax Guide 2020” provides valuable and useful information about the tax system in Cyprus, a compass for all those who want to understand the basic parameters of the Cyprus tax system and use them to achieve the best possible result for them.

*The information that follows consists solely as a guide and does not constitute proper professional advice.*

Our team is more than happy to hear your questions, study each component of your case and offer you a tailored, detailed and effective tax strategy applicable to each specific case facts.

We wish you all a happy and prosperous 2020 and express our acknowledgements for your trust.

**Active with needs in mind**



## Cypriot Tax Resident Individual

An individual is a tax 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.



***As from 1.1.2017 an individual may also be considered as tax resident of Cyprus for income tax purposes, provided that the following conditions are cumulatively met:***

he/she remains in Cyprus for at least 60 days during the tax year

he/she does not remain in any other state for one or more periods which altogether exceed 183 days in the same tax year

he/she is not tax resident in any other state for the same tax year

he/she pursues any business in Cyprus and/or he/she works in Cyprus and/or he/she is a director in a company tax resident in Cyprus at any time during the tax year

he/she maintains a permanent residence in Cyprus, which can be either owned or rented by him

# Cyprus Domicile

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.**

# Personal Income Tax



## Basis for taxation

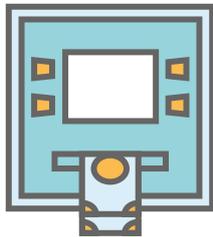
*Cyprus Tax residents* are taxed on all worldwide chargeable income.

*Non Cyprus tax resident* individuals 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 in Cyprus.
- ➔ 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

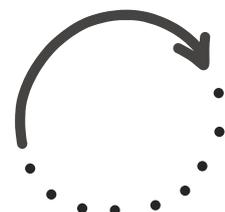
Taxable income for the year €	Tax rate %	Cumulative Tax
First 19 500	nil	nil
19 501-28 000	20	1700
28 001-36 300	25	3775
36 301-60 000	30	10885
Over 60 000	35	



## Taxation of pension

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.



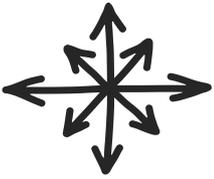
# Exemptions from Personal Income Tax

Profits on disposal of shares or securities (titles).	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.
Foreign exchange gains (realized and unrealized), unless they result from trading in currencies and/or currency derivatives.	
Lump sum received on retirement or commutation of pension or a gratuity on death.	50% exemption 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: <ul style="list-style-type: none"> <li>• tax resident of Cyprus for a period of three out of five years preceding the year of employment; or</li> <li>• tax resident of Cyprus in the year preceding the year of commencement of employment.</li> </ul>
Profits from sale of securities	
Passive interest received by a Cypriot tax resident individual (i.e. interest not arising 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 defense.	20% exemption 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.
Dividend received by a Cyprus tax resident individual is exempt from income tax and instead is taxable under special contribution for defense.	
National health insurance system ("NHIS) contributions.	

## Tax Deductions

The following are deducted from taxable income:

- • → Contributions to trade unions and professional bodies
- • → Interest on a loan to acquire immovable property
- • → Donations to approved charity institutions accompanied with 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)
- • → Contributions to social insurance, provident fund, pension fund and medical fund (up to 1.5% of remuneration)
- • → Life insurance premiums (maximum allowed the lower 7% of the capital sum insured and the actual 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)
- • → Amount invested by independent investor, to finance a small or medium sized "innovative business" (subject to conditions). This is subject up to 50% of the taxable income prior to the deduction
- • → Loss of current year and previous years( For individuals requires to submit audited financial statements losses, losses of only the previous 5 years may be deducted)
- • → Expenses incurred for the maintenance of a building under the Preservation Order ( Up to 700, 1000, or 1200 per square meter depending on the size of the building)



## 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.

Benefits in kind is also assessed on the private use of cars belonging to the employer. 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

## 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.
- ➔ The bank accounts of the company are operated from Cyprus, even if the accounts are maintained with banks established outside Cyprus.

**A Cyprus tax resident company is taxed on its worldwide income**



A non-Cyprus tax resident company is taxed on income accrued or derived from a permanent establishment in Cyprus of the non-Cyprus resident company.

**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.**

Foreign taxes paid are accrued against Cyprus corporate tax.

Controlled Foreign Company (“CFC”) rules are applied as from 1 January 2019, whereas non-distributed profits of CFCs directly or indirectly controlled by a Cypriot tax resident company, may become subject to tax in Cyprus (certain exemptions may apply).

## Corporation Tax Rate

The corporate tax rate is **12,5%**

### Exemptions from corporate tax

- 1** Profits of Permanent Establishment abroad
- 2** Passive interest but they may be subject to special defense contribution
- 3** Dividends but they may be subject to special defense contribution
- 4** Passive interest but they may be subject to special defense contribution
- 5** Profits from the sale of securities
- 6** Foreign Exchange (FX) gains with the exception of FX gains arising from trading in foreign currencies and related derivatives

## Deductible expenses

Generally, all expenses incurred wholly and exclusively in the course of the business and of producing taxable income are deductible for corporate tax purposes upon provision of documentary evidence including :



- Donations to approved charities with receipts
- Employer's contribution to
  - a. Medical fund for employees
  - b. Provident/Pension fund or employees
- Expenses on entertainment for business purposes (lower of 1% of the gross income of the business and €17.086)
- Expenses incurred for the maintenance of a building under the Preservation Order ( Up to 700, 1000, or 1200 per square meter depending on the size of the building)
- Expenditure for scientific research including research and development undertaken by an innovative small / medium business (the whole amount)
- Expenditure-subject to conditions- on film infrastructure and technological equipment ( up to 20%)
- Any amount of interest in relation to the acquisition of business assets used in business
- Interest expense incurred for the direct or indirect acquisitions of 100% share of the share capital of the subsidiary provided the 100% subsidiary company does not own any assets directly or indirectly not used in 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 such acquisitions of subsidiaries from 1 January 2012.



**National Interest deduction (NID)** in the introduction of new capital in the form of paid up capital or share premium introduced after 1 January 2015 into a Cyprus company provide the funds are used for the business of the company.

The deemed interest will be calculated on the basis on the basis of a "reference interest rate" that is the equal to the yield on the 10 year government bonds of the country where the new funds are invested plus 3%, with the minimum rate being the yield on the 10 year government bonds of Cyprus, plus 3%.

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.



