

An aerial photograph of a resort area. In the foreground, a long wooden pier extends into a dark blue body of water. The pier is bordered by a low wall made of light-colored stones. To the right of the pier, there are several swimming pools with blue water, surrounded by paved walkways and lush greenery, including palm trees. In the background, there is a large, curved swimming pool and more greenery. The overall scene is bright and sunny.

Cyprus Tax Facts 2019

DISCOVER 

**WELCOME
TO OUR ANNUAL
CYPRUS TAX FACTS.**

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WELCOME



"WE WORK
WITH CLIENTS
INDIVIDUALLY
TO PROVIDE A
TAILORED CLIENT
EXPERIENCE
DESIGNED TO HELP
YOU ACHIEVE YOUR
GOALS."

PHILIPPOS RAPTOPOULOS

In the past few years, tax has climbed to the top of the corporate and individual agenda. It is clear that the current focus on tax is here to stay and will continue to evolve dramatically to match the rapid transformation in global markets. Every stakeholder - whether public, non governmental, corporations and individuals, are being affected. In order to support your success, we have put together this guide to keep you informed and ahead of the competition. In doing so, we enable you to make more informed strategic decisions.

In this year's edition you will find useful information about the Cypriot tax system for the 2019 tax year, a brief overview of current tax laws, including all recent key changes to existing tax laws. The overview includes information about natural and legal persons for the full range of tax laws, including income tax and VAT. You will also find an updated list of double taxation agreements.

While this publication is only intended to provide general information and is in no way a substitute for specialised professional advice, our team at EY Cyprus remains at your disposal with professional, personalised advice based on our extensive experience, industry knowledge and global structure. We recognise that you are on a unique journey and need support along the way. That's why we work with clients individually to provide a tailored client experience designed to help you achieve your goals.



Philippos Raptopoulos
Head of EY Cyprus Tax Services
January 2019



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 benefits¹ from any business
- ▶ Profits or other benefits¹ 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 benefits¹ from a permanent establishment situated in Cyprus
- ▶ Profits or other benefits¹ 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 will apply as of 01.01.2019.

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 to that, the definition of tax resident also 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.

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 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 office or 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 up to 2020. In case the 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 a 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"> tax residents of Cyprus for a period of 3 out of 5 years preceding the year of employment tax residents of Cyprus in the year preceding the year of commencement of employment 	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 for a total aggregate period of more than 90 days in the year of assessment	100%	-

Income Tax

Capital allowances

	Annual wear & tear allowance %
Industrial buildings	4 ²
Hotel buildings	4 ²
Agricultural buildings	4 ⁴
Commercial buildings	3
Machinery, plant and furniture	10 ³
Machinery and equipment used by an agricultural or animal husbandry business	15
Computer hardware and 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
Secondhand 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:

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

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

⁴ 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 1/6 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	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

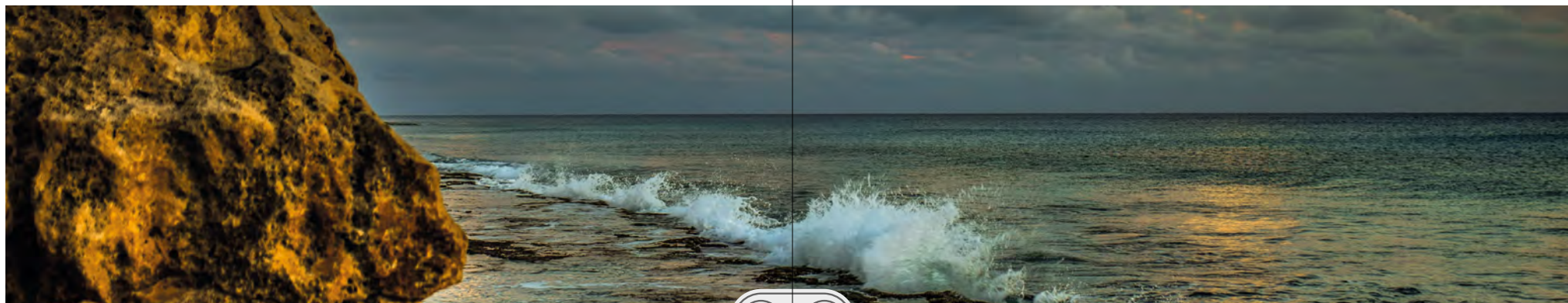
Deductions allowed for companies

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 120m², up to €1.100 for building area of 121-1.000m², up to €700 for building area above 1.000m², 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% (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 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 (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 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 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 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%

