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Cyprus Tax Info 2015

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This brief publication does not aim to give a full and detailed description of the prevailing tax system. Consequently "Cyprus Tax Info 2015" should only be used as a source of general information and it cannot substitute proper professional advice.

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Preface

This brief guide has been prepared to provide a general background to the Cyprus tax system. The tax information reflects tax law and practice in Cyprus as of January 2015.

During the last 20 years, Cyprus has established itself as the main financial centre for inward investments in Central and Eastern Europe, Russia, India and China. Further, the accession to the EU in 2004 has considerably enhanced the island's long standing international business advantages.

Cyprus has for many years now differentiated itself from other financial centres. It is not a tax haven but a tax incentive country. The corporate tax rate in Cyprus is amongst the lowest in the EU, the tax regime provides many exemptions and the island's double tax treaties continue to be in force. Cyprus is an attractive holding company jurisdiction and much more.

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1 An International Financial Centre

Favourable position

Comprising an area of 9.251 sq km Cyprus is the third largest island in the Mediterranean after Sicily and Sardinia. The strategic location of the island has played an important role in its continuing development into a financial centre.

Cyprus enjoys perhaps the best type of Mediterranean climate with about 340 warm and sunny days a year. The light rainy season is confined to the period between November and March.

Cypriots are highly educated. In fact, Cyprus has one of the highest percentage of university graduates per capita in the EU. This ensures an adequate supply of skilled and qualified personnel. Although the native language is Greek, English is commonly used as the business language.

The strong pro-business attitude, the multilingual and highly skilled human capital, the advanced telecommunications infrastructure have made the island one of the most progressive and efficient business locations in Europe.

Foreign investment

Foreign investment has long been considered as one of the most important elements of the country's economic prosperity. The Cyprus government has liberalised the Foreign Direct Investments (FDI) policy for both EU and non-EU nationals. Administrative procedures have been simplified and as far as the minimum level of investment and the percentage of foreign participation are concerned, no limitations apply in almost all sectors of the economy.

Investment companies

Cyprus companies are suitable both for EU inbound or outbound investments. There are no investment activities that are not appropriate for the Cypriot tax environment. However, there are investment activities which are ideally suited to Cypriot tax environment such as:

- holding companies
- finance companies
- royalty companies
- investment funds
- South Europe, Middle East, Central and Eastern Europe head office operations
- fund management services
- financial services

Incentives for locating a business in Cyprus include:

- only 12,5 percent corporation tax – the lowest rate in the EU
- exemption from tax of dividend income, in most cases
- exemption from tax of profits from foreign permanent establishments (PE), in most cases
- exemption from tax on profits generated from transactions in shares, securities, bonds and units

- exemption from withholding tax on the repatriation of income either in the form of dividends, interest and on almost all royalties
- extensive double tax treaty network
- access to EU directives
- no thin capitalisation rules
- absence of Controlled Foreign Company (CFC) rules thus exempting foreign income received
- flexible reorganisation rules and group relief provisions



2 Personal Income Tax

Basis of taxation

All Cyprus tax residents are taxed on all income accrued or derived from all sources in Cyprus and abroad. Individuals who are not tax residents of Cyprus are taxed only on income accrued or derived from sources in Cyprus.

An individual is tax resident in Cyprus if he spends in Cyprus more than 183 days in any one year. Days in and out of Cyprus are calculated as follows:

- (a) the day of departure from Cyprus counts as a day of residence outside Cyprus
- (b) the day of arrival in Cyprus counts as a day of residence in Cyprus
- (c) arrival and departure from Cyprus in the same day counts as one day of residence in Cyprus
- (d) departure and arrival in Cyprus in the same day counts as one day of residence outside Cyprus

Personal tax rates

The following income tax rates apply to individuals:

Chargeable income	Tax rate	Tax	Accumulated tax
€	%	€	€
0-19.500	Nil	Nil	
19.501-28.000	20	1.700	1.700
28.001-36.300	25	2.075	3.775
36.301-60.000	30	7.110	10.885
Over 60.000	35		

Exemptions

The following income is exempted from income tax:

Type of income	Exemption limit
<ul style="list-style-type: none">Interest¹	The whole amount
<ul style="list-style-type: none">Dividends¹	The whole amount
<ul style="list-style-type: none">Remuneration from any employment (office previously) exercised in Cyprus by a non resident individual before the commencement of the employment. (exemption applies for a period of 5 years for employments commencing as from 1 January 2012 provided that the annual remuneration exceeds €100.000)	50 percent of the remuneration
<ul style="list-style-type: none">Remuneration from any employment exercised in Cyprus by a non Cyprus resident individual before the commencement of his employment, for a period of 3 years commencing from 1 January following the year of commencement of the employment	20 percent of income with a maximum amount of €8.550 annually
<ul style="list-style-type: none">Remuneration from salaried services rendered outside Cyprus for more than 90 days in a tax year to a non Cyprus resident employer or to a foreign permanent establishment of a Cyprus resident employer	The whole amount

Type of income (cont'd)	Exemption limit
<ul style="list-style-type: none"> ▪ Profits of a permanent establishment abroad under certain conditions 	The whole amount
<ul style="list-style-type: none"> ▪ Lump sum received by way of retiring gratuity, computation of pension or compensation for death or injuries 	The whole amount
<ul style="list-style-type: none"> ▪ Capital sums accruing to individuals from any payments to approved funds (e.g. provident funds) 	The whole amount
<ul style="list-style-type: none"> ▪ Profits from the sale of securities² 	The whole amount

¹Dividend and interest income are subject to Special Defence Contribution.