Royalty income, embedded income and other qualifying income derived from qualifying intangible assets in the 'new' Cyprus intellectual property (IP) box (provision applies with effect from 1 July 2016)(1). 80% of the net profit as calculated using the modified nexus approach is considered as expense



Royalty income, embedded income and other qualifying income derived from qualifying intangible assets in the old Cyprus IP Box. 80% of the net profit



Tax amortization on any expenditure of a capital nature for the acquisition or development of IP (provision applies with effect from 1 July 2016) . Amortization is allocated over the lifetime of the IP (maximum period 20 years



# Non Deductible Expenses

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



Expenditure for improvements, alterations or additions to immovable property



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



Expenses in relation to the usage of a private motor vehicle



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

## Losses carried forward

The tax loss incurred during a tax year and which cannot be set off against other income is carried forward subject to conditions and set off against the profits for the next 5 years.

## Group Relief

The current year loss of one company can be set off against the profit of another, subject to conditions, provided the companies are Cyprus tax resident companies of a group(1).

Group is defined as :



One Cyprus tax resident company holding directly or indirectly at least 75% of the voting shares of another Cyprus tax resident company, or,

Both Cyprus tax resident companies are at least 75% (voting shares) held, directly or indirectly, by a third company.

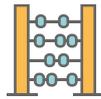
As from 1 January 2015 interposition of a non- Cyprus tax resident company(ies) will not affect the eligibility for group relief as long as such company(ies) is/are tax resident of either an EU country or in a country with which Cyprus has a tax treaty or an exchange of information agreement (bilateral or multilateral).

A partnership or a sole trader transferring a business into a company can carry forward tax losses into the company for future utilization.

Losses of an exempt foreign permanent establishment can be set off with profits of the Cyprus head office. In such case, future profits of an exempt foreign permanent establishment abroad are taxable up to the amount of losses allowed



# Annual wear and tear allowances on tangible fixed assets



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



Fixed assets (Vehicles and Means of Transportation )	%
Commercial motor vehicles:	20
Motor cycles	20
Excavators, tractors, bulldozers, self-propelled loaders and drums for petrol companies	25
Armored Motor Vehicles (e.g. used by Security Services)	20
Specialized Machinery for the laying of railroads (e.g Locomotive engines, Ballast wagons, Container wagons and Container Sleeper Wagons)	20
New Airplanes	8
New Helicopters & Sailing vessels	4,5
Motor Yachts:	6
Steamers, tugs and fishing boats & Ship motor launches	12,5
New cargo vessels	8
New passenger vessels	6
Used cargo/passenger vessels	Over their useful lives:



Fixed assets (Buildings)	%
Commercial buildings	3
Industrial, agricultural and hotel buildings	4
Flats	3
Metallic greenhouse structures	10
Wooden greenhouse structures	33 1/3

Fixed assets (Other)	%
Televisions and videos	10
Computer hardware and operating systems	20
Application software	33 1/3
Expenditure on application software less than €1,709, is written off in the year of acquisition.	
Wind Power Generators	10
Photovoltaic Systems	10
Tools in general	33 1/3
Videotapes property of video clubs	50

Fixed assets (Plant and Machinery)	%
Plant and machinery	10
Furniture and fittings	10
Industrial carpets	10
Boreholes	10
Machinery and tools used in an agricultural business	15

## Increased capital allowances

For all plant and machinery acquired during the tax years 2012-2019 (inclusive), a deduction for wear and tear at 20% per annum will be allowed (increased from 10% per annum).

Assets which are already eligible for a higher wear and tear allowance are excluded.

For industrial and hotel buildings and for agricultural and livestock production buildings acquired during the tax years 2012-2019 (inclusive), a deduction for wear and tear at 7% per annum will be allowed (increased from 4% per annum).

## Reorganizations

Transfers of assets and liabilities between companies can, subject to conditions, be effected in a tax neutral manner within the framework of a qualified re organization, and tax losses may be carried forward by the receiving entity.

Reorganizations include:

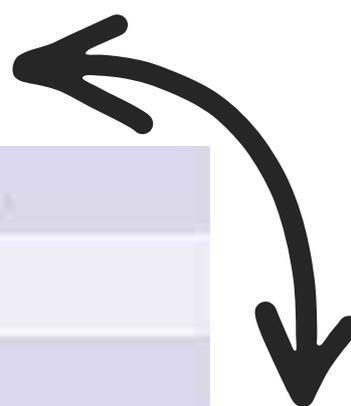
Mergers and demergers

Partial divisions

Transfer of assets

Exchange of shares

Transfer of registered office



# Special Type of Companies

## Shipping Companies

The Cypriot Merchant Shipping Legislation (fully approved by the EU) provides for exemption from taxation for qualifying ship owners, charterers and ship managers from the operation of qualifying ships from a qualified ship activity.

Instead annual tonnage tax is paid, based on the net tonnage of the ship.

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.

### 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***

## Ship Owners

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 at least 60% 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.

The income of a qualifying ship operator from the provision of ship management services of the crew and/or technical administration services.

Dividends paid directly or indirectly from the profits mentioned above.

Salaries or other benefits paid to the masters, officers and the crew of a qualifying Cyprus ship in a qualifying shipping activity.

## Charterers

Eligible for the TTS is a charterer who charters ships under bareboat, demise, time or voyage charter and:- is a tax resident of the Republic of Cyprus- has opted to be taxed under the TTS and- charters a qualifying ship, which is- engaged in a qualifying shipping activity.

### Exemption is given 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

*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.*

*When opting for the tonnage tax system a charterer must remain in the system for ten years.*

## 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 total tonnage under management must be managed within the community (any excess of 1/3 taxed under corporation tax).**

The application of the tonnage tax system is compulsory for owners of Cyprus flag ships and optional for owners of non Cyprus flag ships, charterers and ship managers.

Those who choose to enter the Tonnage Tax regime must remain in the system for at least 10 years unless they had a valid reason to exit such as disposal of their vessels and cessation their activities.

### The tax exemption covers :

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

# Tonage Tax Rate

Tonnage tax is charged on a sliding scale according to net tonnage. The initial rates charged to owners and charterers are outlined below:

*Units of net tonnage Rate per 100 units of the net tonnage.*



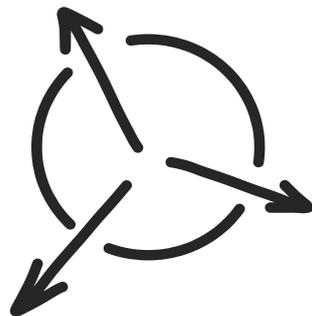
Administration Tonnage tax is payable on 31 of March each year and is calculated by reference to the net tonnage of the qualifying ships under one's ownership, charter or management.



