



CYPRUS TAXATION GUIDE

2016



FOREWORD

This paper (“Guide”) is intended to provide an overview of the taxes payable in Cyprus. For reasons of simplicity and clarity, it does not address all the issues and circumstances that could arise in practice. Readers are, therefore, advised to contact us for professional advice tailored to their specific circumstances prior to embarking on any given course of action. The information provided is valid on the date of publication of this Guide. Cyprus has a fairly stable tax environment but the possibility of certain provisions of the law being changed or of new interpretations coming into force is always an issue which should be guarded against by seeking up to date professional advice. While every effort has been made on the part of the authors to ensure that the Guide is free of misstatements, no responsibility can be accepted for its contents which are provided free of charge to clients and prospective clients.

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January 2016

Note:

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CORPORATION TAX

Basis of Taxation

The legal persons that are **managed and controlled in Cyprus** are deemed, for tax purposes, to be resident in Cyprus. **Resident legal persons** are subject to Cyprus corporation tax on their worldwide income, i.e. on the income generated in Cyprus as well as on the income generated abroad.

Cyprus companies, which are **not managed and controlled in Cyprus**, are **not** tax resident in Cyprus and their income is **not** taxed in Cyprus¹, except for the income segment, if any, that arises in Cyprus.

Foreign taxes paid can be credited against the corporation tax liability. Every Company registered in Cyprus must also pay an Annual Levy of Euro 350 (see section STAMP AND CAPITAL DUTY, ANNUAL LEVY).

Tax Rate

The **corporation tax rate** in Cyprus is **12.5%** (flat rate).

Exemptions

The following forms of **income** are either **exempt from taxation** or are partially taxable:

Source of Income	Exemption
Dividend income <i>(excluding, as from 1 January 2016, dividend income that is tax deductible from the taxable income of an EU subsidiary)</i>	Exempt but may be subject to Special Contribution for Defence
Gain from the disposal of financial instruments (such as shares)	Exempt
Intellectual Property (IP) rights in the form of royalties, derived from the commercial exploitation of patents, trademarks, copyrights etc, and the gains realised on the disposal of such IP rights	Subject to corporation tax after allowing for a statutory exemption of 80% of such income
Foreign currency gain (forex)	Exempt (for Companies trading in foreign currencies and related derivatives this exemption is not applicable)
Profits of a permanent establishment abroad	Exempt under certain conditions

(1) As a consequence of such companies not being “tax resident” they do not come under the provisions of the treaties for the avoidance of double taxation (double tax treaties) that Cyprus has entered into. These companies are not entitled to tax residence certificates.



Deductions

In order to arrive at **taxable income**, all expenses that have been incurred *wholly and exclusively in the production of income* are deductible from gross revenues, provided that these are supported by the relevant documentation, including:

Source of Expenditure	Allowable Deduction
Contributions to approved funds (such as employers' contributions on employee salaries)	Whole amount
Donations to approved charitable institutions	Whole amount, provided receipts are available
Interest expense in relation to the acquisition of fixed assets used in the business	Whole amount
Interest expense incurred for the direct or indirect acquisition of 100% of the share capital of the subsidiary company	Whole amount, provided that the subsidiary does not own any assets that are not used in the business
Notional Interest Deduction (NID) The annual NID is calculated as an interest rate on the eligible (new equity) share capital/premium in a similar way that an interest expense on debt financing is generally calculated. The NID interest rate is defined as being the yield on 10 year government bond (as at 31 December of the prior tax year) of the country in which the investment is made increased by 3%.	The NID is tax deductible in a similar manner as for actual interest expense but it cannot exceed 80% of the taxable income arising before the deduction. The NID is not available in the case of a tax loss. Effective as of 1 January 2015.
Expenditure made for maintenance, preservation or restoration of a building under preservation order	Amount subject to restrictions based on m ²
Entertainment expenses	The lower of: (a) 1% of gross business income or (b) €17,086

However, some expenses are specifically excluded (not deductible expenses), such as:

Source of Expenditure	Non-Allowable Deduction
Expenses for private motor vehicles	Whole amount
Interest expense in relation to the acquisition of private motor vehicle and any other asset not used in the business	Whole amount, for a period of 7 years from the date of acquisition of the asset
Professional Tax	Whole amount
Immovable property tax	Whole amount
Foreign currency loss (forex)	Whole amount (for Companies trading in foreign currencies and related derivatives this deduction is not applicable)



Losses carried forward

Legal Entities

The **tax losses** generated in any one year may be carried forward and used to offset taxable profits of ensuing years for a **maximum period of 5 years** from the end of the year in which the losses are generated.

Group Tax relief

Current year tax losses may also be offset against the taxable profits of other Cyprus tax resident companies, which form part of the *same group*¹.

Group is defined as follows:

- One company holding at least 75% of the shares of the other company.
- At least 75% of the voting shares of the companies are held by another company.
- The companies must be part of the same group for the full year under consideration.

Permanent establishment abroad

The tax losses generated by a *permanent establishment abroad* may also be offset against taxable profits generated in Cyprus. In such a case, any future profits generated abroad will be taxed in Cyprus until such time as the relief previously obtained is fully recovered.

Partnerships or sole traders

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

Reorganisations

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

(1) As from 1 January 2015, A Cyprus Tax Resident Company may also claim the tax losses of an EU tax resident group company, provided such EU Company exhausts all possibilities available to utilise its losses in its country of residence or the country of an intermediary EU holding company, prior to assigning the losses to the Cyprus entity.



