

# Cyprus Tax Facts

**2022**

DISCOVER 

# Welcome to our annual Cyprus tax facts.

## EY Cyprus Offices

### NICOSIA OFFICES

Jean Nouvel Tower  
6 Stasinou Avenue  
P.O. Box 21656, 1511 Nicosia  
Tel: +357 22 209999  
Fax: +357 22 209998

Galaxias Building, Block B  
36, Agias Elenis Street  
6th floor, Office 602  
P.O. Box 21122, 1502 Nicosia  
Tel: +357 22 669699  
Fax: +357 22 669650

### LIMASSOL OFFICE

Ernst & Young House  
27 Spyrou Kyprianou  
Mesa Geitonia, 4003 Limassol  
P.O. Box 50123, 3601 Limassol  
Tel: +357 25 209999  
Fax: +357 25 209998

### EY ITR awards:

**National Transfer Pricing  
Firm of the Year  
2019, 2020, 2021**

**National Tax  
Firm of the Year  
2018, 2019**



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# Welcome

Cyprus and Governments worldwide are reforming their tax code at an unprecedented rapid pace. Taxpayers need a guide, such as EY Cyprus' Tax Facts, to stay well-informed on the shifting tax landscape, especially those contemplating new markets. With this new edition of Tax Facts, we provide you a high level, yet comprehensive, guide to the Cyprus tax system.

This Tax Guide represents hundreds of tax research hours, all of it done with our clients in mind. We orient ourselves to ensure you are equipped with the necessary information to support you on your success journey. Please treat this Tax Guide as general information about Cyprus tax facts. For professional advice, we urge our clients to look beyond this publication and connect with our professionals for addressing each case with tailored solutions.

We encourage you to keep up-to-date by subscribing to your EY Alerts. You may subscribe by scanning our below QR code with your phone.

Some of the changes expected in 2022 and beyond is the ratification of the Transfer Pricing legislation, the implementations of BEPS 2.0, and the so-called global minimum tax, as well as the introduction of green taxes, and a digitized tax department.



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“

We bring our clients  
tailored solutions  
based on our  
extensive global  
experience”

Philippos Raptopoulos

**Philippos Raptopoulos**  
Partner, Head of EY Cyprus Tax and Legal Services  
January 2022

# Income Tax

## Charge of tax

### RESIDENT OF CYPRUS

In the case of a person who is a tax resident of Cyprus, tax is levied on all income accruing or arising from sources both within and outside Cyprus, in respect of:

- ▶ Profits or other benefits<sup>1</sup> from any business
- ▶ Profits or other benefits<sup>1</sup> from any office or employment
- ▶ Pensions
- ▶ Dividends, interest or discounts
- ▶ Rents, royalties or other profits arising from property
- ▶ Any amount or consideration in respect of any trade goodwill reduced by any amount incurred for the purchase of such trade goodwill
- ▶ Benefit in kind equal to 9% per annum on the monthly balance of loans or other financial facilities granted to an individual, director or shareholder (including the spouse and relatives up to the second degree of kindred).

### NON-RESIDENT OF CYPRUS

In the case of a person who is not a tax resident of Cyprus, tax is levied on the income accruing or arising from sources in Cyprus only, in respect of:

- ▶ Profits or other benefits<sup>1</sup> from a permanent establishment situated in Cyprus
- ▶ Profits or other benefits<sup>1</sup> from any office or employment exercised in Cyprus
- ▶ Pensions derived from past employment exercised in Cyprus
- ▶ Rent from property situated in Cyprus
- ▶ Any amount or consideration in respect of any trade goodwill reduced by any amount incurred for the purchase of such trade goodwill
- ▶ The gross income derived by an individual from the exercise in Cyprus of any profession or vocation, the remuneration of public entertainers and the gross receipts of any theatrical, musical or other group of public entertainers
- ▶ Benefit in kind equal to 9% per annum on the monthly balance of loans or other financial facilities granted to an individual, director or shareholder (including the spouse and relatives up to the second degree of kindred).

#### Notes:

1 A detailed guidance relating to Benefits in Kind ("BIK") and how these should be quantified has been issued by the Tax Department which covers, inter alia, the provision of a car to employees, housing allowance, traveling allowance, private expenses etc. The guidance is applicable as of 01.01.2019 onwards.

## Definitions

### RESIDENT OF CYPRUS (INDIVIDUAL)

An individual who stays in Cyprus for a period or periods exceeding in aggregate 183 days in the year of assessment.

In addition, the definition of tax resident includes an individual who does not stay in any other state for one or more periods exceeding in aggregate 183 days in the same tax year and who is not considered a resident for tax purposes in any other state in the same tax year, provided that the individual cumulatively meets the following criteria:

- ▶ Stays in the Republic for at least 60 days in the year of assessment; and
- ▶ Exercises any business in the Republic and/or is employed in the Republic and/or holds an office for a person tax resident in the Republic at any time during the year of assessment; and
- ▶ Maintains a permanent residence in the Republic which is owned or rented by him.

### RESIDENT OF CYPRUS (COMPANY)

A company whose management and control is exercised in Cyprus. In addition, as of 31 December 2022, a company which is incorporated or registered in Cyprus, and its management and control is exercised outside Cyprus, should be considered resident for tax purposes of Cyprus unless it is a tax resident in another country .

### PERMANENT ESTABLISHMENT

A fixed place of business through which the business of an enterprise is wholly or partly carried on, and includes a place of management, branch, office, factory, workshop, mine, oil or gas well, quarry or any other place of extraction of natural resources.

In addition, the term includes all activities relating to the exploration and exploitation within Cyprus' territorial sea as well as within any area outside the territorial sea, including the contiguous zone, the exclusive economic zone and the continental shelf.



# Income Tax

## Exemptions

	Individuals	Other persons
Lump sum payment on retirement or commutation of pension, or a gratuity on death	100%	-
Capital sums from life insurance policies, provident funds, medical schemes or an approved pension	100%	-
Income from a scholarship or another educational endowment	100%	-
Income of any religious, charitable or educational institution of a public character	-	100%
Income of any co-operative society in respect of transactions between its members	-	100%
Emoluments of foreign officers of an institution exercising an educational, cultural or scientific function	100%	-
Emoluments of foreign diplomatic and consular representatives if not citizens of Cyprus	100%	-
Income of any local authority	-	100%
Income of any approved pension scheme or provident fund or any insurance fund	-	100%
Income of any company formed exclusively for the purpose of promoting art, science or sport	-	100%
Pensions and special grants under special legislation	100%	-
Foreign exchange gains (realized and/or unrealized), unless they result from trading in currencies and/or currency derivatives	100%	100%

	Individuals	Other persons
Interest income (Interest accruing to any person from the ordinary carrying on of any business, including any interest closely connected with the ordinary carrying on of the business, is not exempt but included in the calculation of taxable profit)	100%	100%
Dividend income is generally exempt from income tax unless the relevant dividend is allowed as a tax deduction in the jurisdiction of the dividend-paying company	100%	100%
Remuneration from any employment exercised in Cyprus by an individual who was residing outside Cyprus before the commencement of his employment. This exemption applies for a period of five years commencing from 1 January of the year following commencement of employment (provided the employment started during or after 2012). This exemption applies for tax years and applies for employment commenced up and until the tax year 2025. In case a 50% exemption (see below) is claimed, the 20% exemption does not apply	20% or €8,550 (lower of)	-
Remuneration exceeding €100,000 per annum from any employment exercised in Cyprus by an individual who was a tax resident outside Cyprus prior to the commencement of employment. This exemption applies for the first 10 years of employments commencing as from 1 January 2012. The 50% exemption is not available to individuals whose employment commenced on or after 1 January 2015 if such individuals were: <ul style="list-style-type: none"> <li>► tax residents of Cyprus for a period of 3 out of 5 years preceding the year of employment</li> <li>► tax residents of Cyprus in the year preceding the year of commencement of employment</li> </ul>	50%	-
Profit from the sale of securities	100%	100%
Profits from a permanent establishment situated outside Cyprus, unless the permanent establishment directly or indirectly engages in more than 50% in activities that lead to investment income, and the foreign tax burden is substantially lower than the tax burden in Cyprus	100%	100%
Remuneration for the rendering of salaried services outside Cyprus to an employer not resident in Cyprus or to a permanent establishment outside Cyprus of an employer resident in Cyprus, for a total aggregate period of more than 90 days in the year of assessment	100%	-

# Income Tax

## Capital allowances

	Annual rate of capital allowance %
Industrial buildings	4 <sup>2</sup>
Hotel buildings	4 <sup>2</sup>
Agricultural buildings	4 <sup>4</sup>
Commercial buildings	3
Machinery, plant and furniture	10 <sup>3</sup>
Machinery and equipment used by an agricultural or animal husbandry business	15
Computer hardware and operating software	20
Application software	
► Up to €1.709	100
► Over €1.709	33 1/3
Tools	33 1/3
Tractors, excavators, trenches, cranes, bulldozers	25
Motor vehicles (except saloons) and motorcycles	20
New cargo ships, new airplanes and new helicopters	8
New passenger ships and motor yachts	6
Armored vehicles used by security services	20
Wind power generators and photovoltaic systems	10
Specialised machinery for the laying of railroads (e.g. locomotive engines, ballast wagons, container wagons and container sleeper wagons)	20
Second-hand cargo and passenger ships and additional capital expenditure	The cost is written off over the expected useful life of the ship based on the certificates issued by the Shipping Registry Organization

### Notes:

<sup>2</sup> For additions during the years 2012-2018 a deduction for wear and tear at 7% per annum will be allowed

<sup>3</sup> For additions during the years 2012-2018 a deduction for wear and tear at 20% per annum will be allowed

<sup>4</sup> For additions during the years 2017-2018 a deduction for wear and tear at 7% per annum will be allowed

## Deductions for individuals

Expenses on rented property	20% of the rents
Interest paid in respect of rented property	100%
Subscriptions to unions or professional associations	100%
Donations to approved charitable institutions, supported by receipts	100%
Social insurance contributions, life insurance premiums and contributions to approved provident funds, pension funds or medical funds (including General Healthcare System)	Up to 1/5 of taxable income before the deduction of these allowances
Life insurance should be taken out on the life of the taxpayer but not on the life of his/her spouse. The allowance granted for insuring the life of a spouse is still valid for policies effected before 1 January 2003	
The annual premiums are restricted to 7% of the insured amount	
In the case of cancellation of a life insurance policy within 6 years from the day of its issue, a percentage of the premiums, which were previously allowed, is taxable as follows:	
► Cancellation within 3 years	30%
► Cancellation from 4 to 6 years	20%
Costs for the purchase of shares in an innovative business (up to 30 June 2021)	Restricted to 50% of the taxable income (after deductions) of the tax year in which the expenses are incurred, or €150.000 per year (whichever is lower). Any restricted costs can be carried forward and utilised over the following five years



# Income Tax

## Deductions allowed for companies

**For the purpose of ascertaining the chargeable income, there shall be deducted all outgoings and expenses wholly and exclusively incurred by the company in the production of income including:**

- ▶ Expenditure on repair of premises, plant, machinery and means of transport
- ▶ Ordinary annual contributions paid by an employer to approved funds
- ▶ Bad debts of any business
- ▶ Expenditure on scientific research
- ▶ Expenditure on patents, patent rights or intellectual property rights
- ▶ Donations or contributions made for educational, cultural or other charitable purposes (unlimited)
- ▶ Expenditure up to €1.200 for building area up to 120m<sup>2</sup>, up to €1.100 for building area of 121-1.000 m<sup>2</sup>, up to €700 for building area above 1.000 m<sup>2</sup>, made for maintenance, preservation or restoration of an ancient monument
- ▶ Interest in relation to the acquisition of assets used in the business. Interest incurred in connection with the acquisition of shares in a 100% (directly or indirectly) owned subsidiary company (as of 1.1.2012) is deductible on the proviso that the assets of the subsidiary do not include assets not used in the business (please also refer to ATAD section)
- ▶ Contributions to a fund approved under regulations for educational purposes and maintenance of an individual attending any university, college, school or other educational institution
- ▶ Special contribution for employees in the private sector
- ▶ Expenses in relation to rental income
- ▶ Interest expense incurred exclusively in relation to rented property
- ▶ Notional Interest Deduction (NID) effective as of 1 January 2015 (please also refer to NID section).