²"Securities" is defined as shares, bonds, debentures, founders' shares and other securities of companies or other legal persons, incorporated in Cyprus or abroad and options thereon. A circular was issued by the Tax Authorities in 2008 further clarifying what is included in the term "securities". According to the circular the term includes, short positions, futures, forward and swaps where they are in respect of securities and depositary receipts (ADR, GDR). Index participations are considered securities only if they result in titles. Where it is not certain whether a specific financial instrument falls under any of the categories included in the circular, a request for a ruling may be submitted to the Commissioner of Income Tax.

Tax incentives for the employment in Cyprus of highly paid non-Cypriot resident individuals

In order to encourage the establishment or expansion in Cyprus of new businesses, tax incentives are offered for the employment in Cyprus of persons who are not Cyprus tax residents.

Employees who take up residence in Cyprus and whose annual remuneration is in excess of €100.000 will enjoy an exemption from income tax of 50 percent of their employment income for a period of 5 years. The exemption applies from the year of commencement of employment starting as from 1 January 2012.

Foreign pension is taxed separately at the rate of 5 percent and an annual exemption of €3.420 is granted. A person may elect in any year to have his/her pension included in his/her chargeable income so as to utilise personal allowances.

Loans/financial assistance to directors

Whenever a loan or other financial assistance is provided to individual shareholders or directors Cyprus tax residents (up to their 2nd degree relatives) the recipient is deemed to receive benefit of 9 percent per annum calculated on a monthly basis. The tax on this benefit will be assessed and collected through the PAYE system for emoluments.

Deductibility of salaries

Salaries will not be deductible for income tax purposes if employer contributions for the Social Cohesion Fund, Redundancy Fund, Industrial Trading Fund, Pension Fund and Provident Fund are not paid in the year in which they are due.

If the above contributions are fully paid (together with interest and penalties) within 2 years of their due date the salaries and the contributions become deductible in the year in which they are settled.

Tax deductions

The following are deducted from income:

<ul style="list-style-type: none"> ▪ Contributions to trade unions or professional bodies 	The whole amount
<ul style="list-style-type: none"> ▪ Loss of current year and previous years 	The whole amount
<ul style="list-style-type: none"> ▪ Rental income 	20 percent of gross rental income
<ul style="list-style-type: none"> ▪ Donations to approved charities (with receipts) 	The whole amount
<ul style="list-style-type: none"> ▪ Social Insurance, provident fund, medical fund, pension fund contributions and life insurance premiums (the allowable annual life insurance premium is restricted to 7 percent of the insured amount) 	Up to 1/6 of the chargeable income
<ul style="list-style-type: none"> ▪ Special contribution 	The whole amount
<ul style="list-style-type: none"> ▪ Expenditure incurred for the maintenance of a building (under Preservation Order) 	Depending on the size of the building – up to €700, €1.100 or €1.200 per square meter

Private Sector Special Contribution Effective for 2014-2016

The special contribution covers private sector employees, self-employed individuals and private sector pensioners.

The recipient of the remuneration is liable for half of the special contribution and the employer for the other half.

For employees and pensioners the special contribution should be settled through withholding. For self-employed individuals the special contribution should be settled via the provisional system.

The Special Contribution sums are as follows:

Gross monthly emoluments in Euro	Special Contribution
0-1.500	Nil
1.501-2.500	2,5% (minimum €10)
2.501-3.500	3,0%
Over 3.501	3,5%

- *The percentage of the contribution is calculated on the total gross emoluments.*

Social grants

The following social grants are given subject to income criteria:

- Grant for every child receiving full time higher education in Cyprus (with certain restrictions) or full time university education outside Cyprus. Families with more than 3 children receive an additional grant
- Grant for blind persons

- Basic child grant and additional child grant for families that have a gross family (applicant, spouse, children) income below the specified threshold

The actual amounts of social grants are revised annually and announced at the beginning of each year. It is not necessary to submit any evidence on application unless it is the first claim.



3 Corporation Tax

Basis of taxation

All companies tax residents of Cyprus are taxed on all their income accrued or derived from all sources in Cyprus and abroad. A non Cyprus tax resident company is taxed on income accrued or derived from a business activity which is carried out through a permanent establishment in Cyprus and on certain income arising from sources in Cyprus.

A company is resident of Cyprus if it is managed and controlled in Cyprus.

Corporation tax rates

	Tax rate %
Companies	12,5

Exemptions

The following income is exempted from tax:

Type of income	Exemption limit
<ul style="list-style-type: none">▪ Profit from the sale of securities	The whole amount
<ul style="list-style-type: none">▪ Dividends*	The whole amount
<ul style="list-style-type: none">▪ Interest not arising from the ordinary activities or closely related to the ordinary activities of the company*	The whole amount

**Such dividend and interest income is subject to Special Contribution for Defence*

Type of income (cont'd)	Exemption limit
<ul style="list-style-type: none"> Profits of a permanent establishment abroad, under certain conditions 	The whole amount

Tax deductions

All expenses incurred wholly and exclusively in earning the income of the company and are supported by the relevant documentation, including:

Type of expense	Exemption limit
<ul style="list-style-type: none"> Donations to approved charities (with receipts) 	The whole amount
<ul style="list-style-type: none"> Employer's contributions to social insurance and approved funds on employees' salaries 	The whole amount
<ul style="list-style-type: none"> Any expenditure incurred for the maintenance of a building (under Preservation Order) 	Depending on the size of the building – up to €700, €1.100 or €1.200 per square meter
<ul style="list-style-type: none"> Interest expense incurred for the direct or indirect acquisition of 100 percent of the share capital of a subsidiary company will be treated as deductible for tax purposes provided that the subsidiary company does not own 	The whole amount of interest expense if the subsidiary does not own (directly or indirectly) any assets not used in the business. A restricted amount of interest