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 2013, WHICH WERE NOT SET OFF AGAINST PROFITS UP TO THE YEAR 2018, MAY NOT BE CARRIED FORWARD TO THE YEAR 2019. 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 3%. The reference interest rate cannot be lower than the yield of the 10-year government bond issued by the Republic of Cyprus increased by 3%. The bond yield is the yield applicable as of 31 December of the tax year preceding the tax year to which it relates

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 same limitation rules as interest expense and certain anti-avoidance provisions.

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.



EU ANTI-TAX AVOIDANCE DIRECTIVE

THE CYPRIOT TAX LAWS ARE EXPECTED TO BE AMENDED AS OF JANUARY 2019 TO TRANSPOSE INTO NATIONAL LEGISLATION THE RELEVANT PROVISIONS OF THE EU ANTI-TAX AVOIDANCE DIRECTIVE:

- A broadly worded General Anti-Abuse Rule (GAAR) in line with the wording used in the Directive.
- Interest limitation rules which restrict the tax deductibility of exceeding borrowing costs to 30% of the tax-adjusted EBITDA. The interest limitation rules are expected to be applied at a Cypriot group level.
- Controlled Foreign Corporation (CFC) rules which are based on the significant people functions and the arm's length principle.

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 ⁵	17	-
Dividends deemed to be received from a company resident in Cyprus	17	17
Dividends received from abroad	17	17 ⁵
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) ⁶	3	3

Notes:

⁵ 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

⁶ 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.



Special Contribution to the Defence Fund

Deemed distribution

A company resident in Cyprus has to pay 17%⁷ 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:

⁷ The special contribution for the Defence Fund rate for the deemed dividends on the 2016 profits, taking place on 31 December 2018, 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
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	1.051		54.652
Monthly employees		4.554	54.648

Minimum limit of emoluments for the self-employed

(PERIOD 7/1/2019 - 5/1/2020)

	Weekly	Yearly
	€	€
Persons exercising a profession		
▸ for a period not exceeding 10 years	385	20.033
▸ for a period exceeding 10 years	779	40.520
Wholesalers, estate agents and other entrepreneurs	779	40.520
Skilled workers	376	19.577
Builders and persons practicing a profession relevant to the building industry	472	24.585
Travelling salesmen, postmen, waste collectors, miners, sailors, salesmen, farmers, stock-farmers, fishermen and similar occupations	263	13.659
Secretaries, typists, cashiers, technical assistants, media associates, drivers of transportation media, operators of excavators and similar occupations	376	19.577
Teachers (university, pre-primary, primary and secondary education, assistants and special teachers)		
▸ for a period not exceeding 10 years	376	19.577
▸ for a period exceeding 10 years	753	39.155
Cleaners, messengers, guards and shop owners	359	18.667
Butchers, bakers, confectioners, packers of fruits, meat, milk, tobacco and similar occupations	289	15.024
Designers, computer users, marine engineers, agents, musicians, magicians and persons without an occupation	385	20.003

GENERAL HEALTHCARE SYSTEM

AS FROM 1ST OF MARCH 2019, AND FOR A ONE YEAR PERIOD, REDUCED CONTRIBUTIONS WILL BE IN FORCE. RELEVANT CONTRIBUTIONS ARE TO BE INCREASED AFTER THE LAPSE OF THE 1ST YEAR.

CONTRIBUTIONS SHOULD BE MADE AS FOLLOWS:

		(1/3/2019 - 1/3/2020)	1/3/2020 - onwards
(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).

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.

Capital Gains Tax

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 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.

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:

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

It should be noted that any R&D expenditure being outsourced to related parties will not be treated as a "qualifying expenditure" for the purposes of the IP box regime.