## Deductions not allowed

- ▶ Domestic or private expenses including the cost of travelling between the place of residence and the place of work
- ▶ Rent of premises owned and used by the person carrying on a business
- ▶ Remuneration or interest on capital paid or credited by the person carrying on a business
- ▶ Cost of goods taken out of the business for private use
- ▶ Disbursements or expenses not incurred wholly or exclusively for the generation of taxable income
- ▶ Any sum employed or intended to be employed as capital
- ▶ Expenditure for improvements, alterations or additions to immovable property
- ▶ Sums recoverable under an insurance or contract of indemnity
- ▶ Rent or cost of repairs of premises not incurred for the generation of taxable income
- ▶ Taxes
- ▶ Payments of a voluntary nature
- ▶ Expenses on entertainment, including hospitality of any kind, made in connection with carrying on of a business (in excess of 1% of gross revenue or €17.086, whichever is lower)
- ▶ Expenses relating to the use of a private motor vehicle
- ▶ Interest applicable to the cost of purchase of a private motor vehicle or any other asset not used in the business. This provision does not apply after the lapse of seven years from the date of purchase of the relevant asset
- ▶ Salaries for which contributions in respect of provident funds, pension funds, social security and other related funds were not paid within the year due for payment. If paid within two years from the due date, the salaries and the related contributions will be allowed as a tax deductible expense in the year of payment
- ▶ Foreign exchange losses (realized and/or unrealized) are treated as tax neutral (unless they result from trading in currencies and/or currency derivatives).

# Income Tax

## Tax rates for individuals

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

For widows' pensions which exceed the amount of €19.500, taxpayers may elect for these to be taxed at the rate of 20% or added to other sources of the individual's income and taxed under the above Income Tax rates applicable for individuals.

## Special tax rates

Foreign pensions of individuals:	
► Up to €3.420	0%
► Over €3.420	5%
► The gross income derived by a non-resident person (having no permanent establishment in Cyprus) in relation to services performed in Cyprus in respect of activities connected with the exploration or exploitation of the seabed or subsoil or their natural resources, as well as in connection with activities relating to the installation and exploitation of pipelines and other installations on the soil, seabed or on the sea surface is subject to withholding tax	5%
► The gross amount of any rental in respect of the showing of cinematographic films in Cyprus derived by any person who is not a tax resident is subject to withholding tax	
► The gross income derived by an individual not residing in Cyprus from the exercise in Cyprus of any profession or vocation, or by public entertainers including football clubs and other athletic missions, is subject to withholding tax	10%
► The gross amount of any royalty, premium, compensation or as consideration for technical assistance derived from sources within Cyprus by any person who is not a tax resident is subject to withholding tax	
Winnings in excess of €5.000 from games of OPAP and from the National Lottery	20%
The variable remuneration of individuals, who are employed in the Republic by: <ul style="list-style-type: none"> <li>► an Alternative Investment Fund (AIF) Manager, or</li> <li>► a self-managed AIF, or</li> <li>► a company in which an AIF manager has assigned activities relating to portfolio management or risks of an AIF</li> </ul> which is effectively connected to the carried interest of the fund, through an annual election, can be taxed at the rate of 8% with a minimum income tax liability of €10.000 per annum (subject to conditions). This special mode of taxation is available for a 10-years period per individual.	8% (min annual tax liability of Euro 10.000)

## Tax rate for companies

Corporate tax rate	12,5%
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# Income Tax

## Tax losses

Generally, loss from one source of income can be set off against income from other sources in the same year. Any loss remaining after the set-off is carried forward for relief over the next 5-year period.

**Losses in respect of the year 2015, which were not set off against profits up to the year 2020, may not be carried forward to the year 2021. In case:**

- ▶ There is any change in the ownership of the shares of a company and a substantial change in the nature of the business of the company within any three-year period, or
- ▶ There is any change in the ownership of the shares of a company at any time since the scale of activities has diminished or has become negligible and before any substantial reactivation of the business, no loss incurred before the change in ownership of the shares can be carried forward to the following years.

Set-off of group losses is allowed only with respect to the profits arising in the corresponding year of assessment. Companies should be members of the same group for the whole year of assessment. A company incorporated by its holding company during the year is considered as a member of the same group for the whole year of assessment.

**Two companies shall be deemed to be members of a group if:**

- ▶ One is the 75% subsidiary of the other, or
- ▶ Each one separately is a 75% subsidiary of a third company.

Losses incurred by any person from any business carried out outside Cyprus can be set off against the same person's income from other sources for the same year.

In the case where an owner of a business, including a partnership, converts his business into a company, any accumulated losses of the owner may be carried forward as losses of the company.

As of 1 January 2015, the group loss relief provisions are extended to cases where the surrendering company is registered in and is a tax resident of another EU member state on the proviso that the surrendering company has exhausted all possibilities for using the losses in its respective country of tax residency or in the country where its intermediary holding company has its legal seat. The tax losses should be calculated in accordance with the provisions of Cypriot tax laws.

## Allowance for foreign tax

In case foreign tax was paid on income subject to income tax, the actual amount paid can be given as a credit against the resulting income tax liability on this income irrespective of whether a double tax treaty with the respective foreign country exists.

## Notional Interest Deduction (NID)

Corporate entities (including permanent establishments of foreign companies) are entitled to NID on equity. The NID equals the product of the reference interest rate and the new equity held and used by a company in the carrying on of its business activities

### Reference interest rate

The yield of the 10-year government bond issued by the country in which the new equity is invested increased by 5%. The bond yield is the yield applicable as of 31 December of the tax year preceding the tax year to which it relates.

In case where the country in which the new equity is invested has not issued any government bond up until the 31st of December of the year preceding the tax year for which the deduction is claimed, the reference rate to be used will be equal to the rate of return of the Cyprus ten-year government bond increased by 5% as at the 31st December of the year preceding the tax year for which the deduction will be claimed.

### New equity

Any equity introduced into the business on or after 1 January 2015 in the form of issued share capital and share premium (provided it is fully paid). New equity does not include amounts that have been capitalized as equity and which have resulted from revaluation of movable or immovable property.

The NID is considered as interest expense and is subject to the limitation rules provided in Article 11(15) and certain anti-avoidance provisions.

The NID granted on new equity cannot exceed 80% of the taxable profit before allowing for NID. The limitation of the NID also applies to taxable income arising separately from each asset financed by new equity.

In the event of losses, the NID will not be available. Effectively, this means that the NID cannot create or increase a tax loss.

Taxpayers can elect not to claim the NID or claim part of it for each tax year.

# Income Tax

## EU Anti-Tax Avoidance Directive

**The Cypriot tax laws have been amended to incorporate the relevant provisions of the EU Anti-Tax Avoidance Directive (the "Directive").**

### Amendments applicable as of 2019:

- ▶ A broadly worded general anti-abuse rule in line with the wording used in the Directive.
- ▶ Interest limitation rules that restrict the tax deductibility of borrowing costs exceeding 30% of the tax-adjusted earnings before interest, taxes, depreciation and amortization (EBITDA). The most important aspects of the interest limitation rules are:
  - The interest limitation rules are applied at a Cypriot group level (75% criterion).
  - De minimis exception for exceeding borrowing costs up to EUR 3 million.
  - An exemption applies to stand-alone entities and to financial institutions.
  - Grandfathering rules apply to loans concluded prior to 17 June 2016.
  - Exclusion of long-term public infrastructure loans.
  - Equity-escape clause provisions.
  - Carry-forward provisions for unused interest capacity and for exceeding borrowing costs whose deductibility is restricted.
- ▶ If certain conditions are met, a Cypriot controlling taxpayer shall include in its tax base the non-distributed income of a Controlled Foreign Corporation (CFC) to the extent such profits arise from non-genuine arrangements which have been put in place for the essential purpose of obtaining a tax advantage under the Cypriot Income Tax Law. An arrangement or series thereof shall be regarded as non-genuine to the extent that the significant people functions, which have contributed to the generation of the income of the CFC, are substantially performed by the Cypriot controlling company and/or other Cypriot persons associated with the Cypriot controlling company.

### Amendments applicable as of 2020:

- ▶ Rules against hybrid mismatches are applicable as of 1 January 2020 (with the exception of reverse hybrids which will be effective as of 1 January 2022).
  - The aim of the rules is to ensure that deductions or credits are only taken in one jurisdiction and that there are no situations of deductions of a payment in one country without taxation of the corresponding income in the other country concerned. The rules are typically limited to mismatches as a result of hybridity and do not impact the allocation of taxing rights under a tax treaty.
  - The rules follow, but do not go beyond, ATAD II's mandatory "minimum standards" aiming to address hybrid mismatches. The hybrid mismatch rules apply to both Cypriot tax resident companies and foreign companies with a PE in Cyprus and covers the following hybrid mismatch arrangements:
    - ▶ Hybrid financial instrument mismatches: Situations where the qualification of a financial instrument or the payment made under it differs between two jurisdictions (e.g. the instrument is considered as debt in the payer jurisdiction and as equity in the payee jurisdiction).
      - Hybrid entity mismatches: Situations where an entity is qualified as opaque under the laws of one jurisdiction (i.e. a taxable entity under the laws of that jurisdiction) and qualified as transparent by another jurisdiction (e.g. the partners of the entity are taxable on their share of profit under the laws of that other jurisdiction).
      - Hybrid transfers: Situations where the laws of two jurisdictions differ on whether the transferor or the transferee of a financial instrument has the ownership of the payments on the underlying asset.
      - Hybrid PE mismatches: Situations where the business activities in a jurisdiction are treated as being carried on through a PE by one jurisdiction while those activities are not treated as being carried on through a PE in the other jurisdiction.
      - Imported mismatches: Situations where the effect of a hybrid mismatch between parties in third countries is shifted into the jurisdiction of a Member State through the use of a non-hybrid instrument thereby undermining the effectiveness of the rules that neutralize hybrid mismatches. This includes a deductible payment in a Member State under a non-hybrid instrument that is used to fund expenditure involving a hybrid mismatch.
  - ▶ Tax residency mismatches: Situations where a taxpayer is resident for tax purposes in two or more jurisdictions
  - ▶ As of 1 January 2020, a company which is tax resident in Cyprus or a non-Cypriot tax resident company which has a permanent establishment (PE) in Cyprus, will be subject to tax at an amount equal to the market value of the transferred assets at the time of exit, less their value for tax purposes, in any of the following cases:
    - A Cypriot tax resident company transfers asset(s) from its head office in Cyprus to its PE in another Member State or in a third country in so far as Cyprus no longer has the right to tax the transferred assets due to the transfer.
    - A non-Cypriot tax resident company with a PE in Cyprus transfers assets from its PE in Cyprus to its head office or another PE in another Member State or in a third country in so far as Cyprus no longer has the right to tax the transferred assets due to the transfer.
    - A Cypriot tax resident company transfers its tax residence from Cyprus to another Member State or to a third country, except for those assets which remain effectively connected with a PE in Cyprus and for which Cyprus maintains its right to tax.
    - A non-Cypriot tax resident company with a PE in Cyprus transfers the business carried on by its PE from Cyprus to another Member State or to a third country in so far as Cyprus no longer has the right to tax the transferred assets due to the transfer.
    - If a company tax resident in a Member State transfers into Cyprus its assets or its tax residence or its activities carried out through a foreign PE, the starting value of the transferred assets for tax purposes must be equal to the value as determined by the Member State at the point of exit, unless this does not reflect the market value of the transferred assets.
    - In addition, the exit taxation provisions are not applicable in the case of assets which are expected to return in Cyprus within a period of 12 months provided these assets relate to the financing of securities, assets provided as collateral or when the transfer of assets is made to meet prudential capital requirements or for the purposes of liquidity management.