Capital Allowances

Irrespective of the rates of depreciation of fixed assets that have been applied for accounting purposes, the following **capital allowances** (tax depreciation) may be claimed for the purposes of quantifying taxable income (as a percentage on the cost of acquisition):

Fixed Assets	%
<i>Machinery & Installations</i>	
Machinery and installations, furniture and fittings, television and video sets ⁽¹⁾	10
Agricultural machinery and tools	15
Computer hardware and operating systems	20
Computer software:	
• Up to €1,709	100
• Above €1,709	33½
Commercial vehicles and motor cycles	20
Earth moving equipment, tractors, loading / unloading equipment	25
Photovoltaic systems	10
Wind power generation equipment	10
<i>Buildings</i>	
Commercial buildings	3
Industrial, agricultural and hotel buildings ⁽²⁾	4
Apartments	3
Metal frame greenhouses	10
Wooden frame greenhouses	33½
<i>Ships</i>	
Sailing boats	4.5
Steamships, trawlers, fishing boats and motor yachts	6
Ship launching machinery	12.5
Newly built cargo vessels	8
Newly built passenger vessels	6
Second-hand built passenger vessels	Useful life
<i>Tools</i>	
Tools in general	33½
Videocassettes / DVDs used by video clubs	50

Notes:

1. Machinery & Installations acquired during the tax years 2012-2016 (inclusive) are eligible to claim accelerated tax depreciation at the rate of 20% per annum.
2. Industrial and hotel buildings acquired during the tax years 2012-2016 (inclusive) are eligible to claim accelerated tax depreciation at the rate of 7% per annum.



SPECIAL-PURPOSE CYPRUS COMPANIES

Shipping Companies

Cyprus imposes a special reduced tax (in lieu of corporation tax) on companies engaged in international maritime transport.

In terms of substance, the Cyprus shipping tax is a form of **tonnage tax** (Merchant Shipping Law). The scheme covers qualifying ship-owners, charterers and ship managers and it is also applicable, under certain conditions, to tugboats, dredgers and cable-layers.

Tonnage Tax Rates

Tonnage Tax is calculated on the net tonnage of the ship based on the following band rates:

Tonnage	Rate per 100 net tonnage
Up to 1,000	€36.50
1,001-10,000	€31.03
10,001-25,000	€20.08
25,001-40,000	€12.78
Above 40,001	€7.30

Note: Tax rates applicable to ship managers are 25% of the above.

The tonnage tax shall be assessed by and be payable to the Department of Merchant Shipping on a date to be prescribed by a Notification.

An owner of a Cyprus ship that is a qualifying ship engaged in a qualifying shipping activity is subject to tonnage tax. Foreign ship owners have the right to opt to be taxed in respect of any particular fiscal year with tonnage tax under the provisions of this Law. Such owners must remain in the tonnage tax system for at least ten years.

Insurance Companies

Insurance companies are taxed in Cyprus on the basis of the rules generally applicable, except that if the corporation tax payable in relation to life assurance activities is less than 1.5% of gross premiums, then the difference is paid as a form of additional corporation tax.



SPECIAL CONTRIBUTION FOR DEFENCE

Special Contribution for Defence (“SCD Tax”) is a tax imposed on specific sources of income (listed below) of Cyprus resident legal entities and individuals who are both Cyprus tax resident and Cyprus domiciled. **Individuals who are non-resident or have Non-Dom status¹ are exempt from this tax.** Our advisors are available for further consultations on the potential benefits and opportunities afforded by the new non-Dom status rules.

SCD Tax is imposed on dividend, interest and rent income, at the following rates:

	Recipient of income	
	Resident and Domiciled Individual	Resident Legal entities
	%	%
Dividends received from Cyprus tax resident companies	17 ⁽⁶⁾	0 ⁽²⁾
Dividends received from non-Cyprus tax resident companies	17	0 ⁽³⁾
Interest income:		
✓ closely associated with the business activities of the recipient	0 ⁽⁴⁾	0 ⁽⁴⁾
✓ Other interest income (except as note ⁽⁵⁾)	30	30
Rental income (reduced by 25%)	3 ⁽⁴⁾	3 ⁽⁴⁾

⁽¹⁾ For the purposes of the SDC Law an individual has his/her domicile in Cyprus if he/she is either
 (a) Originally of Cypriot origin (his/her “domicile of origin” is Cyprus as defined in the Wills and Succession Law) with some exceptions, or,
 (b) Irrespective of (a) above, who has been a resident of Cyprus per the Income Tax Law for a period of at least 17 years out of the last 20 years prior to the tax year of assessment (“deemed domicile”).
 Domicile of origin per the Wills and Succession Law is acquired at birth. The above generally means that persons who are not of Cypriot origin and recently chose to reside in Cyprus will be considered as Non-Doms. The Non-Dom provisions take effect from 16 July 2015 and include anti-avoidance provisions which restrict their application, such as in cases where domiciled individuals transfer assets to Non-Doms.

⁽²⁾ The tax-free rolling forward of dividends is restricted to four years

⁽³⁾ As from 1 January 2016, dividends which are tax deductible from the taxable income of an EU subsidiary are subject to Corporation Tax.

The above exemption does not apply if:

- (a) the principal activity of the paying company is the direct or indirect generation of investment income **and**
- (b) the foreign tax burden on the profits out of which the dividends are paid is substantially lower than the tax burden of the Cyprus recipient company. Substantially lower means an effective tax rate of less than 6.25% on the profit distributed.

When the exemption does not apply, the dividend is subject to SDC of the rate of 17%.

⁽⁴⁾ Subject to corporation tax / personal income tax.

For Cyprus sourced rental income, where the tenant is a Cyprus company, partnership, the state or local authority, SCD on rental income is withheld at source.



⁽⁵⁾ Interest income from: Government Bonds, Approved Provident Funds and Social Insurance are taxed at the rate of 3% for Resident Individuals and 0% for Resident Legal Entities.

⁽⁶⁾ For Dividends paid by Cyprus tax resident companies SCD is withheld at source.

Any **foreign taxes paid** can also be credited against the SCD Tax liability.