## Additional tonnage tax for Paris MOU Gray and Black lists

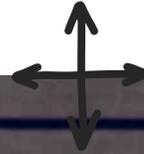
Cyprus shipping, the Merchant Shipping (Fees and Taxing Provisions) Law of 2010 imposes a surcharge on the tonnage tax payable regarding **qualifying vessels registered** in countries which appear on the 'grey list' or 'black list' of the Paris Memorandum of Understanding (MOU).

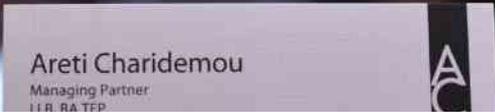
Article 17(2) provides for a **surcharge payable by owners of 30% for ships registered in countries appearing on the grey list and 60% for ships registered in countries appearing on the black list.** Articles 27(2) and 40(2) provide that corresponding surcharges are payable by charterers and managers, respectively.



## Insurance Companies

Profits of insurance companies are liable to corporation tax similar to all other companies except in the case where the corporation tax payable on taxable profit of life insurance business is less than 1,5% of the gross premiums. In this case the difference is paid as additional corporation tax.



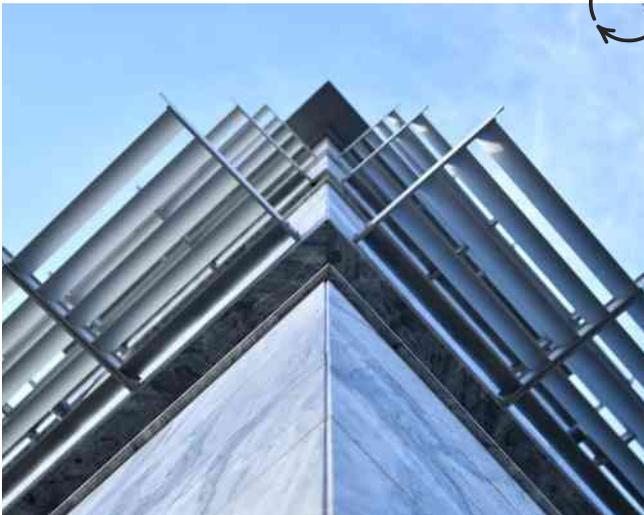


# The Alternative Investment Funds (AIFs) and Undertakings for Collective Investment in Transferable Securities (UCITS)



An AIF is a collective investment undertaking raising external capital from a number of investors with a view to investing it in accordance with a defined investment policy for the benefit of those investors, and that has not been authorized as an Undertaking for Collective Investments in Transferable Securities (UCITS).

AIFs that are established under domestic Cyprus fund legislation can be sold on a private placement basis or marketed to professional investors across the EU under the AIFMD passport.



# Types of Alternative Investment Funds (AIFs)

## **a** *Alternative Investment Fund with Unlimited Number of Persons*

- 1** May be marketed to “retail”, or “well-informed” and/or “professional investors”
- 2** Freely transferable investor shares
- 3** Must appoint a global custodian
- 4** Can be listed on a recognized stock exchange, and AIFs marketed to retail investors can be traded
- 5** Subject to minimum capital requirements of €125,000 or €300,000 if a self-managed fund
- 6** May be subject to certain investment restrictions depending on the investor type and the overall investment policy



## **b** *Alternative Investment Fund with Limited Number of Persons*

- 1** May be marketed only to “well-informed” and/or “professional investors”
- 2** Cannot exceed total number of 75 investors / unit holders
- 3** Freely transferable investor shares, with the condition that their transfer does not result in the AIF having more than 75 investors
- 4** In certain cases may not be required to appoint a licensed manager or a custodian
- 5** Assets under management do not exceed the AIFMD thresholds of €100 million (including leverage) or €500 million (5-year lock-up period without leverage)

## **c** *Registered AIFs ((RAIFs)*

## AIF can take the following legal forms:

### AIFLNP :

- ▷ Variable Capital Investment Company (VCIC)
- ▷ Fixed Capital Investment Company (FCIC)
- ▷ Limited Partnership (LP)

### AIF/RAIF :

- ▷ Variable Capital Investment Company (VCIC)
- ▷ Fixed Capital Investment Company (FCIC)
- ▷ Common Fund (CF)
- ▷ Limited Partnership (LP)

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## Undertaking for Collective Investment in Transferrable Securities (UCITS):

UCITS are defined by law as undertakings the sole object of which is the collective investment in transferable securities and/or other liquid financial instruments as referred to in section 40 (1) of the UCI Law, of capital raised from the public, which operate on the principle of risk-spreading, and the units of which are, at the request of investors, redeemed or repurchased, directly or indirectly, out of these undertakings' assets.

### *UCITS can take the following legal forms:*

- a. Common Funds( CF)
- b. Variable Company Investment Company ( VCIC)



## Key Tax Highlights

### *Taxation of Funds*

Funds which are opaque for tax purposes and which are managed and controlled in Cyprus are tax resident in Cyprus and are subject to the general provisions of the Cyprus tax framework.

In the case of funds which have compartments, each compartment is assessed separately for tax purposes subject to the provisions of the law.

Under circumstances and depending on the legal form of the fund, some funds may be transparent for tax purposes.

**Additional key provisions which are relevant to funds are set out below:**

#### **Sale of Fund Units**

There is no Capital Gains Tax on the gains arising from the disposal or redemption of units in funds unless the fund owns immovable property in Cyprus.

However, even if it owns immovable property in Cyprus, no Capital Gains Tax arises if the Fund is listed on a recognized stock exchange.

#### **Stamp Duty**

The subscription, redemption, conversion or transfer of a fund's units should be exempt from Cyprus stamp duty.

Certain employees and executives of the following investment fund management companies or internally managed investment funds may opt for a different mode of personal taxation :



Alternative Investment Fund Managers authorized under the Alternative Investment Fund Managers Law 56(I)/2013, as amended (hereinafter, the 'AIFM Law');

Internally managed AIFs authorized under the AIFM Law;

UCITS Management Companies authorized under the UCI Law; and

Internally managed UCITS authorized under the UCI Law.

Subject to conditions, their variable employment remuneration which is effectively connected to the carried interest of the fund managing entity may be subject to Cyprus tax at the flat rate of 8%, with a minimum tax liability of €10.000 per annum.

This special mode of taxation is available for a period of 10 years in total, subject to the annual election of the individual.

***No creation of a permanent establishment***



In accordance to Cyprus tax legislation no permanent establishment will be deemed to arise in Cyprus in cases of :

Investment into Cyprus tax-transparent investment funds by non-Cyprus tax resident investors, and

Management from Cyprus of non-Cyprus investment funds

# Profits from Intellectual Property (IP)



The "Old IP" regime closed as from 30/06/2016 but with transitional period of further 5 years i.e. up to 30/06/2021.

