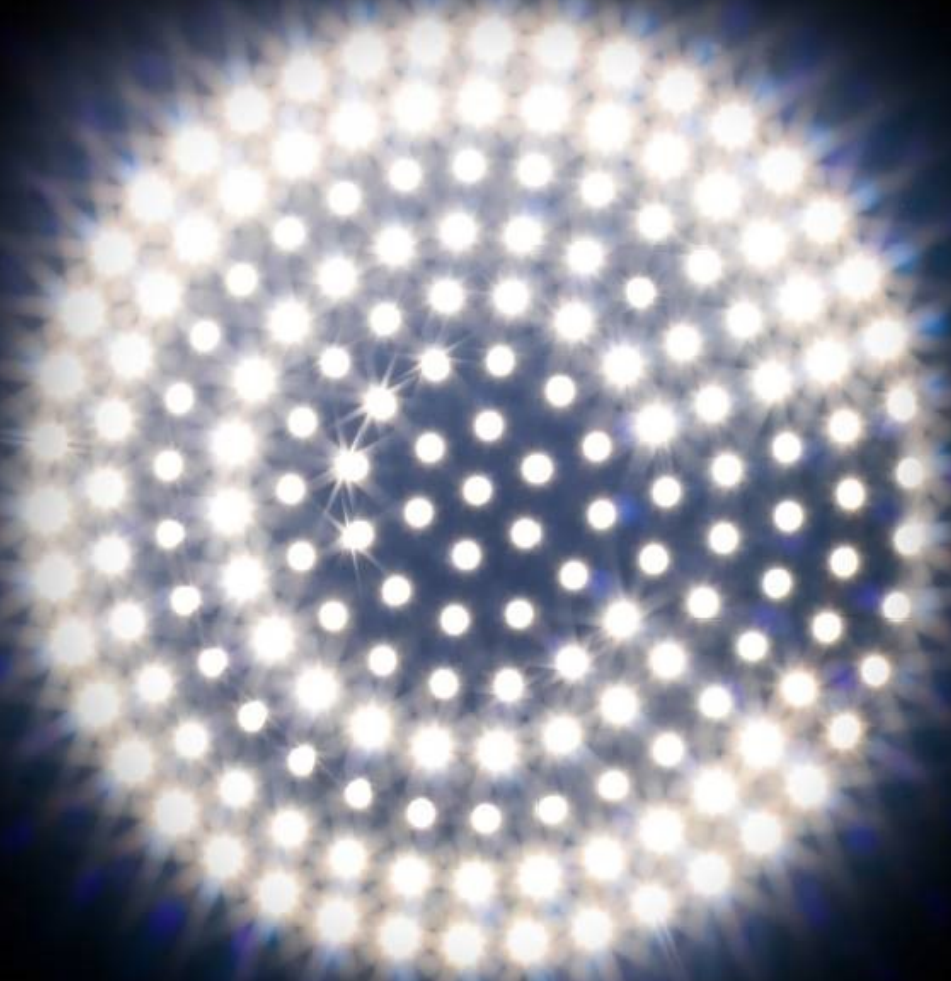


**Deloitte.**



**Taxation and Investment  
in Cyprus 2017**

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# 1.0 Investment climate

## 1.1 Business environment

### Government and political system

Cyprus is a presidential democratic state. The president is both the head of state and the head of the government and exercises executive power through an appointed Council of Ministers. Legislative power is exercised through the House of Representatives. The judicial power is vested in the courts, which are independent of the legislative and executive branches.

### Strategic location

Cyprus is the third-largest island in the Mediterranean Sea, with an area of 9,251 square kilometers and latitude and longitude coordinates at 35° N and 33° E (time zone: GMT+2). Lying at the crossroads of Europe, Africa and Asia, Cyprus is one hour by air from Athens and Israel, three hours from Dubai and Moscow and four hours from London.

### Infrastructure

Cyprus benefits from modern infrastructure, consisting of a road, air and sea transport system and services. Cyprus's two multipurpose deep sea ports are located in the coastal cities of Limassol and Larnaca. The Limassol port handles both passenger and freight cargo, while offering logistics solutions through advanced facilities for cost-effective transport and processing. In addition, Limassol's port has become a renowned cruise liner hub and a popular "stop-over" for international cruise ships. Two modern international airports at Larnaca and Paphos, with a combined capacity of approximately 10 million passengers per year, connect the island to the most popular transit hubs throughout the world.

### Memberships in international organizations

Cyprus has been a full member of the EU since 1 May 2004. It also is a member of the Eurozone, the World Trade Organization (WTO), the International Monetary Fund, the World Bank, the Commonwealth of Nations, the Council of Europe and the United Nations.

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#### EU member states

Austria	Estonia	Italy	Portugal
Belgium	Finland	Latvia	Romania
Bulgaria	France	Lithuania	Slovakia
Croatia	Germany	Luxembourg	Slovenia
Cyprus	Greece	Malta	Spain
Czech Republic	Hungary	Netherlands	Sweden
Denmark	Ireland	Poland	United Kingdom*

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#### EU candidate countries

Albania	Montenegro	Serbia	Turkey
Macedonia			

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#### European Economic Area (EEA) member states

EU member states	Iceland	Liechtenstein	Norway
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\* In a referendum on 23 June 2016, the UK electorate voted for the country to leave the EU, but the country will remain an EU member state until a secession agreement is concluded with the EU.

As an EU member state, Cyprus is required to comply with all EU directives and regulations, which it follows with regard to trade treaties, import regulations, customs duties, agricultural agreements, import quotas, rules of origin and other trade regulations. The EU has a single external tariff and a

single market within its external borders. Restrictions on imports and exports apply in areas such as dual-use technology, protected species and some sensitive products from emerging economies. Trade also is governed by the rules of the WTO.

## **Economy**

Cyprus has a modern and adaptable free-market economy built upon tourism, real estate, professional services and shipping, which account for almost 85% of the island's total GDP. Furthermore, Cyprus is investing in growing the new emerging funds industry, as well as in developing the oil and gas industry, following the recent discovery of significant quantities of natural gas in its exclusive economic zone (EEZ).

## **Tourism and hospitality**

Tourism represents one of the largest economic sectors in Cyprus and has experienced substantial growth over the last decade, with around 2.5 to 3 million tourists visiting Cyprus every year. Enhancing the tourism industry is one of the primary objectives of the government and the competent authorities.

The island has all the necessary resources to further develop the tourism industry and, in this respect, it offers investment opportunities in large-scale development projects, such as theme parks, marinas, tourist resorts and golf courses. To further enhance the hospitality sector, the government is proceeding with the development of a single integrated casino resort.

## **Real estate**

With more than 320 days of sunshine per year and offering a Mediterranean lifestyle, Cyprus is popular for vacation homes, as well as a destination for permanent residents. A number of large-scale development projects, such as luxury real estate projects that include marinas and golf courses, are being developed and offer investment opportunities.

The government has put in place legislation to encourage property investment in Cyprus; specifically, foreign investors are eligible to obtain Cypriot citizenship by investing at least EUR 2 million in real estate, land development and infrastructure projects (provided certain requirements are met).

## **Professional services**

Cyprus is recognized as a center of excellence for the provision of professional corporate services. Cyprus's EU membership, highly educated, English-speaking population, strong information and communications technology infrastructure, attractive tax regime, extensive network of tax treaties, robust legal system based on English common law and business-friendly environment attract international companies to Cyprus.

The country's human capital includes professionals who are highly skilled and experienced in providing a full range of professional corporate services at competitive rates. Lawyers, attorneys, auditors and financial and tax advisors offer services to support all aspects of business.

## **Shipping**

Cyprus is a renowned international shipping center and home to some leading players in the global shipping industry. Cyprus has an EU-approved "open registry" regime with a broad tonnage tax system covering the three main "maritime transport" activities: ship ownership, ship management (crew and technical management) and chartering.

