



# Cyprus Tax Facts 2016

# Foreword

This publication contains useful information on the Cypriot tax system for the tax year 2016 which is based on the Cypriot legislation and tax practices effective as at the date of publication.

On the following pages you will find a brief overview of the effective tax laws in which all recent key changes to the tax code are incorporated. It includes information concerning natural and legal persons for the full range of tax laws, including income tax and VAT. It further includes an updated list of double taxation agreements.

This publication is only intended to provide general information and is in no way a substitute for specialised professional advice.

EY Cyprus remains at your disposal to provide you with professional, personalised advice based on our extensive experience and industry knowledge. We recognise that all our clients are on a unique journey and we work with them to provide a tailored client experience that helps them achieve their targets.

**EY Cyprus**

*January 2016*

# Contents

▶ Income Tax	4
▶ Special Contribution to the Defence Fund	16
▶ Annual Fee Payable to the Registrar of Companies and Stamp Duties	18
▶ Registration Fees and Special Contribution for Employees, Self-Employed and Pensioners in the Private Sector	19
▶ Social Insurance	20
▶ Capital Gains Tax	22
▶ Intellectual Property Rights	24
▶ Immovable Property Tax	25
▶ Land Registry Office Fees	26
▶ Restructuring of Loans	27
▶ Value Added Tax	28
▶ Ship Management Services	32
▶ Tonnage Tax System	33
▶ Double Taxation Agreements	34
▶ Tax Calendar	36
▶ Penalties	37
▶ EY Cyprus	38
▶ Our Services	39
▶ Contacts	41

### Charge of tax

#### Resident of Cyprus

In the case of a person who is 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 from any business
- ▶ Profits or other benefits 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 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 from a permanent establishment situated in Cyprus
- ▶ Profits or other benefits 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 facility granted to an individual, director or shareholder (including the spouse and relatives up to the second degree of kindred).

### Definitions

*“Resident of Cyprus”*, when applied to an individual, means an individual who stays in Cyprus for a period or periods exceeding an aggregate 183 days in the year of assessment and, when applied to a company, means a company whose management and control is exercised in Cyprus.

*“Permanent establishment”* means 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.

#### 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 the introduction of the law.

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”*.

## 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 or approved pension, or provident funds, or medical schemes	100%	-
Income from scholarship or other 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 with its members	-	100%
Emoluments of foreign officers of an institution exercising 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 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 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 office or employment exercised in Cyprus by an individual who was resident outside Cyprus before the commencement of his employment. This exemption applies for a period of five years commencing from 1 January following the year of commencement of employment (provided the employment started during or after 2012). This exemption applies for tax years up to 2020. In case 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 office or employment exercised in Cyprus by an individual who was tax resident outside Cyprus prior to the commencement of employment. This exemption applies for the first 10 years of employment. 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 more than 50% in activities which lead to investment income and the foreign tax burden is substantially lower than the tax burden in Cyprus	100%	100%
Remuneration for the rendering outside Cyprus of salaried services for a total aggregate period in the year of assessment of more than 90 days to an employer not resident in Cyprus	100%	-

## Capital allowances

	Annual wear & tear allowance %
Industrial buildings	4*
Agricultural buildings	4
Commercial buildings	3
Hotel buildings	4*
Machinery, plant and furniture	10**
Machinery and equipment of agricultural and 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

\* for additions during the years 2012 to 2016 a deduction for wear and tear at 7% per annum will be allowed

\*\* for additions during the years 2012-2016 a deduction for wear and tear at 20% 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	Up to 1/6 of taxable income before the deduction of these allowances
Special contribution for employees, self-employed and pensioners in the private sector	100%
Special contribution for officers, employees and pensioners in the public sector	100%
The life insurance should be taken on the life of the taxpayer but not of his/her spouse. The allowance granted for insuring the life of the 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%
Expenses incurred for the purchase of shares in an innovative business	100%

### *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 1.000m<sup>2</sup>, made for maintenance, preservation or restoration of an ancient monument
- ▶ Interest in relation to the acquisition of business assets used in the business. Interest incurred in connection with the acquisition of shares in a 100% 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
- ▶ 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
- ▶ Expenses incurred for the purchase of shares in an innovative business
- ▶ Notional Interest Deduction (NID) effective as from 1 January 2015 (see page 15).