Overall expenditure

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

It should be mentioned that 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 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 box regime has been "grandfathered" for a five-year transitional period starting on 1 July 2016 and expiring on 30 June 2021, provided certain conditions are satisfied. The "grandfathered" IP assets will continue obtaining the full tax benefits of the existing IP box regime until 30 June 2021 without the need to apply the above-mentioned ratio.

No "new entrants" are permitted into the existing regime after 2 January 2016, although there are certain exceptions if the IP asset is acquired before 30 June 2016, provided that certain conditions are met.

Under the old IP box regime, a deemed deduction of 80% applied to net income and gains derived from patents, copyrights and trademarks as defined in the relevant Cypriot legislation. The cost of the acquisition or development of intangible assets of a capital nature is amortized equally over a five-year period.



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 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	Authorised share capital A flat duty of €105 is payable upon incorporation Issued share capital 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
Additional increases of capital	Authorised share capital There is no capital duty payable for any increases in the Authorised Capital Issued share capital There is a flat duty of €20 for every allotment of shares, either the shares are issued at nominal value or at a premium

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.

IMMOVABLE PROPERTY TAX

AS OF 2017, THE IMMOVABLE PROPERTY TAX ADMINISTERED BY THE TAX DEPARTMENT HAS BEEN ABOLISHED.

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 2019 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 - A licensed credit institution.

BORROWER - A person who contracted with a 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.

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

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 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 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)
- ▶ 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 exceeds €35.000.

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.

Intrastat registration

A taxable person who acquires goods in Cyprus from other EU Member States for a value greater than €160.000 for the year 2019 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 2019 should register for Intrastat for dispatches purposes in Cyprus and submit monthly Intrastat for dispatches forms.

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.

Non recoverable VAT

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

Value Added Tax

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 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 €51 per VAT return. 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 2,0%⁸ 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.

Notes:

⁸ The official rate set by the Minister of Finance applicable as of 1.1.2019 is 2% (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%).

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 constitutes 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 refer VAT disputes to the Tax Tribunal.

VAT Upcoming Changes within 2019

Within 2019 VAT legislative amendments are expected with the most important being:

- VAT treatment of vouchers in line with the EU VAT Directive;
- Miscellaneous VAT amendments aimed for the simplification and a fairer VAT system.

Businesses are urged to keep track of constant developments for VAT and broadly tax updates.

TONNAGE TAX SYSTEM

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 SHIPPING ACTIVITIES SUCH AS:

- Income from operation of qualifying vessel engaged in qualifying activity or rendering crewing and/or technical management services to any qualifying ship engaged in qualifying activity
- 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 from the qualifying person engaging in the qualifying activity
- Dividends paid (directly or indirectly) out of the profits described above

Administration

Qualifying charterers and managers as well as qualifying owners of foreign flagged vessels shall submit tonnage tax declaration and pay tonnage tax by 28 February every year (with regard to the previous tax year), i.e. for the tax year 2018 the tonnage tax return and tonnage tax payment are due by 28 February 2019.

Qualifying owners of Cyprus flagged vessels shall submit tonnage tax declaration upon entry to the Tonnage Tax System and pay tonnage tax by 31 March every year (with regard to the current tax year), i.e. for the tax year 2019 tonnage tax payment is due by 31 March 2019.

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.

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 being utilised by asset managers for the undertaking of relevant investments are the AIFs and UCITS.

UCITS

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

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

- Common Fund
- Investment Company (with variable capital)

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, which was recently amended, 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)

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.

Alternative Investment

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 from 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.

Recent tax amendments relating to Funds:

- ▶ 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 2018, the reporting deadline is by 31 December 2019).

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:

- Cypriot tax resident UPEs confirming that they are the CbC reporting entity of the Group;
- 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;
- Cypriot tax resident Constituent Entities confirming the identity and jurisdiction of tax residence of the reporting entity of the Group.

The filing of the Notification for fiscal years relating to 2017 and onwards, 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.

Country-by-Country Reporting

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.

TRANSFER PRICING

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 certain 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, inter alia, additional guidance in terms of 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 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 Circular does not apply to loans financed by equity capital. The transfer pricing study shall be prepared by a transfer pricing expert by a person who has license to act as an auditor according to the Cyprus' Companies Law and is required to carry an assurance control confirming the quality of the transfer pricing analysis.