# Special Contribution to the Defence Fund

**Special Contribution to the Defence Fund is imposed on income received or deemed to have been received by any person resident in Cyprus. In the case of individuals an exemption is granted if such individuals are not domiciled in Cyprus.**

## Rates

	Domiciled Individuals %	Other persons %
Interest (except interest accruing to any person from the ordinary carrying on of his business)	30	30
Dividends received from a company resident in Cyprus <sup>5</sup>	17	-
Dividends deemed to be received from a company resident in Cyprus	17	17
Dividends received from abroad	17	17
Interest from savings certificates and development stocks issued by the government of Cyprus and interest on corporate bonds	3	30
Interest accruing to provident funds or to the Social Insurance Fund	-	3
Rents (reduced by 25% instead of actual expenses) <sup>6</sup>	3	3

### Notes:

<sup>5</sup> In case dividends are received by a Cyprus tax resident company from a non-Cyprus tax resident company, the dividends are exempt from special contribution, unless:

- The company paying the dividend engages (directly or indirectly) more than 50% in activities that lead to investment income, and
- The foreign tax burden on the income of the company paying the dividend is substantially lower than the tax burden of the company that receives the dividend

<sup>6</sup> Companies, partnerships, the state and local authorities have an obligation to withhold Special Contribution to the Defence Fund on rental payments

## Refund

An individual whose annual income, including interest, does not exceed €12.000, has the right to a refund of the tax withheld on interest in excess of the amount corresponding to 3%.

## Allowance for foreign tax

In the case that foreign tax was paid on income subject to special contribution, this can be given as a credit against the special contribution payable on the income, irrespective of the existence of a double tax treaty with the foreign country.

## Deemed distribution

A company resident in Cyprus has to pay 17%<sup>7</sup> special contribution to the Defence Fund on a deemed distribution of 70% of the accounting profits after tax and before set-off of losses brought forward from previous years, after taking into consideration any dividends paid. The deemed distribution takes place two years after the end of the year of assessment.

For the purpose of arriving at the profit subject to deemed distribution, any capital expenditure incurred in the acquisition of a plant, machinery (excluding private saloon cars) or buildings during the years 2012 to 2014 is deducted from accounting profits after tax.

Deemed distribution does not apply to profits that are directly or indirectly attributable to shareholders that are non-resident for the tax purposes of Cyprus or to individuals not considered to be domiciled in Cyprus.

## Domiciled in Cyprus

**An individual is considered to be “domiciled in Cyprus” for Special Contribution to the Defence Fund purposes, if such an individual has a domicile of origin as this is defined in the Wills and Succession Law. Nevertheless, the following individuals are not considered to be domiciled in Cyprus:**

- ▶ An individual who has obtained and maintained a domicile of choice outside Cyprus in accordance with the Wills and Succession Law, provided that such an individual has not been a tax resident of Cyprus for a period of 20 consecutive years preceding the tax year; or
- ▶ An individual who has not been a tax resident of Cyprus for a period of 20 consecutive years prior to 16 July 2015.

Notwithstanding the above, an individual who has been a tax resident of Cyprus for at least 17 years out of the 20 years prior to the tax year, will be considered to be “domiciled in Cyprus”.

### Notes:

<sup>7</sup> The Special Contribution for the Defence Fund rate for the deemed dividends on the 2019 profits, taking place on 31 December 2021, is 17%

# Social Insurance

## Contribution rates

	%
Self-employed individuals	15,6
Employee	8,3
Employer	8,3
Employer's contribution to the Redundancy Fund	1,2
Employer's contribution to the Human Resource Development Authority Fund	0,5
Employer's contribution to the Social Cohesion Fund	2

## Social Cohesion Fund

An employer is liable to pay a social cohesion fund contribution of 2% on the amount of the emoluments of his employees (without any restriction as to the amount of the emoluments).

## Maximum limit of emoluments for 2022

The maximum limit of contributions on emoluments for all funds (except to the social cohesion fund) are as follows:

	Weekly	Monthly	Yearly
	€	€	€
Weekly employees	1.117		58.084
Monthly employees		4.840	58.080

## Minimum limit of emoluments for the self-employed

(PERIOD 3/1/2022 - 1/1/2023)

	Weekly	Yearly
	€	€
Persons exercising a profession		
▸ for a period not exceeding 10 years	410	21.301
▸ for a period exceeding 10 years	829	43.087
Wholesalers, estate agents and other entrepreneurs	829	43.087
Skilled workers	400	20.817
Builders and persons practicing a profession relevant to the building industry	503	26.142
Travelling salesmen, postmen, waste collectors, miners, sailors, salesmen, farmers, stock-farmers, fishermen and similar occupations	279	14.524
Secretaries, typists, cashiers, technical assistants, media associates, drivers of transportation media, operators of excavators and similar occupations	400	20.817
Teachers (university, pre-primary, primary and secondary education, assistants and special teachers)		
▸ for a period not exceeding 10 years	400	20.817
▸ for a period exceeding 10 years	801	41.634
Cleaners, messengers, guards and shop owners	382	19.849
Butchers, bakers, confectioners, packers of fruits, meat, milk, tobacco and similar occupations	307	15.976
Designers, computer users, marine engineers, agents, musicians, magicians and persons without an occupation	410	21.301



# General Healthcare System

As from 1st of March 2019, and for one year period, reduced contributions have been in force. Relevant contributions have been increased after the lapse of the 1st year i.e. as of 1 March 2020\*.

Applicable contributions rates are as follows:

		(1/03/2019) - 29/02/2020)	As of 01/03/2020
(a)	Every employee on his emoluments	1,70%	2,65%
(b)	Every employer on his employee's emoluments	1,85%	2,90%
(c)	Every self-employed on his emoluments	2,55%	4,0%
(d)	On the pension income of every pensioner	1,70%	2,65%
(e)	On the emoluments of any person who holds or exercises an office	1,70%	2,65%
(f)	Any legal or physical person or the Government who is responsible for paying the emoluments of a person who holds or exercises an office, on his emoluments	1,85%	2,90%
(g)	A person earning income (e.g. rent, dividends, interest, etc)	1,70%	2,65%
(h)	The Republic of Cyprus on the emoluments, pensions and income of persons covered in (a), (c), (d) and (e) above	1,65%	4,70%

Where the sum of the contributor's emoluments, pensions and other income exceeds €180.000 per annum, the contribution is payable only on the amount of €180.000.

**The €180.000 is calculated cumulatively in the following order:**

- The emoluments of employees (a), self-employed (c), officers (e), pensions (d) and finally the dividends/ interest/ rental/ other income (g).

Notes:

\*Reduced contributions rates have been applied for the months April 2020 to June 2020.





# Capital Gains Tax

## Charge of tax

**Capital Gains Tax (CGT) is imposed on profits from the disposal of:**

- ▶ Immovable property situated in Cyprus
- ▶ Shares of companies whose property consists of, inter alia, immovable property situated in Cyprus
- ▶ Shares of companies which either directly or indirectly participate in a company or companies which own immovable property situated in Cyprus and at least 50% of the market value of such shares is derived from the relevant property
- ▶ A sale agreement of immovable property situated in Cyprus

The disposal of shares listed on any recognized stock exchange is exempt from CGT.

Any trading profits derived from disposal of shares of companies which directly or indirectly own immovable property in Cyprus will be subject to CGT in case such profits are exempt under Income Tax Law.

In the case of disposal of shares of companies which directly or indirectly hold property in Cyprus, the disposal proceeds subject to CGT are restricted to the market value of the immovable property held directly or indirectly by the company whose shares are sold.

In the case of a disposal between related parties, the disposal proceeds subject to CGT are determined by reference to the market value of the property sold on the date of disposal.

**An exemption from CGT is granted on gains from disposal of immovable property acquired between 16 July 2015 and 31 December 2016 provided that:**

- ▶ The property consists of land, buildings or land and buildings; and
- ▶ It is acquired from an independent third party; and
- ▶ It is not acquired through an exchange of property or through donation/gift.

## Tax rate and determination of profit

The tax is imposed on the net profit from disposal at the rate of 20%.

The net profit is calculated as the disposal sales proceeds less the greater of the cost or market value on 1 January 1980 adjusted for inflation. The value adjusted for inflation is calculated using the official Retail Price Index. The index on 1 January 1980 was 67,15 (base year 1986).

## Lifetime exemptions for individuals

	€
For sale of own residence	85,430
For sale of agricultural land by a farmer	25,629
For other sales	17,086

The combination of the above exemptions cannot exceed €85,430 per individual.

## Exemptions

- ▶ Transfer by reason of death
- ▶ Gifts to relatives within the third degree of kindred
- ▶ Gift to a company of which the shareholders are and continue to be members of the disposer's family for five years after such gift
- ▶ Gift by a company, of which all the shareholders are members of the same family, to any of its shareholders when the property gifted was also acquired by the company as a gift. The property must remain in the hands of the donee for a period of at least three years
- ▶ Gift to the Republic or to a local authority for educational or charitable purposes or to approved charitable institutions
- ▶ Exchange or sale in accordance with the Agricultural Land (Consolidation) Laws
- ▶ Exchange of properties where the values of the immovable properties being exchanged are equal
- ▶ Gain on disposal of shares which are listed on any recognised stock exchange
- ▶ Gains from transfer of property or shares in the course of an approved company reorganisation.

# Intellectual Property Rights

The Income Tax Law provides for an intellectual property (IP) rights box regime. The basic provisions are as follows:

## New IP box regime

The new IP box regime is effective as of 1 July 2016. The provisions of the new regime link the benefits of the regime with R&D expenditure incurred by the taxpayer. As per the new IP box regime, qualifying taxpayers will be eligible to claim a tax deduction equaling 80% of qualifying profits resulting from the business use of the qualifying assets. A taxpayer may elect not to claim the deduction or only claim a part of it.

The qualifying profits shall be calculated by using the following ratio:

$$\text{Qualifying profits} = \frac{(\text{Qualifying expenditure} + \text{Uplift expenditure}) \times \text{Overall IP income}}{\text{Overall expenditure}}$$

Any R&D expenditure being outsourced to related parties should not be treated as a “qualifying expenditure” for the purposes of the IP box regime.

The cost of the acquisition or development of intangible assets of a capital nature is amortized in a reasonable manner over its useful economic life based on accounting standards with a maximum period of 20 years.

## Qualifying IP assets

The provisions of the new IP box regime apply only to patents and patent equivalents, copyrighted software, utility models and other IP assets that are non-obvious, useful and novel (subject to further and de minimis criteria). This means that any marketing related IP assets such as trademarks will not be treated as qualifying assets.