Type of expense (cont'd)	Exemption limit
<p>(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 the deduction is restricted to the amount which relates to assets used in the business. (This applies for acquisitions of subsidiaries from 1 January 2012).</p> <ul style="list-style-type: none"> ▪ Net royalty income from owned intangible assets and net profit emanating from the disposal of intangible assets ▪ Entertainment expenses for business purposes <p>But not including:</p> <ul style="list-style-type: none"> ▪ Expenses 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 	<p>expense if the subsidiary owns (directly or indirectly) assets not used in the business.</p> <p>80 percent</p> <p>Lower of 1 percent of the gross business income or €17.086</p> <p>The whole amount</p> <p>The whole amount (for a period of 7 years, since the date of acquisition)</p>

Losses carried forward

The tax loss incurred during a tax year and which cannot be set-off against other income is carried forward and is set-off against future profits during the next five years.

The current year loss of one company can be set off against the profit of another provided the companies are both Cyprus tax resident companies of the same group.

Group is defined:

- (a) One company holding at least 75 percent of the shares of the other company
- (b) At least 75 percent of the voting shares of the companies are held by another company

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

Losses from a permanent establishment abroad can be set-off against profits of the company in Cyprus. Subsequent profits of the permanent establishment abroad are taxable up to the amount of losses previously allowed.

Reorganisations

Transfers of assets and liabilities between companies can be effected without tax consequences within the framework of a reorganisation.

Reorganisations include:

- (a) Mergers and demergers

- (b) Partial divisions
- (c) Transfer of registered office of a European company or a European cooperative company
- (d) Transfer of assets
- (e) Exchange of shares

Annual wear and tear allowances on fixed assets

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

Fixed assets	%
Plant and machinery	
• Plant and machinery ¹	10
• Furniture and fittings	10
• Boreholes	10
• Machinery and tools used in an agricultural business	15
• Computer hardware and operating systems	20
• Application software	33 1/3
• Commercial motor vehicles (vans, trucks)	20
• Motor cycles	20
• Excavators, tractors, bulldozers self-propelled loaders and drums for petrol companies	25
• Expenditure on application software less than €1.709 is written off in the year of acquisition	

Fixed assets (cont'd)	%
Plant and machinery (cont'd)	
• Televisions and videos	10
• Industrial carpets	10
Buildings	
• Commercial buildings	3
• Industrial, agricultural and hotel buildings ¹	4
• Flats	3
• Metallic greenhouse structures	10
• Wooden greenhouse structures	33 1/3
Boats	
• Sailing vessels	4,5
• Steamers, tugs and fishing boats	6
• Shipmotor launches	12,5
• New cargo vessels	8
• New passenger vessels	6
• Used cargo/passenger vessels	Over their useful life
Tools	
• Tools in general	33 1/3
• Video tapes property of video clubs	50

(1) For Plant and Machinery and Industrial and hotel buildings acquired during tax years 2012-2014 special rates apply

Special Type of Companies

Shipping companies

No income tax is payable on the profits earned or dividends paid by a Cyprus shipping company which owns ships under the Cyprus flag and operates in international waters (including chartering), or on the salaries of officers and crew of such ships.

The legislation allows non community vessels to enter the tonnage tax regime provided the fleet is composed by at least 60 percent community vessels.

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 percent of gross premium. In this case the difference is paid as additional corporation tax.

Cyprus Alternative Investment Funds (AIFs) and Undertakings for Collective Investment in Transferable Securities (UCITs)

The sole object of AIFs and UCITs is the collective investment of funds of its unitholders.

AIFs can take the following types and legal forms:

Types:

- Limited Number of Investors (75)
- Unlimited Number of Investors

Legal Forms:

- Variable Capital Company (VCC)
- Fixed Capital Company (FCC)
- Limited Partnership (LP)
- Common Fund (CF)

The first three apply to both types of funds whereas the Common Fund applies to unlimited number of Investor AIFs only.

UCITs can take the following legal forms:

- Common Fund (CF)
- Variable Capital Investment Company (VCC)

AIFs and UCITs are liable to tax or not depending on their legal status. Under certain conditions, management fees charged for the management of AIFs and UCITs funds can be exempt from VAT.

IP and Royalties (IP “box regime”)

The provisions introduced in 2012, provide exemptions from tax on income related to IP. More specifically:

- 80 percent of worldwide royalty income generated from IP owned by Cypriot resident companies net of any direct expenses, is exempt from income tax
- 80 percent of profit generated from the disposal of IP owned by Cypriot resident companies net of any direct expenses, is exempt from income tax
- effective tax rate of 2,5 percent or less

- any expenditure of a capital nature for the acquisition or development of IP is claimed as a tax deduction in the year in which it is incurred and the immediate four following years on a straight line basis

The above exemptions are also available for IPs acquired or developed before January 2012.

In addition:

- no withholding taxes on payment of royalties apply when distributed out of Cyprus, provided that the holder is not a Cyprus resident and the royalty is used outside of Cyprus
- Cyprus has an extensive worldwide network of double tax treaties
- the EU Directive on Interest and Royalties providing for nil withholding taxes between EU countries and which extends also to Cyprus

EU Interest and Royalty Directive

The EU interest and royalty directive came into effect on 1 January 2005. It provides that interest and royalty payments in one EU member state are exempt from any withholding taxes imposed on those payments in that state, provided that the beneficial owner of the interest is a company in another EU state.