Deemed Distribution of Dividends

In the case that a Cyprus company does **not** declare dividend **within two years of the end of a tax year**, 70% of its accounting profit (subject to certain adjustments) are deemed (for SCD Tax purposes) to have been distributed, pro rata, to its shareholders who are both Cyprus tax resident and Cyprus domiciled (as from 16 July 2015) and SCD Tax is levied on the notional distribution at the rate of 17%.

The amount of the **deemed distribution** is reduced by the amount of the dividends actually paid in the two-year period. Likewise, if an actual dividend is paid subsequent to the deemed distribution, the SCD Tax is levied only on the amount of the dividend that exceeds the deemed distribution.

The non-resident / non-Dom shareholders of a Cyprus company are not subject to the SCD Tax on dividends (deemed or actual) which correspond to their shareholdings, i.e. dividend distribution to non-dom individual shareholders is not subject to SCD Tax.

Disposal of Assets to shareholder

When a company disposes of an asset to an individual shareholder or a relative of his up to second degree or his spouse, without a consideration fee or for a consideration less than its market value, the difference between the consideration and the market value will be deemed to have been distributed as a dividend to the shareholder. This provision, does not apply for assets originally gifted to the company by an individual shareholder or a relative of his up to second degree or his spouse.

Company Dissolution

When a company is dissolved, the cumulative profits of the last five years prior to its 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% (3% for Collective Investment Schemes). This provision does not apply in the case of dissolution under a Reorganisation.



PERSONAL TAXATION

(INCOME TAX FOR NATURAL PERSONS)

Cyprus Residence – Cyprus Source Income

Cyprus Tax resident individuals are taxed on their worldwide income, i.e. on all income accrued or derived in Cyprus and abroad. **Non-Cyprus Tax resident** individuals are taxed only on their income arising in Cyprus (Cyprus source income).

An individual is generally considered as **Cyprus Tax resident**, if he/she stays in Cyprus for a period which exceeds, in aggregate, **183 days** in a tax year. Days of residence in Cyprus are calculated as follows:

- (a) The day of departure from Cyprus is considered to be a day out of Cyprus
- (b) The day of arrival in Cyprus is considered to be a day in of Cyprus
- (c) The arrival into Cyprus and departure from Cyprus on the same day is considered to be a day in Cyprus
- (d) The departure from Cyprus and return to Cyprus on the same day is considered to be a day out of Cyprus

Income Tax Rates

Taxable Income	Tax Rate	Amount of tax (on bracket)	Accumulated amount of tax
€	%	€	€
Up to 19,500	0	0	0
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		

Foreign taxes paid can be credited against the personal income tax liability.



Exemptions

The following sources of income are exempt from personal income tax:

Source of Income	Exemption
<ul style="list-style-type: none"> Interest <i>Interest accruing from the ordinary business activities or closely related to the ordinary business activities of an individual, is considered as profit and is not exempted</i> 	Whole amount ⁽¹⁾
<ul style="list-style-type: none"> Dividends 	Whole amount ⁽¹⁾
<ul style="list-style-type: none"> Remuneration from any employment exercised in Cyprus by an individual who was not a tax resident of Cyprus before the commencement of the employment <ul style="list-style-type: none"> ✓ <i>for a period of 3 years, commencing from 1st January following the year of commencement of employment For employments commencing during or after 2012 the exemption applies for a period of 5 years starting from the tax year following the year of commencement of the employment with the last eligible tax year being 2020. This exemption may not be claimed in addition to the below mentioned 50% exemption for employment income.</i> ✓ <i>for a period of 10 years, commencing as from 1st January 2012, provided the annual remuneration exceeds €100,000 For employments commencing as from 1 January 2015, the exemption does not apply in case the said individual was a Cyprus tax resident for 3 (or more) tax years out of the 5 tax years immediately prior to the tax year of commencement of the employment nor in the preceding tax year. In certain cases it is possible to claim the exemption where income falls below €100.000 per annum.</i> 	<p>20% of remuneration with a maximum of €8,550 annually</p> <p>50% of remuneration</p>
<ul style="list-style-type: none"> Remuneration from salaried services rendered abroad for a period in excess of 90 days in a tax year to a non-Cyprus tax resident employer or to a Cyprus tax resident employer who has a permanent establishment outside Cyprus 	Whole amount
<ul style="list-style-type: none"> Lump sum bonuses payable on retirement, death or incapacity 	Whole amount
<ul style="list-style-type: none"> Capital sums accruing to individuals from any payment to approved funds (i.e. provident funds) 	Whole amount
<ul style="list-style-type: none"> Profits from the disposal of titles (i.e. shares, bonds, debentures) 	Whole amount
<ul style="list-style-type: none"> Profits from a permanent establishment abroad, under certain conditions 	Whole amount

⁽¹⁾ Such dividend and interest income maybe subject to SDC (pg 9).



Tax Deductions

The following are deductible from personal income tax:

Source of Income / Contribution	Exemption
<ul style="list-style-type: none">• Losses of current and prior years	Whole amount
<ul style="list-style-type: none">• Subscriptions to trade unions or professional bodies	Whole amount
<ul style="list-style-type: none">• Donations to approved charities (<i>with receipts</i>)	Whole amount
<ul style="list-style-type: none">• Contributions to social insurance funds, pension funds, provident funds, medical funds and life insurance premiums (<i>confined to 7% of the insurable amount</i>)	Up to 1/6 of the chargeable income
<ul style="list-style-type: none">• Special contribution on salaries and wages (page 14)	Whole amount
<ul style="list-style-type: none">• Rental income	20% of the 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 (m²)



EMPLOYMENT TAXES - SOCIAL INSURANCE CONTRIBUTION

The obligatory social insurance contributions to a state-operated social insurance fund for 2014 onwards amount to **15.6% of gross earnings** of which 7.8% is borne by the employer and 7.8% by the employee. The ceiling on which these contributions are calculated is €54,396 per annum and is normally adjusted on the 1 January of each calendar year. The current rates are expected to change on 1st January 2019 (to 16.6%).