## Old IP box regime

The old IP regime grandfathering provisions expired on 30 June 2021.





# Annual Levy Payable to the Registrar of Companies

**All companies registered with the Cypriot Registrar of Companies are required to pay an annual fee of €350.**

- ▶ The annual fee is payable by 30 June of each year
- ▶ For groups of companies, the total amount of the fee payable is capped at €20,000
- ▶ In case the fee is not paid in a timely manner, a charge of 10% is imposed if the payment is made within 2 months of the due date. If the payment is made within 5 months of the due date, an additional charge of 30% is imposed
- ▶ The Registrar of Companies can strike off a company in the event that the company does not pay its annual levy within one year of the due date.

## Registration Fees

**Registration of a limited liability company:**

Incorporation of a Cyprus Company	<p><b>Authorised share capital</b> A flat duty of €105 is payable upon incorporation</p> <p><b>Issued share capital</b> There is no capital duty payable if the shares are issued at nominal value. If the shares are issued at a premium, there is a flat duty of €20</p>
Additional increases of capital	<p><b>Authorised share capital</b> There is no capital duty payable for any increases in the Authorised Capital</p> <p><b>Issued share capital</b> There is a flat duty of €20 for every allotment of shares, either the shares are issued at nominal value or at a premium</p>

# Stamp Duties

**Receipts:**

for amounts over €4	7 cents
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**Contracts:**

Contract value	Stamp duty
€1 - €5.000	NIL
€5.001 - €170.000	€1,50 for every €1.000 or part of €1.000
over €170.000	€2 for every €1.000 or part of €1.000 with a maximum levy of €20.000
Unspecified amount	€35

Agreements entered into in the course of an approved company reorganisation are exempt from stamp duty.



# Contribution to the Central Agency for the Equal Distribution of Burdens

A seller, who transfers immovable property located in the areas controlled by the Republic of Cyprus, is liable to a contribution equal to 0,4% of the sale proceeds.

A similar contribution is also due in the case of transferring shares in any company that owns such immovable property, on the condition that the buyer acquires the control of the Company. The contribution, at the rate of 0,4%, is estimated by reference to the latest valuation of the immovable property carried out by the Department of Lands and Surveys.



# Land Registry Office Fees

## Transfer fees

At the time of transfer of a title of land and buildings, land registration fees are payable by the transferee. These fees are payable on the assessed value of the land and buildings on the date of transfer or, if the property was sold at an earlier date and the sale contract has been filed with the Land Registry Office, on the assessed value on the date of the sale contract.

**Land Registry fees are payable at the following rates:**

Value per property	Rate	Fees	Accumulated fees
€	%	€	€
0 - 85.000	3	2.550	2.550
85.001-170.000	5	4.250	6.800
Over 170.000	8		

The land transfer fees are reduced to 50% for any purchase of property including immovable property.

No transfer fees are payable when the immovable property being transferred is subject to VAT.

## Mortgage fees

In case of an approved company reorganisation, the transfer of immovable property is neither subject to transfer fees nor to mortgage fees.

# Restructuring of Bank Loans

**Restructuring** - The direct or indirect sale and transfer of immovable property as well as the transfer of rights under the contract for sale deposited with the Department of Lands and Surveys, where such transfer is made between one or more borrowers/debtors/guarantors and one or more lenders/non-connected persons until 31 December 2022 with the aim of reducing or repaying a credit facility/loan/debt granted to borrowers by one or more lenders.

For the transfer of immovable property as well as the transfer of rights under the contract for sale deposited with the Department of Lands and Surveys between one or more borrowers/debtors/guarantors and one or more non-connected persons, the credit facility/loan/debt must be a non-performing loan on or before 31 December 2015, as interpreted by the European Banking Authority.

**Lender** - Lender is defined as 'a licensed credit institution' and its subsidiaries as per the provisions of the Business of Credit Institutions Law or as 'a credit acquiring institution' and its subsidiaries as per the provisions of the Sale of Credit Facilities and Related Matters Law.

**Borrower** - Borrower is defined as 'a person who contracted with the lender'. In addition, Borrower is also considered any person which is related with the primary borrower, in accordance with the provisions of Article 33 of the Income Tax Law provided that the disposal and transfer of immovable property is made for the benefit of the Lender.

**Restructuring price** - The price at which the property is transferred under restructuring as determined in the agreement between the lender and the borrower.

- ▶ Any gains realized in the course of the restructuring are not subject to Capital Gains Tax
- ▶ Any gains realized in the course of the restructuring are not subject to (Corporate) Income Tax

- ▶ Transfer and registration of immovable property in the course of the restructuring is not subject to transfer fees
- ▶ No additions/deductions arise for balancing statement purposes for property transferred in the course of the restructuring
- ▶ Accounting profit arising in the course of the restructuring is disregarded for deemed distribution purposes
- ▶ Contracts/instruments concluded in the course of the restructuring or any future repurchase of mortgage collateral are exempt from Cypriot stamp duty
- ▶ Any encumbrance placed on the property acquired in the course of the restructuring is transferable from the borrower to the lender along with the property

For taxation purposes the cost of property acquired in the course of restructuring is equal to the restructuring price and the disposal proceeds are reduced by any amount returned to the borrower in accordance with the restructuring agreement.

No Special Defence Contribution on deemed dividend distribution is due on accounting profits arising on the write-off of a credit facility by a borrower which was non-performing on or before 31 December 2015 as interpreted by the European Banking Authority.

## VAT aspects

- ▶ Transactions effected as part of loan restructurings are considered as normal transactions for VAT purposes.
- ▶ VAT applicable on sale of immovable property to the lender in the case of loan restructuring or forced process is accounted by the lender under the reverse charge mechanism (Article 11D).
- ▶ Article 11D applies for banks as from 2 January 2018. As from 5 December 2019 it also applies for credit acquisition companies.



# Value Added Tax

## Scope of VAT

Cyprus VAT is chargeable on any supply of goods or services made within Cyprus, where it is a taxable supply made by a taxable person in the course of or in furtherance of his business. In addition, VAT is imposed on the intra-Community acquisition of goods coming to Cyprus from another EU Member State by a legal person, on services received by a Cypriot taxable person from outside Cyprus and on the importation of goods from outside the European Union, irrespective of the status of the importer (thresholds apply).

Rates	Examples
0%	Exports and certain related services, international air and sea transportation of goods and related services (except intra-community transport of goods), ship management services and services for the direct need of “qualifying” vessels, goods that are to be placed in customs warehouses/ bonded warehouses or free-zones and be subjected to the relevant customs regime or temporary importation/transit or transshipment regime, goods that are intended to be incorporated into drilling or production platforms.
5%	Supplies of animal feeding stuff, including food for birds and fish, supplies of fertilizers, supplies of coffins, supplies of liquefied petroleum gas in cylinders, newspapers, books, magazines (not e-books or e-magazines) and similar items, supplies of various goods for incapacitated persons, supplies of food including drinks for human consumption but excluding alcoholic beverages (beer, wine) and refreshment drinks, supplies of medicines which are used for medical treatment, illness prevention and medical and veterinary purposes, supplies of vaccines for medicine and veterinary medicine and services supplied by undertakers, services of road cleaning, refuse collection and waste treatment (other than services provided by the local administration), services of writers, composers and artists, services of hairdressers, renovation and repair services to private residences (subject to certain conditions), fares for urban and rural areas by bus, catering services from school canteens, purchase or construction of a flat or house to be used as private main residence (under certain conditions), renovation and repair of private residences, purchase of residential property subject to criteria.
9%	Restaurant services and other similar catering services which consist of the supply of manufactured or non-manufactured food or drinks or both for human consumption, including refreshment drinks, alcoholic beverages (beer and wine), accommodation provided by hotels and other similar establishments, including the provision of holiday accommodation, transportation of passengers and their luggage by taxi.
19%	All supply of goods or rendering of services, except those taxed at 0%, 5%, 9% or exempt.



# Value Added Tax

## Exemptions

- ▶ Rents (subject to legislation conditions in relation to taxed leasing immovable property for business purposes).
- ▶ Supply of immovable property (except the disposal of “new buildings” and non-developed building land intended for structures construction in the course of business activity).
- ▶ Mainstream Insurance and Financial services.
- ▶ Medical and certain related services.
- ▶ Educational and certain related services.

## Registration

### Registration for VAT is obligatory:

- ▶ At the end of any month, if the value of the taxable supplies (supplies taxed at the rates of 0% and/or 5% and/or 9% and/or 19%) in the last 12 months has exceeded €15.600, or
- ▶ At any time, if there are reasonable grounds for believing that in the next 30 days the value of the taxable supplies will exceed €15.600, or
- ▶ At any time, if the taxable person provides taxable supplies to other taxable persons in other EU Member States, or
- ▶ At the end of any month, if the total value of that person's acquisitions from all other EU Member States in the year beginning from 1 January has exceeded the registration threshold of €10.251,61; or if at any time there are reasonable grounds to believe that the value of the acquisitions that person would be making in the following 30 days will exceed the registration threshold of €10.251,61, or
- ▶ At any time, if in the twelve-month period starting from 1 January of the year, the value of distance sales of a person to non-VAT registered persons established in other EU Member States exceeds €10.000.
- ▶ Taxable persons, not established in Cyprus, engaged or expected to be engaged in VAT taxable activities in Cyprus related to a business, will have the obligation to register with the Cyprus VAT Registry, without a prerequisite VAT registration threshold.

## Voluntary registration

A person who has a business establishment in Cyprus, or whose usual place of residence is in Cyprus, and delivers supplies outside Cyprus which would be taxable supplies if delivered within Cyprus, is entitled to voluntary registration.

## VAT Grouping

Cyprus applies a VAT grouping regime whereby entities within a VAT group can benefit from disregarding their intra-group transactions and appointing a member to submit a single return. Even non-Cypriot incorporated entities can enter as long as they possess a business or fixed establishment in Cyprus. Prerequisites for entering a VAT group is the filing of relevant application and fulfilment of financial, economic and organisational links. Finally, the Tax Commissioner reserves the right to deny formation of a VAT group in certain cases.

## Intrastat Registration

**A taxable person who acquires goods in Cyprus from other EU Member States for a value greater than €180.000 for the year 2021 should register for Intrastat for arrivals purposes in Cyprus and submit monthly Intrastat for arrivals forms.**

A taxable person who dispatches goods from Cyprus to other EU Member States for a value greater than €55.000 for the year 2021 should register for Intrastat for dispatches purposes in Cyprus and submit monthly Intrastat for dispatches forms.

### Intrastat reporting Amendments effective from January 2022.

As from January 2022 the declaration forms for Intrastat Dispatches and Arrivals will be renamed as Intra- Community Exports Declaration and Intra-Community Imports declaration respectively. The new declarations will be subject to new reporting requirements.

## VIES registration

A taxable person delivering intracommunity supplies of goods and/ or services to taxable persons in other EU Member States has an obligation to register with VIES. In addition, the taxable person has an obligation to submit monthly electronic VIES forms.

## Basic principles of VAT recovery

In general, VAT-registered businesses can normally reclaim all input tax on taxable supplies but cannot recover input tax on exempt supplies or non-economic activities. Input tax on supplies performed outside Cyprus, which would be taxable if supplied within Cyprus, is also recoverable.

In addition, input tax on insurance and financial services may be reclaimed, provided that these services are supplied to persons who reside outside the EU.

For VAT refund claims there is a 6 year limit subject to conditions.



# Value Added Tax

## Non recoverable VAT

- Expenditure for entertainment of persons other than staff.
- Purchase/hire/import of private saloon cars up to nine seats.