For the directive to apply the companies must be associated. The interest or royalty must be on an arm's length basis. The directive will not apply to what is considered to be in excess of an arm's length amount.



Film rental

The gross amount of any rental in respect of the showing of cinematograph films in Cyprus derived by any person who is not a tax resident, is subject to a 5 percent withholding tax.

Income from profession or vocation

The gross income derived by an individual not resident in Cyprus, from the exercise in Cyprus of a profession or vocation or of public entertainers including football clubs and other athletic clubs is subject to a 12,5 percent withholding tax.

Annual Government levy

All companies are required to pay an annual fixed duty of €350 to the Registrar of companies. For groups of companies the total duty is capped at €20.000.

The duty must be paid by 30 June each year.

Financial penalties of 10 and 30 percent will be levied for late payment within 2 and 5 months from the due date. The Registrar may deregister the company in case of further delay. The fee for re-registering is either €500 or €750 depending on the circumstances.

4 Special Contribution for Defence

Special Contribution for Defence is imposed on income earned by Cyprus tax residents. Non-tax residents are exempt from special contribution for defence. It is charged at the rates shown in the table below.

Tax rates

	Individuals	Legal entities
	%	%
• Dividend income from Cyprus resident companies	17	Nil
• Dividend income from non-Cyprus resident companies	17	Nil ¹ (under conditions)
• Interest income arising from the ordinary activities or closely related to the ordinary activities of the business	Nil	Nil
• Other interest	30 ²	30
• Rental income (reduced by 25%)	3 ⁴	3 ⁴

Notes

1. *Dividend income from abroad is exempt from Special Contribution for Defence, unless:*
 - (a) *More than 50 percent of the paying company's activities result directly or indirectly in investment income, and*
 - (b) *The foreign tax burden is significantly lower than the tax rate payable in Cyprus. The Tax Authorities have clarified through a circular that significantly lower, means a tax burden rate below 6.25 percent, of the profit distributed.*

When the exemption does not apply, the dividend income is subject to Special Contribution for Defence at the rate of 17 percent.

2. *Interest income from Cyprus government savings bonds and development bonds and all interest earned by a provident fund is subject to Special Contribution for Defence at 3 percent (instead of 30 percent).*
3. *Where the total income of an individual (including interest) does not exceed €12.000 in a taxable year, then the rate is reduced from 30 percent to 3 percent.*
4. *Rental income is also subject to personal income tax/corporation tax.*

Due dates:

- (a) Special Contribution for Defence on rental income and trading profits of semi-government organisation is payable in 6 monthly intervals on 30 June and 31 December each year
- (b) Special Contribution for Defence due on interest and dividends received gross is payable at the end of the month following the month in which they were received

Foreign taxes paid can also be credited against the defence tax liability.

Deemed dividend distribution

If a Cyprus resident company does not distribute a dividend within two years from the end of the tax year then:

- 70 percent of accounting profits (after specified adjustments for revaluations etc) are deemed to have been distributed
- 17 percent special contribution for defence is imposed (20 percent in 2013) on deemed dividend distribution applicable to shareholders who are residents of Cyprus, including higher level Cyprus parent companies. The rate is reduced to 3 percent on deemed distributions of Collective Investment Schemes

- Deemed distribution is reduced with payments of actual dividends which have already been paid during the two years from the profits of the relevant year

When an actual dividend is paid after the deemed dividend distribution, then special contribution for defence (if any) is imposed only on the additional dividend paid not previously subject to deemed dividend distribution.

Special Contribution for Defence paid under the deemed dividend distribution provisions can be reclaimed where a dividend is eventually paid to a higher level Cyprus parent company.

Finally, if a company disposes an asset to its shareholder or to one of his relatives for consideration lower than the market value of that asset then it will be considered as a deemed distribution of dividend (subject to conditions).

4-year rule on dividends (effective from 1 January 2012)

Any dividends between Cypriot Companies paid from profits gained 4 years before their distribution are subject to SDC.

Company dissolution

The cumulative profits of the last five years prior to the company's dissolution, which have not been distributed or deemed to have been distributed, will be considered as distributed on dissolution and will be subject to Special Contribution for Defence at the rate of 17 percent.

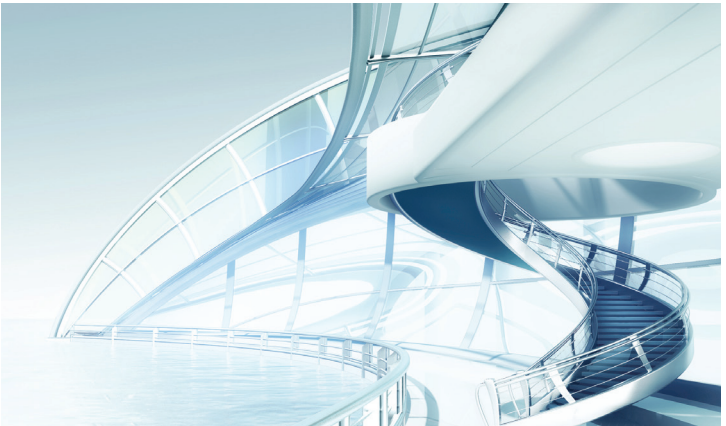
The rate for Collective Investment Schemes is 3 percent.