Broader TP rules and TP documentation requirements

During 2019, Cyprus is expected to adopt broader transfer pricing legislation, which will be in line with the OECD Transfer Pricing Guidelines, capturing the entire range of inter-company transactions. Moreover, a requirement to prepare both a Local and Master File (based on the recommendation of OECD BEPS Action 13) is expected to be introduced.

DOUBLE TAXATION AGREEMENTS

Received in Cyprus

	Dividends	Interest	Royalties
	%	%	%
Armenia	0/5	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
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
Ethiopia	5	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	5	6
Ireland	0	0	0/5
Italy	15	10	0
Jersey	0	0	0
Kuwait	0	0	5
Latvia	0/10	0/10	0/5
Lebanon	5	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	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
Serbia	10	10	10
Seychelles	0	0	5
Singapore	0	7/10	10
Slovak Republic	10	10	5
Slovenia	5	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	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

DOUBLE TAXATION AGREEMENTS

Paid from Cyprus

Royalties ⁸	
	%
Armenia	5
Austria	0
Azerbaijan	0
Bahrain	0
Barbados	0
Belarus	5
Belgium	0
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
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
Serbia	10
Seychelles	5
Singapore	10
Slovak Republic	0/5
Slovenia	5
South Africa	0
Spain	0
Sweden	0
Switzerland	0
Syria	10/15
Tajikistan	0
Thailand	5/10/15
Turkmenistan	0
Ukraine	5/10
United Arab Emirates	0
United Kingdom	0/5
United States of America	0
Uzbekistan	0
Countries without agreement	0/5/10

Notes:

⁸ No tax is withheld for payment of dividends and interest to non-residents in Cyprus non-residents in Cyprus and non-domiciled in Cyprus. No tax is withheld when the royalty is paid for use outside Cyprus.

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 (electronic submission)	TD4	1, 6
	Submission of Tax Return, accounts and additional information by individuals who submit audited accounts (electronic submission)	TD1	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 8 (A)	13
June 30	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	TD601	2
	Payment of €350 Annual Fee to the Registrar of Companies		Refer to the Annual Levy Reporting Section
July 31	Submission of Temporary Tax Assessment for the current year	TD6	3(a)
	Submission of Income Tax Return by Individuals (electronic submission)	TD1	1, 6
	Submission of Employer's Return (electronic submission)	TD7	6
	Payment of first installment of tax based on the Temporary Tax Assessment	-	3(b)
August 1	Payment of the tax balance for the previous year	TD158	4
September 30	Submission of Income Tax Return by individuals who do not submit audited accounts but are obligated to issue invoices, receipts, etc. (electronic submission)	TD1	1,6
December 31	Submission of revised Temporary Tax Assessment for the current year, if considered necessary	TD6	3(a)
	Payment of second instalment of tax based on the Temporary Tax Assessment	-	3(b)
	Payment of Special Contribution to the Defence Fund on rental income received during the second half of the current year	TD601	2
By the end of the next month	Payment of tax deducted from employees emoluments	TD61	5
	Payment of Contribution to the Defence Fund and contribution to National Health System withheld from dividends, interest and rents	TD601	2
	Payment of Social Insurance and contributions to National Health Scheme deducted from employee emoluments	Y.K.A. 2-002	8

Date	Obligation	Form	Penalties
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 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	-	13
Within the timeframe specified by the tax authorities	Submission of information requested in writing by the tax authorities	-	14
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	
By the 10th of the month following the end of the VAT period	Submission of Intrastat form	INTRASTAT 1.1 INTRASTAT 1.2	Refer to the VAT section
By the 15th of the month following the end of the reporting month	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, interest at the rate of 2%⁹ 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 Special Contribution to the Defence Fund withheld on rents, dividends and interest begins to accrue at 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 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 installment of the temporary tax assessment is not paid within 30 days from the due date, interest at the rate of 2%⁹ 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 2%⁹ 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 2%⁹ 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 2%⁹ 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:

⁹The official rate set by the Minister of Finance applicable as of 1.1.19 is 2% (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 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 RECOGNISE 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.