In addition to the above contributions, employers are obliged to make the following contributions:

Fund	Rate
Social cohesion fund (<i>no ceiling applies</i>)	2%
Employment redundancy fund	1.2%
Industrial training fund	0.5%
Holiday fund (<i>if a paid annual leave is not provided by the employer</i>)	8%

The employer is obliged to pay the contributions to all the Funds the latest by the end of the month following the month to which the contributions relate to.

The obligatory social insurance contributions of a **self-employed person** for 2014 onwards amount to **14.6% of gross earnings**. 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 and is normally adjusted on the 1 January of each calendar year. The current rates are expected to change on 1st January 2019 (to 15.6%).

EMPLOYMENT TAXES - SPECIAL CONTRIBUTION

For a period of five years, commencing 1 January 2012, salaries and similar earnings are also subject to a special contribution (which must be accounted for together with the income tax withheld from salaries) on the basis of the following scale:

Rate of tax	Gross monthly salary	
	2014-2016	
0,0%	Up to 1,500	(min €10)
2,5%	1,501-2,500	
3,0%	2,501-3,500	
3,5%	Over 3,501	

This special tax is “deductible” for income tax purposes and is borne by the employer and the employee, on a 50:50 basis.



CAPITAL GAINS TAX

The Capital Gains Tax rate is **20%** and is levied **only on the gains realized from the disposal of immovable property located in Cyprus**. Capital Gains Tax is also levied on the gains derived from the disposal of shares in companies holding immovable property located in Cyprus. As of 17 December 2015, shares of companies which directly or indirectly participate in companies owning immovable property located in Cyprus and at least 50% of the market value of these shares derives from the market value of the immovable property situated in Cyprus, are subject to Capital Gains Tax.

The disposal of shares that are listed on a recognized stock exchange are exempt.

For the purposes of calculating the taxable gain, the cost of acquisition of the immovable property is adjusted by the rate of inflation.

Exemptions may apply, such as in the case of the disposal of immovable property caused by death, gifts between close relatives, contributions to family companies, transfers resulting from the restructuring of companies, expropriations and exchanges of immovable property. Immovable property acquired in the period 16 July 2015 up to 31 December 2016 will be exempt from Capital Gains Tax upon disposal.

Individuals can deduct **lifetime exemptions** from the capital gains, which is given only once per taxpayer during his lifetime. The deductible amount varies depending on the property seller and the property, as follows:

- An individual selling his private residence may deduct a lifetime exemption of €85,430, provided that the owner occupied it for at least 5 years.
- A farmer disposing or selling agricultural land may deduct a lifetime exemption of €25,629.
- Any other property disposal may deduct a lifetime exemption of €17,086.



IMMOVABLE PROPERTY TAX

Immovable property tax is levied on the total market value of real property (land and buildings), such value being quantified as of 1 January 1980, located in Cyprus and registered in the name of the taxpayer (natural or legal person) on 1 January of each year.

The immovable property tax is levied at the following rates:

<i>Total Value of property as at 1 January 1980 (per owner) (in €)</i>	<i>Rate of tax</i>	<i>Accumulated tax (in €)</i>
1 – 40,000	6‰	240
40,001 – 120,000	8‰	880
120,001 – 170,000	9‰	1.330
170,001 – 300,000	11‰	2.760
300,001 – 500,000	13‰	5.360
500,001 – 800,000	15‰	9.860
800,001 – 3,000,000	17‰	47.260
Over 3,000,001	19‰	

*Persons owing property of a total value of less than €12.500 are exempt from Immovable Property Tax.
Public land and buildings and agricultural land used in agriculture are generally exempted from this tax.*

Immovable property tax is **payable by 30 September of each year** (in relation to the property owned on 1 January of that year). When the immovable property tax is paid up to 30 days before the due date (i.e. 31st August), then a **discount** of 10% is granted. A **charge of 10%** is imposed if the immovable property tax is not paid by the due date.



LAND TRANSFER FEES

The **transfer of the ownership of immovable property** (land and buildings) is subject to tax (land registry fees) on the basis of the following rates:

<i>Value of Property (in €)</i>	<i>Rate of tax</i>	<i>Total tax on bracket (in €)</i>	<i>Accumulated amount of tax (in €)</i>
Up to 85,000	3%	2,550	2,550
85,000 – 170,000	5%	4,250	6,800
Over 170,000	8%		

The value of property taken into consideration is the value written on the title deed, which refers to values as at 1st January 1980.

Rates for transactions between 2/12/11 – 31/12/16

Any transfers concluded between 2 December 2011 and 31 December 2016 will be **exempt** from the above transfer fees if they are subject to VAT and if not the transfers will be eligible for a 50% exemption from the above transfer fees. In the case of family-owned companies, the tax may be refunded, if the property is retained by the company for 5 years and there is no change in the composition of the shareholders.

Special rates apply in the case of transfers between close relatives.

No tax is levied in the case of company restructurings.



VALUE ADDED TAX (VAT)

Cyprus, as a member state of the European Union, applies the rules, which govern value added tax (VAT) throughout the Union. A key aspect is that **VAT is borne by the ultimate consumer** of the goods or services, who is a non-VATable entity. In general, **VATable entities are neutral to the tax**, i.e. the tax does not constitute an element of cost for VATable entities. It follows that being a non-VATable entity is often disadvantageous.

Transactions Subject to Cyprus VAT

A transaction is subject to Cyprus VAT, if it takes place or is deemed to have taken place in Cyprus. **Transactions that take place outside Cyprus are outside the scope of Cyprus VAT.**

Goods

In the case of **goods**, a transaction is deemed to take place at the location where the goods are delivered by the seller to the buyer.