More than 1,000 vessels with a tonnage in excess of 20 million are registered under the Cyprus flag, making Cyprus the 10th-largest merchant fleet in the world and the third-largest merchant fleet in the EU.

## **Investment funds**

Cyprus is becoming a fast-growing European investment fund center through its prompt response to legislative and regulatory needs and its strong financial services sector. Modern legislation has generated new prospects for Cyprus as a preferred jurisdiction for fund domicile and fund management. Furthermore, the Cyprus Investment Funds Association was granted observer status by the European Fund and Asset Management Association in June 2014.

The EU investment fund management sector operates under common EU regulations, and Cyprus has adapted its legal and regulatory framework accordingly, while offering investors and fund promoters stability. A wide and customizable range of services (such as set up and acquisition structuring, fund

administration, legal, custody and audit services) is available at a competitive cost, in comparison to other reputable funds jurisdictions.

## Oil and gas

The existence of deep-water natural gas reserves in Cyprus's EEZ has attracted worldwide attention and significant investments from leading independent energy companies, as well as renowned international providers operating in the oil and gas auxiliary services sector. Exploration licenses have been granted for six offshore blocks within Cyprus's EEZ. The government is considering a number of options to supply natural gas to the domestic market.

## Intellectual property

Cyprus is a member of the World Intellectual Property Organization and the European Patent Office. Cyprus provides for the protection of intellectual property rights, including copyrights, patents, trademarks and industrial designs and offers an attractive tax regime for income arising from intellectual property developed from Cyprus.

## 1.2 Currency

Cyprus adopted the euro as its national currency on 1 January 2008.

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### Countries participating in the Economic and Monetary Union

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Austria	France	Latvia	Portugal
Belgium	Germany	Lithuania	Slovakia
Cyprus	Greece	Luxembourg	Slovenia
Estonia	Ireland	Malta	Spain
Finland	Italy	Netherlands	

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## 1.3 Banking and financing

The Cyprus banking and financial legislation is in line with international best practices and EU rules. It has a simplified, effective and transparent tax system, which is fully compliant with EU, OECD, Financial Action Task Force and Financial Stability Forum standards. Many foreign banks from the Middle East, Europe and Asia operate subsidiaries, branches or representative offices in Cyprus.

Banks located in Cyprus offer variety of services, including asset management; private banking; international, corporate and investment banking; retail banking; syndicated loans; and custodian services. Commercial banking arrangements and practices follow the British model, under which all banks maintain correspondent networks around the world and are able to carry out both traditional and specialized financial transactions. Furthermore, most insurance companies located in Cyprus are subsidiaries or affiliates of local or international banks.

The Central Bank of Cyprus regulates more than 40 local and international banks currently operating in Cyprus, while Cyprus's "systemic banks" are supervised by the European Central Bank (ECB). The Central Bank of Cyprus carries out a variety of functions, including the licensing and supervision of banks (including banks incorporated in Cyprus and Cyprus branches and representative offices of foreign banks), regulation of payment and settlement systems, preservation of the financial system's stability and implementation of policy decisions of the ECB. Other regulatory authorities include the Cyprus Securities and Exchange Commission (CySEC) and the Cyprus Stock Exchange (CSE).

## 1.4 Foreign investment

Cyprus provides a modern, diverse and investor-friendly environment for foreign direct investments. Cyprus offers foreign investors the opportunity of utilizing the country, not only as an effective jurisdiction for routing investments within the EU, but also as a portal for investment outside the EU, particularly into rapidly growing economies such as those of Eastern Europe, Africa and the Middle East.

The government has a liberal foreign direct investment (FDI) policy for both EU and non-EU nationals. Cyprus has simplified administrative procedures for assisting foreign investors, and there are no

limitations in terms of a minimum level of investment and/or percentage of foreign participation in most sectors of the economy. Consequently, foreign companies may invest and establish business in Cyprus on equal terms with local investors.

## 1.5 Tax incentives

Cyprus provides a simplified, effective and transparent tax regime that is fully compliant with EU laws and regulations. The Cyprus tax system offers the following benefits to qualifying investors:

- A 12.5% corporate income tax rate—one of the lowest rates in the EU;
- An exemption from tax for dividend income, under conditions that generally are easy to fulfill (no minimum holding period or minimum ownership percentage);
- An exemption from tax on profits from foreign permanent establishments (PEs), under conditions that generally are easy to fulfill;
- An exemption from tax on profits generated from the disposal of titles (including shares, bonds);
- An exemption from tax on capital gains arising from the disposal of overseas immovable property;
- An exemption from withholding tax on the payment of dividends, interest and royalties (except when intellectual property (IP) is used in Cyprus);
- An exemption from tax on foreign exchange (FX) gains, with the exception of FX gains arising from trading in foreign currencies and related derivatives;
- An 80% exemption from tax on profits arising from the exploitation and/or disposal of intellectual property;
- An extensive network of tax treaties; and
- Access to EU directives.

Additionally, the government has introduced a number of tax incentives that aim to attract multinational companies to relocate their businesses, as well as their key personnel, to Cyprus.

### Notional interest (tax) deduction upon the introduction of new equity

Cypriot companies and Cypriot PEs of non-resident companies are entitled to an annual notional interest deduction (NID) upon the introduction of new equity in the form of paid-up share capital or share premiums.

The NID is calculated by multiplying the new equity by a reference rate. The reference rate is equal to the yield of a 10-year government bond (as of 31 December of the prior year) in the country in which the funds are invested, plus a 3% premium (subject to a minimum rate, which is the yield of a 10-year Cyprus government bond as of 31 December of the prior year, plus a 3% premium).

The NID is a tax-allowable deduction against the company's taxable profits, but it cannot exceed 80% of the taxable profits derived from assets financed by the new equity. Depending on the level of capitalization of a company, the NID could reduce the effective tax rate of a company to as low as 2.5%.

### Tax exemptions for qualifying IP income

Cyprus introduced a new IP regime that is in line with the latest international developments on the taxation of IP income and OECD's action plan on fighting base erosion and profit shifting (BEPS). The provisions of the new IP regime became effective on 1 July 2016.

Under the new regime, a qualifying intangible asset is an asset that was acquired, developed or exploited by a person in the course of carrying on a business and that constitutes intellectual property, other than marketing-related intellectual property associated with promotion (marketing) and that is the result of R&D activities, including an intangible asset for which there is only economic ownership.

In calculating the taxable profit, an 80% deemed deduction applies to the qualifying profit from the exploitation of qualifying intangible assets.

Qualifying profits are calculated based on the following formula:

$$\text{Overall Income} \times [(\text{Qualifying Expenditure} + \text{Uplift Expenditure}) / \text{Overall Expenditure}]$$

Capital gains arising from the disposal of a qualifying asset are not included in the qualifying profits and are exempt from income tax.

The taxpayer may choose to forego all or part of the deduction in each year of assessment. Where the calculation of qualifying profits results in a loss, only 20% of the loss may be carried forward or group relieved.

The capital cost of any qualifying intangible asset is tax deductible as a capital allowance.

### **Personal tax incentives**

An expatriate individual moving to Cyprus is eligible for a 50% income tax exemption on his/her remuneration from any employment exercised in Cyprus. The exemption applies for a period of 10 years starting from the first year of employment, provided the employee's employment income exceeds EUR 100,000 per annum. Expatriates that do not qualify for the 50% exemption may be eligible for a 20% income tax exemption (which is applicable until 2020).

Remuneration from rendering services outside Cyprus to a nonresident employer or to an overseas PE of a resident employer for more than 90 days in a tax year is fully exempt from tax.

Additionally, an expatriate, "non-domiciled" individual moving to Cyprus for the first time may be fully exempt from tax on dividend and interest income for the following 16 years (see under 6.2, below).

## **1.6 Exchange controls**

Cyprus has no exchange controls, and its ability to introduce controls is constrained by its EU membership.



# 2.0 Setting up a business

## 2.1 Principal forms of business entity

The principal forms of business entity are the public and private limited liability company, partnership and branch of a foreign corporation.