### *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 wholly incurred or exclusively paid out for the production of 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 production of income
- ▶ Taxes
- ▶ Payments of a voluntary nature
- ▶ Expenses on entertainment, including hospitality of any kind, made in connection with carrying on of a business and exceeding 1% of the gross income of the business. In case these expenses do not exceed 1% of gross income, the allowable deduction is limited to €17.086
- ▶ Expenses in relation to the usage 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 or unrealized) are treated as tax neutral (unless they result from trading in currencies and/or currency derivatives).

## Tax Rates - 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		

Widow's pensions which exceed the amount of €19.500 may be elected to be taxed at the rate of 20% or may be added to other sources of income of the individual and taxed under standard Personal Income Tax rates applicable for individuals.

## Special tax rates

Foreign pensions of individuals:	
▪ Up to €3.420	0%
▪ Over €3.420	5%
The gross amount of any royalty, premium, compensation or other income, derived from sources within Cyprus by any person who is not a tax resident is subject to withholding tax	10%
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	5%
The gross income derived by an individual not resident 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%
Winnings in excess of €5.000 from games of OPAP and from the National Lottery	20%
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%

## Tax Rates - Companies

Corporation Tax rate is 12,5%.

### 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 2010, which were not set off against profits up to the year 2015, may not be carried forward to the year 2016.

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 by 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 the 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 to the multiple 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*” means the yield of the 10 year government bond of the country in which the new equity is invested increased by 3%. The reference interest rate cannot be lower than the yield of the 10 year government bond of the Republic of Cyprus increased by 3%. The bond yield is the one applicable as at 31 December of the tax year preceding the relevant tax year.

The 10 year government bond yield for Cyprus as at 31 December 2014 is 5,037%.

The 10 year government bond yield for Russia as at 31 December 2014 is 13,15%.

“*New equity*” means any equity introduced in 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 same limitation rules as interest expense.

The NID granted on new equity cannot exceed 80% of the taxable profit before allowing for NID. 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.

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 individual is 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>1</sup>	17	-
Dividends deemed to be received from a company resident in Cyprus	17	17
Dividends received from abroad	17	17 <sup>1</sup>
Interest from savings certificates and development stocks issued by the Government of Cyprus	3	30
Interest accruing to provident funds or to the Social Insurance Fund	-	3
Rents (reduced by 25% instead of actual expenses) <sup>2</sup>	3	3

<sup>1</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) for 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>2</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 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%\* 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 plant and machinery (excluding private saloon cars), and buildings during the years 2012 to 2014 is deducted from accounting profits after tax.

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

\*The special contribution rate for profits of the tax year 2013 which are subject to deemed distribution as at 31 December 2015 is 17%.

## Annual Fee 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 timely, a charge of 10% is imposed if the payment is made within 2 months from the due date. If the payment is made within 5 months from the due date, an additional charge of 30% is imposed.
- ▶ In case the fee is not paid within 5 months, the Registrar of Companies will proceed with the removal of the company from the Registry. The fee for restoration amounts to €500 if paid within 2 years from the date of removal and increases to €750 if the payment is made after the lapse of a 2 year period.

## Registration Fees

Registration of a limited liability company:

Fixed fee	€105
Plus	6‰ on the value of authorised capital
Issue of shares by a limited liability company	€20

## 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.

## Special Contribution for Employees, Self-Employed and Pensioners in the Private Sector

Special contribution is levied for the period from 1 January 2014 to 31 December 2016 on salaries, income of the self-employed and pensions in the private sector at the following rates:

Emoluments	Contribution rate
€	%
0-1.500	0
1.501-2.500	2,5 (min €10)
2.501-3.500	3
over 3.500	3,5

In case of employees the contribution is shared equally between the employee and the employer.