EY is a global leader in assurance, tax, transactions and advisory services with more than 270,000 people in over 150 countries around the world. It is the most globally integrated professional services organisation and is working with businesses, entrepreneurs and governments around the world to solve their most pressing challenges and to help them take advantage of emerging opportunities. EY distils everything it does down to a single, unified purpose: building a better working world. For over 80 years, the Cyprus practice 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.

Being part of EY's EMEIA 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.

In this way we anticipate market trends, identify implications and develop clear points of view on relevant industry issues. Our industry specializations in Cyprus cover Asset Management, Banking and Capital Markets, Consumer Products, Hospitality, Insurance, Oil & Gas, Power & Utilities, Real Estate, Retail, Shipping and Telecommunications.

Cyprus is an attractive location for the development of entrepreneurship and a distribution hub and gateway to investment in the European Union, Eastern Europe, Asia and Africa. Accordingly, we have also created dedicated, multilingual teams to serve entities

engaged in international operations and do business wherever you are. We also offer tailored services to address the unique requirements of family businesses.

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

OUR SERVICES

Tax Advisory and Compliance Services

We help our clients assess, improve and monitor their tax function's processes and manage risk to ensure effective relationships with the tax authorities. Tax sub-service lines cover a wide range of issues: Business Tax, Transaction Tax, People Advisory, Indirect Tax and International Tax Services (ITS).

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.

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 that taking into account the New Work Environment and workforce analytics.

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.

Our Services

Assurance Services

Strong independent assurance provides critical information to investors and other stakeholders, a robust and clear perspective to audit committees and timely and constructive input to management. EY Cyprus' Assurance Services include Financial Statement Audit, Financial Accounting Advisory Services, Fraud Investigation & Dispute Services as well as Climate Change and Sustainability Services.

Transaction Advisory Services

We work with our clients to help them drive competitive advantage by proactively managing their capital agenda so they can strategically raise, invest, preserve and optimize their capital. Our services include Valuations and Business Modelling, Restructuring, Transaction Support, M&A Advisory and Project Finance.

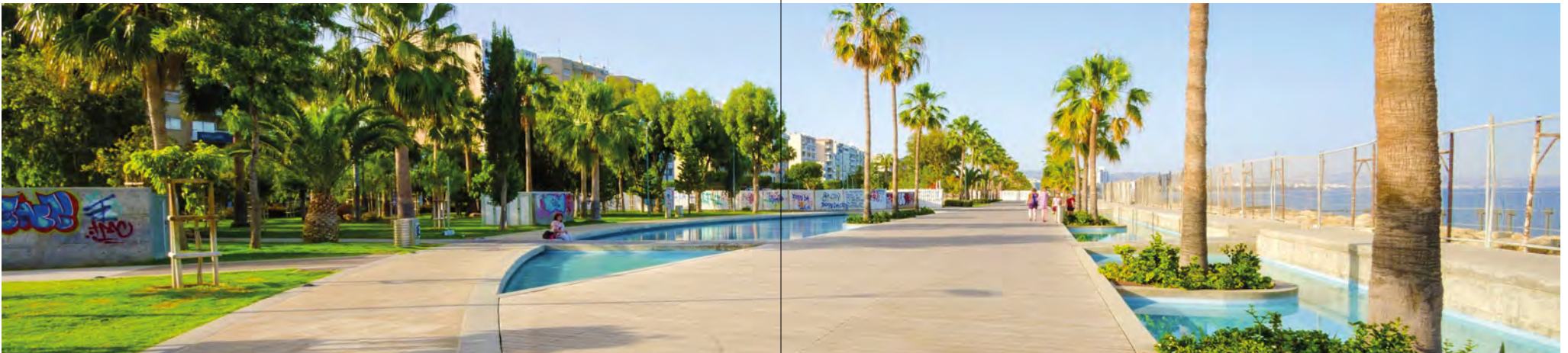
Advisory Services

Our Advisory Services include assistance on a broad range of areas: Performance Improvement, Risk, Information Technology, Financial Services Risk Management and Actuarial Services. We understand that our clients need services that are adapted to their industry issues,

so we bring our broad sector experience and deep subject matter knowledge to bear in a proactive and objective way. Our local advisory professionals are part of a global advisory network of seasoned multidisciplinary teams that work with our clients to deliver a powerful and exceptional client service.

Legal Services

Our legal services has 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.



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