The European Company (*Societas Europaea* (SE)) form also is available. The SE is designed to enable companies to operate across the EU with a single legal structure, to facilitate mergers and create flexibility for companies wanting to move their head office from one EU state to another. Companies from two or more EU member states are permitted to merge to form an SE or create an SE holding company or branch. A company may convert an existing firm to SE status without liquidating. One advantage of an SE is that it is possible to move headquarters to another EU member state with minimal formalities.

Businesses also can establish as a European Economic Interest Grouping (EEIG). Companies (even non-EU companies, if the vehicle is a subsidiary in an EU country) that want to start working with a Cyprus company, but do not want to commit to a formal joint venture, may set up an EEIG. The grouping functions much like a partnership in that the income is taxed in the hands of the member companies. At least two of the companies involved must be from different EU member states.

### Formalities for setting up a company

Any person (individual or legal), of EU or non-EU origin, is entitled to establish a company in Cyprus. A company's constitutional documents are its memorandum and articles of association, which specify the activities in which the company may engage and the means by which it will govern its affairs.

The competent authority for the registration of a company in Cyprus is the Registrar of Companies and Official Receiver of the Ministry of Energy, Commerce, Industry and Tourism (Registrar of Companies). To register a limited liability company in Cyprus, the applicant first must search the Registrar of Companies' website to confirm the proposed company name is not already in use. If the name is available, an application for approval of the name, along with payment of the relevant fees, may be submitted directly to the registrar, or indirectly through a lawyer or service provider. After approval of the company name, a registration application package containing a declaration form (HE1), a form regarding the registered office address (HE2), information on the company directors and secretary (HE3) and an original memorandum and articles of association may be submitted to the Registrar of Companies for approval, along with payment of the relevant fees. Only a lawyer licensed in Cyprus is authorized to prepare the memorandum and articles of association for a limited liability company, and to sign the HE1 form.

When an application is approved and a certificate of incorporation is issued by the Registrar of Companies, this will bring the company into existence as a legal person. The company also must register with the Tax Department of the Ministry of Finance and receive a tax identification number, and may need to register for VAT and social insurance purposes.

Partnerships and SEs also should register with the Registrar of Companies.

### Forms of entity

#### Requirements for public and private limited companies

**Capital:** *Public company:* The minimum share capital is EUR 25,629. *Private company:* There is no minimum required capital; however, it is common to have share capital of at least EUR 1,000.

**Founders, shareholders:** *Public company:* There is a minimum of seven members. *Private company:* There is a minimum of one member, and a maximum of 50 members. Shares cannot be offered to the public, and the right to transfer shares is restricted.

**Board of directors:** *Public company:* There is a minimum of two directors. *Private company:* There is a minimum of one director; a sole director cannot also be the company secretary unless the company has only one shareholder. *Both:* Directors may be individuals or legal persons and there are no nationality requirements; however, it is common practice for the majority of the directors to be Cypriot tax residents. Companies generally must hold an annual general meeting each year (except for private companies with only one shareholder, which instead must keep a record of decisions made by that member), and may hold an extraordinary general meeting if requested by members meeting certain requirements.



**Company secretary and registered address:** Every company must have a company secretary and a registered address in Cyprus, which also may be used as the business address of the company.

**Management:** Management is carried out by the board of directors. A company's members generally elect directors at the annual general meeting.

**Taxes and fees:** A fee of EUR 105 applies to register a limited company with share capital, plus a capital duty of 0.6% on the authorized share capital. The 0.6% duty also applies to the registration of an increase in the share capital. Certain other fees may apply, as specified by legislation and/or the Registrar of Companies.

An annual company levy of EUR 350 is imposed on companies, capped at a total of EUR 20,000 for companies in a group. The levy is payable to the Registrar of Companies by 30 June of each year; penalties apply for late payment.

**Types of shares:** A company may issue ordinary or preferred shares.

**Control:** Certain decisions must be approved by a special resolution, including a change in a company's name, a change in its objectives or articles of association, a purchase of its own shares, a reduction of its capital or a voluntary winding up of the company. Special resolutions must be approved at a general meeting by at least three-fourths of voting members (among other requirements).

### Branch of a foreign corporation

A nonresident company may operate in Cyprus through a branch, rather than through a subsidiary. A branch is considered an entity without legal personality, so the foreign head office bears responsibility for the branch under Cyprus law. The branch must be registered with the Registrar of Companies within 30 days of its establishment in Cyprus, and must have the same name as the parent company. Branches generally are taxed in the same manner as domestic companies.

## 2.2 Regulation of business

### Mergers and acquisitions

The Enterprises Law governs reorganizations that take the form of "concentrations," to prevent market distortions. A concentration occurs where (1) two or more independent undertakings merge; (2) one or more undertakings, or one or more persons controlling at least one undertaking, directly or indirectly acquire control of all or part of another undertaking; or (3) a joint venture is established to permanently carry out the functions of a separate economic entity. The Commission for Protection of Competition (CPC) must be notified of a concentration within seven days of a relevant event (the earliest of the date an agreement is concluded, the date the relevant offer of purchase or exchange is published or the date a controlling interest is acquired) if the following conditions are satisfied:

- At least two of the undertakings merging each have turnover of at least EUR 3,417,202.88, at least one of the undertakings engages in commercial activities within Cyprus and at least EUR 3,417,202.88 of the aggregate turnover of all participating undertakings relates to the disposal of goods or the supply of services within Cyprus; or
- The Minister of Commerce, Industry and Tourism declares the concentration to be of major importance.

After a preliminary investigation by the Service of the CPC, the CPC may conclude that a concentration does not fall within the scope of the relevant law; that it falls within the scope of the law but is not incompatible with the competitive market; or that it falls within the scope of the law and raises serious concerns regarding compatibility with the competitive market, which requires a full investigation. The full investigation may result in an unconditional or conditional clearance of the concentration, or a prohibition of the concentration.

The EU merger control regulation also governs mergers in Cyprus. The EU has jurisdiction in two cases:

- 1) Where the combined aggregate worldwide turnover of all of the undertakings concerned is more than EUR 5 billion and the aggregate EU-wide turnover of each of at least two of the undertakings is more than EUR 250 million, unless each of the undertakings concerned achieves more than two-thirds of its aggregate EU-wide turnover in a single member state; and

- 2) Where the aggregate global turnover of the companies concerned exceeds EUR 2.5 billion for all businesses involved, aggregate global turnover in each of at least three member states is more than EUR 100 million, aggregate turnover in each of these three member states of at least two undertakings is more than EUR 25 million and aggregate EU-wide turnover of each of at least two of the undertakings is more than EUR 100 million, unless each achieves more than two-thirds of its aggregate EU-wide turnover within the same state.

If a merger normally would not fall within the European Commission's purview, the affected companies may ask the commission to review it if they otherwise would be obliged to notify three or more member states. The commission proceeds as a "one-stop shop" only if none of the relevant member states objects within 15 days.

### **Re-domiciliation of corporate seat**

The "re-domiciliation of corporate seat" is a company law procedure that allows an existing foreign company that wishes to move its domicile to Cyprus to register with the Cyprus Registrar of Companies as a company continuing in Cyprus, combined with a "de-registration" procedure with the equivalent authority in the foreign jurisdiction. It must be verified that such a procedure is permissible under the company law of the foreign jurisdiction, as well as under the constitutional documents of the company. The re-domiciliation process may take three to six months (and also depends also on the timing of the relevant procedures in the other country) and involves a number of steps to ensure that proper process is followed in both jurisdictions.

### **Monopolies and restraint of trade**

The CPC is responsible for overseeing market operations within the rules of fair competition and preventing anticompetitive distortions. The CPC may investigate potential infringements of the Protection of Competition Law 2008 and the relevant provisions of the Treaty on the Functioning of the European Union, and may impose fines and other sanctions where it finds that infringement exists. The Protection of Competition Law regulates anticompetitive agreements, decisions and concerted practices, as well as the abuse of a dominant position.