### Contribution rates

	%
Self employed individuals	14,6
Employee	7,8
Employer	7,8
Employer's contribution to the Redundancy Fund	1,2
Employer's contribution to the Human Resource Development Authority Fund	0,5
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

	Weekly	Monthly	Yearly
	€	€	€
Weekly employees	1.046		54.392
Monthly employees		4.533	54.396

### Minimum limit of emoluments for self employed (Period 4/1/2016 - 1/1/2017)

	Weekly	Yearly
	€	€
Persons exercising a profession		
▸ for a period not exceeding 10 years	384	19.949
▸ for a period exceeding 10 years	776	40.351
Wholesalers, estate agents and other entrepreneurs	776	40.351
Skilled workers	375	19.496
Builders and persons practicing a profession relevant to the building industry	471	24.483
Travelling salesmen, postmen, waste collectors, miners, sailors, salesmen, farmers, stock-farmers, fishermen and similar occupations	262	13.602
Secretaries, typists, cashiers, technical assistants, media associates, drivers of transportation media, operators of excavators and similar occupations	375	19.496
Teachers (university, pre-primary, primary and secondary education, assistants and special teachers)		
▸ for a period not exceeding 10 years	375	19.496
▸ for a period exceeding 10 years	750	38.991
Cleaners, messengers, guards and shop owners	357	18.589
Butchers, bakers, confectioners, packers of fruits, meat, milk, tobacco and similar occupations	288	14.962
Designers, computer users, marine engineers, agents, musicians, magicians and persons not under any other occupation	384	19.949

### 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

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 at the date of disposal.

An exemption from CGT is granted on gains from disposal of immovable property acquired between 17 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 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 34,96 (base year 2005).

### 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.

### 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.

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

- ▶ The cost of the acquisition or development of the intangible assets (being of a capital nature) is amortised on a straight line basis over a five year period. This is applicable for every person carrying on a business for the acquisition or development of intangible assets as defined in the Patent Law, the Intellectual Property Right Law and the Trademark Law. These Laws cover trademarks, patents and intellectual property rights (scientific work, literary work, musical work, artistic work, movies, databases, recordings, broadcasts and publications)
- ▶ 80% of the profit arising from the use of the intangible assets (including compensation for improper use of such assets) as well as profit on their sale, is deemed as a deductible expense in determining the taxable income
- ▶ The 80% deemed deduction applies on the profit after deducting all direct expenses such as amortisation of the assets, interest expense to finance the acquisition or development of the assets, as well as any other direct expenses
- ▶ In case the IP activities result in tax losses, only 20% of the resulting net loss can be set-off against other taxable income and/or carried forward
- ▶ In case the Notional Interest Deduction (NID) relates to the acquisition and/or financing of an IP falling within the scope of the IP Box regime, the NID should be regarded as a direct expense for the purpose of calculating the 80% deemed deduction.

### Charge of tax

Immovable property tax is calculated on the market value of immovable property on 1 January 1980 and is payable by 30 September of the relevant year.

Tax is imposed on the owner (individuals and legal persons) who as at 1 January of every year:

- ▶ owns immovable property in Cyprus which is registered on their names
- ▶ has acquired immovable property but the property was not registered on their names as at 1 January 2016
- ▶ possess property under a lease agreement which was filed with the Cypriot Department of Lands and Surveys.

### Rates

Value of property	Rate	Tax	Accumulated tax
€	‰	€	€
up to 40.000	6	240	240
40.001-120.000	8	640	880
120.001-170.000	9	450	1.330
170.001-300.000	11	1.430	2.760
300.001-500.000	13	2.600	5.360
500.001-800.000	15	4.500	9.860
800.001-3.000.000	17	37.400	47.260
over 3.000.000	19		

No tax is payable if the value of property does not exceed €12.500.

**Note:** It is likely that the tax basis and above rates will change during 2016.

### Transfer fees

Value per plot	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		

For the period 2 December 2011 to 31 December 2016, no transfer fees are payable when the immovable property being transferred is subject to VAT.

In case the immovable property is not subject to VAT, transfer fees are reduced by 50% (subject to conditions), for any immovable property if:

- ▶ the purchase agreement was signed and submitted to the Department of Land and Surveys between the period 2 December 2011 - 31 December 2016 irrespective of the transfer date, or
- ▶ the actual transfer of the immovable property takes place by 31 December 2016 irrespective of the date of the signing of the contract or its submission to the Department of Land and Surveys

### Mortgage fees

Loans	1%
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In case of an approved company reorganisation, the transfer of immovable property is neither subject to transfer fees nor to mortgage fees.

### Restructuring of loans

‘*Restructuring*’ means 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 and/or debtors and/or guarantors on the credit facility/grant/debt and one or more lenders, made until 31 December 2017 with the aim to reduce or repay a credit facility/loan/debt granted to borrowers by one or more lenders.

