



a short guide on taxation in Cyprus

Compiled by
Scordis, Papapetrou & Co
(Corporate Services) Ltd
a limited liability company
providing corporate support services
to the clients of
Scordis, Papapetrou & Co LLC
an entity regulated by the Cyprus Law Council
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Forward

This paper 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 seek professional advice, which is 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 paper. Although Cyprus has a very stable tax environment, 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. While every effort has been made on the part of the authors to ensure that the paper is free of misstatements, no responsibility can be accepted for this service, which is provided free of charge to clients and prospective clients.

Scordis, Papapetrou & Co is a leading firm of lawyers in Cyprus. The firm provides a comprehensive range of legal and advisory services and, through its associated firm, **Scordis, Papapetrou & Co (Corporate Services) Ltd**, a comprehensive range of corporate secretarial, accounting, tax, administration and trusteeship services to its clients. Experience indicates that the ability to seek and secure “turn key” solutions to problems is particularly valued by clients who operate through Cyprus. Trust and reliability are factors that play an important role in the choice of professional advisors.

Scordis, Papapetrou & Co comprises highly qualified lawyers, with extensive international experience. Assisted by competent, “in-house” accountants and tax consultants, we can provide our clients with a well-coordinated, comprehensive range of professional services that comply with strict quality and ethical standards.

Scordis, Papapetrou & Co is headquartered in Nicosia, the capital of Cyprus, has an office in Limassol, the second largest city in Cyprus, and, through subsidiaries or affiliated entities, maintains offices in Moscow and Athens.

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1. Introduction

Cyprus has a long tradition of serving the international business community, by providing a stable legal and financial environment from within which international enterprises can operate effectively and efficiently.

Although the taxes levied in Cyprus are not negligible, they are low by any standard, particularly if the ultimate owners of the enterprises based in Cyprus are non-residents. The relatively low rates of taxation, combined with the large number of double tax treaties Cyprus has entered into, render the island a good location for establishing investment vehicles through which investments can be routed to many countries around the world.

The Anglo-Saxon concept of “trusts” is fully recognised in Cyprus and, if required and structured properly, it affords investors the anonymity, which is often necessary for protecting vital interests in international trade.

Cyprus is a member state of the European Union. Since 2008 Cyprus has also been member of the European Monetary Union and has adopted the Euro as its currency.

In general, the comprehension of the contents of any one chapter of this booklet is not conditional on the understanding of any other section of the Guide.

It is hoped that the reader will find this short guide informative and helpful in understanding the tax environment of Cyprus.

2. Corporation Tax

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. However, this general rule may be modified by the provisions of the bilateral treaties for the avoidance of double taxation that Cyprus has concluded with more than 40 countries. Under all circumstances, the taxes paid abroad may be deducted from the corresponding taxes payable in Cyprus, provided that such foreign tax payments are appropriately substantiated.

The income of Cyprus companies, which are **not managed and controlled in Cyprus**, is **not** taxed in Cyprus, except for the income segment, if any, that arises in Cyprus. However, such companies are not “tax resident” and, as a consequence, 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.

In practice, “*management and control*” is usually taken to refer to the highest level of oversight, commonly exercised by the board of directors of an incorporated entity but the views of taxing authorities on the interpretation of this term vary. Under all circumstances, those, who wish to enjoy the benefits derived from the application of bilateral double tax treaties, are well advised to ensure, at a minimum, that the majority of the directors of their Cyprus-based investees are resident in Cyprus. Depending on the attitude and the practices followed by the foreign tax authorities involved, further practical steps may have to be taken to ensure that the substance tests, which may be applied by such foreign tax authorities, are satisfied.

The **corporation tax rate** in Cyprus is applied at a flat rate of 10% (except for state-owned companies for which the rate is 25%). However, a surtax, known as “defence contribution”, is also levied in certain, very specific cases (see Chapter 3).