## **2.3 Accounting, filing and auditing requirements**

The applicable accounting standards are IAS/IFRS. Financial statements must be prepared annually.

Every person (individual, company or partnership) that derives income from: (i) profits or other benefits from a business; (ii) dividends, interest or discounts; (iii) profits or other benefits from any office or employment, IP rights, patent rights, remuneration or other profits arising from ownership; or (iv) any amount or consideration in respect of trade goodwill must meet certain requirements. These include requirements to maintain accounting books and records, and to prepare financial statements in accordance with acceptable accounting standards and that are audited in accordance with acceptable auditing standards by a person that is eligible to act as an auditor of a company in accordance with the Companies Law. However, an individual is exempt from the obligation to maintain accounting books and records where the annual turnover does not exceed EUR 70,000. A person is obliged to update books and records within four months from the date of a transaction; otherwise, a penalty of EUR 100 per quarter will be imposed. Books and records should be kept for a period of at least six years. Companies must attach their audited financial statements (in Greek or English) to their annual return for the corresponding year. These financial statements must be prepared on a separate company (nonconsolidated) basis. If a company has subsidiaries and no exceptions from consolidation apply, it also must file annual consolidated financial statements with the Registrar of Companies.

# 3.0 Business taxation

## 3.1 Overview

The primary taxes applicable to companies in Cyprus include the corporate income tax, the capital gains tax (CGT), the special defense contribution (SDC) and the value added tax (VAT).

Cyprus has transposed into national law the EU parent-subsidiary, interest and royalties, and merger directives. Cyprus also had implemented the savings directive, which required the exchange of information between tax administrations when interest payments were made in one EU member state to an individual resident in another member state. The directive was repealed from 1 January 2016 to coincide with the introduction of the common reporting standard (CRS) within the EU through the implementation of a new directive on the mandatory exchange of information.

### Cyprus Quick Tax Facts for Companies

Corporate income tax rate	12.5%
Branch tax rate	12.5%
CGT rate	0%/20%
SDC rate	3%/17%/30% on certain income
Basis	Worldwide
Participation exemption	Yes
<b>Loss relief</b>	
– Carryforward	5 years
– Carryback	No
Double taxation relief	Yes
Tax consolidation	No, but group loss relief may be available
Transfer pricing rules	Yes
Thin capitalization rules	No
Controlled foreign company rules	No
Tax year	Calendar year
Advance payment of tax	Yes
Return due date	31 March of second year following tax year
<b>Withholding tax</b>	
– Dividends	0%
– Interest	0%
– Royalties	0%/5%/10%
– Branch remittance tax	0%
Capital duty	0.6% on authorized share capital/issue of shares
Social insurance and other contributions	9.5% of gross emoluments (employer portion) + 2% to social cohesion fund 7.8% of gross emoluments (employee portion)
Immovable property tax	Abolished as from 1 January 2017
Transfer fees	1.5%-4% on the value of immovable property
Stamp duty (on contracts with specified consideration)	0%–0.2% (capped at EUR 20,000)
VAT	19% (standard rate)

## 3.2 Residence

A company is tax resident in Cyprus if it is managed and controlled from Cyprus. Although there is no definition of “management and control” in the tax law, the following factors would support the position that a company is a Cyprus tax resident:

- Strategic decisions are made in directors’ meetings in Cyprus;
- The board of directors includes suitably qualified Cypriot-resident individuals;
- The company maintains full documentation of the decision-making process taking place in Cyprus; and
- The company maintains an office in Cyprus, through which day-to-day operational functions are exercised.

## 3.3 Taxable income and rates

A company that is tax resident in Cyprus is taxed on income accruing or arising from sources both within and outside Cyprus.

A company that is not a tax resident in Cyprus is taxed only on income accruing or arising from sources within Cyprus.

Branches are taxed in the same way as tax resident companies.

The corporate income tax rate is 12.5%. Certain types of income (dividends, interest and rents) may be subject to the SDC (see under 3.8, below).

Insurance companies generally are taxable in the same way as other companies. In cases where there is no tax payable or where the tax payable on the taxable income of a life insurance business is less than 1.5% of the gross insurance premiums, the insurance company pays the difference (up to 1.5% of the gross premiums) as additional tax.

### Taxable income defined

Corporation tax is imposed on business profits; interest and discounts; rents, royalties, remuneration or other profits from property; and the net consideration in respect of trade goodwill.

Certain items are exempt from corporate income tax, including the following:

- Dividend income, except in cases where the dividends are deductible from the income of the payer company (but see under 3.8, below, regarding the SDC);
- Interest income (however, interest income arising in the ordinary course of business is not considered interest income for tax purposes and is not exempt; for other interest, see under 3.8, below, regarding the SDC);
- Gains from the disposal of securities, including the redemption of units or other ownership interests in an open-ended or closed-ended collective investment scheme;
- Profits from a PE maintained outside Cyprus (subject to certain conditions); and
- Realized or unrealized FX gains, except for gains arising from trading in FX.

### Deductions

Expenses incurred wholly and exclusively for the production of income are deductible in calculating taxable income (provided they are supported by appropriate supporting documentation required by the applicable regulations), including interest incurred for the acquisition of a fixed asset used in the business; donations to approved charitable organizations; 80% of profits from the exploitation and/or disposal of qualifying IP assets (see under 1.5, above); and expenditure incurred for scientific R&D undertaken by an innovative business.

A notional interest deduction is available to Cypriot companies and non-resident companies that have a PE in Cyprus, upon the introduction of new equity in the form of paid-up share capital or share premiums (see under 1.5, above).

Expenses that are not tax deductible are those expenses that are not wholly and exclusively incurred for the production of income, including business entertainment expenses in excess of 1% of gross income or EUR 17,086 (whichever is lower); private motor vehicle expenses; and wages and salaries

relating to services offered within the tax year, if the related contributions to the social insurance fund and other contributions on employment income have not been paid.

## Depreciation

Annual wear-and-tear allowances are calculated as a percentage of the cost of acquisition of an asset, and are deductible from taxable income. The percentage varies, depending on the type of asset. Some of the applicable percentages are listed below.

- Commercial buildings: 3%;
- Industrial, agricultural and hotel buildings (in general): 4%;
- Furniture and fittings: 10%;
- Plant and machinery (unless otherwise specified): 10%;
- Motor vehicles (except private motor vehicles): 20%;
- Personal computers (hardware) and operating software: 20%;
- Tools: 33 1/3%; and
- Application software: 100% up to EUR 1,709, and 33 1/3% above EUR 1,709.

The annual capital allowance deduction on intangible assets (excluding goodwill) is based on their useful economic life, with a maximum life of 20 years.

## Losses

Companies may carry forward tax losses incurred during a tax year for the next five years, to be offset against taxable income. The carryback of losses is not permitted.

Current-year tax losses may be surrendered by one Cyprus tax resident group company to another. A company that is resident in another EU member state also may surrender tax losses to a Cyprus resident company, provided the EU-resident company has exhausted all possibilities of carrying forward or surrendering its losses in its state of residence or in another EU member state where an intermediary holding company is based. Group relief is available if both companies are members of the same group for the entire tax year.

Two companies are considered to be part of a group for group relief purposes if one is at least a 75% subsidiary of the other, or both are at least 75% subsidiaries of a third company. The interposition of a non-Cyprus tax resident company does not affect the eligibility for group relief, as long as such company is tax resident in either an EU country or in a country with which Cyprus has concluded either a tax treaty or an exchange of information treaty (bilateral or multilateral).

Where a company has been incorporated by its parent company during the tax year, the new company will be deemed to be a member of the group for group relief purposes for that tax year.

Tax losses arising from a PE outside Cyprus may be offset against profits of the company arising in Cyprus in the same year. However, any subsequent profits from such a PE, up to the amount of losses utilized, are included in taxable income.