The **place of delivery** is the place **where the goods are located** when they are made available to the buyer.

Services

In general, **services** are deemed to be delivered at the place where the **recipient** of the services is located (this is known as the “basic rule”). Exceptionally, certain services are deemed to be delivered at the place where the **provider** of the services is located.

The place of establishment of the provider of the services is the **place where the provider has a business** or other permanent establishment, including a branch or a representative

VAT Registration

Cyprus companies may have to register with the Cyprus VAT Authorities and to acquire a VAT Registration Number. Such an obligation (and a corresponding right) exists when the entity in question has “VATable outputs” (VATable sales of goods or services). For example, entities that exclusively have investing or financing activities do not have the obligation (and the corresponding right) to register. Non-registered entities must absorb the VAT levied on their purchases as an element of cost. VAT Registration is a separate and distinct process to that of Tax Registration.



Compulsory registration:

	Registration threshold
Provision of taxable supplies (goods and services) in Cyprus	€15,600 ^(*)
Acquisition of goods in Cyprus from other EU member states supplies	€10,251.61
Distance selling	€35,000
Supply of intra-community services	Nil
Receipt of services from abroad – under reverse charge rules	€15,600

* Liability for registration arises:

- At the end of any month, in the 12 month period, the value of the taxable supplies exceed €15,600 or at any time there are reasonable grounds for believing that the value of the taxable supplies will exceed €15,600 in the next 30 days

Deregistration from the VAT Register should be made within 60 days from termination of trading operations.

VAT Rates

Currently VAT rates are the following:

Rates	%
Zero Rate ⁽¹⁾	0%
Reduced Rate ⁽²⁾	
• from 13/01/2014	9%
• until 12/01/2014	8%
Reduced Rate ⁽³⁾	
• from 04/12/2015	5%
Standard Rate	
• from 13/01/2014	19%
• 14/01/2013-12/01/2014	18%
• 01/03/2012-13/01/2013	17%
• up to 29/02/2012	15%

Notes:

- (1) Persons that produce zero rated supplies are allowed to recover VAT charged on their purchases and expenses in contrast with the production of exempt supplies (*reference below*) where no entitlement to claim VAT is allowed.
- (2) A reduced rate of VAT applies to foodstuffs, medicines, hotel enterprises and certain other goods and services.
- (3) From 4 December 2015 the reduced rate of 5% VAT applies for renovations and repairs of all private residences (*excluding the value of materials which constitute more than 50% of the value of the services*), for which at least (3) three years have elapsed from the first use, including those that are not used as the principal and permanent place of residency.
Also, a reduced rate of 5% applies on the acquisition / construction of residence for use as the primary and permanent place of business.



Intra-community transactions

Intra-community transactions correspond to transactions performed with companies within the EU.

Intra-community supplies are zero rated with deduction right (under certain conditions), whereas intra-community acquisitions are subject to VAT under the *reverse charge mechanism* (i.e. self-charge VAT and at the same time claim it back).

All zero-rated transactions with VATable entities based in other EU member states must be electronically reported (by customer or client), via the VIES system. **VIES returns** must be filed electronically on a **monthly basis**, by the 15th day of the following month.

VAT Exemptions

The following are the most notable transactions that fall outside the scope of (do not attract / **are exempt of**) VAT:

- most banking, financial and insurance services;
- most hospital, medical and dental care services;
- certain cultural educational and sports activities;
- postal services provided by the national postal authority;
- lottery and betting tickets for football and horse racing;
- the letting of immovable property;
- the supply of immovable property (except supply of new buildings before their first use), including supplies of land and of second-hand buildings.

Filing of VAT Returns

VAT returns must be filed by VATable entities on a **quarterly basis** (and the related tax, if any, is paid) by the 10th day of the second month that follows the month in which the VAT period ends. The necessary (pre-printed) forms are mailed to VATable entities at the address specified in their VAT registration form (usually the address of their registered office).

Penalties for non-compliance

Action	Penalty imposed
Failure to register with the Cyprus VAT Register	€85/month
Late submission of VAT Return	€51/return
Late submission of VIES Return	€50/return
Late submission of corrective VIES Return	€15/return
Omission to submit VIES Return – Criminal Offence	€850 maximum penalty
Delayed deregistration from the Cyprus VAT Register	€85 one-off



TRUSTS

A trust usually takes the following form: a person (a Settlor) entrusts property to another (the Trustee) by giving the property to the Trustee to hold and administer it for the benefit of another (the Beneficiary). A trust can be created by a written instrument, by conduct or by operation of law.

Cyprus International Trusts

A Cyprus International Trust (“CIT”) must satisfy the following conditions:

- (a) The **settlor** is not a resident of Cyprus in the year preceding the year of establishment of the CIT (*meaning that the settlor of a CIT may become a resident of Cyprus after the establishment of the CIT*);
- (b) No **beneficiary** other than a charity is a resident of Cyprus in the year preceding the year of establishment of the CIT (*meaning that a beneficiary of a CIT may become a resident of Cyprus after the establishment of the CIT*);
- (c) At least one **trustee** is resident in Cyprus at all times.

Taxation of a CIT

The primary tax features of a CIT are the following:

- Income and gains of a CIT derived from sources *outside Cyprus* are not subject to taxation in Cyprus (assuming the beneficiary is *not resident* in Cyprus);
- Availability of the extensive Cyprus Double Tax Treaty network (in conjunction with a Cyprus company acting as a trustee and suitable tax planning);
- The assets of CIT are not subject to any estate duty in Cyprus;
- One-Off payment of stamp duty (currently amounting to €430).