Irrespective of whether a company is a resident company and, therefore, subject to corporation tax in Cyprus, the following forms of **income** are either **exempt from taxation** or are partially taxable:

Dividend income	–	Fully exempt
Gain from the disposal of financial instruments (such as shares)	–	Fully exempt
Interest income, not derived from the ordinary activities of the company (e.g. interest on bank deposits)	–	Exempt but subject to defence contribution

In order to arrive at **taxable income**, all expenses that have been incurred wholly and exclusively in the production of income are deducted from gross revenues. Such expenses include all the employer contributions to employee social insurance funds. However, the expenses incurred in conjunction with private motor vehicles are not tax-deductible.

The **tax losses** generated in any one year may be carried forward and used to offset taxable profits of ensuing years for an indefinite period of time. Such tax losses may also be offset against the taxable profits of other resident companies, which form part of the same group (a minimum of 75% participation is required).

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.

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:

Machinery & Installations

Machinery and installations, furniture and fittings, television and video sets	10%
Agricultural machinery and tools	15%
Computer hardware and operating systems	20%
Computer software (if individually less than €1,700: 100%)	33⅓%
Commercial vehicles and motor cycles	20%
Earth moving equipment, tractors, loading/unloading equipment	25%
Photovoltaic systems	10%
Wind power generation equipment	10%

Buildings

Commercial buildings	3%
Industrial, agricultural and hotel buildings	4%
Apartments	3%
Metal frame greenhouses	10%
Wooden frame greenhouses	33⅓%

Ships

Sailing boats	4.5%
Steamships, trawlers and fishing boats	6%
Ship launching machinery	12.5%
Newly built cargo vessels	8%
Newly built passenger vessels	6%
Second-hand cargo/passenger vessels	useful life

Tools

Tools in general	33⅓%
videocassettes / DVDs used by video clubs	50%

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. The scheme covers qualifying ship-owners, charterers and ship managers and it is also applicable, under certain conditions, to tugboats, dredgers and cable-layers.

The Cypriot maritime industry is one of the largest in the world. Moreover, Cyprus is one of the biggest third party ship management centres in the European Union.

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.

Corporation Tax Returns

Cyprus companies are under an obligation to file an interim tax return by **1 August** of each year. Based on the forecast taxable profit for the year (that is reported in the interim tax return filed), 1/3rd of the anticipated tax charge for the whole of the year must be paid at the time of filing the interim tax return. The second instalment of the advance corporation tax thus payable must be paid by **30 September** while the third and final instalment must be paid by **31 December**.

The difficulty of predicting taxable profits, in advance, is recognised by Cyprus tax legislation and, as long as the taxable profits declared in a provisional or interim tax return are **not** lower than 75% (3/4^{ths}) of the taxable profits ultimately declared in the final tax return, there are no consequences;

otherwise, a tax surcharge is levied that is equal to 10% of the difference between the tax that has been paid on the basis of the provisional or interim tax return filed and the tax payable on the basis of the final tax return.

A final tax return (known as IR4) must be filed by 31 December of the year following the year to which it relates, i.e. the year, which the declared taxable profits are derived in. The tax returns must be based on the audited financial statements of the company filing the return. The failure to file the required tax returns deprives the company from the ability to secure tax residence certificates.

Late Payment of Taxes

In general, the failure to account for (pay) taxes by the date on which they are due results in penalties and interest being levied on late payments.

As stated above, the tax payable on the basis of a provisional or interim tax return is payable in three (3) equal installments: by **1 August**, **30 September** and **31 December** of the year in which the return is filed.

The balance of the tax payable, if any, i.e. the tax payable on the basis of the final tax return after deducting the tax paid, in the preceding year, on the basis of a provisional or interim tax return, is payable by **1 August** of the year in which the final tax return must be filed.

The reader may notice an apparent inconsistency in the law, namely the fact that the deadline for filing a final tax return is **31 December**, while the deadline for paying the taxes quantified in such a return is **1 August** of that year. The intention of the law is to provide an incentive to file final tax returns as early as possible after the year-end.

It is appropriate to note that the rate at which interest is levied on late payments is broadly similar to market interest rates.