“*Lender*” means a licensed credit institution.

“*Borrower*” means a person who contracted with a lender.

“*Restructuring price*” means 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 transferrable 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.

## Rates

0%	Exports, commission from abroad for imports/exports to/ from Cyprus, international air and sea transportation of persons and goods and related services (except intra-community transport of goods), ship management services, 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, supply goods after importation but before customs clearance
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 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 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)
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 supplies of goods or rendering of services, except those taxed at 0%, 5%, 9% or exempt

## Exemptions

- Rents
- Supplies of immovable property (except the disposal of "new buildings")
- Insurance and financial services
- Medical services
- Educational 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 exceed €35.000.

## Voluntary Registration

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

## Intrastat Registration

A taxable person who acquires goods in Cyprus from other EU Member States for a value greater than €100.000 for the year 2016, 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 2016, should register for Intrastat for dispatches purposes in Cyprus and submit monthly Intrastat for dispatches forms.

## VIIES Registration

A taxable person making intracommunity supplies of goods and/or services to taxable persons in other EU Member States has an obligation for VIIES registration. In addition, the taxable person has an obligation to submit monthly electronic VIIES forms.

### Basic principles of VAT recovery

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

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

### 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	VAT 4	1,2
By the 10th of the next month after the end of the month	Submission of Intrastat form	INTRASTAT 1.1	3,4
		INTRASTAT 1.2	3,4
By the 15th of the next month after the end of the month	Submission of VIES form for goods and services	VIES 1	5,6

1. Late submission of the VAT return results in the imposition of a penalty of €51 per VAT return.
2. Late payment of outstanding VAT amount results in the imposition of a penalty of 10% on the outstanding amount and interest at 4%\* 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 is 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 is up to €850.

\*The official rate set by the Minister of Finance applicable as of 1.1.15 is 4% (4,5% for 2014; 4,75% for 2013; 5% for 2011-2012; 5,35% for 2010; 8% for 2007-2009; previously 9%)

### Mini One Stop Shop ("MOSS")

As of 1 January 2015, electronically supplied services, radio and television broadcasting services and telecommunication services provided by suppliers in the EU or outside the EU and made to non-taxable customers within the EU ("B2C") will be treated as supplied in the EU Member State where the recipient of the service is established, has a permanent address or usually resides.

Following the above, every taxable person supplying such services will either have to register for VAT purposes in each EU Member State where the customers are located or have to register under the MOSS scheme in the EU Member State of Identification (typically the EU Member State in which the business has its business establishment).

Cyprus allows businesses to register in Cyprus under the MOSS scheme both under the Union Scheme (EU businesses) and the Non Union Scheme (non EU businesses). A business which is registered under the MOSS scheme in Cyprus will need to submit quarterly VAT returns detailing its sales of the above mentioned services to non-taxable persons in other EU Member States, along with the VAT due.

The returns will be filed in Cyprus by the 20th day following the end of the VAT quarter. These returns and the VAT payable will then be transmitted to the relevant EU Member State of consumption via a secure communications network by the Cypriot authorities.

- ▶ Income derived from the rendering of ship management services is subject to Income Tax at the ordinary rate of 12,5%.
- ▶ The ship manager has the option to pay Tonnage Tax at 25% of the rates applicable to ship owners and charterers for the qualifying ships under management, instead of Income Tax on the income derived from the rendering of ship management services to such ships, provided certain criteria are satisfied. These criteria include being a resident for tax purposes of Cyprus, maintaining a fully fledged office in Cyprus with personnel sufficient in number and qualification (51% of whom should be EU/EEA citizens), managing at least 2/3 of the total tonnage of the qualifying ships in a given fiscal year from the territory of any EU/EEA member state, having a fleet comprising for a sufficient part or with sufficient consistency of EU flag ships and complying with relevant international standards. Certain additional criteria may apply depending on the service provided.
- ▶ A ship manager who has opted for application of the Tonnage Tax System must remain under this system for at least 10 years. Early withdrawal will result in penalties and in such case the ship manager cannot re-elect to apply the Tonnage Tax System until the initial ten year period has lapsed.
- ▶ The term "ship management services" means the services provided by a ship manager to an owner or bareboat charterer of a ship by virtue of a relevant written ship management agreement relating to the crew management services and/or to the technical management services of the ship. A ship manager who provides commercial management services will not be considered as a qualifying ship manager for such services and will be liable to pay Income Tax on the corresponding part of his income.