Potential Uses of CITs

Discretionary CITs

Discretionary CITs (i.e. those whereby the trustee has wide discretionary powers of distribution of the income and investment of the capital of the CIT) may prove to be an effective tool for legitimate tax planning by isolating the settlor and the beneficiary from the CIT’s assets thus potentially reducing the tax exposure in the home country (subject to relevant tax advice from that country) of the settlor and the beneficiaries.

Estate Planning - Asset Protection

The legislation provides enhanced protection to the assets held by a CIT. As a result, CITs may also be used both for estate planning (succession) as well as protection of assets.



INVESTMENT FUNDS

There are two types of investment schemes available in Cyprus, both regulated and supervised by the Cyprus Securities and Exchange Commission (“CySEC”):

- The *Alternative Investment Funds* (“AIFs”); and
- The *Undertakings for Collective Investments in Transferable Securities* (“UCITS”)

Alternative Investment Funds

According to the AIF Law (N.131(I) 2014), there are 2 categories of AIFs (based on the number of investors involved):

- (1) Unlimited Number of Persons
- (2) Limited Number of Persons

Characteristics:

	Unlimited Number of Persons
No of Investors	Unlimited
Type of Investors	a. Well-informed or/and b. Professional or c. Retail
Legal Form	a. Variable / Fixed Capital Company (“VCC/FCC”) b. Limited Partnership (“LP”) c. Common Fund (“CF”)
Management	a. VCC/FCC: Externally or Internally managed b. LP: External Manager is required c. CF: General Partner is responsible
Minimum Capital Requirements	a. €125,000 or b. €300,000 in the case of self-managed AIF/AIFM
Listed in Stock Exchange	May be listed on Stock Exchange and in the case of VCC/FCC marketed to Retail investors it can also be traded
Transfer of Shares	Freely transferable

	Limited Number of Persons
No of Investors	Maximum 75
Type of Investors	a. Well-informed or/and (4) Professional
Legal Form	a. Variable / Fixed Capital Company (“VCC/FCC”) b. Limited Partnership (“LP”)
Management	a. “VCC/FCC”: Externally or Internally managed b. “LP”: External Manager is required
Minimum Capital Requirements	No minimum
Listed in Stock Exchange	Neither listed nor traded
Transfer of Shares	Freely transferable only if their transfer does not result in the AIF having more than 75 investors



Tax Regime - Incentives

- No subscription tax on the net asset of the fund
- An AIF is treated identically as any other Cypriot entity, hence enjoys 12.5% flat corporation tax on annual net profits earned worldwide
- Exemption from tax on profits from sale of shares and other instruments
- No withholding tax on income repatriation (dividends paid to unit-holders)
- Exempt from capital gains tax from the sale of immovable property situated outside Cyprus
- Double Taxation treaties with countries worldwide, where applicable

The funds that are registered as AIFs are required to compile and file an annual report and an interim half-yearly report as well as an annual tax return. The revenues derived by AIFs in the form of dividend income, gains on the disposal or valuation of shares and gains on the disposal of immovable property located outside of Cyprus are generally exempt from tax. Interest income, however, is subject to tax at the rate of 30% while the gains arising on the disposal of immovable property located in Cyprus are subject to a 20% capital gains tax. The losses arising on the disposal of assets may be carried forward indefinitely but cannot be carried back.

The gains derived by individual and institutional investors on the disposal of the investment are generally exempt from taxation, except for the gains derived by resident investors from an AIF established as either a common fund or a partnership, where part of the gain is deemed to be a disposal of goodwill.

Individual and institutional investors in foreign funds, who are tax residents of Cyprus, are taxed on the same basis as investors in Cypriot funds but they need to account for any taxes payable themselves, having the right to claim double tax relief, either on the basis of the numerous double tax treaties Cyprus has entered into or on a unilateral basis.

Undertakings in Collective Investments in Transferable Securities

According to the Open-Ended Undertakings for Collective Investment (UCI) Law of 2012, the following characteristics apply to a UCIT:

No of Investors	Unlimited
Type of Investors	Retail
Legal Form	a. Variable / Fixed Capital Company ("VCC/FCC") b. Common Fund ("CF")
Management	a. "VCC/FCC": Externally or Internally managed b. "CF": General Partner is responsible
Minimum Capital Requirements	No minimum
Subscriptions	a. "VCC/FCC": Shares b. "CF": Units

Tax Regime - Incentives

Tax exemption on:

- Dividends received
- Redemption proceeds from the disposal of units
- Capital gains from the disposal of property outside Cyprus
- Capital gains from the disposal of shares of foreign property companies
- Tax not withheld for non-tax resident investor distributions
- No subscription tax on the Net Assets of the Fund



STAMP AND CAPITAL DUTY, ANNUAL LEVY

Stamp Duty

Stamp duty is levied on certain transactions and documents. Any contracts relating to assets situated outside Cyprus or business matters that take place outside Cyprus are exempt from stamp duty. Transactions associated with reorganizations or restructuring of companies are also exempt.

The payment of stamp duty, if required, is a pre-requisite for admitting a document as evidence before a Court of law. The payment of such stamp duty may be effected retrospectively, but in such a case a penalty must also be paid.