## VAT/INTRASTAT/VIES calendar

Date	Obligation	Form	Penalties
By the 10th of the second month after the end of the VAT period	Submission of VAT Return and payment of VAT amount due	TD1004	1,2
By the 10th of the month following the end of the reporting month	Submission of Intrastat form	INTRASTAT 1.1	3,4
		INTRASTAT 1.2	3,4
By the 15th of the month following the end of the reporting month	Submission of VIES form for goods and services	VIES 1	5,6

1. Late submission of VAT returns results in the imposition of a penalty of €100 per VAT return (as from August 2020). Since May 2017, electronic-only VAT return submission applies.
2. Late payment of outstanding VAT amount results in the imposition of a penalty of 10% on the outstanding amount and interest at 1,75% per annum on the outstanding amount and the penalty (interest is calculated for complete months).
3. Late submission of Intrastat forms results in the imposition of a penalty of €15 for each Intrastat form.
4. Any omission or delay in submission of Intrastat forms for a period beyond 30 days constitutes a criminal offence and in case of conviction the penalty may reach up to €2.562.
5. Late submission of VIES form results in the imposition of a penalty of €50 for each VIES form.
6. Omission to submit the VIES form constitutes a criminal offence and in case of conviction the penalty may reach up to €850.

## VAT on Immovable Property

### As from 1 January 2019:

- For equal treatment purposes, a long-term lease of immovable property which effectively transfers the right to dispose the property as owner to the lessee may constitute a supply of goods subject to 19% VAT (certain conditions apply).

### As from 2 January 2018:

- The transfer of non-developed building land intended for the construction of structures in the course of carrying out a business activity is subject to 19% VAT.
- In the course of loan restructuring or compulsory transfer of property to the lender, the recipient of the property is liable to account for VAT (reverse charge mechanism)

### As from 13 November 2017:

- Leasing of immovable property, except residential dwellings, to taxable persons for taxable business activities is subject to 19% unless a permanent non-imposition of VAT option is exercised by the lessor.

## VAT dispute resolution

Since 2017, aside from filing an objection with the Commissioner and challenging the Commissioner's decision with the Administrative Court, taxpayers can appeal also for VAT disputes to the Tax Tribunal.

## Multiple VAT Amendments

On 31 July 2020, the House of Representatives voted multiple VAT amendments, the most important of which are presented below.

### As from 20 August 2020:

1. Extension of domestic reverse charge for construction services (Article 11B) to apply also where the supplier of the services is not a taxable person (C2B).
2. Suspension of VAT refund and interests in case of non-compliance with overall tax obligations (e.g. TD4, TD7).
  - The Tax Commissioner reserves the right to suspend the refund of a VAT credit balance together with the applicable interest in case the taxpayer has failed to comply with the obligation to submit income tax returns (i.e. Company Income Tax Return (TD4), Self-employed Income Tax Return (TD1), Employer's Return (TD7)). The VAT refund is suspended until the taxpayer complies with the obligation to submit respective tax returns.
  - The right to request refund of a VAT credit balance will be limited to six (6) years from the end of the relevant VAT period. Any VAT refund beyond the six-year period will be examined subject to conditions at the discretion of the Tax Commissioner.
3. VAT registration threshold is lifted for non-established taxable persons.
4. Extension to the definition of the term "renovation" for application of 5% reduced VAT rate to include additions/extensions.

### As from 1 October 2020:

1. Domestic reverse charge on certain electronic devices (Article 11E) such as mobiles phones, other devices operating in networks, microprocessors, central processing units, gaming consoles, tablets and laptops.

### As from 1 July 2021:

1. Introduction of penalties for the failure of reverse charge provision application.
2. The failure of the reverse charge provisions application as per the Articles 11, 11A, 11B, 11C, 11D, 11E or 12A, will result to the imposition of €200 one-off penalty per VAT return but will not exceed the total penalty amount of €4.000.



# Value Added Tax

## Introduction of E-commerce VAT package

**The new EU VAT rules for e-commerce cover changes including:**

- ▶ Abolition of distance sales €35.000 threshold
- ▶ Introduction of EU threshold of €10.000 in relation to B2C transactions (electronic supply services and distance sales)
- ▶ Abolition of import exemption of €22
- ▶ Expansion of MOSS scheme to OSS (One Stop Shop) VAT filing for B2C Goods and Services
- ▶ Introduction of IOSS (Import One Stop Shop) Scheme for the importation of small value goods (valued EUR 150 or less) not subject to excise duties.

## Tax Aspects of the Green Reform

**As part of Cyprus's Recovery and Resilience Plan the following green taxes are expected to undergo consultation and introduced:**

1. Carbon Tax for selective fuels used in the economy (not under ETS)
2. Gradual Introduction of a levy on water (on basis of water scarcity)
3. Introduction of a charge on household/landfill waste

Note: Businesses must be alerted on the introduction of such new green taxes compliance obligations to minimise potential risk/exposure.





# Tonnage Tax System

## The EU Commission approved the Cyprus Tonnage Tax System ('TTS'), for another 10-year period as of 1.1.2020.

The TTS applies to qualifying shipowners, charterers and shipmanagers of qualifying Cyprus/EU/EEA/non-EU/EEA ships engaged in qualifying activities.

### The tax exemption applies to:

- Income derived from the operation/chartering of qualifying vessel engaged in qualifying activity or rendering crewing and/or technical management services;
- Profits/dividends from the disposal of a qualifying ship or interest or share in the qualifying ship;
- Dividends paid out of the profits described above, at all levels of distribution;
- Disposal of shares in a ship-owning company;
- Bank interest earned on working capital or shipping revenue, provided that the said working capital or shipping revenue is used to pay expenses arising from the qualifying person engaging in the qualifying activity;

- The legislation includes "ring-fencing" rules according to which mixed activities (i.e. both activities taxed under TTS and activities taxed under corporation tax rules) are allowed within a company/group.

## Flag Requirement

### The TTS applies to:

- Cyprus flag vessels;
- EU/European Economic Area (EEA) flag vessels (Community flag vessels);
- Fleet of EU/EEA and non-EU/EEA vessels.

The legislation allows non-EU/EEA vessels to enter the TTS provided the fleet is composed by at least 60% EU/EEA vessels (mixed fleet). In case the above requirement is not met, non-EU/EEA vessels can still qualify subject to conditions.

## Rates

	Ship owners/charterers	Ship managers
Units of net tonnage	€ per 100 units	€ per 400 units
0 -1.000	€36,50	€36,50
1.001-10.000	€31,03	€31,03
10.001-25.000	€20,08	€20,08
25.001-40.000	€12,78	€12,78
In excess of 40.000	€7,30	€7,30

Any residual tonnage of less than 100 units of net tonnage shall be charged proportionally.

The above tonnage tax rates are reduced up to 30%, to reward owners of Cyprus and Community flagged vessels which use environmentally friendly equipment. The criteria for the reduction have been announced by the Deputy Ministry of Shipping.

## Tax exemption for crew members

The TTS exempts from taxation the remuneration of qualifying crew members onboard of qualifying Cyprus and Community flagged vessels.

### Qualifying crew members are the following:

- EU nationals in case of crew members who are working on passenger vessels (including ro-ro) which service regular transportation lines between ports of the EU Member States;
- Both EU and non-EU nationals in all other cases.

## Qualifying vessels

### TTS has now introduced a non-exhaustive list of qualifying vessels, including:

- Cable/pipeline laying vessels;
- Self-propelled crane vessels and self-propelled barges;
- Research vessels;
- Mobile Offshore Drilling Units;
- Seagoing dredgers/tug boats;
- Offshore support vessels;
- Multi-purpose support vessels, break-bulks and other support vessels;
- Cruise vessels;
- Commercial yachts;
- Life boats;
- Guard vessels which are used for maritime security and for the cleaning of marine pollution;
- Vessels for construction, repair and demolition of windmills;
- Icebreakers;
- Accommodation vessels utilised in offshore activities;
- Any vessel engaged in transportation of humanitarian aid of the United Nations or of the European Union or engaged in humanitarian missions of the United Nations or the European Union;
- Any other type of vessel as specified by the decision of Director General of the Shipping Deputy Ministry.

## Qualifying maritime transportation activities

The definition of maritime transportation has been extended to include ancillary activities as well, provided the income from such activities does not exceed 50% of total gross income from each qualifying vessel under TTS of a qualifying owner/charterer.

### Activities ancillary/connected to maritime transport

- Activities associated with a qualifying vessel under the TTS which are related with the core activities of maritime transport of a qualifying owner or a qualifying charterer which exclude commercial activities of port exploitation;
- In cases when a qualifying owner or a qualifying charterer are members of a group of companies – activities which are connected to the core activities of maritime transport of such qualifying vessel which are provided by other Cypriot tax resident member of the group.

## Income from bareboat charter agreements

As of 1 January 2020, intra- group bareboat charter agreements remain eligible under the TTS with no restrictions.

### Third party bareboat charter agreements are also eligible under the TTS provided:

- The shipowner confirms to the Director General that the vessel was charter out under a bareboat agreement due to temporary overcapacity; and
- The term of the bareboat charter agreement does not exceed 3 years; and
- At least 50% of the fleet taxed under the TTS during a tax year continues to be under the operation of the shipowner.

The legislation includes grandfathering provisions according to which qualifying owners (under a bareboat agreement) will continue to qualify under the TTS until the termination of their arrangements or until 31 December 2022, whatever is earlier.

## Qualifying shipmanagers

### Crew and/or technical shipmanagers are eligible under the TTS provided the below minimum substance requirements are met:

- Maintain a fully-fledged office in Cyprus;
- With minimum qualified personnel (depending on activities);
- At least 51% of all onshore personnel must be EU/EEA citizens;
- At least 2/3 of the fleet under management is managed with the EU/EEA.

# Alternative Investment Funds

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

### Introduction

The Cyprus fund sector has become one of the most dynamic sectors of the economy, and the country is fast becoming a location of choice for asset managers.

Two investment vehicles under the supervision of the Cyprus Securities and Exchange Commission ("CySEC") that most commonly asset managers select for carrying out investments are the AIFs and UCITS.

### AIFs

AIFs are utilised by asset managers for the raising of capital from a number of investors, to be invested in accordance with a defined investment policy for the benefit of such investors. The law governing AIFs provides for:

#### A. Three types of AIFs:

- ▶ Alternative Investment Fund with Limited Number of Persons;
- ▶ Alternative Investment Fund with Unlimited Number of Persons; and
- ▶ Registered AIF.

#### B. Three forms of AIFs:

- ▶ Common Fund;
- ▶ Investment Company (with variable or fixed capital); and
- ▶ Limited Partnership (with or without separate legal personality).

### UCITS

UCITS are utilised for the collective investment in transferable securities and/or other liquid financial instruments.

The law governing UCITS, provides for two forms of UCITS:

- ▶ Common Fund;
- ▶ Investment Company (with variable capital).

### Taxation of Funds

Funds of a corporate form that are considered residents for tax purposes of Cyprus are subject to the normally applicable provisions of the Cyprus tax laws.