3. Defence Tax

In addition to corporation tax, a **defence tax** (or “defence contribution”) is levied on certain forms of income derived by residents. **Non-residents are exempt from this tax.** The types of income subject to the defence tax and the applicable rates are listed below:

<i>Recipient of income ></i>	<i>Resident natural person</i>	<i>Resident legal person (company)</i>
Dividends paid by Cyprus companies	17% (20%)*	0%**
Dividends paid by foreign companies	17% (20%)*	0% ***
Interest income closely associated with the business activities of the recipient	0%	0%
Other interest income	15% ****	15%
Rent income (reduced by 25%)	3%	3%

(*) *The rate applicable in the period from 1 January 2012 to 31 December 2013 has been increased to 20%.*

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

(***) *The rate is 17% (20%)*, 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, i.e. substantially lower than 10%.*

(****) *Certain forms of interest income associated with development bonds and saving certificates attract defence contribution at the rate of 3% (instead of 15%).*

The defence tax on certain forms of income (for example, bank interest and rent, which burdens incorporated entities) is **withheld at source** and must be accounted for (paid) by the end of the month following the month in which the income arises. If not withheld at source, the defence tax must be accounted for (paid) by the recipient of the income.

Any **foreign taxes paid** on income attracting defence tax may be offset against such defence tax. For example, bank interest income that has been earned in, say, another European Union state and it has been subjected to a withholding tax of 15%, would not suffer any further taxes in Cyprus.

Deemed Distribution of Dividends

In the case that a Cyprus company does not declare a dividend within two years of the end of a tax year, 70% of its accounting profits (subject to certain adjustments) are deemed (for defence contribution purposes) to have been distributed, pro rata, to its **resident** shareholders and a defence contribution is levied on the notional distribution, at the rate of 17% (or 20%). 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 defence contribution is levied only on the amount of the dividend that exceeds the deemed distribution. **The non-resident shareholders of a Cyprus company are not subject to the defence contribution on the dividends (deemed or actual), which correspond to their shareholdings.**

Thus, save certain exceptional cases, **the defence contribution is a tax that does not burden non-resident shareholders** (either directly or indirectly). A notable exception to this general rule is interest income not derived from the ordinary business activities of the enterprise, which is taxed at the rate of 15%.

4. Double Tax Treaties

Cyprus has entered into bilateral treaties for the avoidance of double taxation (**double tax treaties**) with many countries, providing for no or lower rate withholding taxes (compared to the rates that generally apply) on the income arising in these countries in the name of a person that is taxed in Cyprus. The taxes thus withheld, if any, can be utilised in Cyprus to offset the Cypriot taxes payable on such income. This results in the “combined” tax burden often being substantially lower than what would otherwise be the case. If such income is actually remitted to Cyprus, it may be utilised to effect other investments or it may be easily converted into a capital gain by disposing of the shares of the Cyprus company holding the investment. In many tax jurisdictions, such capital gains receive favourable tax treatment. Clearly, the scope for proper tax planning is extensive. As is always the case, to obtain the maximum possible benefit and to ensure that a tax scheme is entirely within the parameters of the law, such plans must be tailored to the particular circumstances of each investor.

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**. An exception to this general rule is the case where royalties are paid over a right that is commercially exploited within Cyprus, in which case the withholding tax is 10%, unless an applicable double tax treaty provides for a lower rate. Certain other (minor) exceptions or exceptions relating to governments or specialised institutions are not mentioned here.

Many double tax treaties provide that credit should be given in respect of the “**underlying**” taxes paid, if any, by the Cyprus resident company. In these cases, on the ultimate repatriation of profits to the investing (“home”) country, the tax paid in the

country of the ultimate investee company can be effectively “passed back” to the investing (“home”) country.

Maximum withholding taxes in the other country (on payments effected to Cyprus)			
	Dividends	Interest	Royalties
Non-treaty rate	<i>Provided for in the national tax legislation of the non-treaty country</i>		
Armenia	0%	0%	0%
Austria*	10%	0%	0%
Belarus	5% ⁵	5%	5%
Belgium*	10% ¹	10%	0%
Bulgaria	5% ³	7%	10%
Canada	15%	15%	10% ⁹
China	10%	10%	10%
Czech Republic **	0% ¹²	0%	5% ¹³
Denmark**	0% ¹²	10%	0%
Egypt	15%	15%	10%
France**	10% ²	10%	0% ⁹
Germany**	10% ¹	10%	0% ⁹
Greece**	25% ⁸	10%	0% ⁹
Hungary**	5% ¹⁴	10%	0%
India	10% ²	10%	15% ¹¹
Ireland**	0%	0%	0%
Italy**	15%	10%	0%
Kuwait	10%	10%	5% ¹²
Kyrgyzstan	0%	0%	0%
Lebanon	5%	5%	0%
Malta**	0%	10%	10%
Mauritius	0%	0%	0%