The rates applicable to specific documents are:

Document	Stamp Duty
Receipt – for sums over €4	€0.07
Cheques	€0.05
Bill of exchange	€1
Letter of credit	€2
Letter of guarantee	€4
Bill of lading	€4
Charter parties	€18
Trust documents	€18
Wills	€18
Customer declaration document	€18-€35
Power of attorney	
- General	€6
- Limited	€2
Certified copy of contracts and documents	€2
Contracts with a fixed amount	
- the first €5.000	Nil
- €5.001-€170.000	1.5%
- over €170.000	2.0%
<i>Maximum stamp duty payable on a contract €20.000</i>	
Contracts without fixed amount	€35



Capital Duty

Capital duty is levied on the formation of companies or on the increase of their authorized share capital as follows:

	Capital Duty
Authorised share capital	€105 plus 0.6% on the nominal share capital
Issued share capital (on formation)	No capital duty, if the shares are issued at their nominal value. If issued at a premium, the stamp duty is €20
Issued share capital (at a subsequent stage)	€20 on every allotment of shares (whether issued at their nominal value or at a premium)

Corporate Annual Levy

Annual Levy is payable by all Companies registered in Cyprus to the Registrar of Companies as follows:

Annual Levy	€350
<i>Maximum annual fee payable in the case of group companies is €20.000</i>	

- Annual Levy is payable from the year of incorporation of a Company.
- Annual Levy is payable not later than the 30th June of each year.
- Late payments (after 30th June) will be subject to penalties as follows:
 - 10% penalty: payment within 2 months of the date set above
 - 30% penalty: payment within 5 months of the date set above
- Non-payment of the said Annual Levy will result to the Company's removal from the Cyprus Registrar of Companies.
- A Company may be re-instated provided that the following fees are paid within the preset time period:
 - €500 penalty (per annum): within 2 years from its removal from the Registrar
 - €750 penalty (per annum): after 2 years from its removal from the Registrar



DOUBLE TAX TREATIES

Cyprus has entered into bilateral treaties for the avoidance of double taxation (“DTTs”) with many countries. DTTs include provisions for nil or reduced withholding taxes (compared to the rates that would generally apply) on the income arising in these countries in the name of a person that is taxed in Cyprus.

The applicable withholding taxes under the double tax treaties Cyprus has entered into are depicted in the table, which follows. It is important to note that **dividends, interest and royalties paid to a non-resident shareholder of a resident Cyprus company are not subject to any withholding taxes in Cyprus**, except in the case of royalties earned on rights used within Cyprus

	PAID FROM CYPRUS		
	Dividends %	Interest %	Royalties %
Armenia	0 ⁽¹⁴⁾	5	5
Austria	10	0	0
Belarus	5 ⁽⁵⁾	5	5
Belgium	10 ⁽¹⁾	10	0
Bulgaria	5 ⁽³⁾	7 ⁽¹⁷⁾	10 ⁽¹⁷⁾
Canada	15	15	10 ⁽⁹⁾
China	10	10	10
Czech Republic	0 ⁽¹²⁾	0	0 ⁽¹³⁾
Denmark	0 ⁽¹⁸⁾	0	0
Egypt	15	15	10
Estonia	0	0	0
Finland	5 ⁽²⁾	0	0
France	10 ⁽²⁾	10	0 ⁽¹⁹⁾
Germany	5 ⁽²⁾	0	0
Greece	25	10	0 ⁽⁸⁾
Guernsey	0	0	0
Hungary	5 ⁽¹⁾	10	0
Iceland	10 ⁽²²⁾	0	5
India	10 ⁽²⁾	10	15 ⁽¹¹⁾
Ireland	0	0	0 ⁽¹⁹⁾
Italy	15	10	0
Kuwait	0	0	5 ⁽²⁰⁾
Lebanon	5	5	0
Lithuania	0 ⁽²²⁾	0	0
Malta	0	10	10
Mauritius	0	0	0
Moldova	5 ⁽³⁾	5	5
Montenegro ⁽²¹⁾	10	10	10
Norway	0 ⁽⁴⁾	0	0
Poland	0 ⁽¹⁵⁾	5	5
Portugal	10	10	10
Qatar	0	0	5
Romania	10	10	5 ⁽²⁰⁾



Russia	5 ⁽⁶⁾	0	0
San Marino	0	0	0
Serbia	10	10	10
Seychelles	0	0	5
Singapore	0	10	10
Slovakia	10	10	5 ⁽²⁰⁾
Slovenia	5	5	5
South Africa	0	0	0
Spain	0 ⁽²²⁾	0	0
Sweden	5 ⁽¹⁾	10	0
Switzerland	15 ⁽²³⁾	0	0
Syria	0 ⁽¹⁾	10	10
Thailand	10	15	5 ⁽¹⁰⁾
Ukraine	5 ⁽¹⁶⁾	2	5 ⁽¹³⁾
United Arab Emirates	0	0	0
United Kingdom	15 ⁽⁷⁾	10	0 ⁽¹⁹⁾
United States	5 ⁽²⁾	10	0
Non-treaty countries	Provided for in the national legislation of the non-treaty country		

(1) 15%, if received by a company that holds less than 25% of the capital of the paying company.

(2) 15%, if received by a company that holds less than 10% of the capital of the paying company.

(3) 10%, if received by a company that holds less than 25% of the capital of the paying company.

(4) 15%, if received by a company that holds less than 10% of the capital of the paying company.

In force from 01/01/2015.

(5) 15%, if the investment is less than € 200,000 or 10% if the investor holds more than 25% of the capital of the investee.

(6) 10%, if the recipient of the dividend has invested less than €100,000.

(7) This rate applies to natural persons and to legal persons holding less than 10% of the capital of the investee.

(8) 5% on film royalties.

(9) 0% on literary, dramatic, musical, or artistic work.

(10) In certain cases higher rates apply.

(11) 10% on technical, administrative and consulting fees.