This provision does not apply in the case of dissolution under a reorganisation.

Reduction of capital

In the case of reduction of capital of a company, any amounts paid or due to the shareholders up to the amount of the undistributed taxable income of any tax year calculated before the deduction of losses from subsequent years, will be considered as dividends distributed subject to Special Contribution for Defence at 17 percent after deducting any amounts which have been deemed as distributed.

The above provisions do not apply where the shareholders are non-Cyprus residents and upon redemption of units or shares in a Collective Investment Scheme.



5 Capital Gains Tax

Basis

Capital Gains Tax (CGT) is imposed at the rate of 20 percent on gains from the disposal of immovable property situated in Cyprus including gains from the disposal of shares in companies which own such immovable property in Cyprus and not listed in any recognised Stock Exchange.

Determination of capital gain

The capital gain is calculated after deducting from the selling price the initial acquisition cost or the market value as at 1 January 1980 whichever is the higher, inflated by the retail price index in Cyprus. Expenses related to acquisition and disposal are deductible.

Exemptions

The following disposals of immovable property are not subject to CGT:

- Transfers arising on death
- Gifts made from parent to child or between husband and wife or between up to third degree relatives
- Gifts to a company where the company's shareholders are members of the donor's family and the shareholders continue to be members of the family for five years after the day of the transfer
- Gifts by a family company to its shareholders, provided such property was originally acquired by the company by way of donation. The property must be kept by the donee for at least three years

- Gifts to charities and the Government
- Transfer as a result of reorganisations
- Exchange or disposal of immovable property under the Agricultural Land (Consolidation) Laws
- Expropriations
- Exchange of properties, provided that the whole of the gain made on the exchange has been used to acquire the other property. The gain that is not taxable is deducted from the cost of the new property, i.e. the payment of tax is deferred until the disposal of the new property

Deductions

The following deductions exist for individuals:

	€
• sale of own residence (under certain conditions)	85.430
• sale of agricultural land by a farmer	25.629
• other sales	17.086

The above exemptions are granted only once for each taxpayer and not for each sale. An individual claiming a combination of the above is allowed a maximum of €85.430.

6 Estate Duty

Estate Duty was abolished in 2000. The executor/administrator of the estate of the deceased is required by the Deceased Persons Estate Law to submit to the Tax Authorities a statement of assets and liabilities of the deceased within six months from the date of death.



7 Value Added Tax

VAT is imposed on the provision of goods and services in Cyprus, as well as on the acquisition of goods from the EU and the importation of goods into Cyprus.

Taxable persons charge VAT on their taxable supplies (output tax) and are charged with VAT on goods or services which they receive (input tax).

Where the output VAT in a VAT period exceeds the total input VAT a payment has to be made to the Authorities. If the VAT input exceeds the VAT output, the excess input VAT is carried forward as a credit and set-off against future output VAT.

For intra community acquisitions of goods (except goods subject to excise duty or new means of transport) the trader does not pay VAT on receipt of the goods in Cyprus but instead accounts for VAT using the acquisition accounting method. This involves a simple accounting entry in the books of the business whereby he self charges VAT and at the same time claims it back if it relates to taxable supplies thereby creating no cost to the business.

Where the acquisition relates to an exempt transaction, the trader must pay the VAT that corresponds to the acquisition.

VAT rates

The legislation provides for the following tax rates:

- Zero rate
- Reduced rate 5 percent
- Reduced rate 9 percent (8 percent up to 12 January 2014)

- Standard rate of 19 percent as from 13 January 2014 (18 percent from January 2013 to 12 January 2014)

Zero rate

- Supply of goods and services to other EU member states
- Exports to non EU countries
- Commissions received from abroad for import-export of goods
- International air and sea transport
- Processing carried out on goods in Cyprus on behalf of a customer abroad provided that the goods will be exported outside the EU when the processing finishes

Reduced rate

- Hotel accommodation fees (9%)
- Restaurants and catering (except alcohol) (9%)
- Rural and private taxi transport services (9%)
- Tourist excursion and long distance bus services (9%)
- Foodstuffs (5%)
- Medicines and vaccines (5%)
- Supply of fertilisers, animal feeding products and seeds (5%)
- Supply of live animals for human consumption (5%)
- Books, magazines and newspapers (5%)

- Non-bottled water (5%)
- Liquid gas (5%)
- Transfer of persons on a rural or city bus (5%)
- Various goods for the use of handicapped persons (5%)
- Ice-cream and similar products (5%)
- Funeral service and supply of coffins (5%)
- Road sweeping, garbage collection and recycling (5%)
- Services of authors, composers and artists (5%)

Exemptions

The following services are exempt from VAT:

- Rents
- Most medical services
- Most insurance banking and financial services
- Educational services
- Management services provided to mutual funds
- Supplies of real estate, excluding new buildings before their first use but including supplies of land and of second-hand buildings
- Postal services provided by the national postal authority
- Lottery tickets and betting coupons for football and horse racing

Registration

Registration is compulsory for businesses with turnover in excess of €15.600 in a year or with an expected turnover in excess of €15.600 in a period of thirty days following. Businesses with less than this turnover have the option to register only if they so elect.

An obligation for registration also arises for businesses which make acquisitions of goods from other EU member states in excess of €10.252 during any calendar year.

Exempt goods and services and transactions of capital nature are not taken into consideration when determining the annual turnover for registration purposes.