Maximum withholding taxes in the other country (on payments effected to Cyprus)			
	Dividends	Interest	Royalties
Moldova	5%	5%	5%
Montenegro	10%	10%	10%
Norway	0% ⁴	0%	0%
Poland**	10%	10%	5%
Qatar	0%	0%	0%
Romania	10%	10%	5% ¹²
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% ¹²
Slovenia*	5%	5%	5%
South Africa	0%	0%	0%
Sweden**	5% ¹	10%	0%
Syria	0% ¹	10%	10%
Tadzhikistan	0%	0%	0%
Thailand	10%	15%	5% ¹⁰
Ukraine	0%	0%	0%
United Arab Emirates	0%	0%	0%
United Kingdom**	15% ⁷	10%	0% ⁹
United States	5% ²	10%	0%

(*) European Union member state that has elected the withholding tax option under the European Union Savings Tax Directive. The Directive only applies to natural persons. It does NOT apply to companies.

(**) European Union member state that has elected the automatic exchange of information option under the European Union Savings Directive.

(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) 5%, if received by a company that holds less than 50% of the capital of the paying company.
(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 US\$100,000.
(7) This rate applies to natural persons and to legal persons holding less than 10% of the capital of the investee.
(8) Corporate profits are taxed at 20%. In addition, dividends are subject to a withholding tax of 25%.
(9) 5% on rights associated with films and television.
(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) This rate applies to patents, trademarks, designs, production processes or for the right of use of industrial, commercial or scientific equipment.
(14) 15%, if received by a company holding less than 25% of the capital of the investee.

5. Stamp Duty

In Cyprus, **stamp duty is levied on certain transactions and documents. In general, stamp duty does not constitute a material tax burden.** Contracts relating to assets located outside Cyprus or commitments undertaken outside Cyprus or obligations that will be discharged outside Cyprus are exempt from stamp duty (to the extent that they do not involve actions that are undertaken in Cyprus). The transactions associated with the restructuring of companies are also exempt from stamp duty. The payment of stamp duty, if required, is a pre-requisite for admitting a document as evidence before a Cyprus court of law. The payment of such stamp duty may be effected retroactively but in such a case a penalty must also be paid.

The stamp duty levied on documents is shown in the following table:

<i>Document</i>	<i>Stamp duty (in €)</i>
Cheques	0.05
Bills of exchange	0.85
Letters of credit	1.71
Letters of guarantee	3.42
Powers of attorney – general	8.54
Powers of attorney – specific	1.71
Certified copies of contracts and documents	1.71
Bills of lading	3.42
Charter parties	17.09
Trust documents	17.09
Wills	17.09
Contracts—for up to €170,860	1.5‰
Contracts—for over €170,860 (max. €17,100)	2.0‰
Contracts—with no specified value	34.17

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

Nominal share capital	€188 plus 0.6% on the nominal share capital
Issued share capital (on formation)	No stamp duty, if the shares are issued at their nominal value. If issued at a premium, the stamp duty is €17.09.
Issued share capital (at a subsequent stage)	€17.09 on every allotment of shares (whether issued at their nominal value or at a premium)

6. 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. It is important to realise 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. The **transactions that take place outside Cyprus are outside the scope of Cyprus VAT**.

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. For the purposes of establishing the place of delivery, the following rules apply:

The **place of delivery** is the place where the goods are located when they are made available to the buyer. If the goods are located in Cyprus when made available to the buyer, the delivery takes place in Cyprus. This rule applies to the goods, which are delivered for export as well as to the goods which are delivered to buyers in Cyprus. If the goods are not located in Cyprus when made available to the buyer, then, under normal circumstances, their delivery is outside Cyprus and, therefore, they are outside the scope of Cyprus VAT.