(12) *This rate applies if received by a company holding at least 10% of the shares of the investee, for a period of not less than 1 year; otherwise 5%.*

(13) *10% for patent, trademark, design or model, plan, secret formula or process, computer software or industrial, commercial, or scientific equipment, or for information concerning industrial, commercial, or scientific experience.*

(14) *5%, if the recipient of the dividend has invested less than €150 thousand.*

(15) *This rate applies if received by a company holding at least 10% of the shares of the investee for an uninterrupted period of 2 years; otherwise 5%.*

(16) *15% if received by a company holding less than 20% of the share capital of the investee or the investment is less than €100 thousand.*

(17) *This rate does not apply if the payment is made to a Cyprus resident entity by a resident of Bulgaria owning directly or indirectly at least 25% of the share capital of the Cyprus resident entity.*

(18) *15%, if received by a company controlling less than 10% of the share capital of investee or the duration of any holdings is less than one uninterrupted year.*

(19) *5% on rights associated with films and television.*

(20) *This rate applies for patents, trademarks, designs or models, plans, secret formulas, or processes, or any industrial, commercial, or scientific equipment, or for information concerning industrial, commercial, or scientific experience.*

(21) *The treaty between Cyprus and the Czechoslovak Socialist Republic is still in force.*

(22) *5%, if received by a company that holds less than 10% of the capital of the paying company.*

(23) *0%, if the recipient of the dividends is:*

- (a) company (other than a partnership) which directly holds at least 10% of the share capital of the company paying the dividends for a continued period of at least one year; or*
- (b) a pension fund or a similar institution that resides, is controlled and is recognized for tax purposes by the laws of the other state; or*
- (c) the Government of local authority or Central Bank of the other member state.*

Treatment of Foreign Taxation – Foreign Tax Relief

Cyprus tax rules provide for foreign tax relief, namely that foreign tax (on income received by a Cyprus tax resident) can be offset against tax payable in Cyprus on such income.



TAX CALENDAR

DUE DATES	
Within 60 days from incorporation	<ul style="list-style-type: none">Obtaining a Tax Identification Code, by applying for registration to the Inland Revenue Department
End of following month	<ul style="list-style-type: none">Payment of tax deducted from employees salaries (PAYE)Payment of Social Insurance deducted from employees salaryPayment of Special Tax Contribution on gross salariesPayment of Tax withheld on payments to non-Cyprus residentsPayment of special contribution for defence ("SCD") on dividends and interest received in the preceding monthPayment of SCD withheld on payments of rent in Cyprus
January 31st	<ul style="list-style-type: none">Submission of declaration of deemed dividend distribution (IR623) for the year ended 31st December two years earlier
March 31st	<ul style="list-style-type: none">Electronic submission (via Taxisnet system) of corporation tax return (IR4) for accounting periods ending 31st December of the year prior to preceding (i.e. in 2016 the year 2014 is due)
April 30th	<ul style="list-style-type: none">Submission of the previous year personal income tax returns (IR1) of individuals (1), not electronicallyPayment of premium tax for life insurance companies for prior year (1st installment)
June 30th	<ul style="list-style-type: none">Submission of previous year's personal tax returns of self-employed individuals not preparing audited financial statements ⁽¹⁾⁽²⁾Payment of personal tax under self assessmentPayment of SCD on rental income, dividends and interest, for the first six months of the yearPayment of the annual levy of €350 for Companies registered in Cyprus
July 31st	<ul style="list-style-type: none">Electronic submission (via Taxisnet system) of the Employer's Return (IR7) of the previous yearElectronic submission (via Taxisnet system) of the previous year personal income tax returns (IR1) of individuals ⁽¹⁾Submission of provisional tax declaration for the year and payment of 1st installment of provisional tax
August 1st	<ul style="list-style-type: none">Payment of previous year's final corporation tax under self-assessment methodPayment of previous year's income tax under the self assessment method by self-employed individuals, preparing audited financial statements⁽²⁾
August 31st	<ul style="list-style-type: none">Payment of premium tax for life insurance companies, for prior year – 2nd installmentEarly payment of immovable property tax for the year (for 10% discount)
September 30th	<ul style="list-style-type: none">Payment of immovable property tax for the year (due date)
December 31st	<ul style="list-style-type: none">Payment of 2nd and last installment of provisional tax for the yearPayment of SCD on rental income, dividends and interest, for the last six months of the yearPayment of premium tax for life insurance companies, for prior year – 3rd and last installment

Notes

(1) Personal tax returns not required when a person's gross income is less than €19.500.

(2) Personal audited financial statements are required if annual turnover exceeds €70.000.



INTEREST AND PENALTIES

Interest imposed on payable / refundable amounts:

Year	Percentage
From 1/1/2015	4,00%
From 1/1/2014	4,50%
From 1/1/2013	4,75%
From 1/1/2011	5,00%
1/1/2010-31/12/2010	5,35%
1/1/2007-31/12/2009	8,00%
Up to 31/12/2006	9,00%

In addition to the interest, penalties and additional taxes are also charged depending on the circumstances.



FIRMS' OPERATING POLICIES

Our Firm adheres strictly to the professional rules that aim at protecting the interests of our clients. These principles cover matters of both competence and integrity. For example, we would not accept an engagement if we feel that we do not have the necessary experience and expertise that would enable us to discharge our professional obligations at the highest possible standard. We would not accept an engagement, if we have a conflict of interest that could adversely affect our judgement. We would never encourage clients (or prospective clients) to take a course of action from which they are unlikely to benefit. These are some of the basic principles form the cornerstone of our relationship with our clients and strengthen the bond of trust, which, in practice, has invariably resulted in long-term relationships with our clients.

Most of our new business comes from recommendations of existing clients and other professional firms. We do not rely on glossy advertising to attract new clients.

Our client «newsletters» simply aim at providing our clients and friends with a readily comprehensible, factual summary of important events and developments.

We believe that our role is to serve you as competent advisors on a variety of business-related problems and it is our duty to serve you well.

Note: In accordance with the common terminology used in professional organizations, the word "partner" is used in this Guide to describe a partner or member of Scordis, Papapetrou & Co, Scordis, Papapetrou & Co LLC, Scordis, Papapetrou & Co (Corporate Services) Ltd, Scordis, Papapetrou & Co Consultants Ltd or any of their affiliated entities or any of their employees or consultants with equivalent standing or qualifications. Similarly, reference to an "office" means an office of any such entity.



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