The provisions of the old regime are as follows:

- 1** The cost of acquisition of IP is written off in the year incurred and in the following 4 years i.e. 20% amortisation on a straight-line basis.
- 2** 80% of any income generated from the exploitation of the IP is exempt from taxation. The income is calculated after deducting all direct expenses associated with the production of that income.
- 3** 80% of any profit generated from the disposal of IP is exempt from taxation. The profit is calculated after deducting all direct expenses associated with the disposal.

The definition of IP includes all intangible assets described in the Patent Rights Law, the Intellectual Property Law and the Law regarding Trademarks. It therefore includes patents, trademarks, copyrights etc



## NEW IP BOX REGIME

On 14 October 2016, the Cyprus House of Representatives voted into law the revised IP Box Regime of Cyprus.

The above provisions apply until the 30th of June 2021, to intangible assets that qualified under the old IP regime before 2 January 2016, or to certain IP acquired during the period 2 January 2016 – 30 June 2016.

# Taxation of Qualifying Income

The calculation of taxable income will remain consistent with the previous IP Box Regime, and continue to allow for an 80% of the qualifying income to be treated as a deductible expense for tax purposes, resulting on an effective 20% tax rate. In the case of losses only 20% of the loss can be carried forward or be surrendered for the purpose of group loss relief.

Additionally, qualifying expenditure will only include the total research and development costs incurred in any tax year wholly and exclusively for the development, improvement or creation of qualifying intangible assets and where costs are directly related to the qualifying intangible assets. An uplift expenditure will be added to this.

Proper books of account and records of income and expenses must be kept for each intangible asset by any person who wishes to claim the above described benefit.

## 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.

Qualifying intangible assets are :

Patents

Computer software

IP assets that are nonobvious, useful and novel. For the latter, it is required that the IP is utilized for the furtherance of business and does not generate annual gross revenues exceeding €7.500.000 or €50.000.000 in case of a group of companies

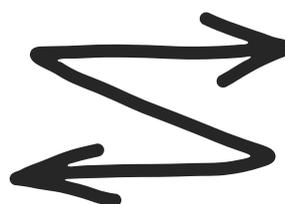


Business names, brands, trademarks, rights to public presence, image rights and other intellectual property rights are not considered as qualifying intangible assets

## Qualifying Profits

“Qualifying profits” 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.

“Overall income” means the gross income which derives from the qualifying intangible during the tax year after deduction of direct costs (all direct and indirect costs incurred in earning the income from the qualifying intangible asset, including the amortization of the cost of the asset and notional interest on equity contributed to finance its development).



The overall income includes, **but is not limited to:**

Royalties or other amounts resulting from the use of qualifying intangible asset

License income for the operation of qualifying intangible asset

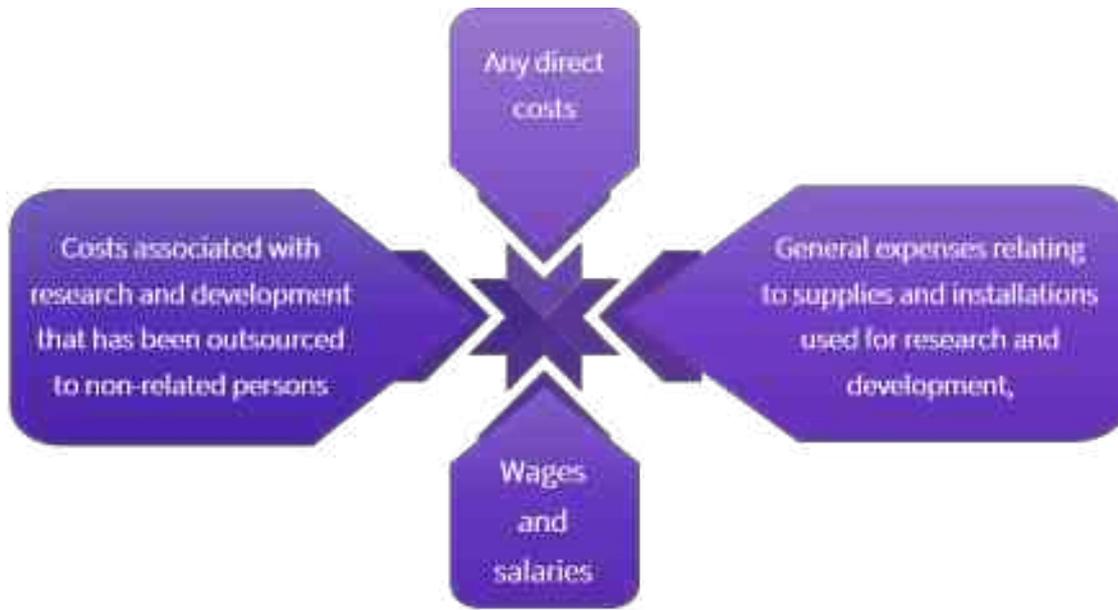
Any amount received from insurance or as compensation in relation to the qualifying intangible asset

Capital gains and other income from the disposal of qualifying intangible asset

Embedded income of qualifying intangible asset generated from the sale of products or by using procedures that are directly related to this item

# Qualifying Expenditure

Qualifying expenditure for qualifying intangible asset is defined as 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 Taxpayers

Tax resident companies
Domestic permanent establishments of foreign companies
Foreign permanent establishments of resident companies that are subject to tax in the jurisdiction providing benefits

An additional “uplift expenditure” is allowed to increase the qualifying expenditure on the qualifying asset.

The uplift expenditure is the lower of:

1. 30% of the qualifying expenditure; or
2. the aggregate of the acquisition costs and group outsourcing costs

# New IP Regime Accounting

Proper books of account and records of income and expenses must be kept for each intangible asset by any person who wishes to claim the above described benefit.

For a taxpayer to secure the benefits of the IP Box:



**a** Should be the owner of the IP which is used for production of income. A substantial activity requirement should ensure that taxpayers benefit from the IP Box are in fact engaged in such activities and did incur actual expenditures on such activities directly connected to the IP asset.

**b** Must own the IP assets which will qualify under the IP regime. These are patents and other IP assets which are functionally equivalent to patents, if those are both legally protected and subject to similar approval and registration process, where such processes are relevant. IP assets that functionally equivalent to patents are :

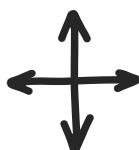
1. Patents defined broadly.
2. Copyrighted software.
3. In certain circumstances other IP assets which are non-obvious and novel.

# Special Contribution for Defense

Special Contribution for Defense (“SDC”) is imposed on passive income that is 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.