Included in the latter case are the **“triangular” transactions on goods**. For example, if an Ukrainian company sells goods to a Cyprus company, which, in turn, sells the goods to a South African company but the goods never pass through Cyprus, then the transaction is not subject to Cyprus VAT. If the Cyprus company sells the goods to a German company and the goods are dispatched from the Ukraine to Cyprus and from Cyprus to Germany, then, on importation into Cyprus, Cyprus VAT will have to be paid and the delivery of the goods

to Germany will be treated as an “intracommunity” transaction. In contrast, if the goods are sent directly from the Ukraine to Germany, then German VAT will be paid, at the stage of importing them into Germany.

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. If the provider of the services does not have such a presence, then his place of establishment is the place where he normally resides. In the case of a company, the place of establishment of the provider of the services is normally the place where the company is registered.

If the provider of the services is a VAT-registered person in Cyprus and the place of delivery of the services is in Cyprus (and, therefore, it is not a case of services deemed to be delivered in the country of the recipient of such services), it is necessary to levy VAT on the transaction and to account for (pay) the VAT thus collected to the Cyprus VAT authorities.

If the provider of the services is a VAT-registered person in Cyprus and the place of delivery of the services is outside the European Union, Cyprus VAT is levied at the rate of 0% (zero-rated transaction). In practical terms, this means that no Cyprus VAT is levied or collected on the transaction but the provider of the services has the right to “re-claim”, in full, the VAT paid on the “inputs” of such services.

If the provider of the services is a VAT-registered person in Cyprus and the recipient of the services is a VATable entity

based in another EU member state, Cyprus VAT is, likewise, levied at the rate of 0% (zero-rated transaction).

All 0-rated transactions with VATable entities based in other EU member states must be electronically reported (by customer or client) on a monthly basis (via the VIES system).

Consulting, Legal and Accounting Services

Consulting services, legal services and accounting services – amongst others – are deemed to be provided where the recipient of the services is located. It follows that, if these services are rendered to persons located outside the European Union, they do not attract VAT or – more accurately – they attract VAT at the rate of 0%. If these services are rendered to VATable persons located in other European Union member states, they also do not attract Cyprus VAT (but they do attract VAT in the country of the recipient of the services). If the recipient of the services located in the other European Union member state is not a “VATable entity”, then the services rendered would attract Cyprus VAT. In all these cases, the VAT-registered provider of the services (in Cyprus) has the right to offset (recover) the VAT paid to his suppliers or, if the VAT thus paid exceeds the VAT collected, to seek a refund from the Cyprus VAT authorities.

If the **recipient of the services (in Cyprus) is not a VATable person**, the services purchased from outside Cyprus attract Cyprus VAT, which the recipient of the services must pay over to the Cyprus VAT authorities. It follows that care must be exercised by Cyprus companies, which primarily engage in international activities and they have opted not to register for VAT purposes in Cyprus, to assess the risk of being called upon to account (pay) the Cyprus value added tax, which they should have levied on the service-related transactions they enter into.

Non VATable Transactions

The following are the most notable transactions that fall outside the scope of (do not attract) 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.

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.

Filing of VAT Returns

In Cyprus, VAT returns must be filed by VATable entities on a **quarterly basis** (and the related tax, if any, is paid) by the end of the month following each quarter. 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).

As already indicated, VIES returns must be filed electronically on a monthly basis.

Rates of VAT

As from 1 March 2012, the Cyprus **standard rate of VAT is 17%**, having been raised from the previously applicable rate of 15%. This is still one of the lowest rates in the European Union. A reduced rate of VAT applies to foodstuffs, medicines, hotel enterprises and certain other goods and services.

As already stated above, rent, medical services, insurance and financial services and the buildings erected prior to 1 May 2004 are **exempt from Cyprus VAT**. The practical implication of the exemption is that the providers of such goods and services do not levy VAT on the transactions but they cannot offset (reclaim) the VAT they have suffered in the production of the goods or services sold and, as a consequence, they have to absorb any such VAT paid as part of their cost of production.