## 3.4 Capital gains taxation

CGT is imposed at a rate of 20% on the following:

- Gains from the disposal of immovable property located in Cyprus;
- Gains from the disposal of shares of companies not listed on a recognized stock exchange that own immovable property located in Cyprus; and
- Gains from the disposal of shares of companies that indirectly own immovable property located in Cyprus and derive at least 50% of their market value from such immovable property.

In computing the capital gains, the value of the immovable property as of 1 January 1980 (or the cost, if the date of acquisition is later); the cost of any additions after 1 January 1980; any expenditure incurred for the production of the gains; and the "indexation allowance" are deductible from the sales proceeds.

Certain disposals of immovable property are exempt from CGT, including the following:

- Gifts to a company whose shareholders are members of the donor’s family and continue to be members of the family for a period of five years from the date of the gift, to a charitable organization or to the government;
- Gifts by a family company to its shareholders, if the company also acquired the property in question via donation;
- Other exchanges, provided the gain is used for the acquisition of new property (the gain derived from the exchange reduces the cost of the new property, and the tax is payable upon the disposal of the new property); and
- Transfers of ownership or share transfers in the event of company reorganizations and/or qualifying “loan restructurings.”

### 3.5 Double taxation relief

#### Unilateral relief

A unilateral tax credit is granted for tax paid abroad, regardless of the existence of a tax treaty. The provisions of a relevant tax treaty will apply if they are more beneficial for taxpayers.

#### Tax treaties

Cyprus has concluded numerous tax treaties, and its treaties generally follow the OECD model treaty. Treaties generally provide for relief from double taxation on all types of income, limit the taxation by one country of companies resident in the other and protect companies resident in one country from discriminatory taxation in the other. Many of Cyprus’s treaties contain OECD-compliant exchange of information provisions.

Once a tax treaty is negotiated and signed it is then published in the official government gazette as proof of its ratification.

#### Cyprus Tax Treaty Network

Armenia	Georgia	Malta	Slovakia
Austria	Germany	Mauritius	Slovenia
Bahrain	Greece	Moldova	South Africa
Belarus	Guernsey	Montenegro	Spain
Belgium	Hungary	Norway	Sweden
Bulgaria	Iceland	Poland	Switzerland
Canada	India	Portugal	Syria
China	Ireland	Qatar	Tajikistan
Czech Republic	Italy	Romania	Thailand
Denmark	Kuwait	Russia	Ukraine
Egypt	Kyrgyzstan	San Marino	United Arab Emirates
Estonia	Latvia	Serbia	United Kingdom
Finland	Lebanon	Seychelles	United States
France	Lithuania	Singapore	Uzbekistan

### 3.6 Anti-avoidance rules

#### Transfer pricing

Transactions between related parties must be carried out at market value and on normal commercial terms.

Following the amendment of the EU Administrative Cooperation Directive implementing country-by-country (CbC) reporting in accordance with the OECD recommendations under action 13 of the BEPS initiative, Cyprus proceeded with the issuance of a decree regarding the exchange of information within the framework of the Multilateral Competent Authority Agreement on the exchange of CbC reports.

### **Thin capitalization**

There are no thin capitalization rules.

### **Controlled foreign companies**

There are no CFC rules.

### **General anti-avoidance rule**

A general anti-avoidance provision allows the tax authorities to disregard artificial/fictitious transactions and assess the person concerned on the proper object of the tax.

### **BEPS**

The EU anti-tax avoidance directive prescribes minimum standards, among others, for an interest deduction limitation rule (BEPS action 4), a CFC rule (BEPS action 3) and a hybrid mismatch rule (BEPS action 2). EU member states are required to adapt their national law to the directive by 31 December 2018.

## **3.7 Administration**

### **Tax year**

The tax year is the calendar year. The financial statements of a company may be for a period ending on a date other than 31 December, in which case taxable profits are apportioned between the relevant tax years.

### **Filing and payment**

Electronic filing is mandatory for companies. The deadline for the electronic submission of the tax return is 31 March of the second year following the tax year of assessment (e.g. the tax return for 2017 will be due by 31 March 2019).

Companies are required to make two provisional payments of tax on the current year's taxable income on 31 July and 31 December. Any remaining balance of tax for the year, based on the taxable income (as finally determined), is due by 1 August of the following year. If the income declared for the payment of the provisional tax is lower than 75% of the income as finally determined, an additional amount of tax equal to 10% of the difference between the final and provisional tax is payable.

An administrative penalty of EUR 100 or EUR 200 (depending on the specific case) is imposed for the late filing of a tax return or the late submission of supporting information requested by the tax authorities. If a company fails to settle its tax obligations by the statutory deadlines, an additional 5% penalty and an additional 5% tax on the amount of the unsettled tax is imposed. The public interest rate for late payment of tax is set by the Minister of Finance through a decree, and it is applicable for the entire year.

### **Consolidated returns**

Taxation on a consolidated basis is not permitted, and each company must submit a separate tax return. The set-off of group tax losses is possible in certain cases (see under 3.3, above).

### **Statute of limitations**

The statute of limitations for keeping accounting books and records is six years from the end of the tax year of assessment (always a 31 December tax year-end). Where a company is guilty of fraud or willful default, the statute of limitations is increased to 12 years from the end of the tax year of assessment. There is no specific statutory limit on the time period within which tax can be collected.

### **Tax authorities**

The Tax Department of the Ministry of Finance is responsible for administering both direct and indirect taxes.



## Rulings

The administration and enforcement of the tax (both direct tax and VAT) legislation in Cyprus is the responsibility of the Commissioner of Taxation, who heads the Tax Department within the Ministry of Finance.

Under an advanced ruling system, taxpayers may apply to the Commissioner of Taxation for rulings on the interpretation of the tax laws via written requests, and the commissioner will respond in writing.

A taxpayer requesting a tax ruling must pay a fee of EUR 1,000 to the Commissioner of Taxation, or EUR 2,000 if the taxpayer requests an expedited ruling to be issued within 21 working days of the date the request is submitted.

## 3.8 Other taxes on business

### SDC

The SDC is imposed on certain income derived by Cyprus tax resident companies.

The SDC is levied on gross dividends (at a 17% rate), gross interest (at a 30% rate, except for interest earned by an approved provident fund or the Social Insurance Fund, which is subject to a 3% rate) and rental income (at a 3% rate, which is applied to 75% of the gross rental income).

Some exemptions from the SDC apply. The following dividends are exempt:

- Dividends received by a Cyprus resident company from another Cyprus resident company, unless the dividends are paid out of profits that are more than four years old;
- Dividends received, directly or indirectly, from dividends on which the SDC already has been paid; and
- Dividends received by a Cyprus resident company (or a nonresident company that maintains a PE in Cyprus) from a nonresident company; however, the exemption does not apply if:
  - More than 50% of the activities of the nonresident payer company directly or indirectly lead to investment income; and
  - The foreign tax burden on the income of the nonresident payer company is substantially lower than the tax burden of the Cyprus resident company (or the nonresident company that has a PE in Cyprus).
- Interest that is received as a result of carrying on a business activity (including interest closely connected to the ordinary activities of the business, and interest earned by open-ended or closed-ended collective investment schemes) is not considered interest for SDC purposes and is exempt (however, the corporate or personal income tax may apply).

A Cyprus resident company is deemed to have distributed 70% of its profits after taxation in the form of dividends at the end of the two years from the end of the tax year in which such profits were generated, and the SDC is imposed to the extent that the ultimate direct/indirect shareholders of the company are Cyprus tax resident and domiciled individuals.

For the purpose of calculating the amount of the deemed distribution, the term “profits” means the accounting profits arrived at using generally accepted accounting principles, after the deduction of any transfers to reserves as specified by any law. The term “taxation” includes the SDC, the CGT and any tax paid abroad that has not been credited against income tax and/or the SDC payable for the relevant year, in addition to the corporate income tax.