## Main tax implications arising from the establishment and operation of Funds

- ▶ The subscription, redemption, conversion or transfer of a Fund's shares/units should be exempt stamp duty.
- ▶ Interest received by a Fund is considered 'active' interest income and taxed only at 12.5% corporate tax (no Special Contribution to the Defence Fund should apply. The application of NID is available to Funds (Please also refer to NID section).
- ▶ Inbound dividends received by a Fund should generally be exempt subject to the applicable participation exemption conditions (Please also refer to Income Tax section).
- ▶ The profits arising from the disposal/redemption of shares/units of a Fund are exempt from Income Tax and are not subject to Capital Gains Tax on the understanding that the Fund does not own directly or indirectly immovable property in Cyprus.
- ▶ No withholding tax is levied on profit distributions made to non-Cyprus tax resident investors or to Cypriot tax resident companies. A withholding tax at the rate of 17% should be made on profit distributions made to individuals who are considered to be both tax residents and have a domicile in Cyprus (Please also refer to Special Contribution to the Defence Fund section).
- ▶ Funds of a non-corporate form are generally considered as transparent for tax purposes.

#### Other notable considerations relating to the taxation of Funds and of their Investors:

- ▶ Dividends deemed to be received by domiciled Cyprus tax resident investors are subject to Special Defence Contribution at the rate of 17% (as opposed to 3%).
- ▶ No permanent establishment should be created in Cyprus where a non-Cyprus tax resident investor invests in a Cyprus tax-transparent investment fund or in case a non-Cyprus investment fund is managed from Cyprus.
- ▶ Each compartment of an AIF or UCITS should be treated as a separate person for tax purposes.

## Taxation of carried interest

Subject to satisfying a number of conditions, employees who were non-Cyprus tax resident prior to their commencement of their employment in Cyprus with an investment fund management company or an internally managed investment fund have the option to be taxed at a flat rate of 8% instead of the normal personal income tax rates ranging from nil to 35%. However, there is a minimum tax liability of €10,000 per annum. This special mode of taxation is available for a period of 10 years.

## VAT Aspects

- ▶ Income of qualifying special investment funds, such as AIFs in transferable securities, is exempt from Cypriot VAT. VAT Treatment of Funds income depends on the nature and features of transactions carried out.
- ▶ Funds investing in real estate, earning income from leasing or disposal may need to account for VAT on relevant income depending on nature of property and status of customer.
- ▶ As per Cyprus Tax Department Guidance management services (inclusive of certain ancillary marketing and administrative services) provided to special investment funds are exempt from VAT. The same shall apply to certain outsourced elements.
- ▶ Input VAT Recovery of investment management services providers is an area requiring attention given the restriction to deduct input VAT even in cases where provided services are directed to non - EU Qualifying Funds. Attention on input VAT recovery is essential for Funds as well since an element of recovery may exist at the level of the Fund depending on the sources of income and mode of operation.



# Country-by-Country Reporting

**As per the Cypriot Country-by-Country ('CbC') reporting requirements, a CbC report must be prepared and submitted to the Tax Department by Multinational ('MNE') Groups, if the annual consolidated group revenue exceeds €750 million during the fiscal year immediately preceding the reporting fiscal year as reflected in its Consolidated Financial Statements for such preceding fiscal year. The CbC report must be submitted either by:**

- ▶ The Ultimate Parent Entity ('UPE') of an MNE Group which is tax resident in Cyprus; or
- ▶ The Surrogate Parent Entity ('SPE') of an MNE Group which is tax resident in Cyprus and has been appointed by the MNE Group as the reporting entity for CbC reporting purposes.

The deadline to file the CbC report with the Tax Department is 12 months from the end of the relevant accounting period (e.g. for groups with year-end 31 December 2021, the reporting deadline is by 31 December 2022).

## Notification requirement

An annual notification should be filed to the Tax Department by the last day of the fiscal year to which the CbC report relates to by the following entities:

- i. Cypriot tax resident UPEs confirming that they are the CbC reporting entity of the Group;
- ii. Cypriot tax resident SPEs confirming that they are the CbC reporting entity for the Group and also provide the identity and tax residence of the Group's UPE;
- iii. Cypriot tax resident Constituent Entities confirming the identity and jurisdiction of tax residence of the reporting entity of the Group.

The filing of a Notification for CbC reporting purposes is due by the last day of the reporting Fiscal Year of the Group and is done electronically via the Government's Gateway Portal called ARIADNI. The registration with ARIADNI is a one-off process and it is done for each entity separately (i.e. the entities cannot submit collectively a single notification).

## Secondary/local filing

Constituent entities that are tax resident in Cyprus and are neither the UPE nor the SPE of an MNE Group should consider their secondary/local filing obligations in Cyprus for years starting on or after 1 January 2017.

## Equivalent filing

For years starting on or after 1 January 2017, in cases where a UPE did not provide for whatever reason all the required information to the Constituent entity of an MNE Group for the submission of the CbC report, the Constituent entity is required to submit an Equivalent CbC report and notify the Cypriot authorities that the UPE failed to provide all the necessary available information.

## Penalties

**Non-compliance with CbC reporting requirements may result into any of the following:**

- ▶ A fine of up to €10.000 in cases where the reporting entity of a MNE Group which has its residence in Cyprus, fails or refuses to submit the CbC report in accordance with the provisions of the CbC reporting legislation.
- ▶ A fine of up to €5.000 in cases where the Constituent Entity of a MNE Group which has its residence in Cyprus, omits to file a notification or violates the provisions of the CbC reporting legislation.
- ▶ A fine of up to €1.500 in cases where the reporting entity fails to maintain the necessary books, documents and records in accordance with the provisions of the CbC reporting legislation.
- ▶ A fine of up to €500 to any person for failing to provide information or access to records to the Tax Department as per the CbC reporting legislation.
- ▶ A fine up to €20.000 to any person for continuous infractions or failure to pay any fines imposed in a timely manner.





# Mandatory Disclosure Rules (DAC6/MDR)

## Background

The Council of the European Union (EU) adopted Directive 2018/822 amending Directive 2011/16/EU (the Directive or also commonly referred to as DAC6) on the mandatory automatic exchange of information in the field of taxation in relation to reportable cross-border arrangements on 25 May 2018.

On 31 March 2021, the Cypriot DAC6/Mandatory Disclosure Rules (MDR) Law (Law 41(I)/2021 or the Law) amending the Law on Administrative Cooperation in the field of Taxation (Law 205(I)/2012) was published in the Official Gazette of the Cyprus Republic and entered into force. The Law transposed the Directive into domestic legislation.

The Law entered into effect as of 1 January 2021. However, it has a retrospective effect for reportable cross-border arrangements concluded on or after 25 June 2018, provided that one of the prerequisite triggering events is met.

The Cypriot DAC6/MDR legislation is broadly aligned with the requirements of the Directive with minor differences.

On 29 October 2021, the Cypriot Ministry of Finance issued guidelines (Guidelines) in the form of a Ministerial Decree (Decree No. 438/2021 or the Decree) on the Cypriot DAC6/MDR Law. The Cypriot DAC6/MDR Guidelines provide clarity on the interpretation of key terms of the Law.

## Which arrangements are reportable?

Any cross-border arrangement or series of arrangements that triggers at least one of the hallmarks and the main benefit test (MBT), where applicable (as these are outlined in the Cypriot DAC6/MDR Law), has to be reported. For the purposes of DAC6/MDR, cross-border arrangements are those which concern either more than one EU Member States or an EU Member State and a third country. The hallmarks are divided between those for which the MBT must be satisfied as a gateway criterion before the hallmark will give rise to a reporting obligation, and those which by themselves will give rise to a reporting obligation.

## Who has to report?

Under the Cypriot DAC6/MDR Law, intermediaries with EU nexus have the primary obligation to file information with the Cypriot Tax Department (CTD). The Law provides for an exemption from reporting for intermediaries and relevant taxpayers, if sufficient proof of reporting of the same information is provided by the other intermediary/relevant taxpayer, as well as an exemption from reporting for intermediaries covered under legal professional privilege (LPP). If there are no other qualifying intermediaries (i.e., EU-nexus intermediaries or intermediaries not covered under LPP), the obligation will be shifted to the relevant taxpayer(s).



## Reporting

According to the Cypriot DAC6/MDR Guidelines, the reporting deadlines for the transitional period, the six-month deferral period and the period between 1 January 2020 - 31 October 2021 (i.e., normal application period) have been officially extended until 30 November 2021. The first exchange of information on reportable cross-border arrangements was made on 30 April 2021.

On 22 November 2021, the CTD announced that there will be no imposition of administrative fines for submissions of information made until 31 January 2022, on reportable cross-border arrangements under the Cypriot DAC6/MDR Law ("grace period" on DAC6/MDR penalties), for the following cases:

- ▶ Reportable cross-border arrangements that have been made (i.e., of which the first step of implementation has taken place) between 25 June 2018 and 30 June 2020 (i.e., within the transitional period of DAC6/MDR) and that had to be submitted by 28 February 2021.
- ▶ Reportable cross-border arrangements that have been made (i.e., that were made available for implementation, or were ready for implementation, or the first step in the implementation has been made, or for which aid, assistance or advice has been provided by a secondary intermediary) between 1 July 2020 and 31 December 2020 (i.e., within the six-month deferral period of DAC6/MDR) and that had to be submitted by 31 January 2021.
- ▶ Reportable cross-border arrangements made or to be made between 1 January 2021 and 1 January 2022 (i.e., within the normal application period of DAC6/MDR) that had (or have) to be submitted within 30 days beginning on the day after they were/will be made available for implementation, or were/will be ready for implementation, or when the first step in the implementation has been/will be made, whichever occurred/will occur first.
- ▶ Reportable cross-border arrangements for which secondary intermediaries provided/will provide aid, assistance or advice, between 1 January 2021 and 1 January 2022 (i.e., within the normal application period of DAC6/MDR) and had to submit information within 30 days beginning on the day after they provided/will provide aid, assistance or advice.
- ▶ Periodic reports for marketable arrangements.

## Penalties

The Cypriot DAC6/MDR Law provides for penalties for non-compliance, as listed below. However, the Guidelines do not include any additional provisions with respect to the administrative penalties.

As such, on 10 November 2021, the CTD issued Circular EE 55 (the Circular) providing clarifications on the imposition of administrative fines for non-compliance with reporting obligations under the Law.

Notably, the CTD may impose penalties within a period of six years from the end of the relevant year to which the reportable cross-border arrangement relates (apart from cases of wilful default or fraud, where the right to impose penalties is extended to twelve years). Additionally, intermediaries and relevant taxpayers are required to maintain books and records for a period of six years from the end of the year to which the reportable cross-border arrangement relates.

The Circular further clarifies that penalties will also be imposed on intermediaries and relevant taxpayers for failing to comply with their reporting and notification obligations during the transitional period of DAC6/MDR.

Further details are provided regarding the imposition of DAC6/MDR penalties in Cyprus with respect to the application of an annual cap of €120,000 on the penalties for relevant taxpayers and intermediaries for all their reportable cross-border arrangements that have a reporting deadline within a calendar year and regarding the possibility for a 50% reduction on applicable penalties under certain conditions.

Finally, under certain conditions, the CTD may not impose multiple penalties to a relevant taxpayer or an intermediary in case they rely on a wrong interpretation of the Law and they apply such interpretation on different arrangements, provided however that such interpretation was reasonable and resulted from the absence of guidance or the delay in issuing the Guidelines.