The Tonnage Tax System applies to qualifying ship owners, ship charterers and ship managers of qualifying ships engaged in qualifying activities. Under the Tonnage Tax System the qualifying ship owners, managers and charterers are exempt from Income Tax on their shipping activities such as:

- ▶ Exploitation of a qualifying (chartered) ship in a qualifying shipping activity or rendering crewing and/or ship management services to any qualifying ship
- ▶ Disposal of a qualifying ship or interest or share in the qualifying ship
- ▶ 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 to the qualifying person out of the qualifying activity
- ▶ Dividends paid (directly or indirectly) out of the profits described above

### Administration

Tonnage Tax is payable on the 31st March of each year and is calculated by reference to the net tonnage of the qualifying ships under one's ownership, charter or management.

### Rates

Units of net tonnage	Rate per 100 units of the net tonnage	
	Ship owners/ charterers	Ship managers
0 -1.000	€36,50	9,13
1.001-10.000	€31,03	7,76
10.001-25.000	€20,08	5,02
25.001-40.000	€12,78	3,20
In excess of 40.000	€7,30	1,83

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

## Double Taxation Agreements

	Received in Cyprus		
	Dividends	Interest	Royalties
	%	%	%
Armenia	0/5	5	5
Austria	10	0	0
Belarus	5/10/15	5	5
Belgium	10/15	10	0
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	15	15	10
Estonia	0	0	0
Finland	5/15	0	0
France	10/15	0/10	0/5
Germany	5/15	0	0
Guernsey	0	0	0
Greece	25	10	0/5
Hungary	5/15	0/10	0
Iceland	5/10	0	5
India	10/15	0/10	15
Ireland	0	0	0/5
Italy	15	10	0
Kuwait	0	0	5
Lebanon	5	5	0
Lithuania	0/5	0	5
Malta	0	0/10	10
Mauritius	0	0	0
Moldova	5/10	5	5
Norway	0/15	0	0
Poland	0/5	5	5
Portugal	10	10	10
Qatar	0	0	5
Romania	10	0/10	0/5
Russia	5/10	0	0
San Marino	0	0	0
Seychelles	0	0	5
Singapore	0	0/7/10	10
Slovak Republic	10	0/10	0/5
Slovenia	5	5	5
South Africa	5/10	0	0
Soviet Union	0	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	10/15	5/10/15
Ukraine	5/15	2	5/10
United Arab Emirates	0	0	0
United Kingdom	0/15	10	0/5
United States of America	5/15	0/10	0
Yugoslavia	10	10	10

	Paid from Cyprus
	Royalties*
	%
Armenia	5
Austria	0
Belarus	5
Belgium	0
Bulgaria	5/10
Canada	0/5/10
China	10
Czech Republic	10
Denmark	0
Egypt	5/10
Estonia	0
Finland	0
France	0/5
Germany	0
Guernsey	0
Greece	0/5
Hungary	0
Iceland	5
India	5/10
Ireland	0/5
Italy	0
Kuwait	5
Lebanon	0
Lithuania	5
Malta	10
Mauritius	0
Moldova	5
Norway	0
Poland	5
Portugal	5/10
Qatar	5
Romania	0/5
Russia	0
San Marino	0
Seychelles	5
Singapore	5/10
Slovak Republic	0/5
Slovenia	5
South Africa	0
Soviet Union	0
Spain	0
Sweden	0
Switzerland	0
Syria	10/15
Thailand	5/10
Ukraine	5/10
United Arab Emirates	0
United Kingdom	0/5
United States of America	0
Yugoslavia	10
Countries without agreement	0/5/10

No tax is withheld for payment of dividends and interest to non-residents in Cyprus.

\* No tax is withheld when the royalty is paid for use outside Cyprus.