The amount of deemed dividends is reduced by the amount of actual dividends distributed during the year to which the profits relate, or the following two years. In cases where an actual dividend is paid after the deemed dividend distribution date, any deemed distribution reduces the actual dividend on which the SDC is withheld.

The cumulative amount of profits in the last five years prior to a company's dissolution that has not been distributed, or been deemed to be distributed, will be considered as distributed on dissolution and will be subject to the SDC. However, the deemed dividend distribution provisions do not apply to any accounting profits arising during the dissolution or liquidation if the assets of the company are not sufficient for the repayment of its creditors and no amount is available to be distributed to its shareholders. These provisions also do not apply in the case of a dissolution under reorganization, in accordance with certain prerequisites set out in the relevant regulations or where the shareholders are

not resident or not domiciled in Cyprus (see under 6.2, below). In addition, these provisions do not apply to profits arising from a loan restructuring (subject to conditions).

Any tax suffered abroad on income that is subject to the SDC will be credited against any SDC payable on such income, irrespective of the existence of a tax treaty.

The SDC withheld on payments to Cyprus tax residents should be paid to the tax authorities by the end of the following month. Payments of the SDC on dividends, interest or rents from sources outside of Cyprus should be made in two installments, due on 30 June and 31 December.

### **Other taxes**

Certain profits from shipping activities are subject to tonnage tax, in accordance with the provisions of the Merchant Shipping (Fees and Taxing Provisions) Law, and may be exempt from other types of taxation (e.g. corporation tax).

# 4.0 Withholding taxes

## 4.1 Dividends

Dividends paid to a non-resident company or a nonresident or nondomiciled individual are not subject to withholding tax. Dividends paid to a resident company are not subject to withholding tax unless they are paid out of profits that are more than four years old (see under 3.8, above), but dividends paid to a domiciled tax-resident individual are subject to the SDC at 17% (applied as a withholding tax).

## 4.2 Interest

No withholding tax is imposed on interest paid to a non-resident. Interest paid to a domiciled tax resident individual or a resident company generally is subject to the SDC (see under 3.8, above) which is deducted at source at 30%.

## 4.3 Royalties

Royalties paid to a nonresident for the use of rights in Cyprus are subject to a withholding tax of 5% on film and television royalties, and 10% on all other royalties. These rates may be reduced under a tax treaty or eliminated under the EU interest and royalties directive. Royalties paid to a nonresident for the use of rights outside Cyprus are exempt from withholding tax. There is no withholding tax on the payment of royalties by one resident company to another.

## 4.4 Branch remittance tax

There is no branch remittance tax.

## 4.5 Wage tax/social security contributions

An employer is required to make social insurance contributions amounting to 9.5% of an employee's gross employment income, subject to a cap on the annual earnings on which the contributions are payable of EUR 54,396 for 2017. An employer also is required to contribute 2% of its employee's gross employment income, with no upper limit, to the social cohesion fund. Employer contributions are due by the end of the month following the month to which the contributions relate.

An employee is required to make social insurance contributions at 7.8% of his/her salary (subject to a maximum cap on salary of EUR 54,396 for 2017). Self-employed individuals contribute at 14.6%, subject to lower and upper limits on the contributions payable, depending on their occupation. Contributions of self-employed individuals are due by the 10th day following the end of the month that follows the end of each quarter.

An exemption from contributions to the Cyprus social insurance scheme may be granted for a period of time to qualifying expatriate EU nationals that take up employment in Cyprus.

## 4.6 Other withholding taxes

Cyprus also levies the following withholding taxes:

- A 10% withholding tax on technical assistance provided to nonresidents in Cyprus;
- A 10% withholding tax on the gross income/receipts derived by a nonresident individual from the exercise in Cyprus of any profession or vocation, and on the remuneration of non-resident public entertainers (such as theatrical and musical entertainers and members of football clubs and other athletic ventures, etc.); and
- A 5% withholding tax on gross income derived from within Cyprus by nonresidents without a Cyprus PE, relating to the extraction, exploration or use of the continental shelf, subsoil or natural resources, as well as the installation and exploitation of pipelines and other installations on the ground, on the seabed and on the surface of the sea.

# 5.0 Indirect taxes

## 5.1 Value added tax

VAT is imposed on the supply of goods and services in Cyprus, on the acquisition of goods from other EU member states and on the importation of goods from third (non-EU) countries. The standard rate is 19%, and there are reduced rates of 9%, 5% and 0%.

The standard rate applies to the supplies of all goods and services in Cyprus that are not subject to the zero rate or a reduced rate, and are not exempt.

The reduced rate of 9% applies to restaurant and catering services; accommodations in hotels (and similar lodgings); and certain passenger transportation services.

The reduced rate of 5% applies to certain supplies, including certain food and beverages; certain pharmaceutical products; books, newspapers and magazines; entry fees for theaters and certain other attractions; entry fees for sports events; and the acquisition or construction of a residence (subject to certain conditions).

The zero rate applies to the exportation of goods and to certain supplies relating to sea-going vessels or to aircraft, among other items.

Exempt supplies include the rental of immovable property; financial services (with some exceptions); hospital and medical care services; postal services; insurance services; disposals of immovable property where the application for a building permit was submitted prior to 1 May 2004; and educational services (under certain conditions).

Every individual or company is required to register for VAT if, at the end of any month, the value of taxable supplies recorded in the last 12 months exceeds EUR 15,600 or if, at any point in time, the value of taxable supplies is expected to exceed EUR 15,600 in the next 30 days. Individuals or companies also are required to register if they (1) provide services to a VAT-registered person within the EU, with a nil registration threshold; (2) are involved in the acquisition of goods from other EU member states (this relates to persons who offer exempt supplies of goods and services or are nonprofit organizations), with a registration threshold of EUR 10,251; (3) offer zero-rated supplies of goods or services; (4) acquire a company on a going-concern basis; or (5) are a taxable person from abroad that makes distance sales, with registration threshold of EUR 35,000.

Additionally, all taxable persons making taxable supplies of goods or services to nontaxable persons must issue and deliver "legal receipts." Penalties apply for failure to comply.

Any registered person must submit a VAT return to the tax authorities no later than the 10th day of the second month following the end of the relevant VAT period, and must pay the VAT due.

## 5.2 Capital tax

Capital duty at 0.6% is payable on authorized share capital and the issuance of shares.

## 5.3 Real estate tax

As from 1 January 2017, immovable property tax is abolished.

## 5.4 Transfer tax

The transfer of immovable property from one owner to another is subject to a transfer fee ranging from 1.5% to 4%, calculated on the market value of the property, as estimated by the Department of Land and Surveys. The fee is paid by the acquirer to the Department of Land and Surveys.

Transfers of immovable property under a qualifying reorganization or a qualifying loan restructuring and in the context of bankruptcy, liquidation or a disposal of mortgaged immovable property by the lender are exempt from transfer fees.

An exemption from transfer fees may apply if the transfer relates to a transaction that is subject to VAT.

## **5.5 Stamp duty**

Stamp duty is payable on a document if it relates to property situated in Cyprus or to any matter or issue executed or carried out in Cyprus. Stamp duty on contracts is charged at rates that vary between 0% and 0.2%, depending on the contract amount. A ceiling of EUR 20,000 per document applies.

Documents relating to transactions that take place in relation to a company reorganization or loan restructuring are exempt from stamp duty.

## **5.6 Customs and excise duties**

Customs duties are levied on goods imported from outside the EU. Excise duties apply to certain items, including alcohol, tobacco and energy products, as well as to motor vehicles.

## **5.7 Environmental taxes**

There are no environmental taxes.

## **5.8 Other taxes**

None

# 6.0 Taxes on individuals

The main types of taxes and contributions applicable to individuals in Cyprus are the personal income tax; the CGT; the SDC on dividends, interest and rental income; and social insurance and other contributions on employment income.

