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**Cyprus: A technology hub  
to kick-start your business**



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# Introduction

Cyprus is the ideal location for a company to kick-start its business. The island enjoys a large pool of well-educated and highly skilled human talent. At the same time, the country has an attractive and transparent tax regime offering a number of incentives to business, including an attractive IP regime.

# The Cyprus IP regime

Cyprus is an attractive location for the establishment of an Intellectual Property (IP) holding and development company offering an efficient tax rate as well as the legal protection afforded by EU Member States and by the signatories of all major IP treaties and protocols.

## Background

Cyprus's IP regime is fully compliant with international developments in the tax treatment of IP income and OECD's guidance. The IP regime has been reviewed by the EU Code of Conduct and has been assessed as fully compatible with EU standards.

## Benefits of the Cyprus IP regime

80% of the profits qualifying for the regime are exempt from tax. With a corporate tax rate of 12.5%, this can result in an effective tax rate of as low as 2.5%.

## Relevant details of the regime

Under the Cyprus IP regime, 80% of the qualifying profits generated from the qualifying assets is deemed to be a tax deductible expense for qualifying taxpayers. In calculating the qualifying profits, the new regime adopts the 'Nexus' approach.

According to this approach, the level of the qualifying profits is positively correlated to the extent the claimant performs R&D activities to develop the qualifying asset (QA) within the same company.

## Qualifying assets

Qualifying assets under the new regime include:

- patents,
- copyrighted software programs, and
- other intangible assets that are non-obvious, useful and novel.

Qualifying assets do not include trademarks and copyrights.

## Qualifying persons

Qualifying persons include Cyprus tax resident taxpayers, tax resident Permanent Establishments (PEs) of non-tax resident persons as well as foreign PEs that are subject to tax in Cyprus.

## Qualifying profits

Qualifying profits are calculated in accordance with the nexus fraction that follows.

## The nexus fraction

The nexus fraction, shown on the right, is used to calculate the amount of qualifying profits that will give the relevant deduction to the taxpayer.

$$OI \times \frac{QE + UE}{OE}$$

Where:

**OI** is the "overall income derived from the QA"

**QE** is the "qualifying expenditure on the QA"

**UE** is the "uplift expenditure on the QA" and

**OE** is the "overall expenditure on the QA"

### Overall Income (OI)

The Overall income (OI) is calculated as the gross income less any direct expenditure (including the capital allowances) of this asset, i.e. the gross profit. Overall income includes, but is not limited to, royalties received for the use of the intangible asset, trading income from the disposal of qualifying asset and embedded income earned from the qualifying asset.

Capital gains arising from the disposal of a QA are not included in the overall income and are fully exempt from tax.

### Qualifying Expenditure (QE)

The Qualifying expenditure includes salary and wages, direct costs, general expenses associated with R&D activities and R&D expenditure outsourced to unrelated parties.

The QE does not include any acquisition costs of the IP, interest paid or payable, any amounts payable to related persons carrying out R&D and costs which cannot be proved to be directly associated with a specific QA.

### Uplift Expenditure (UE)

The Up-lift expenditure (UE) is the lower of:

- 30% of the QE and
- The total acquisition cost of the QA and any R&D costs outsourced to related parties.

### Overall Expenditure (OE)

The Overall expenditure (OE) is the sum of:

- The Qualifying expenditure and
- The total acquisition costs of the QA and any R&D costs outsourced to related parties incurred in any tax year.

### Technology companies in Cyprus

A number of technology companies have set up businesses in Cyprus, enjoying the benefits of the Cyprus IP regime. The copyrighted software programs developed by these companies are qualifying assets under the provisions of the IP regime, and the qualifying profits of these companies are eligible for the tax deduction offered by the regime.

The provisions of the IP regime are more beneficial for companies that develop the qualifying asset in-house by employing the software developers themselves and avoid outsourcing to related parties as much as possible. As such, a lot of companies have chosen to relocate their key personnel and team of software engineers to Cyprus to benefit as much as possible from the provisions of the IP regime.



# Incentivising entrepreneurs

Cyprus businesses have introduced a number of programs to encourage innovation and entrepreneurship



## ARIS program

ARIS, which stands for A Really Inspiring Space, is a programme generously funded by Bank of Cyprus and Deloitte and aims to provide aspiring entrepreneurs at their early stages, an innovating workspace where they can turn their ideas into thriving businesses.

ARIS has been established with the purpose of supporting the successful development of emerging business ideas, and intends to accelerate the efforts of young entrepreneurs through intensive support by providing:

- A co-working space
- Guidance and coaching

- Technical assistance through mentorship
- Consulting tailored to the needs of residents
- Peer-to-peer networking
- Monitoring of residents progress.

The programme not only provides aspiring entrepreneurs with a platform to successfully develop their business ventures from idea to a proof of concept, but it also provides residents with invaluable learning opportunities. Through the ARIS programme, participants have the opportunity to be mentored by industry experts and receive guidance from accomplished entrepreneurs.