Breach	Penalty (one-off administrative fine per entity and arrangement)
Failure to report a RCBA	€ 10.000-20.000
Delay in reporting a RCBA	Up to 90 calendar days: € 1.000-5.000
	More than 90 calendar days: € 5.000-20.000
Filing inaccurate or incomplete or misleading report of an RCBA	€ 1.000-10.000
Failure to notify other intermediaries or the relevant taxpayer by the intermediary regarding the exemption due to LPP	€ 10.000-20.000
Delay in the notification of other intermediaries or the relevant taxpayer by the intermediary regarding the exemption due to LPP	More than 10 and up to 90 calendar days: €1.000-5.000
	More than 90 calendar days: €5.000-20.000
Failure to provide the CTD with information or documents for an arrangement within 14 days from the date of the CTD's written notice	€1.000-10.000
Failure to pay the administrative fines imposed/ Continuance of the relevant breach	Increase of imposed fine up to €20.000



# Transfer Pricing

The arm's length principle has been codified in the Cypriot Income Tax Law in a wording similar to that of Article 9 of the OECD Model Tax Convention on Income and on Capital, "[Where] conditions are made or imposed between the two [associated] enterprises in their commercial or financial relations which differ from those which would be made between independent enterprises, then any profits which would, but for those conditions, have accrued to one of the enterprises, but, by reason of those conditions, have not so accrued, may be included in the profits of that enterprise and taxed accordingly."

## Loans or other cash advances which are financed by debt

Based on guidance given by the Tax Department (Interpretative Circular 3 issued on 30 June 2017), there is an obligation for taxpayers to document on-lending financial transactions through a transfer pricing study.

The Circular is effective as from 1 July 2017 and replaces the Minimum Margin Scheme regime which was applicable until 30 June 2017. The Circular provides general guidance on documentation of the on-lending intra-group financial arrangements in terms of, inter alia, substance and transfer pricing requirements in line with the OECD TP guidelines, as well as guidance as to the required content of a transfer pricing study.

According to the Circular, the term on-lending intra-group financing arrangements refers to any activity consisting of granting of loans or cash advances remunerated by interest (or deemed to be remunerated by interest) to related or connected companies which are financed by financial means and/or other instruments, such as debentures, private loans, cash advances and bank loans.

The transfer pricing study shall be prepared by a

transfer pricing expert. Upon tax authorities' request, the study should be submitted to the Tax Department by a person who has a license to act as an auditor according to the Cyprus' Companies Law and who is additionally required to carry an assurance control confirming the quality of the transfer pricing analysis.

## Expansion of TP rules and TP documentation requirements

Cyprus is expected to adopt broader transfer pricing rules to align the local practice with the OECD Transfer Pricing Guidelines. The broader legislation will be capturing the entire range of inter-company transactions and is expected to introduce a requirement to maintain both a Local and Master File (based on the recommendation of OECD BEPS Action 13). Upon the enactment of the Transfer Pricing rules the following should apply:

- ▶ **Local File**  
The Local File is a document which contains detailed information about the local business of the taxpayer, including description and documentation of related-party transactions. In principle, the content of the Local File should be in line with the OECD TP Guidelines.

The Local File shall be prepared by Cypriot tax resident companies / Cypriot tax resident companies with a foreign branch / Cypriot branches of non-Cypriot tax resident companies being engaged in related-party transactions with an accumulated amount during the reporting period exceeding EUR 750,000 (per transaction category).

Local File should be signed-off by a person who is licensed to act as an auditor in Cyprus.

- ▶ **Master File**  
Master File is a document which contains high level information about the global business operations of a multinational group. The content of the Master File should be in line with the OECD TP Guidelines.

The Master File shall be prepared by Multinational groups that meet both of the below requirements:

- a) Consolidated revenue exceeding Euro 750 million (groups with CbCR obligation); and
- b) The Ultimate Parent Entity (UPE) or Surrogate Parent Entity of the group is Cypriot tax resident company.

- ▶ **Summary Information Table**  
Summary Information Table should be submitted within 9 months from the corresponding year end, providing core information regarding the type and volume of related-party transactions as well as information with respect to the counterparties.

## Introduction of Advance Pricing Agreements

Upon the enactment of the Transfer Pricing rules, taxpayers may submit advance pricing agreements (APA) to the Cypriot tax authorities, to agree on pricing methodologies in advance. Such APAs may have unilateral, bilateral or multilateral application.



# Double Taxation Agreements

# Received

in Cyprus

	Dividends	Interest	Royalties
	%	%	%
Andorra	0	0	0
Armenia	0/5	0/5	5
Austria	10	0	0
Bahrain	0	0	0
Barbados	0	0	0
Belarus	5/10/15	5	5
Belgium	10/15	0/10	0
Bosnia and Herzegovina	10	10	10
Bulgaria	5/10	0/7	10
Canada	15	0/15	0/10
China	10	10	10
Czech Republic	0/5	0	10
Denmark	0/15	0	0
Egypt	5/10	10	10
Estonia	0	0	0
Ethiopia	5	0/5	5
Finland	5/15	0	0
France	10/15	0/10	0/5
Georgia	0	0	0
Germany	5/15	0	0
Greece	25	10	0/5
Guernsey	0	0	0
Hungary	5/15	0/10	0
Iceland	5/10	0	5
India	10	0/10	10
Iran	5/10	0/5	6
Ireland	0	0	0/5
Italy	15	10	0
Jersey	0	0	0
Kazakhstan	5/15	0/10	10
Kuwait	0	0	5
Latvia	0/10	0/10	0/5
Lebanon	5	0/5	0
Luxembourg	0/5	0	0
Lithuania	0/5	0	5
Malta	0	0/10	10
Mauritius	0	0	0
Moldova	5/10	5	5
Montenegro	10	10	10
Norway	0/15	0	0
Poland	0/5	0/5	5
Portugal	10	10	10
Qatar	0	0	5
Romania	10	0/10	0/5
Russia	5/15	0/5/15	0
San Marino	0	0	0
Saudi Arabia	0/5	0	5/8
Serbia	10	10	10
Seychelles	0	0	5
Singapore	0	0/7/10	10
Slovak Republic	10	0/10	0/5
Slovenia	5	0/5	5
South Africa	5/10	0	0
Spain	0/5	0	0
Sweden	5/15	0/10	0
Switzerland	0/15	0	0
Syria	0/15	0/10	10/15
Thailand	10	0/10/15	5/10/15
Ukraine	5/10	0/5	5/10
United Arab Emirates	0	0	0
United Kingdom	0/15	0	0
United States of America	5/15	0/10	0



# Double Taxation Agreements

# Paid

## from Cyprus

Royalties	
	%
Andorra	0
Armenia	5
Austria	0
Azerbaijan	0
Bahrain	0
Barbados	0
Belarus	5
Belgium	0
Bosnia and Herzegovina	10
Bulgaria	10
Canada	0/10
China	10
Czech Republic	10
Denmark	0
Egypt	10
Estonia	0
Ethiopia	5
Finland	0
France	0/5
Georgia	0
Germany	0
Greece	0/5
Guernsey	0
Hungary	0
Iceland	5
India	10
Iran	6
Ireland	0/5
Italy	0
Jersey	0
Kazakhstan	10
Kuwait	5
Kyrgyzstan	0
Latvia	0/5
Lebanon	0
Luxembourg	0
Lithuania	5
Malta	10
Mauritius	0
Moldova	5
Montenegro	10
Norway	0
Poland	5
Portugal	10
Qatar	5
Romania	0/5
Russia	0
San Marino	0
Saudi Arabia	5/8
Serbia	10
Seychelles	5
Singapore	10
Slovak Republic	0/5
Slovenia	5
South Africa	0
Spain	0
Sweden	0
Switzerland	0
Syria	10/15
Thailand	5/10/15
Ukraine	5/10
United Arab Emirates	0
United Kingdom	0
United States of America	0
Uzbekistan	0
Countries without agreement	0/5/10

**General withholding tax considerations:** Under domestic law, Cyprus does not impose outbound withholding taxes on dividend and interest payments made to non-resident persons. However, Cyprus introduced withholding tax on dividend, and interest payments made to companies which are resident or registered in a jurisdiction listed by the EU as non-cooperative for tax matters. The above withholding taxes are applicable as of 31 December 2022.

# Tax Calendar

Date	Obligation	Form	Penalties
January 31	Submission of deemed dividend distribution form	TD623	6, 7
February 28	Qualifying charterers and managers as well as qualifying owners of foreign flagged vessels shall submit tonnage tax declaration and pay tonnage tax for the previous year	MS TT 2 A/B/C	13
March 31	Submission of Company Income Tax Return along with the Confirmation of Withholding of SDC on rents (if required)	TD4	1, 6
	Submission of Tax Return, accounts and additional information by individuals who submit audited accounts	TD4 TD614 (if required)	1, 6
	Qualifying owners of Cyprus flagged vessels shall submit tonnage tax declaration upon entry to the Tonnage Tax System and pay tonnage tax for the current year	MS TT 2 B/C	13
May 31	Submission of Employer's Return (electronic submission)	TD7	6
June 30	Payment of €350 Annual Fee to the Registrar of Companies	-	Refer to the Annual Levy Reporting Section
	Payment of Contribution to the Defence Fund and GHS on Rental, Dividend and Interest income received during the first half of the current year for which no withholding has been made at source	-	2
July 31	Payment of tax balance for the previous year by employees and Individuals who do not submit audited accounts but are obligated to issue invoices, receipts, etc.	-	4
	Submission of Income Tax Return by employees and Individuals who do not submit audited accounts but are obligated to issue invoices, receipts, etc.	TD1	1, 6
	Payment of first instalment of income tax based on the Temporary Tax Assessment	-	3(b)
August 1	Payment of the income tax balance of previous year by companies and individuals who submit audited accounts	-	4
December 31	Payment of Contribution to the Defence Fund and GHS on Rental, Dividend and Interest income received during the second half of the current year for which no withholding has been made at source	-	2
	Submission of Revised Temporary Tax Assessment for the current year, if considered necessary (in cases of upward or downward revision)	TD6	3(a)
	Payment of second instalment (Initial or Revised amount) of tax based on the Temporary Tax Assessment	-	3(b)

Date	Obligation	Form	Penalties
By the end of the next month	Payment of Contribution to the Defence Fund and contribution to GHS withheld from dividends, interest and rents	-	2
	Submission of the forms for the Contribution to the Defence Fund and contribution to GHS withheld from dividends and interest	TD 602 TD 603	6
	Payment of tax deducted from employees' emoluments	-	5
	Payment of Social Insurance and contributions to GHS deducted from employee emoluments	Y.K.A. 2-002	8
Within 30 days	Payment of Capital Gains Tax	-	7
Within 60 days	Obtaining a Tax Identification Code: Following the registration or incorporation of a company with the Registrar of Companies, the company is obligated to submit an application for registration with the Tax Department. Similar rules apply in the case of companies incorporated outside Cyprus that become tax residents of Cyprus	TD2001	9
Within 60 days of such a change	Notification of changes of company details (i.e. registered office, activities, auditors, etc.)	TD2003	10
At the end of the financial period	Stocktaking must be conducted annually by businesses which have inventory	-	11
Within the timeframe specified by the tax authorities	Submission of information requested in writing by the tax authorities	-	12
By the end of the financial year	Filing of the CbC notification		Refer to the Country-by-Country Reporting section
12 months from the end of the financial year	Deadline to file the CbC report with the Tax Department if the annual consolidated group revenue exceeds €750 million	-	
At the end of every quarter	Special tax on bank deposits, applicable only for financial institutions, is imposed on deposits as at the end of the previous calendar quarter at the rate of 0.0375%	-	-
By the 10th of the second month after the end of the VAT period	Submission of VAT Return and payment of VAT amount due	VAT 4	Refer to the VAT section
By the 10th of the month following the end of the VAT period	Submission of Intrastat form	INTRASTAT 1.1 INTRASTAT 1.2	
By the 15th of the month after the end of the VAT period	Submission of VIES form for goods and services	VIES 1	



# Penalties

1. Upon conviction for failure to submit a return, a person shall be liable to a fine not exceeding €17 per day for as long as the failure continues, or to imprisonment for a term not exceeding 12 months, or both.