European Union VAT Directives

It should be noted that the rules governing the operation of value added tax (VAT) are fairly uniform throughout the European Union. Only in minor cases do the applicable VAT Directives provide discretion to the member states as to how this tax should be applied and administered.

7. Social Insurance Contributions

The obligatory social insurance contributions to a state-operated social insurance fund amount to **13.6% of gross earnings** of which 6.8% is borne by the employer and 6.8% by the employee. The ceiling on which these contributions are

calculated is €53,304 per annum and is normally adjusted on the 1 January of each calendar year.

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

Social cohesion fund (the ceiling does not apply)	2%
Employment redundancy fund	1.2%
Industrial training fund	0.5%
Vacations fund (if a paid annual leave is not provided by the employer)	8%

8. Withholding Taxes on Salaries (only applicable to entities that have employees in Cyprus)

The salaried income that is taxable in Cyprus is subject to income tax withholdings, on the basis of the projected annual income tax payable by salaried employees. Such tax withholdings must be accounted for (paid) by the end of the month following the month in which the tax is withheld. Employers must file, by **30 April** of the year following the year in which the tax is withheld, a summary annual return (*Form IR7*) of the taxes withheld from the salaries they have paid.

The rates of personal taxation are set out in the chapter “*Income Tax on Natural Persons*”.

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

Monthly earnings (in €)	Rate of tax	Total tax on bracket (in €)
Up to 2,500	0%	0
2,501 – 3,500	2.5% (min. €10)	25
3,501 – 4,500	3%	30
Over 4,500	3.5%	

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

9. Capital Gains Tax

(only applicable to gains realised on the disposal of immovable property located in Cyprus)

In Cyprus, a capital gains tax is levied **only on the gains realised from the disposal of immovable property located in Cyprus**. A capital gains tax is also levied on the gains derived from the disposal of shares in companies holding immovable property located in Cyprus but the disposal of shares that are listed on a recognised stock exchange are exempt. The rate applicable to taxable capital gains is 20%.

Further **exemptions** also apply 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.

In any event, the taxable gain is the gain, which has been generated after 1 January 1980 while the cost of acquisition of the immovable property is adjusted (for the purposes of quantifying the gain) by the rate of inflation.

The capital gain realised on the sale of owner-occupied property may, under certain circumstances, be exempt from this tax.

10. Immovable Property Tax

(only applicable to immovable property located in Cyprus)

The **immovable property tax is levied on the market value of real property** (land and buildings) as of 1 January 1980,

located in Cyprus and owned by taxpayers (natural and legal persons) on 1 January of each year.

The immovable property tax is levied at the following rates:

<i>Value of property (in €)</i>	<i>Rate of tax</i>	<i>Total tax on bracket (in €)</i>
Up to 120,000	-	-
120,001 – 170,000	4‰	200
170,001 – 300,000	5‰	650
300,001 – 500,000	6‰	1,200
500,001 – 800,000	7‰	2,100
Over 800,000	8‰	

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).

11. Immovable Property Conveyance Tax *(only applicable to immovable property located in Cyprus)*

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>
Up to 85,430	3%	2,563
85,431 – 170,860	5%	4,272
Over 170,860	8%	

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.

12. Income Tax on Natural Persons

Resident taxpayers are taxed on a global basis, i.e. on their worldwide income. **Non-residents** are taxed only on their income arising in Cyprus.

Resident taxpayers are those who stay in Cyprus for periods that, in aggregate, exceed **183 days** in any tax year. The rates of income tax are reflected in the following table:

<i>Taxable income (in €)</i>	<i>Rate of tax</i>	<i>Total tax on bracket (in €)</i>
Up to 19,500	0%	0
19,501 – 28,000	20%	1,700
28,001 – 36,300	25%	2,075
36,301 – 60,000	30%	7,110
Over 60,000	35%	

The following types of income are exempt from income tax:

- Interest income
- Dividend income
- Salary for services rendered abroad for a period in excess of 90 days to a non-resident employer or to a resident employer, who has a permanent establishment outside Cyprus
- Lump sum bonuses payable on retirement, death or incapacity
- Payment of the capital accumulated through contributions to social insurance funds
- Gains from the disposal of financial instruments (such as shares, debentures, bonds etc.)