	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





# 1

Dividends received by individuals who are both Cyprus tax resident and Cyprus domiciled are subject to SDC received from sources both in Cyprus and abroad. and abroad.

An individual is domiciled in Cyprus for the purposes of Special Contribution for Defense if (s)he has a domicile of origin in Cyprus per the Wills and Succession Law (with certain exceptions) or if (s)he has been a tax resident in Cyprus for at least 17 out of the 20 tax years immediately prior to the tax year of assessment. Anti-avoidance provisions apply.

# 2

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

# 3

Dividends received by a Cyprus tax resident company or a permanent establishment in Cyprus of a company that is not a tax resident in Cyprus are exempt from SDC.

The exemption does not apply when

**b.** more than 50% of the paying company's activities result directly or indirectly in investment income and

**c.** the foreign tax is significantly lower than the tax burden in Cyprus. The tax authorities have clarified through a circular that "significantly lower" means an effective tax rate of less than 6,25% on the profit distributed



# 4

As from 1 January 2016 this section also does not apply to dividends which are deductible for tax purposes by the paying company. In such cases, dividends are subject to corporation tax and not Special Contribution for Defence

# 5

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%.

# 6

Rental income is also subject to personal income tax / corporation tax.

Foreign taxes paid can also be credited against the Special Contribution for Defence liability.



### **Deemed Dividend Distribution**

Companies are deemed to have distributed to their resident shareholders as a dividend 70% of their profits after taxes. 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.

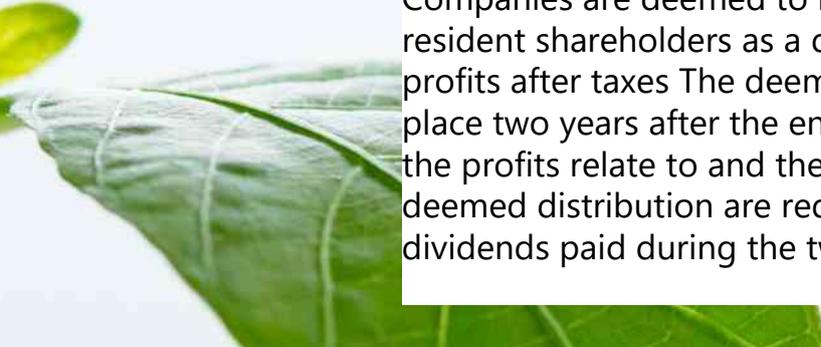
### **Deemed Dividend Distribution**

Deemed distribution does not apply in respect of profits that are directly or indirectly attributable to shareholders that are not tax residents of Cyprus or to individuals who are tax residents but are not considered to be domiciled in Cyprus.

### **Disposal of assets to shareholder at less than market value**

If a company disposes of an asset -movable or immovable- to an individual shareholder or a relative up to the second degree of kindred as a gift or below the value, it will be deemed to be a distribution of a dividend equal to the difference between the market value and the value at which the property is transferred.

The above does not apply if the asset under consideration has been acquired by the company by way of gift from an individual shareholder or a relative of his up to second degree of kindred.



## **Company dissolution**

Companies are deemed to have distributed to their resident shareholders as a dividend 70% of their profits after taxes. 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.

## **Liquidation/dissolution of company**

In the case of a reduction of capital of a company, any amounts paid or due to physical persons shareholders over and above the previously paid-in equity will be considered as dividends distributed subject to special defense contribution at the rate of 17% after deducting any amounts which have been deemed as distributable profits.

The redemption of a unit or share in a Collective Investment scheme does not constitute a reduction of capital for SDC purposes.

# Capital Gains Tax

Gains of any person (individual or company) accruing on disposal of immovable property in Cyprus including gains from disposal of shares in companies which directly own such property (and which they are not gains falling within the provisions of income tax) and includes profit that is exempt from taxation according the provisions of Income Tax Law is subject to capital gains tax at the rate of 20%.

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

Further, as from 17 December 2015 shares of companies which indirectly own immovable property located in Cyprus and at least 50% of the market value of the said shares derive from such immovable property are subject to Capital Gains Tax. In the case of share disposals only that part of the gain relating to the immovable property situated in Cyprus is subject to CGT.

## **Chargeable disposals include:**

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

# Exemptions

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



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.



Capital gain from the subsequent disposal of immovable property acquired between 15th July 2015 and 31 December 2016 will be exempt from capital gains tax whenever its disposal takes place, provided that **a.** The property consists of land, buildings, or land and buildings; and **b.** It is acquired from an independent third party; and **c.** It is not acquired through an exchange of property or through donation / gift



Transfer of immovable property (direct or indirect) under an approved re organization. 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.



Exchange or disposal of property under The Agricultural Laws (consolidation) Laws



# Lifetime Exemptions

The following can be deducted by individuals from the taxable gain



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 previous exemptions cannot exceed €85.430 per individual.*

## Determination of profit for capital gain purposes

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.

Expenses that are related to the acquisition and disposal of immovable property are also deducted, subject to certain conditions e.g. legal fees, transfer fees, interest costs on related loans

## *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

# Fee Rates



Market Value	Rate	Fee	Cumulative Fee
€	%	€	€
0 - 85.000	3	2.550	2.550
85.000 - 170.000	5	4.250	6.800
Over 170.000	8		

## However

- a.** There are no transfer fees if VAT is payable upon purchasing the immovable property
- b.** The above transfer fees are reduced by 50% in case the purchase of immovable property is not subject to VAT.
- c.** The transfer fees in the case of free transfers of property, are calculated on the value of the property as follows
  - From parents to children – Nil
  - Between spouses - 0,1%
  - Between third degree relatives - 0,1%
  - To trustees - €5

“Value” in these cases refers to values as at 1st January 2013

## Mortgage registration fees are 1% of current market value.

There are no transfer fees payable on transfers of immovable property from a company to another company under an approved reorganization scheme

# Stamp Duty

## Every agreement/instrument is liable to 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.

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 demand
Surrender of lease with consideration
Contract of employment

## NOTES:

1. Maximum amount of stamp duties payable is €20.000
2. Ancillary documents are charged at a flat rate of €2
3. Agreements of Sale need to be stamped within 30 days from the date of signing
4. Stamp Duties are payable to any district Tax Office in Cyprus

## 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.

# Estate Duty

There is no estate duty in Cyprus, since 1st January 2000.



However according to the deceased persons Estate Law the Executor/Administrator is required to the tax authorities a statement of assets and liabilities of the deceased within 6 months from the date of death.

All outstanding tax obligations have to be settled before the estate of the deceased can be distributed to the beneficiaries.