Any person who omits any object of tax from the return shall be liable, on conviction, to a fine up to €3.417 plus the tax due, plus an amount equal to two times the difference between the amount of tax properly imposed and the amount of tax that would have been imposed had the assessment been based on the return.

2. For rental income, as well as interest income and dividend income received from abroad, interest at the rate of 1.75%\* per annum is imposed from the first day after the end of the six-month period in relation to both Special Contributions to the Defence Fund as well as on GHS Contributions.

In the case of Special Contribution to the Defence Fund as well as GHS Contributions withheld on rents, dividends and interest, the interest begins to accrue at the end of the month which follows the month to which it relates. In addition, in case of delay in payment, a flat 5% penalty on the tax due is payable.

Late payment of outstanding Special Contribution to the Defence Fund which relates to the rental period after 1.7.11 results in the imposition of a penalty equal to €100.

- 3(a). A penalty of 10% is imposed on the difference between the tax due per the final assessment and the tax due per the temporary assessment, if the temporary taxable income per temporary assessment is less than 75% of the taxable income per the final assessment.

- 3(b). If any instalment of the temporary tax assessment is not paid within 30 days from the due date, interest at the rate of 1.75%\* per annum is imposed. In addition, in case of a delay in payment, a flat 5% penalty on the tax due is payable.

4. If the tax is not paid by the due date, interest is imposed at the rate of 1.75%\* per annum (interest is calculated on the basis of completed months).

In addition, any person omitting to pay the tax due by the payment due date is liable to a monetary charge of 5% on the tax due.

An additional monetary charge of 5% is imposed on the tax due, in cases where the tax due is not settled within two months from the deadline for payment of the relevant tax liability.

5. Late payment results in the imposition of interest at 1.75%\* per annum from the due date and an additional penalty of 1% per month calculated on the basis of completed months.

6. Late submission results in the imposition of a penalty equal to €100. If the tax return for a specific year is requested in writing by the Tax Department and this is not submitted within the requested period, a penalty of €200 is imposed for every notice issued.

7. Interest is imposed at the rate of 1.75%\* per annum from the due date.

Any person omitting to pay the due tax by the due payment date is liable to a 5% penalty on the tax due.

8. Late payment results in the imposition of a penalty of 3% for each month of delay. The total amount of the penalty cannot exceed 27% of the amount due.

9. Late registration with the Tax Department results in the imposition of a penalty equal to €100.

10. Late communication of changes to the Tax Department results in the imposition of a penalty equal to €100. The penalty is applicable on each change not communicated.

11. Failing to perform stocktaking, results in the imposition of a penalty equal to €100.

12. Late submission of information requested by the Tax Department results in the imposition of a penalty equal to €200.

13. Late payment results in the imposition of a 10% surcharge on the chargeable and leviable amount of tonnage tax for every year of the delay or part thereof, until the final discharge of the chargeable and leviable tax.

## Notes:

\*The official rate set by the Minister of Finance applicable as of 1.1.2020 is 1.75% (2% for 2019, 3.5% for 2017-2018, 4% for 2015-2016, 4.5% for 2014; 4.75% for 2013; 5% for 2011-2012; 5.35% for 2010; 8% for 2007-2009; previously 9%).





# About EY Cyprus

EY is a global leader in assurance, tax, strategy, transaction and consulting services, with more than 300,000 people in over 150 countries around the world. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies around the world.

Our purpose – Building a better working world – is the foundation of our culture. At EY, we empower our people with the right mindsets and skills to navigate what's next, become the transformative leaders the world needs, pursue careers as unique as they are, and build their own exceptional EY experiences.

Guided by our values of integrity, teaming up, energy and courage to lead, and forming relationships based on doing the right thing, we shape our new strategy to better serve our clients and deliver long-term value and sustainable growth in a rapidly changing world. We guide governments through cash-flow crises; help digital pioneers fight data piracy; unlock new medical treatments with data analytics; and provide high-quality audits to build trust in financial markets and business. Around the world, we are helping more clients, in more places, tackle a wider variety of their toughest challenges than ever before.

We believe a better working world is one where economic growth is sustainable and inclusive. We work continuously to improve the quality of all our services, investing in our people and innovation. And we're proud to work with others – from our clients to wider stakeholders – to use our knowledge, skills and experience to help fulfil our purpose and create positive change.

In Cyprus, for over 80 years, EY has been a trusted business advisor and auditor to a broad range of clients, from private individuals and entrepreneurial businesses, to major public companies and large multinationals. It is the fastest growing firm in the professional services sector, with a workforce of more than 400 people. Being part of EY's EMEA Area and one of the 31 countries that comprise the new Central, Eastern and South-eastern Europe & Central Asia (CESA) Region, EY Cyprus is ideally placed to exploit new opportunities in the area and cater to the needs of our clients in a wider geographic span.



# Our Services

## ► Assurance Services

Organizations are operating in a rapidly changing business environment, with increasingly complex regulatory requirements. In such circumstances, it is vital to maintain confidence and trust. EY Assurance services help to support organizations in promoting investor confidence, managing regulatory responsibilities and supporting long-term, sustainable economic growth. In doing so, we protect and serve the public interest and promote transparency. Our Assurance services - comprising of Audit, Financial Accounting Advisory Services and Forensic and Integrity Services - provide insights and technical knowledge across geographies. We serve global and local clients with the same intensive focus on quality, build integrated teams and innovate to transform service delivery.

## ► Tax & Legal Services

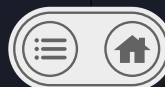
Our globally coordinated tax professionals offer connected services across all tax disciplines to help you thrive in an era of rapid change. We combine our exceptional knowledge and experience with the people and technology platforms that make us an ideal partner for our tax-related needs. Tax sub-service lines cover a wide range of issues: Business Tax, Transaction Tax, Indirect Tax, International Tax Services (ITS), Global Compliance and Reporting (GCR), People Advisory and Legal Services through Proutzos & Proutzos LLC.

## ► Strategy and Transactions

Strategy and Transactions enables clients to navigate complexity by reimagining their eco-systems, reshaping their portfolios and reinventing themselves for a better future. With global connectivity and scale, we drive corporate strategy, capital allocation and transaction advisory through execution to enable fast-track value creation. We support the flow of capital across borders and help bring new products and innovation to market. In doing so, we enable our clients to build a better working world by fostering long-term value. Our services include Corporate Finance Strategy, M&A Advisory, Transaction Diligence, Operations, Valuations and Business Modelling, Restructuring, Transaction Analytics, Economic Advisory, Restructuring, Real Estate Advisory and Banking Transactions.

## ► Consulting Services

Business is anything but usual. And navigating the Transformative Age demands we ask better questions at each point of time, from strategy to execution. Our Consulting services are broken down in three pillars: Business Consulting (Business Transformation, Finance, Enterprise Risk, Financial Services Risk, Supply Chain and Operations, Technology Risk), Technology Consulting (Cybersecurity, Data & Analytics, Digital & Emerging Technologies, Technology Solutions Delivery, Technology Transformation) and People Advisory Services.





# Our Services

## ► Tax and Legal Services

### Transfer Pricing Services

Transfer pricing rules and regulations around the world continue to grow in number and complexity. Practitioners need to have current knowledge of a complex web of country tax laws, regulations, rulings, methods and requirements. Our transfer pricing professionals help you build, manage, document, review and defend your transfer pricing policies and processes -- aligning them with your business strategy. Our talented people work with you to build the proactive, pragmatic and integrated strategies that address the tax risks of today's businesses and help your business achieve its potential.

### Global Compliance and Reporting

In a world of increasingly technical, complex and demanding compliance, we provide exceptional client service using our integrated services and utilizing EY's Global Network of more than 150 countries. Our specialized services include: Establishment and Set-up of companies and other legal entities, Corporate Secretarial & Administrative Support and Compliance Services, Accounting Services, Payroll Administration and Personnel and Immigration Related Services, Members Voluntary Liquidation Services and Temporary Staff Secondment to assist in emergency/special projects.

### Legal Services

Our legal services have developed particular sector-focused expertise, dealing with the challenges and increasingly complex legal issues affecting particular industry sectors including banking and capital markets, oil and gas, telecommunications, digital and information technology, shipping, life sciences, tourism and aviation. Prountzos & Prountzos LLC is offering legal services to clients as EY Law, functioning as an independent law firm, regulated by the Cyprus Bar Association, yet an integral part of EY in Cyprus in terms of operations and market offering.

### People Advisory Services

The world continues to change as a result of developments in globalization, demographics, technology and regulation. These disruptive forces require organisations to change rapidly and their people to be agile and adaptable to that change. At the same time, it's getting harder to source, manage, motivate and retain talent while controlling costs.

Our People Advisory team works globally to help organisations in addressing complex issues relating to organisation design, end-to-end employee lifecycles, effective talent deployment, learning and leadership development, employees' mobility and immigration, HR transformation, taking into account the new work environment, technology-enabled tools, processes, analytics and systems.

The diverse experience and sector-focused expertise of our consultants, as well as our bespoke approach, make it possible to add real value to organisations.



# Contacts



**Ronald A Attard**

*Country Managing Partner*  
Ronald.Attard@mt.ey.com  
Tel: +357 22 209 820



**Stavros Pantzaris**

*Chairman of the Board*  
Stavros.Pantzaris@cy.ey.com  
Tel: +357 22 209 754



**Ajay Rawal**

*CESA South Cluster Markets  
& Accounts Leader*  
Ajay.Rawal1@cy.ey.com

## Tax Services



**Philippos Raptopoulos**

*Partner, Head of Tax and Legal Services*  
Philippos.Raptopoulos@cy.ey.com  
Tel: +357 25 209 740



**Petros Liassides**

*Partner*  
Petros.Liassides@cy.ey.com  
Tel: +357 22 209 797



**George Liasis**

*Partner*  
George.Liasis@cy.ey.com  
Tel: +357 22 209 759



**Christoforos Socratous**

*Partner*  
Christoforos.Socratous@cy.ey.com  
Tel: +357 22 209 738



**Petros Krasaris**

*Partner*  
Petros.P.Krasaris@cy.ey.com  
Tel: +357 22 209 790



**Myria Saparilla**

*Associate Partner*  
Myria.Saparilla@cy.ey.com  
Tel: +357 25 209 737



**Charalambos Palaontas**

*Associate Partner*  
Charalambos.Palaontas@cy.ey.com  
Tel: +357 25 209 709



**Christos Tooulas**

*Associate Partner*  
Christos.Tooulas@cy.ey.com  
Tel: +357 22 209 804

## Prountzos & Prountzos LLC | EY Law



**Charalambos Prountzos**

*EY CESA Law Leader, Managing Partner  
at Prountzos & Prountzos LLC | EY Law*  
Charalambos.Prountzos@cylaw.ey.com  
Tel: +357 22 669 699

## People Advisory Services



**Panayiotis Thrasyvoulou**

*Head of People Advisory Services*  
Panayiotis.Thrasyvoulou@cy.ey.com  
Tel: +357 22 209 714

## Assurance Services



**Andreas Avraamides**

*Head of Assurance Services*  
Andreas.Avraamides@cy.ey.com  
Tel: +357 22 209 778

## Strategy, Transactions & Consulting Services



**Stelios Demetriou**

*Head of Strategy & Transactions Services*  
Stelios.Demetriou@cy.ey.com  
Tel: +357 22 209 746

# EY | Assurance | Tax | Strategy and Transactions | Consulting

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## About EY

EY is a global leader in assurance, tax, transaction and advisory services.

The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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