## IDEA – Innovate, Develop, Excel, Accomplish

IDEA aspires to boost the entrepreneurial spirit and put Cyprus high on the map of the international innovation ecosystem. Through promoting entrepreneurial activities and supporting the establishment and growth of startup companies, it contributes to job creation for youth and facilitates their transformation into innovative, international and sustainable businesses.

With the great emphasis is given on the entire spectrum and peripheral activities that support innovation in general, IDEA is proudly a strong part of the lobby that promotes innovation on the national level. With its accelerator and incubator program, it hosts startup businesses for a period of 9 months, offering them the highest quality of supporting services so as to turn their innovative ideas into viable businesses.



Cyprus Venetian Walls

# Corporate taxation

Cyprus offers one of the most attractive tax regimes in Europe, fully compliant with EU and OECD regulations. Its favourable provisions render Cyprus an ideal location for doing business in the region.

## Introduction

A Cyprus tax resident company can enjoy a number of tax benefits. A company is considered to be Cyprus tax resident, if it is managed and controlled from Cyprus. In general, the (worldwide) business profits of a Cyprus tax resident company are subject to corporation tax at the rate of 12.5%. However, a number of income sources are exempt from tax.

## Tax exempt sources of income

- Dividend income (subject to conditions)
- Profits from disposal of shares, bonds and other financial instruments
- Foreign exchange (FX) gains, except those arising from trading in FX
- Profits of an overseas Permanent Establishments (PEs).

## Withholding tax

Cyprus does not impose any withholding tax on payments of dividends and interest to foreign investors and royalties for use outside of Cyprus.



# Personal taxation

Cyprus is considered as of the most favourable jurisdictions within the EU on personal taxation, attracting a number of expatriates to work and live in Cyprus.

## Introduction

The income (including employment income, rental income etc.) of individuals is subject to income tax. Certain types of income including dividend and interest income are also subject to a defence tax but this type of tax only applies to Cyprus resident and who are also domiciled individuals. Finally, capital gains tax is only applicable on profits from the disposal of immovable property located in Cyprus.

In order to understand the tax treatment of an expatriate individual arriving in Cyprus, it is important to establish the residency status, domicile status, sources of income and eligibility for tax exemptions.



## Tax residency

An individual who spends more than 183 days in Cyprus is a tax resident of Cyprus. An individual can also become Cyprus tax resident by spending just 60 days in Cyprus provided he/she satisfies a number of other criteria including maintaining a permanent home in Cyprus and carrying on a business or being employed in Cyprus. A Cypriot tax resident individual is subject to income tax on his/her worldwide income whereas a non-Cypriot tax resident individual is subject to income tax only on Cyprus sourced income.

## Personal Income Tax

The Cyprus personal income tax rates are progressive, ranging from nil to 35%, on taxable income exceeding €60,000. Income of up to €19,500 is not subject to tax. Cyprus offers significant tax incentives to expatriates to either take up employment in Cyprus or become Cyprus tax residents.

## Tax exemptions

The following (among others) are exempt from income tax:

- 50% of the remuneration from any employment exercised in Cyprus by an individual who was resident outside Cyprus before the commencement of his/her employment in Cyprus. The exemption applies for a period of ten years starting from the first year of employment provided that the employment income exceeds €100,000 per annum
- Remuneration from the rendering of salaried services to a non-resident employer based outside of Cyprus or to an overseas branch of a resident employer for more than 90 days within a year
- All gains arising from the disposal of securities such as shares and bonds.

## Tax exemptions on investment income

Cypriot tax residents who are not Cyprus domiciled are also exempt from tax on dividend and interest income.

## Domicile

In general, an individual is not domiciled in Cyprus if he/she was not born to Cypriot parents. However, one would be deemed to be domiciled in Cyprus if he/she has been a Cypriot tax resident for at least 17 out of the last 20 years prior to the relevant tax year.

## VAT

Value added tax is levied at the rate of 19%. Reduced VAT rates of 5% and 9% apply to some goods and services.



Limassol, Cyprus

# Quick facts about Cyprus

## Location

Cyprus is the third largest island of the Mediterranean, strategically linking Europe, Africa and Asia.

## EU Membership and Currency

Cyprus has been a member of the EU since 1 May 2004. Its currency is the Euro since 1 January 2008.

## Total Area and Population

The total area of Cyprus is 9,250 km<sup>2</sup> with a coastline of 648 km and a population of 858,000.

## Principal cities

The principal cities of Cyprus are Nicosia (the capital), Limassol, Larnaca and Paphos.

## Languages

The official language is Greek, although English is the principal business language and is spoken by the large majority of the people on the island.

## Political System

Cyprus is a Presidential Democratic State. The Executive authority is vested in the President, who is elected for a 5-year term by Cypriot citizens, and is exercised by a Council of Ministers appointed by the President. The Legislative authority is exercised by the House of Representatives, whose Members are elected by Cypriot citizens every 5 years. The administration of Justice is exercised by the Judiciary, which is a separate and independent body.