# Capital Duty

## *Upon incorporation of a Cyprus company*

Authorized share capital €105

Issued share capital

There is no capital duty payable if the shares are issued at their nominal value

There is a €20 flat duty if the shares are issued at a premium



## *Upon subsequent increases*

Authorized share capital Nil

Issued share capital €20 flat duty on every issue, whether the shares are issued at nominal value or at a premium

# Registrars Fees

An annual fixed levy of €350 is imposed on all Cyprus companies. A cap of €20.000 in case of groups of companies will apply. This levy is payable to the Registrar of Companies by 30 June of each year. Exceptions that applied in 2012 are abolished. Thus, all registered companies either active or dormant will have to contribute from the first year of their registration. The amendment acts retrospectively from year 2012.

Penalties on late payment of this levy :

- up to 2 months delay 10% penalty
- more than 2 months delay 40% penalty
- in case that the levy is not paid within 5 months then the Registrar of Companies may deregister the company.





# Social Insurance

Contributions	Employee	Employer
Social Insurance	8,3%	8,3%
Social Cohesion Fund		2,0% *
Redundancy Fund		1,2% **
Human Resources Development Authority Fund		0,5% **
Holiday Fund (unless obtained exemption)		8,0% **

The rate of Social insurance contributions is applied to a maximum level of emoluments.

The maximum level of emoluments for 2019 is €54.648 (weekly €1.051/monthly €4.554) (for the years 2016-2018 the levels were €54.396, €1.046, €4.533 respectively).

The rate of 7,8% applies for both the employer and the employee up to 31 December 2018. As from 1 January 2019, the rate increases to 8,3% for both the employee and the employer for the next five years. Thereafter, the rate will increase by 0,5%

\*

Social cohesion fund is calculated on total emoluments and has no maximum level

\*\*

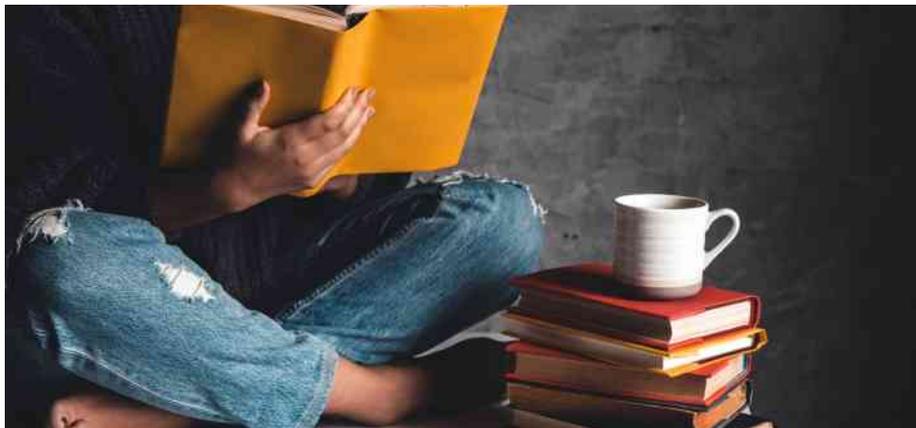
Restricted to the maximum level of emoluments as with the social insurance contributions

## Social contributions of self-employed



As from 1 January 2019 the contributions of self-employed persons are 15,6% of their income (14,6% for 2014-2018).

Thereafter, the rate will increase by 1% every five years until it reaches 19,6% as from 1 January 2039. 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. These limits are set on an annual basis.



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	18.049
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

# National Health Insurance System (NHIS)

As per National Health System Law of 2001 (89(I)/2001 as amended 2017, a national health system is introduced in Cyprus aimed to provide to the population equal access to a holistic health care system.

Patients will have the option to select a health care provider from the private as well as the public health care sector.

*National Health is universal health care system.*

*Contribution applies to natural persons and employers that have payroll with social insurance.*

## National Health System (as from 1/3/2019)

Contributions	First Phase 01/03/2019 19/02/2020	Second Phase 01/03/2020 onwards
Employer's	1,05%	2,00%
Employer's / pensioners / Income earners	1,70%	2,05%
Self-employed Individuals	2,55%	4%
Government	1,05%	1,70%

NHIS contributions will be deducted from the entire earnings of the employee (as defined in the Social Insurance Law) up to €180.000 per annum. The insurable earnings limit of Social Insurance Fund contributions does not apply in this case. The employer is responsible for paying both their own and their employees' contributions through Social Insurance Services (by means of deduction from their salary).



# Withholding Taxes

## Dividends

Dividends paid to a non-resident company or individual are not subject to withholding tax.

## Interest

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

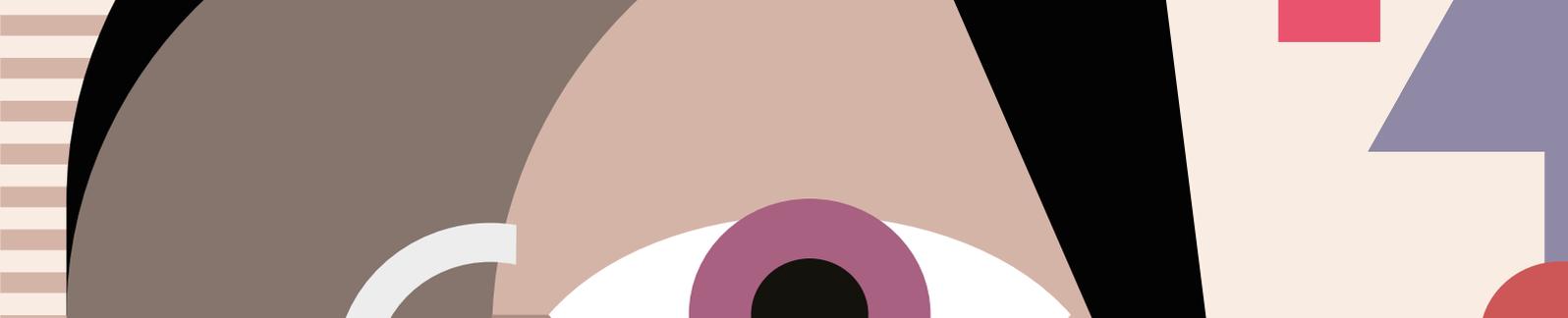
## Royalties

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



# Cyprus Double Tax Treaties

Cyprus has completed 65 Double Taxation Treaties up to today and is also in negotiations with many countries for signing Treaties with them.

The main purpose of these treaties is the avoidance of double taxation on income earned in any of these countries.