Date	Obligation	Form	Penalties
January 31	Submission of deemed dividend distribution form	I.R.623	6, 7
April 30	Submission of Income Tax Return by Individuals (deadline extended by 3 months in case of electronic submission)	I.R.1	1, 6
	Submission of Employer's Return (electronic submission)	I.R.7	6
June 30	Submission of Income Tax Return by individuals who do not submit audited accounts but are obligated to issue invoices, receipts, etc. (deadline extended by 3 months in case of electronic submission)	I.R.1	1, 6
	Payment of tax balance for the previous year by individuals who do not submit audited accounts but are obligated to issue invoices, receipts, etc.	-	4
	Payment of Contribution to the Defence Fund on rental income received during the first half of the current year	I.R.601	2
July 31	Submission of Temporary Tax Assessment for the current year	I.R.6	3(a)
	Payment of first instalment of tax based on the Temporary Tax Assessment	-	3(b)
August 1	Payment of the tax balance for the previous year	I.R.158	4
September 30	Payment of Immovable Property Tax	I.R.301 I.R.302	7
December 31	Submission of Company Income Tax Return (deadline extended by 3 months in case of electronic submission)	I.R.4	1, 6
	Submission of Tax Return, accounts and additional information by individuals who submit audited accounts (deadline extended by 3 months in case of electronic submission)	I.R.1	1, 6
December 31	Submission of revised Temporary Tax Assessment for the current year, if considered necessary	I.R.6	3(a)
	Payment of second instalment of tax based on the Temporary Tax Assessment	-	3(b)
	Payment of Contribution to the Defence Fund on rental income received during the second half of the current year	I.R.601	2
By the end of the next month	Payment of tax deducted from employees emoluments	I.R.61	5
	Payment of Contribution to the Defence Fund withheld from dividends, interest and rents	I.R.601	2
Within 30 days	Payment of Social insurance deducted from employees 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 obliged to submit an application for registration with the Tax Department. Similar rules apply in the case of companies incorporated outside Cyprus that become tax resident of Cyprus	I.R.162	9
Within 60 days period of such change	Notification of changes of company details (i.e. registered office, activities, auditors etc.)	I.R.162	10
Four months from the month of the transaction	Updating of books and records by businesses which are obliged to keep accounting books	-	11
Within 30 days	Issuance of invoices within 30 days from when the transaction was made, unless the taxable person requests in writing and receives such extension from the Commissioner	-	12
At the end of the financial period	Stock taking must be conducted annually by businesses which have inventory	-	13
Within the timeframe specified by the tax authorities	Submission of information requested in writing by the tax authorities	-	14

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, interest at the rate of 4%\* per annum is imposed from the first day after the end of the six-month period (interest is calculated on a daily basis). In case of Contribution to the Defence Fund withheld on rents, dividends and interest income, interest accrues as of the end of the month which follows the month to which it relates (interest is calculated on a daily basis). In addition, in case of delay in payment, a flat 5% penalty on the tax due is payable.

Late payment of outstanding Contribution to the Defence Fund which relates to 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 4%\* 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 4%\* per annum (interest is calculated on the basis of completed months).

An additional tax of 5% is imposed in the case where the due tax (as this is declared on the tax return) is not paid within 30 days from the date the tax return is due for filing. No penalty is imposed where the tax return is submitted timely, the tax due based on the tax return is timely paid and the Tax Department makes an assessment after the lapse of three years from the date of submission as prescribed by the law.

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

5. Late payment results in the imposition of interest at 4%\* 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 4%\* per annum from the due date. Any person omitting to pay the due tax by the due payment date is liable to 5% penalty on the due tax.
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. Late update of the books and records results in the imposition of a penalty equal to €100 (on a quarterly basis).
12. Late issuance of invoices results in the imposition of a penalty equal to €100. The penalty is imposed on a monthly basis irrespective of the number of invoices failed to be issued within a specific month.
13. Failing to perform a stock take results in the imposition of a penalty equal to €100.
14. Late submission of information requested by the Tax Department results in the imposition of a penalty equal to €200.

\*The official rate set by the Minister of Finance applicable as of 1.1.15 is 4% (4.5% for 2014; 4,75% for 2013; 5% for 2011-2012; 5,35% for 2010; 8% for 2007-2009; previously 9%)

EY Cyprus serves as 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. We recognize that all our clients are on a unique journey and we work with them to create a tailored client experience that helps them achieve meaningful results.

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Whatever your industry, our local teams and global network of professionals can provide highly responsive advice that meets client's assurance, tax, transaction and advisory needs.

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