## Cyprus Quick Tax Facts for Individuals

Income tax rates	Progressive to 35%
CGT rates	0%/20%
SDC rates	3%/17%/30% of certain income
Basis	Worldwide
Double taxation relief	Yes
Tax year	Calendar year
Return due date	Varies
<b>Withholding tax</b>	
– Dividends	0%
– Interest	0%
– Royalties	0%/5%/10%
Net wealth tax	No
Social insurance contributions	7.8% of salary (employees)/14.6% (self-employed)
Inheritance tax	No
Immovable property tax	Abolished as from 1 January 2017
VAT	19% (standard rate)

## 6.1 Residence

An individual is tax resident in Cyprus if he or she is present in Cyprus for a period or periods exceeding 183 days in the aggregate in a tax year.

For the purpose of calculating the days of presence in Cyprus:

- The day of arrival into Cyprus is considered to be a day in Cyprus;
- The day of departure from Cyprus is considered to be a day out of Cyprus;
- The arrival into Cyprus and the departure from Cyprus on the same day is considered to be a day in Cyprus; and
- The departure from Cyprus and the return to Cyprus on the same day is considered to be a day out of Cyprus.

## 6.2 Taxable income and rates

An individual is subject to Cypriot income tax based on his/her tax residence status.

An individual who is tax resident in Cyprus is taxed on income accruing or arising from sources both within and outside Cyprus. An individual who is not tax resident in Cyprus is taxed only on income accruing or arising from sources within Cyprus.

An individual is subject to SDC if he/she is both Cyprus tax resident and Cyprus domiciled. An individual is treated as domiciled in Cyprus for the purposes of the SDC if he/she has a domicile of origin in Cyprus based on the provisions of the Wills and Succession Law (in general, an individual born to a Cypriot-domiciled father), with certain exceptions, or if/she has been a Cyprus tax resident for at least 17 out of the 20 years immediately prior to the tax year of assessment. An individual that is "non-domiciled" in Cyprus is not subject to the SDC.

## Taxable income

Personal income tax is calculated on profits or other benefits from a business, office, employment or self-employment; any pension or annuity income; and rents, royalties or other profits arising from property.

The items listed as exempt from corporate income tax in 3.3, above, also are exempt from personal income tax. Additional items exempt from personal income tax include the following:

- Lump sums received as a retirement gratuity, commutation of pension, death gratuity or consolidated compensation for death or injury;
- Lump sum repayments from life insurance schemes or from approved provident funds;
- 50% of the remuneration from any employment exercised in Cyprus by an individual who was resident outside of Cyprus before commencing the employment in Cyprus, where the annual employment remuneration of such individual exceeds EUR 100,000. The exemption applies for a period of ten years (starting from the first year of employment in Cyprus);
- 20% of the remuneration (or EUR 8,550, if lower) from any employment exercised in Cyprus by an individual who was resident outside of Cyprus before commencing the employment in Cyprus (in cases where the 50% exemption described above does not apply). The exemption applies for a period of five years from 1 January following the year of commencement of the employment in Cyprus, with the last eligible tax year being 2020; and
- Remuneration from the rendering of salaried services outside Cyprus to a nonresident employer, or to a PE outside Cyprus of a resident employer, for a total period of more than 90 days in the year of assessment.

If a company director or individual shareholder (or his/her spouse or relatives (up to second-degree kindred)) receives a loan or financial assistance from the company, he/she is deemed to have received a taxable benefit in kind equal to 9% per annum of the loan/assistance.

Individuals who have an obligation to prepare audited financial statements (i.e. those with turnover in excess of EUR 70,000) may carry forward tax losses incurred during a tax year for the next five years, to be offset against taxable income.

## Capital gains tax

CGT is imposed at a rate of 20% on

- Gains from the disposal of immovable property located in Cyprus;
- Gains from the disposal of shares of companies not listed on a recognized stock exchange that own immovable property located in Cyprus; and
- Gains from the disposal of shares of companies that indirectly own immovable property located in Cyprus and derive at least 50% of their market value from such immovable property.

In computing the capital gains, the value of the immovable property as of 1 January 1980 (or the cost, if the date of acquisition is later); the cost of any additions after 1 January 1980; any expenditure incurred for the production of the gain; and the indexation allowance are deductible from the sales proceeds.

The disposals of immovable property listed as exempt from CGT in 3.4, above, also are exempt from CGT for individuals. Other types of exempt disposals include transfers on death and gifts between spouses, parents and children and relatives up to third-degree kindred.

Certain disposals of immovable property are exempt from capital gains tax including:

- Transfers on death;
- Gifts between spouses, parents and children and relatives up to third degree of kindred;
- Transfers of ownership between spouses that their marriage has been dissolved by a court order or on a transfer of ownership between the same persons for the purpose of settling their property according to the Settlement of Property Relationships between Spouses Law;
- Transfers of a principal residence (subject to conditions); and
- Transfers under a qualifying "loan restructurings."



Certain lifetime capital gains exemptions apply for individuals, depending on the type of property disposed:

- Disposal of a principal private residence (subject to certain conditions): EUR 85,430;
- Disposal of agricultural land by a farmer: EUR 25,629; and
- Other disposals: EUR 17,086.

However, if a family company makes a gift to a shareholder that disposes of the property within three years, the shareholder will not be entitled to the exemptions above.

## Deductions and reliefs

Expenses incurred wholly and exclusively for the production of income, including the following, are deductible in calculating taxable income, provided they are supported by appropriate supporting documentation:

- Expenses for the rental of buildings (the deduction is deemed to be 20% of the rental income);
- Interest in respect of the acquisition of a building for rental purposes;
- Subscriptions to trade unions or professional bodies;
- Donations to approved charitable organizations;
- 80% of profits from the exploitation of qualifying intellectual property assets (see under 1.5, above);
- Expenditure for scientific research including R&D undertaken by a small and medium-sized innovative business; and
- Expenditure for investment in an innovative small and medium-sized business (subject to conditions; the deduction is restricted to 50% of the taxable income as calculated before this deduction with a maximum deduction of EUR 150,000).

The annual wear-and-tear allowances available for companies (see under 3.3, above) also are available to individuals.

Certain personal allowances are deductible from income, including social insurance contributions (and similar contributions); approved provident and pension fund contributions; life insurance premiums; and medical fund contributions. The total amount of the allowances is limited to one-sixth of the taxable income, as calculated before deducting the allowances, and the annual life insurance premium is restricted to 7% of the insured amount. If a life insurance contract is cancelled within six years from the date it was entered into, a portion of the life insurance premiums already taken as an allowance will be taxable (30% if cancelled within three years, or 20% if cancelled after four to six years).

## Rates

The personal income tax rates for individuals start from a nil rate (for taxable income up to EUR 19,500) and progressively increase up to a maximum rate of 35% for any amount of taxable income above EUR 60,000.

SDC rates are laid out in 3.8 above.

As discussed in "Taxable income," above, CGT is imposed at a rate of 20%.

Any foreign tax paid on income subject to income tax in Cyprus is credited against any Cyprus income tax payable on such income, irrespective of the existence of an applicable tax treaty.

## 6.3 Inheritance and gift tax

There is no inheritance tax or gift tax. Estate duty is not levied in relation to individuals who have died on or after 1 January 2000.

## 6.4 Net wealth tax

There is no net wealth tax.

## 6.5 Real property tax

As from 1 January 2017, immovable property tax is abolished.

## 6.6 Social security contributions

An employee is required to make social insurance contributions at 7.8% of his/her gross emoluments (subject to a maximum cap on annual emoluments of EUR 54,396 for 2017). Self-employed individuals contribute at 14.6%, subject to lower and upper limits on contributions payable, depending on the occupation of the self-employed individual. Employee contributions are paid by the employer and are due no later than the end of the calendar month following the month to which the contributions relate. Contributions of self-employed individuals are due by the 10th day following the end of the month that follows the end of each quarter.

## 6.7 Other taxes

Certain types of income (dividends, interest and rents) may be subject to the SDC (see under 3.8, above). In addition to the rules described in that section, a 3% rate may apply to interest received by an individual from government bonds or government savings certificates.