In addition as from 1 January 2010 an obligation for VAT registration arises for businesses engaged in the supply of intra-community services for which the recipient must account for VAT under the reverse charge rules. Such businesses will be required to complete and submit a VIES (VAT Information Exchange System) declaration on a monthly basis, for services which are taxed by the recipient under the reverse charge provisions. VIES return will only be submitted electronically.

Furthermore, an obligation for VAT registration arises for businesses carrying out economic activities where they receive services from abroad for which an obligation to account for Cyprus VAT under the reverse charge provision exists.

No registration threshold exists for intra-Community supply of services, however for intra-Community receipt of services from abroad a threshold of €15.600 applies.

Thresholds for VAT Registration – Summary

	€
• Provision of taxable supplies in Cyprus	15.600
• Acquisition of goods in Cyprus from other EU member states suppliers	10.252
• Supply of intra-community services	No threshold
• Receipt of services from abroad - under reverse charge rules	15.600
• Registration threshold for sales to persons not subject to VAT registration in Cyprus by suppliers in another EU member state	35.000

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.

Irrecoverable input VAT

As an exception to the general rule, input VAT cannot be recovered in a number of cases which include the following:

- Acquisition used for making exempt supplies

- Purchase, import or hire of saloon cars
- Entertainment and hospitality expenses (except those relating to employees and directors)
- Housing expenses of directors

Refund of foreign (EU) VAT (in terms of the 8th Directive)

With effect from 1 January 2010, EU established businesses are able to reclaim foreign (EU) VAT by an electronic process, ensuring quicker refunds to claimants.

Costs on which VAT is reclaimed will have to be classified in accordance with the following categories:

- Fuel
- Hiring of means of transport
- Expenditure on means of transport (other than 1 and 2 above)
- Road tolls and road usage charges
- Travel expenses such as taxi fares, public transport fares etc
- Accommodation
- Food, drink and restaurant
- Admissions to fairs and exhibitions
- Expenditure on luxuries, amusement and entertainment
- Other

Tax Authorities will be required to process claims within a stipulated time period. If this time frame is exceeded they will have to pay interest (currently set at 4,75 percent) to the claimants on overdue refunds.

Reporting Obligations and Listings (VIES)

With effect from 1 January 2010 additional filing requirements have been introduced by the EU. Where a Cyprus Company provides cross border services to VAT registered businesses within EU Member States then there is an obligation to register to VIES (Vat Information Exchange System).

VAT declaration – Payment/return of VAT

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

VAT registered persons and companies have the right to request for a different filing period. Approval of the VAT Authorities is required. A tax person maybe required by the authorities to file returns for different periods.

Where in a quarter input tax is higher than output tax, and therefore a repayment is due, the difference is refundable or is transferred to the next VAT quarter.

Penalties

	€
• Late submission of VAT Return	51 each
• Late submission of VIES Return	50 each
• Late submission of corrective VIES Return	15 each
• Late registration with VAT authorities	85 per month of delay
• Omission to keep books and records for 6 years	341

Reduced rate 5 percent for acquisition of first residence

The reduced rate of 5 percent is effective as from 1 November 2011 and applies to primary and permanent residences.

The rate will apply for residences whose total covered area does not exceed 275 sq. meters. The persons who are entitled to this rate should fulfil the following conditions:

- Has completed 18 years of age at the time of submission of application
- Is a citizen of Cyprus or any other member state of the EU
- Does not own any other place of residence in Cyprus

With effect from 8 June 2012 the eligible persons included residents of non EU countries provided that the residence will be used as their primary and permanent place of residence in the Republic of Cyprus.

8 Immovable Property Tax

Immovable Property Tax is imposed on the market value as at 1 January 1980 and applies to the immovable property owned by the taxpayer on 1 January of each year. The immovable property tax is payable on 30 September of each year.

The immovable property tax is imposed on both individuals and legal persons:

Tax rates

Property value € (as at 1 January 1980)	Rate ‰	Accumulated tax €
First 40.000	6	240
From 40.001 – 120.000	8	880
From 120.001 – 170.000	9	1.330
From 170.001 – 300.000	11	2.760
From 300.001 – 500.000	13	5.360
From 500.001 – 800.000	15	9.860
From 800.001 – 3.000.000	17	47.260
Over 3.000.000	19	

Property owners whose property has a total value of €12.500 or less (using 1980 values) are exempt from Immovable Property Tax.

The following categories are exempt from immovable property tax:

- Schools
- Immovable property owned by the republic
- Public hospitals
- Churches
- Embassies and consulates

- Public cemeteries
- Property occupied by the Turks
- Agricultural land used for farming or breeding
- Buildings under the Preservation order
- Buildings of charitable organisations
- Public places



9 Transfer Fees

Transfer Fees are levied by the Department of Land and Surveys for transfers of immovable property situated in Cyprus.

Rates applying from 19 March 1999

Property value €	Rate %	Accumulated fees €
Up to 85.000	3	2.550
85.001-170.000	5	6.800
Over 170.000	8	-

The date of the sale agreement and the date of its submission to the registry office must be within the six month period covered by the law, irrespective of when the new title will eventually be registered.

In the case of property transferred to a family company, transfer fees are refundable after five years if the property remains with the company and the shareholders remain the same.

In the case of company reorganisations, transfers of immovable property are not subject to transfer fees or mortgage registration fees.

In case of property transferred from a family company to one of the two spouses or their children or to a relative up to third degree, the transfer fees are calculated on the value of the property on the title deed, as follows:

- transfer to a spouse 8 percent
- transfer to a child 4 percent
- transfer to a relative up to third degree 8 percent

The following rates are applicable in the case of free transfers (based on the value stated in the titled deed which refers to values of the year 1980):

- parents to children 0,2 percent
- between spouses 0,4 percent
- between relatives up to third degree 0,4 percent
- to trustees € 50

Mortgage registration fee is 1 percent of the current market value.