Tax deductions

The following expenses are deductible from taxable income:

- Subscriptions to trade or professional organisations
- Losses of the current and prior years
- Donations to approved charities
- Life insurance premiums (confined to 7% of the insurable amount)
- Contributions to social insurance funds, pension funds, provident funds and medical funds (confined in aggregate - including life insurance premiums - to 1/6th of taxable income)
- An amount equal to 20% of gross rent income.

Personal Tax Returns

The rules applicable to interim personal tax returns are similar to those governing the interim corporation tax returns, except that salaried employees are under no obligation to file such interim personal tax returns.

In Cyprus, the deadline for filing a (final) personal tax return is **30 April**. Exceptionally, if the return filed is based on (unaudited) financial statements of the business from which the income declared is derived, the filing deadline is deferred to **30 June**.

13. Inheritance Tax

There is **no inheritance tax in Cyprus**.

14. Company Law

Cyprus company law and, in general, the legal framework of Cyprus is based on Anglo-Saxon concepts. The law governing companies, which was initially based on UK company legislation, has been **harmonised with the European Company Law Directives**. The legal framework of Cyprus, in conjunction with an effective, precedent-based and corruption-free judicial system, provides a stable environment

within which international business enterprises can operate and flourish.

Under Cyprus law, company formations must be undertaken by practicing lawyers, who are exclusively qualified to offer legal services and legal advice. *Scordis, Papapetrou & Co* is ideally qualified to support clients in the area of company formations.

Shareholders

Cyprus non-public companies may have between 1 and 50 shareholders, who may be legal persons (other companies) or natural persons or a combination of the two. In those cases where retaining the anonymity of shareholders is important, the shares of Cyprus companies may be held by trustees or nominee shareholders. This is one of the corporate support services provided by *Scordis, Papapetrou & Co*.

Directors

Every Cyprus company must have at least one director. The director(s) of a Cyprus company is (are) appointed (and may be removed) by the shareholders of the company. In certain cases, a new director may be appointed by the existing directors. If, for tax residence purposes, it is important to be able to demonstrate that the company is “managed and controlled” from within Cyprus, it is advisable to ensure that the majority of the directors of the company permanently reside in Cyprus. Nominating trusted (legal or natural) persons, who can serve as directors of Cyprus companies is also a corporate support service provided by *Scordis, Papapetrou & Co*.

Secretary

Every Cyprus company must have a Secretary attending to matters of corporate compliance. As is the case of directors,

this is another corporate support service provided by *Scordis, Papapetrou & Co.*

Registered Office

All Cyprus companies must have a Registered Office in Cyprus, which serves as their “official” address. As part of the comprehensive corporate support given to clients, *Scordis, Papapetrou & Co* provides the necessary facilities to satisfy this legal requirement.

15. Holding Companies

Cyprus holding companies, i.e. ordinary companies holding shares in other companies, are the investment vehicles of choice of many international investors. The advantages offered by Cyprus holding companies could be summarised as follows:

- Cyprus holding companies can be formed fairly quickly, at a reasonable cost.
- The dividend income derived from the investees of such holding companies is not taxed in Cyprus.
- The foreign withholding taxes applicable to foreign source dividend income are generally favourable because of the plethora of double tax treaties Cyprus has entered into.
- The dividends payable to Cyprus holding companies by investees established in other European Union member states are **not** subject to any withholding taxes.
- The gain realised by a Cyprus holding company on the disposal of the shares of investees is not taxed in Cyprus.
- The effective transfer of the shares in an investee company can be achieved very quickly, at no real cost, through the transfer of the shares of the holding company itself (provided that there is a one-to-one relationship between the investing company and the investee company). Such a transfer of shares is effected by means of an “instrument of transfer” that is a simple, one-page legal document, which is signed by the transferor and the transferee of the shares before witnesses and which attracts no taxes, whatsoever.

16. Investment Funds

The two types of investment schemes available in Cyprus are:

- The *International Collective Investment Schemes* (ICIS), which are regulated and supervised by the Central Bank of Cyprus (usually used for private, experienced investors); and
- The *Undertakings in Collective Investments in Transferable Securities* (UCITS), which are regulated and supervised by the Cyprus Securities and Exchange Commission (usually used for schemes that are addressed to the general public).