Under these agreements, a credit is usually allowed against the tax levied by the country in which the taxpayer resides for taxes levied in the other treaty country and as a result the tax payer pays no more than the higher of the two rates.

Further, some treaties provide for tax sparing credits whereby the tax credit allowed is not only with respect to tax actually paid in the other treaty country but also from tax which would have been otherwise payable had it not been for incentive measures in that other country which result in exemption or reduction of tax.



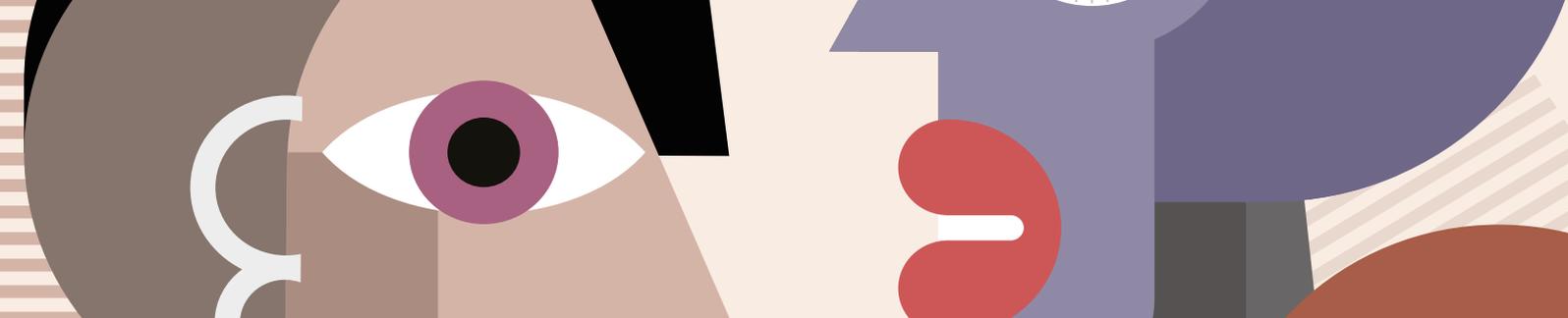
Cyprus has also signed tax-sparing agreements with 15 countries that include Canada, Germany, Greece, India, The United Kingdom, and Syria

# Countries with which Cyprus has entered into agreements for the relieve of double taxation



Andorra	Czech Republic	Iceland	Lebanon	Romania	Sweden
Armenia	Denmark	India	Lithuania	Russia	Swiss Confederation
Austria	Egypt	Iran	Luxembourg	San Marino	Syria
Azerbaijan	Estonia	Ireland	Malta	Saudi Arabia	Thailand
Barbados	Ethiopia	Italy	Mauritius	Serbia	The States of Guernsey
Belarus	Finland	Jersey	Moldova	Seychelles	Ukraine
Belgium	France	Kazakhstan	Montenegro	Singapore	United Arab Emirates
Bosnia	Georgia	Kingdom of Bahrain	Norway	Slovakia	United Kingdom
Bulgaria	Germany	Kuwait	Poland	Slovenia	USA
Canada	Greece	Kyrgyzstan	Portugal	South Africa	Uzbekistan
China	Hungary	Latvia	Qatar	Spain	





# Value Added Tax

VAT is broadly based consumption tax assessed on the value added to goods and services, thus is an indirect tax on the domestic consumption of goods and services.

Value Added Tax (VAT) tax on consumer expenditure, which has been adopted by all the EU member states, as well as a number of countries outside EU.

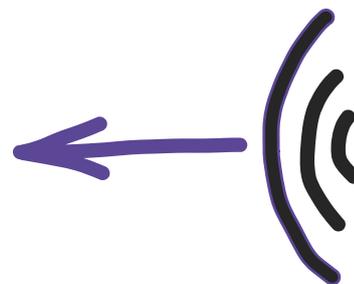
VAT is based on a number of EU Directives which, subject to certain exceptions, have been incorporated into the Cypriot VAT legislation

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



VAT is charged on the supply of goods-services in Cyprus made in Cyprus for a consideration, by a taxable person in the course of furtherance of business, the import of goods in Cyprus, the intra-community acquisition of goods in Cyprus by a taxable person, on certain services received from abroad by a taxable person.

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.



# Vat Registration

## Compulsory registration

Registration is compulsory for businesses if at any time their taxable supplies in the *preceding 12 months are in excess of €15.600*.

Additionally, there is an obligation to register at any time where it is expected that taxable supplies will exceed the threshold in the next 30 days.

Registration *is also compulsory*, irrespective of the value of the supplies, where a business provides services to a business registered in another EU Member State.

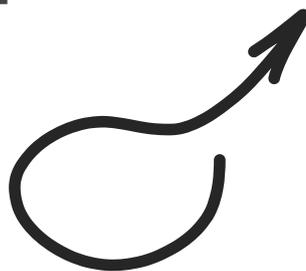
Other situations where obligatory registration applies include the acquisition of goods from other EU Member States over the threshold of €10.251, acquisition of a business as a going concern or the provision of distance sales from other EU Member States to Cyprus over the value of €35000.

Zero-rated supplies are included in the total of taxable supplies for determining whether the threshold has been reached. If a business makes only zero-rated supplies that exceed the threshold it has to register.

Exempted products and services, and disposals of items of capital nature are not taken into account for determining annual turnover for registration purposes. Registration is effected by completing the appropriate application form.

## Voluntary registration

**Voluntary Registration is available even where the taxable supplies fall under the registration limit, so that the person can recover input VAT.**



# Vat Rates

Taxable transactions represent supplies which are subject to :

a. Standard rate 19%

b. Lower Reduced rate 5%

*These goods include:*



Foodstuffs, other than those supplied in the course of catering

Medicines and vaccines for the prevention of illness, and as a treatment for medical and veterinary purposes

New buildings to approved consumers who will use it as their principal place of residence from 1/10/2011

Supply of agricultural fertilizers and insecticides

Animal feed, including feed for fish and birds

Supply of live animals used for human consumption

Non-bottled water

Newspapers, magazines, books

Equipment for use by the disabled

Ice cream and similar products including various spices, salted or roasted products

LPG Gas supplied in cylinders

Confectionery except biscuits and cakes, but including chocolates and chocolate covered biscuits

Bottled water, industrialized drinks, juice drinks (excluding carbonated drinks, alcoholic beverages, beer and wine)

Ingredients used in the production of foods

Car seats for children

Services of writers, composers and artists, as well as the royalties received by them

Hair salon services

Improvement and repair of a private residence (older than 3 years)

Products for contraception

Products for women's health

Medical equipment used exclusively by handicapped persons

Services by undertakers and coffins

Letting of places on camping or caravan sites

Road cleaning, refuse collection and recycling, other than services supplied by state authorities, local authorities and public utility corporations

Transport of passengers and their accompanying luggage by urban and rural buses

Admission to shows, circuses, parks, concerts, museums, zoos, movie theatres, galleries and similar cultural events

Admission to sporting events and use of sporting facilities

Repair of medical equipment and certain products that are used by handicapped persons.