10 Social Insurance

Contributions

	%
• Employer	7,8
• Employee	7,8

The maximum level of annual income applicable on which social insurance contributions are paid on is as follows:

	€
• Weekly employees	54.396
• Monthly employees	54.396

The contributions of self-employed persons are 14,6 percent of income, according to the following table.

Weekly salaries	Lower limit €	Upper limit €
• Doctors, pharmacists, specialists in health matters, accountants, economists, lawyers and other professionals		
up to 10 years	376	1.025
>10 years	760	1.025
• Wholesalers, estate agents, directors	760	1.025
• Professors and teachers		
up to 10 years	367	1.025
>10 years	735	1.025

Weekly salaries (cont'd)	Lower limit €	Upper limit €
• Builders and other related construction industry businesses	461	1.025
• Drivers, excavator drivers and other related professions, technicians, associates in media, machinery users (apart from the construction industry) assemblers of products, writers, typists, cashiers, secretaries and technicians which do not fall in any other category	367	1.025
• Shopkeepers, cleaners, messengers, guards and owners of dry cleaners	350	1.025
• Farmers, stock breeders, aviarists, fishermen and other related professions, hawkers, postmen, refuse collectors, workers in mines and quarries, marine workers specialising in underwater constructions, installators of forklift equipment, street sweepers and people responsible for provision of services and salesmen	256	1.025
• Butchers, bakers, confectioners and similar professionals	282	1.025
• Designers, users of computers, ship engineers, agents and musicians, magicians, persons that do not fall in any other professional category	376	1.025

Other employer's contributions

The employer makes the following other contributions based on employee's emoluments (which are restricted to the maximum level of €53.304 as stated above):

	%
• Social Cohesion fund	2
• Redundancy fund	1,2
• Industrial Training fund	0,5
• Holiday fund (if not exempt)	8



11 Stamp Duty

The table below gives the amount of duty payable on certain documents. Any contracts relating to assets situated outside Cyprus or business matters that take place outside Cyprus are exempt from stamp duty. Transactions during the reorganisations are also exempt.

Nature of document	
Receipt – for sums of €4	7 cents
Cheque	5 cents
Letter of credit	€2
Letter of guarantee	€4
Bill of exchange	€1
Contract - up to €5.000	0
- between €5.001 – €170.000	1,5‰
- above €170.000	2‰
Contracts without Fixed Sum capped at a maximum of €35	
Customer declaration document	€18-€35
Bill of lading	€4
Charter party	€18
Power of attorney – general	€6
- limited	€2
Certified copy of contracts and documents	€2
Registrar of Companies fees	
Incorporation of a limited liability company	€103 plus 0,6%
Capital Duty	on authorised share capital

Increase in the share capital of a private company	0,6% on the additional amount of the increase
Issued share capital	flat duty of €17,09
Filing of Annual Return	€17,09
Company reorganisations	exempt



12 Trusts

A trust is established by an individual “the Settlor” and is a means whereby property “the Trust Property” is held by one or more persons “the Trustees” for the benefit of another or others “the Beneficiaries” or for specified purposes.

Trusts have traditionally been very important tax planning devices. Even today a very high proportion of tax saving structures involves trusts.

International trusts

International trusts are governed by the International Trusts Law of Cyprus. International trusts are not taxed in Cyprus. In fact, Cyprus international trusts enjoy important tax advantages, providing significant tax planning possibilities.

The following advantages are indicative of the possible options for tax minimisation:

- All income, whether trading or otherwise, of an international trust (ie a trust whose property is located and income is derived from outside Cyprus) is not taxable in Cyprus
- Dividends, interest or other income received by a trust from a Cyprus international business company are neither taxable nor subject to withholding tax
- Gains on the disposal of the assets of an international trust are not subject to capital gains tax in Cyprus, except cases of disposal of immovable property situated in Cyprus or shares in companies which own such immovable property in Cyprus

- An alien who creates an international trust in Cyprus and retires in Cyprus is still exempt from tax if all the property settled and the income is abroad, even if he is a beneficiary
- The assets of an international trust are not subject to estate duty in Cyprus

Trusts are usually used by wealthy individuals for the purpose of protecting their estate from inheritance or capital gains taxes in their home country. They can also be used by expatriates settling into a trust before repatriating assets acquired while working abroad, to protect such assets from tax in their home country.



13 Double Tax Treaties

Withholding taxes - Paid to Cyprus

	Dividends %	Interest %	Royalties %
Non-treaty countries	0	0	0
Armenia	0/5	5	5
Austria	10	0	0
Azerbaijan	0	0	0
Belarus	5/10/15	5	5
Belgium	10/15	0/10	0
Bosnia	10	10	10
Bulgaria	5/10	0/7	10
Canada	15	0/15	0/10
China	10	10	0/10
Czech Republic	0/5	0	0/10
Denmark	0/15	0	0
Egypt	15	15	10
Estonia	0	0	0
Finland	5/15	0	0
France	10/15	0/10	0/5
Germany	5/15	0	0
Greece	25	10	0/5
Hungary	5/15	0/10	0
India	10/15	0/10	15
Ireland	0	0	0/5
Italy	15	10	0
Kuwait	0	0	5
Kyrgyzstan	0	0	0
Lebanon	5	5	0
Lithuania	0/5	0	5
Malta	0	10	10
Mauritius	0	0	0
Moldova	5/10	5	5
Montenegro	10	10	10
Norway	0/15	0	0
Poland	0/5	0/5	5
Portugal	10	10	10
Qatar	0	0	5