## 6.8 Compliance

The tax year is the calendar year (1 January–31 December).

Cyprus does not support the filing of joint tax returns. Each individual is responsible for his/her taxes on a separate basis.

The employer withholds and pays tax on employment income via the pay-as-you-earn (PAYE) system. A self-employed individual pays tax via a provisional and self-assessment system. Under the provisional system, two payments of tax on the current year's income are due, on 31 July and 31 December.

The tax return must be filed by 30 April following the tax year of assessment for an employee; 30 June for a self-employed individual who is not required to prepare audited financial statements; and 31 December for a self-employed individual who is required to prepare audited financial statements. Self-employed individuals with annual turnover of more than EUR 70,000 must submit their tax return electronically, but the deadline for electronic submission of the return is extended by three months to 31 March of the second year following the tax year of assessment. Individuals whose tax returns are submitted by a professional accountant also are required to submit their tax returns electronically and, in these cases, the applicable deadline also is extended by three months (from 30 April to 31 July, or from 30 June to 30 September).

The payment of any remaining tax balance for the tax year of assessment is due by 30 June following the tax year for individuals that do not prepare audited financial statements, and by 1 August following the tax year of assessment for individuals that prepare audited financial statements.

An administrative penalty of EUR 100 or EUR 200 (depending on the specific case) is imposed for the late filing of a tax return or late submission of supporting documentation requested by the tax authorities. Where an individual fails to settle his/her tax obligations by the statutory deadlines, an additional 5% penalty and an additional 5% additional tax on the amount of the tax payable is imposed. The public interest rate for late payment of tax is set by the Minister of Finance through a decree, and it is applicable for the entire year.

# 7.0 Labor environment

## 7.1 Employee rights and remuneration

Cyprus, as a part of EU, has adopted the EU's framework with respect to labor regulation.

Cyprus has in place all the necessary laws to adequately protect the rights of employers and employees.

The employment of non-Cypriot nationals is governed by Alien and Migration Law. All procedures are managed by the Department of Labor and/or by the Civil Registry and Migration Department. The employment of EU nationals, is regulated by the Law on Free Movement and Residence of Nationals of the Member States of the European Union and their Families. All EU nationals and non-EU nationals working in Cyprus must be registered with the Civil Registry and Migration Department.

The domestic employment law imposes an obligation on the employer to provide an employee with specific information about his/her terms of employment, in writing. The information given by the employer must consist of at least the following:

- Information about the identity of the parties;
- The place of work and the registered address of the business or the home address of the employer;
- The position or the specialization of the employee, his/her rank and the type of his/her duties, as well as the object of his/her employment;
- The date of commencement of the contract or the employment relationship and its anticipated duration (if this is for a fixed time);
- The duration of any annual leave to which the employee is entitled, as well as the manner and time it may be taken;
- The time limits that must be observed by the employer and the employee in the event of a termination of the employment, either by consent or unilaterally;
- All types of emoluments to which the employee may be entitled and the time schedule for their payment;
- The usual duration of his/her daily or weekly employment (i.e. the regular working hours); and
- Any collective agreements that govern the terms and/or the conditions of the employee's employment.

The main terms and conditions of employment in Cyprus are briefly described below.

### Employment terms

The terms and conditions of employment may be agreed upon between the employer and the employee, or may be based on collective bargaining between trade unions and employer organizations in various sectors.

### Probation period

Employment law provides a minimum probation period of at least 26 weeks for a new employee, under which there is no minimum notice period in the event of termination of employment. The probation period may be extended to a period of up to 104 weeks, during which time the amount set by law for the notice period to which the employee otherwise would be entitled should be paid in the event of employment termination.

### Working hours

The maximum weekly hours of work is 48 hours, including overtime. The normal pattern of working hours in Cyprus is 40 hours per week. In addition, the employee is entitled to at least 11 continuous hours of rest per day. When the daily period of work is greater than six continuous hours, the employee is entitled to a 15-minute break.

## Annual leave

Depending on the type of work schedule, employees are entitled to 20 days (when working a five-day week), or 24 days (when working a six-day week) of annual holiday leave. This applies only to employees that have worked for at least 48 weeks within a year. In cases of work for a shorter period of time, the duration of annual leave is calculated proportionately. However, for work of less than 13 weeks within a year, the employee is not entitled to annual leave.

## Sick leave

Sick leave is paid by the Department of Social Insurance of the Ministry of Labour and Social Insurance.

A sickness benefit is payable to employees working abroad in the service of Cypriot employers and self-employed persons working abroad whose permanent residence is in Cyprus.

In the case of an employed person, the payment of the benefit starts on the fourth day of absence from work due to illness, and in the case of a self-employed person, the payment starts on the 10th day of absence from work. The level of the benefit is determined according to the average weekly amount of earnings on which contributions were made by or for the insured person in the previous contribution year under the social insurance scheme.

It also is customary for organizations to allow a minimum of 10 days as paid incidental sickness absences per annum.

## 7.2 Wages and benefits

### Pay period

There is no standard pay period and each organization is able to adjust its pay period according to its working conditions. It is customary for the pay period to be weekly or monthly, with most employers paying salaries on the last day of each month.

### Minimum wage

A minimum wage applies for specific job positions, such as security guards, cleaners, sales assistants, office workers/clerks, nursing assistants, child care assistants, nursery assistants, school assistants and caretakers.

### Employer-sponsored pension fund

Many employers sponsor a provident fund scheme for their employees, similar to a pension plan. It is not mandatory to operate such a fund, but, once formed, the fund is regulated by legislation and the office of the Commissioner of Provident Funds. The basic principle of a provident fund is that both the employer and the employee contribute a specific percentage of the employee's monthly gross salary to the fund. Contributions generally are tax deductible. A provident fund's charter sets the minimum and maximum contributions that are to be made.

### Social insurance

The Cypriot social insurance scheme covers several benefits, such as maternity allowances, sickness benefits, unemployment benefits, old-age pensions, invalid pensions, widow pensions, orphans' benefits and benefits for employment accidents and occupational diseases. Under the scheme, both the employer and the employee should make contributions to the relevant funds, as described under sections 4.5 and 6.6, above.

Cyprus has implemented EU regulations that coordinate the social insurance schemes of the EU member states. Cyprus also has concluded bilateral agreements on social security with Australia, Austria, Bulgaria, Canada, the Czech Republic, Egypt, Greece, the Netherlands, Quebec, the Slovak Republic, Switzerland and the United Kingdom.

## 7.3 Employment of foreigners

Cyprus has adopted the principle of the free movement of workers within Europe, which it applies to citizens of EU/EEA member states and Switzerland.

All EU citizens have the right to work in Cyprus, but are required to register with the immigration authorities within four months of moving to Cyprus. Upon registration, they will receive a registration certificate for EU citizens.

Third-country (non-EU) nationals moving to Cyprus for employment should apply in advance to the immigration authorities in Cyprus for a work and residence permit. Upon registration with the authorities, an entry permit will be issued to the individual. Following arrival in Cyprus, the individual is required to obtain a temporary work and residence permit, which has a normal validity period of one year. It is possible to renew a temporary work and residence permit by submitting the required documents two months before the permit's expiration date. For executive staff, there are no restrictions regarding the duration of residence in Cyprus.

A company based in Cyprus that wishes to employ a third-country national for the first time should apply to become an eligible employer of third-country nationals (a one-time procedure). In practice, this procedure can be undertaken in parallel with submitting the first application for a work and residence permit for an individual. All companies with nonresident shareholders are entitled to employ third-country nationals or professional staff, provided certain requirements are fulfilled.

# 8.0 Deloitte International Tax Source

The Deloitte International Tax Source (DITS) is a free online database that places up-to-date worldwide tax rates and other crucial tax information within easy reach. DITS is accessible through mobile devices (phones and tablets), as well as through a computer.

## Connect to the source and discover:

**A database that allows users to view and compare tax information for different jurisdictions that includes:**

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