Medical and dental services and bathing-cure that are not exempted from VAT under paragraphs 2 and 3 of the 7th Schedule of the VAT Law.

Medical examinations or treatment of cosmetic or aesthetic nature are excluded from this treatment.

#### c. Reduced rate 9%

Transport of passengers and their accompanying luggage with urban, suburban and rural taxis as well as with tour, excursive and suburban buses

Restaurant services and other similar catering services, including alcoholic beverages, beer and wine

Accommodation in hotels, tourist and other similar establishments including provision of holiday accommodation

Domestic sea-transport of passengers and their accompanying luggage

#### d. Zero rate 0%

Exports to non-EU Countries

Supplies to other EU member states provided the purchaser uses these supplies for business purposes

Commissions received from abroad relating directly to exports of goods outside member states

Commissions received from abroad relating directly to the importation of goods from non-EU member states where the goods are placed under customs suspense arrangements, including temporary storage, free zones, customs warehousing, etc

International air and sea transport

# Exemptions

**Certain goods or services are exempt from VAT.**

**They include :**

Leasing of buildings used for residence

Most banking, financial services and insurance services

Most hospital, medical and dental care services

Certain cultural educational and sports activities

Supplies of second-hand buildings

Postal services provided by the national postal authority

Lottery tickets and betting coupons for football and horse racing

Management services provided to mutual funds

Leasing or letting of immovable property, the supply of immovable property with the exception of buildings or parts of buildings and the land on which they stand if the application for a building permit was submitted after the 1st May, 2004, financial services, lotteries, medical care, social welfare, education, sports, cultural services, insurance transactions etc.

## **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.

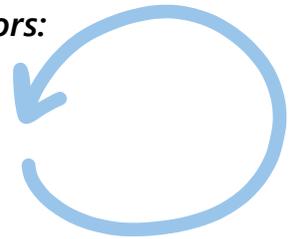
# Vat on immovable property

**1** No VAT will be imposed on the purchase or sale of land located in a livestock zone or areas which are not intended for development such as zones/areas of environmental protection, archaeological and agricultural.

Transfers of non-developed building land by persons performing an economic activity are subject to 19% VAT as from 2 January 2018.

*Such land taxation is determined by the following factors:*

- a.** Type Classification of Land (subject to exemptions like agricultural-outside development zone land)
- b.** Economic activity of seller according to general and case criteria
- c.** Frequency of Transactions
- d.** Nature of the Supply



**2** The supply of new buildings (including the land in which they are erected) before their first use is subject to VAT at the standard VAT rate of 19%. Buildings include both commercial or industrial buildings and dwellings.



**3** The lease or rental of immovable property to a taxable person for furtherance of the business is subject to VAT at the standard VAT rate of 19% as from 2nd January 2018, unless the building is used as a dwelling. The lessor may opt for the exemption from VAT of the lease or rental of immovable property. The option is irrevocable.

 Imposition of the reduced VAT rate of 5% for the acquisition and/ or construction of a dwelling for use as the primary and permanent place of residence.

### **Reduced rate 5% for principal place of residence**

A reduced rate of 5% applies for new properties which are purchased by eligible persons and used as their main place of residence. It applies for the first 200 sq.m. of the building area. The reduced rate may be granted following an application



From 8/6/2012 the reduced rate has been extended to include residents on a special form, which will state that the house will be used as the primary and permanent place of residence and approval by the Tax Commissioner. The applicant must attach a number of documents supporting the ownership rights on the property and evidencing the fact that the property will be used as the primary and permanent place of residence.

The application must be filed prior to the actual delivery of the residence to the eligible person. Of non-EU countries where the property will be used as the primary place of residence in the Republic.

### **Reduced rate of 5% on the renovation and repair of private residences**

From 4 December 2015 the reduced rate 5% for renovation and repair of private residences is extended to apply also to residences which are not a principal and permanent place of residence.



The reduced rate 5% also applies to services received which relate to the static upgrade or energy efficiency improvement of residential properties. It applies to specific types of properties which are either used by vulnerable consumers as specified by the legislation, or which are located in remote geographic areas.

# Cyprus Tax Diary

**31 January**

Submission of the declaration of deemed dividend distribution (Form IR623) for the year ended 31 December 2016

**31 March**

Electronic submission of 2017 tax returns (Form IR4) for companies.

Electronic submission of 2017 tax return (Form IR1) for physical persons preparing audited financial statements.

**30 April**

Payment of premium tax for life insurance companies – first instalment for 2019.

**30 June**

Payment of special contribution for defence for the first six months of 2019 on rents if such tax is not withheld at source by tenant or interest from sources outside Cyprus (Form IR601).

Payment of 2018 personal income tax under the self-assessment method by self-employed individuals not preparing audited financial statements.

Payment of the annual levy (€350) for the year 2019.

**31 July**

Electronic submission of 2018 personal income tax returns (Form IR1) and payment of 2018 personal income tax under the self-assessment of/by employees and pensioners whose incomes do not include income from trade/business, rent, dividends, interest, and royalties.

Electronic submission of the Employer's Return for the tax year 2018 (Form IR7).

Submission of 2019 provisional tax assessment and payment of the first instalment.

**1 August**

Payment of 2018 final corporation tax under the self-assessment method (Form IR158).

Payment of 2018 personal income tax under the self-assessment method by self-employed individuals preparing audited financial statements.

**31 August**

Payment of premium tax for life insurance companies – second instalment for 2019.

**30 September**

Electronic submission of 2018 personal income tax return for self-employed individuals not required to prepare audited financial statements.

**31 December**

Payment of the second and last instalment of 2019 provisional tax.

Payment of special contribution for defence for the last six months of 2019 on rents if such tax is not withheld at source by tenant or interest from sources outside Cyprus (Form IR601).

Payment of premium tax for life insurance companies – third and last instalment for 2019.

**End of each month**

Payment of tax deducted from employees salary (PAYE) for the previous month.

Payment of special contribution for defence withheld on payments of dividends, interest or rents (when the tenant is a Cyprus company, partnership, the Government or any local authority), made to Cyprus tax residents in the previous month.

Payment of tax withheld on payments made to non-tax residents during the previous month.

Payment of social insurance deducted from employees' salaries during the previous month.