(cont'd)	Dividends %	Interest %	Royalties %
Romania	10	0/10	0/5
Russia	5/10	0	0
San Marino	0	0	0
Serbia	10	10	10
Seychelles	0	0	5
Singapore	0	0/7/10	10
Slovakia	10	0/10	0/5
Slovenia	5	5	5
Spain	0/5	0	0
South Africa	0	0	0
Sweden	5/15	0/10	0
Syria	0/15	0/10	10/15
Tajikistan	0	0	0
Thailand	10	10/15	5/10/15
Ukraine	5/15	2	5/10
United Arab Emirates	0	0	0
United Kingdom	0/15	10	0/5
United States of America	5/15	0/10	0
Uzbekistan	0	0	0

The above table provides a summary of the withholding taxes applicable for payments to Cyprus companies from double tax treaty countries.

Withholding taxes - Paid from Cyprus

Dividends

No withholding taxes exist for dividend payments which are made to non tax residents of Cyprus.

Interest

No withholding taxes exist for interest payments which are made to non tax residents of Cyprus.

Royalties

No withholding taxes are levied on royalties as long as the right is used outside Cyprus. If the right is used in Cyprus, the rates appearing in the above table apply.

14 Tax Due Dates

End of following month

Payment of tax deducted from employees salary (PAYE)

Payment of special contribution for defence on dividends and interest received in the preceding month

31 January

Final deadline for the avoidance of penalty of 4,75 percent for the payment of corporation tax based on the tax return of the penultimate year, if not paid on 1 August of previous year

Submission of declaration of deemed dividend distribution (IR 623) for the year ended 31 December two years ago

31 March

Electronic submission of the 2013 corporation tax return (IR4) and income tax return of physical persons preparing audited Financial Statements for the year ended 31 December 2013

30 April

Payment of premium tax for life insurance companies - first instalment

30 June

Payment of personal tax under self-assessment method

Payment of special contribution for defence for the first six months of the year

31 July

Electronic submission of provisional tax declaration and payment of first instalment of provisional tax for the year

Electronic submission by employers of the total 2014 payroll (Form IR7)

Submission of 2015 provisional tax return and payment of first instalment

1 August

Payment of previous year's final corporation tax under the self assessment method

Payment of previous year's income tax under the self assessment method by individuals preparing audited financial statements - see note (2)

31 August

Payment of premium tax for life insurance companies – second instalment

Payment of immovable property tax for 2015 with a discount of 10% on the tax due

30 September

Submission of 2014 personal tax returns of individuals not required to prepare audited financial statements but whose income derived from trade/business, rents, dividends, interest, royalties and payment of tax via self assessment method

Payment of immovable property tax for the year without a discount of 10% on the tax due



31 December

Payment of provisional tax – third and last instalment

Payment of special contribution for defence for the last six months of the year

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

Interest and Penalties

The official rate applicable as from 1 January 2015, set by the Ministry Finance is 4,5%. The interest rate for outstanding amounts is 4,5% for 2014, 4,75% for 2013, 5% for 2011-2012, 5,35% for 2010, 8% for 2007 – 2009 and 9% prior to 2007.

In addition to the interest, a penalty is also charged depending on the circumstances.

Notes

- (1) Physical persons submit returns only when their gross income exceeds €19.500
- (2) A physical person is obliged to submit audited financial statements if his/her turnover exceeds €70.000 annually

15 Oneworld Ltd

At Oneworld Ltd we deal in solutions. Although a significant proportion of our business is corporate registration and administration, many clients now come to us for a complete solution and for many we also provide creation and administration of trusts, international tax advice, accounting and payroll, VAT and customs, corporate finance, valuations and related services.

Like our clients, we maintain the highest professional standards and code of conduct. Our due diligence procedures more than meet the requirements of the highly regulated jurisdictions in which we work.

Adherence to the highest standards is demonstrated by the licences we have obtained. Our staff are trained comprehensively in anti money laundering and 'know your client' procedures. As you would expect, confidentiality is paramount in all our dealings, and our staff are bound by law to maintain professional confidences.

We are one of the leading corporate providers and we bring a depth of experience to our work and dealings with clients. Our personnel consists of chartered accountants, lawyers, financial advisors, tax specialists, administrators and company secretaries as well as a highly trained and knowledgeable corporate and support staff.

Oneworld Ltd is a member of Group One which also includes:

- One Plus Capital Ltd
- One Plus Family MFO Ltd
- Oneworld Trustees Ltd
- Oneworld MidEast Ltd (in Dubai)

Our Services

Corporate and Trust

- Company and Trust Formation
- Domiciliary and Management
- International Structuring
- Registrar and Shareholders
- Intellectual Property
- Fund Administration

Financial Advisory

- Corporate Finance
- Listings
- Financial Due Diligence
- Business Recovery
- Mergers and Acquisitions
- Venture Capital



Global Compliance

- Accounting Services and Reporting
- VAT Registration
- HR and Payroll
- Fund Valuation Services

Business Advisory

- Domiciliary and Management
- Internal Audit
- Regulatory Compliance
- Corporate Strategy
- Performance and Reward Management
- HR Management
- IT Services

Tax and Legal

- International Tax
- EU Direct Tax
- Transfer Pricing
- Legal Services
- Legal Support



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