An ICIS can take the form of an *International Fixed Capital Company*, an *International Variable Capital Company*, an *International Investment Limited Partnership* or an *International Unit Trust Scheme*.

Securing the approval of the regulating authorities might take 6-8 weeks and it entails (a) the filing of an application, providing particulars on the asset manager, the directors, the shareholders, the trustees, the promoters/distributors, the custodians etc (b) the preparation of the necessary agreements and documents, such as an Information Memorandum, Investment Manager agreements etc. It is noteworthy that a private ICIS (having less than 100 investors) does not need to appoint a manager and/or a custodian.

The funds that are registered as *International Collective Investment Schemes* (ICISs) 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 ICISs 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 15% 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.

Dividend distributions of Cypriot funds to investors, who are natural persons resident in Cyprus, are subject to a withholding tax at the rate of 17% (20% in the years 2012 and 2013), while “deemed dividends” are subject to a 3% tax. In contrast, non-resident investors are **not** subject to any withholding taxes on dividends. 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 ICIS established as either a unit trust 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.

SPA Financial Services Ltd, a CySEC regulated investment firm, can provide expert guidance and support in setting up an ICIS investment vehicle and, in general, it can offer professional and independent investment advice. The Company is a member of the *Scordis, Papapetrou & Co* Group and is dedicated in serving clients in this area.

17. Accounting Standards

For many years, Cyprus has been following and applying the **International Financial Reporting Standards** (International Accounting Standards) with which the financial statements compiled and published by Cyprus companies must comply. This internationally recognised and accepted financial reporting framework affords Cyprus companies a level of reliability that entities established in other low-tax jurisdictions often lack.

18. Maintenance of Accounting Records and Compilation of Financial Statements

All companies that are registered in Cyprus have an obligation to maintain “proper” accounting records that are regularly updated and to compile annual financial statements, under the International Financial Reporting Standards adopted by the European Union. If such companies have subsidiaries, they may also have an obligation to compile consolidated financial statements unless they are themselves a subsidiary of another company, which compiles consolidated financial statements or form part of a Group, which is below a certain size. These statements must be accompanied by an audit report issued by an authorised and registered auditor. An auditor is **not** permitted to compile the financial statements, which he or she audits.

19. Filing of Annual Tax Returns

Cyprus companies have to file (electronically) an annual tax return, by the end of the year following the year to which the return relates. These tax returns are largely based on the annual financial statements. It follows that the compilation of the annual financial statements must precede the compilation and filing of the annual tax return.

The failure to file the required return attracts escalating penalties ranging from €100 to €400 plus 5% of the tax payable on the basis of the return ultimately filed. The failure to file also precludes the company from getting a tax residence certificate (required to enjoy the benefits of the numerous double tax treaties Cyprus has entered into). This is an area in which the corporate support services provided by *Scordis, Papapetrou & Co* can generate significant added value.

20. The Banking System

Cyprus has a well-developed, efficiently functioning banking system, which is capable of supporting the operations of international enterprises. Admittedly, Cyprus banks (like many other European banks) have invested substantial amounts in Greek Government bonds, which have recently lost a substantial part of their value. This is an area in which developments must be monitored by international investors. There are no foreign exchange or capital movement restrictions in Cyprus.

The comprehensive range of corporate services provided to clients by *Scordis, Papapetrou & Co* covers such needs as the support, which may be required in dealing with banks or in handling day to day banking transactions.

21. Telecommunications

Cyprus also has well-developed, efficiently functioning, land and mobile telecommunication systems, providing easy telecommunication access to most parts of the world.

22. Membership of the European Union

As from 2004, Cyprus is a member state of the European Union and in 2008 Cyprus adopted the Euro as its currency. Membership of the **European Union** and, in particular, of the **European Monetary Union** affords Cyprus a relatively high level of stability, which is valued by international enterprises.

Scordis, Papapetrou & Co Operating Policies

Our Firm strictly adheres 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 conflicts 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 basic principles form the cornerstone of our relationship with our clients and strengthen the trust bond, 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.



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