## Infrastructure

Cyprus offers excellent road, air and sea transport solutions and services. Cyprus has two multi-purpose deep-sea ports, located in Limassol and Larnaca. The Limassol port handles both passenger and freight cargo while offering logistics solutions through advanced facilities for cost-effective transport and processing. In addition, the Limassol port is a renowned cruise liner hub and a popular "stop-over" for international cruise ships. Two modern international airports in Larnaca and Paphos, offer their services to approximately 10 million visitors per year, connecting the island to popular transit hubs throughout the world including Athens, Vienna, London, Dubai and Moscow.



Curium ancient theatre, Limassol



Tzielefos bridge, Paphos

# Living in Cyprus

## Lifestyle

In Cyprus, one can enjoy a high standard of living. Cyprus is well known for its rich culture, the hospitality of its people, its sunny weather, clean and beautiful beaches and an abundance of outdoor activities. At the same time, Cyprus offers an ideal place to raise a family with good education and healthcare systems and one of the lowest crime rates within the EU. With over 170,000 foreign nationals, Cyprus is an exciting, diverse and safe place to live in.

## Culture

The rich cultural landscape is reflected in the archaeological sites, museums and monuments located throughout the island. Local and international festivals, music concerts and other cultural events take place throughout the year.

## Outdoor activities

With over 320 days of sunshine, Cyprus is the ideal place to enjoy a wide variety of outdoor activities. Running in Pedieos River Linear Park in Nicosia, cycling along the coast of Paphos and Limassol, swimming in Ayia Napa and Protaras, windsurfing in Larnaca and hiking in Troodos are just few of the activities one can enjoy.

## Education

Cyprus has over 20 reputable English-speaking primary and secondary schools. In addition, Cyprus offers internationally recognised colleges and universities. The island ranks among the highest in the EU in respect of university graduates in proportion to its population.

## Healthcare

Cyprus has an easily accessible healthcare system, both in the public and in the private sector. EU citizens and people who are permanent residents in Cyprus are eligible for free state healthcare, whilst non-EU citizens need private healthcare, the cost of which is relatively affordable. Emergency medical treatment in Cyprus is free for all citizens. Cyprus has six public general hospitals, a modern oncology centre and more than 70 private hospitals and healthcare clinics.



Wargaming Headquarters, Nicosia, Cyprus

“Cyprus combines numerous advantages as a business base with quality of life. Cyprus’ geographical location allows us to serve our operations in Europe, Asia, the CIS region and US.”

**Victor Kislyi**  
CEO, Wargaming Group Limited

# Doing business in Cyprus

The strategic geographic location of Cyprus together with its talented workforce, EU membership, robust legal framework, business friendly environment and competitive tax regime make Cyprus the ultimate choice for setting up and running your business.

## The Cyprus Company

When it comes to doing business in Cyprus, entrepreneurs have a number of options. The most common way of doing business in Cyprus though is by establishing a Cyprus company. The process of setting up a Cyprus company is simple and usually takes less than a working week.

The majority of companies incorporated in Cyprus are private limited liability where the liability of the shareholders is limited to the amount unpaid on their shares. The law governing limited liability companies is the Companies Law, CAP 113, which is based on the companies Act 1948 of the United Kingdom.

A company's constitutional documents are its Memorandum and Articles of Association which specify the activities in which the company may engage and the means by which it will govern its affairs. There is no minimum required issued and paid up capital for a private company, however it is common to have share capital of at least €1,000.

Every company must have a company secretary, a director and a registered office address in Cyprus, which may also be used as the business address of the company. Although not a requirement, it is common practice for the majority of the directors to be Cypriot residents.

## Compliance obligations of a Cyprus Company

Every Cyprus company has (among others) the following compliance obligations:

- Maintain proper books and records
- Prepare financial statements in accordance with International Financial Reporting Standards
- Have its financial statements audited by a Cyprus registered auditor
- Submit an annual return to the Registrar of Companies
- Register with the Cyprus Tax Authorities
- Calculate and pay its taxes (if applicable)
- Submit an annual corporate income tax return to the Tax Department.



Deloitte Headquarters, Nicosia, Cyprus

# Contacts

For more information you may contact:

**Agis Agathocleous**

Partner | Tax & Legal |  
Business Tax Services  
Tel: +357 22360300  
agagathocleous@deloitte.com

**Alecos Papalexandrou**

Partner | Tax & Legal |  
Business Tax Services  
Tel: +357 25868686  
apapalexandrou@deloitte.com

**Mary Poufou**

Director | Tax & Legal |  
Business Tax Services  
Tel: +357 22360300  
mpoufou@deloitte.com

**Members of the Board of Directors**

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**Nicosia**

24 Spyrou Kyprianou Avenue  
CY-1075 Nicosia, Cyprus  
P.O.Box 21675  
CY-1512 Nicosia, Cyprus  
Tel: +357 22360300  
Fax: +357 22360400  
infonicosia@deloitte.com

**Limassol**

Maximos Plaza, Tower 1, 3<sup>rd</sup> floor  
213 Arch. Makariou III Avenue  
CY-3030 Limassol, Cyprus  
P.O.Box 58466  
CY-3734 Limassol, Cyprus  
Tel: +357 25868686  
Fax: +357 25868600  
infolimassol@deloitte.com

[www.deloitte.com/cy](http://www.deloitte.com/cy)



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