

# ACS

Accountserve Ltd  
Accounting • Tax Services

# Tax Facts

# 2019



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## Personal Taxation

**Income tax** is a tax levied on the individuals by reference to their taxable income for a tax year.

**Taxable income** is an individual's total income liable to income tax (i.e. not specifically exempt) less deductible amounts.

Income tax is calculated on the taxable income earned in a tax year.

The Tax Year in the Republic of Cyprus is from January to December, regardless of the reporting period which may be different.

### **Tax Residence in Cyprus**

- **“Resident in Cyprus”** applied to individuals, means an individual who is present in the Republic for period exceeding 183 days in total in a tax year.
- Where a person is resident in Cyprus, for each tax year, tax is imposed on income accruing or arising from sources both within and outside the Republic.
- Where a person is not resident in the Republic, for each tax year, tax is imposed on the income accruing or arising from sources within the Republic.

As from 1 January 2017 an individual can be a tax resident of the Republic even if he/she spends less than or equal to 183 days in the Republic provided that he/she satisfies all of the following conditions within the same tax year (1 January-31 December):

- Does not spend more than 183 days in any other country;
- Is not a tax resident of any other country;
- Spends at least 60 days in the Republic;
- Maintains a permanent home in the Republic that is either owned or rented;

- Carries on a business in the Republic, is employed in the Republic or holds an office in a person who is a tax resident of the Republic at any time during the year.

If the employment/business or holding of an office is terminated during the year, then the individual would cease to be considered a Cyprus tax resident of the Republic for that tax year.

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

- The day of departure from Cyprus is considered to be a day out of the Republic
- The day of arrival into the Republic is considered to be a day in Cyprus
- Arrival into the Republic and departure from it on the same day count as a day in the Republic
- Departure from the Republic and arrival back into the Republic on the same day is considered a day outside Cyprus

## Personal Income Tax rates

<b>Taxable income</b>	<b>Tax Rate</b>	<b>Cumulative Tax</b>
<b>Up to €19.500</b>	-	€0
<b>€19.501-€28.000</b>	20%	€1.700
<b>€28.001-€36.300</b>	25%	€3.775
<b>€36.301-€60,000</b>	30%	€10.885
<b>Over €60,001</b>	35%	

## Exemptions

The following are exempt from personal income tax:

<ul style="list-style-type: none"> <li>• Interest income <i>(Interest income arising in the ordinary course of business, including interest closely related with the ordinary course of business is treated as trading profit and is not exempt)</i></li> </ul>	The whole amount
<ul style="list-style-type: none"> <li>• Dividend income</li> </ul>	The whole amount
<ul style="list-style-type: none"> <li>• Profits from the disposal of securities <i>(The term Securities is defined as shares, bonds, debentures, founder's shares and other securities of companies or legal persons, incorporated in Cyprus or abroad, and options there on. Further clarification from tax authorities has included in the term "securities" options on securities, short positions on securities, futures/forwards, swaps and depositary receipts on securities, as well as rights of claim on bonds and debentures, index participations only if they result on securities, repurchase agreements, units in open-ended or closed-ended collective investment schemes, participation in various types of foreign entities etc).</i></li> </ul>	The whole amount
<ul style="list-style-type: none"> <li>• Remuneration from any office or employment exercised in Cyprus by an individual who was a non-CY tax resident before the commencement of the employment, so called "<b>First Employment Exemption</b>".  <i>(For employment commencing during or after 2012, the exemption applies for a period of 5 years starting from the tax year following the year of commencement of the employment, with the last eligible tax year being 2020).</i></li> </ul>	20% of the remuneration or €8,550 (whichever is lower)
<ul style="list-style-type: none"> <li>• "<b>Executives exemption</b>" A 50% exemption from income tax applies to the employment income of an individual taking up tax residence in Cyprus. Provided that such annual income of the individual exceeds €100,000 per annum. <i>(The exemption applies for a period of 10 years. For employment commencing during or after 2015, the exemption does not apply in case the employee was a Cyprus tax resident in the preceding tax year or for at least 3 out of the last 5 tax years immediately prior to the tax year of commencement of employment).</i></li> </ul>	50% of the remuneration

<ul style="list-style-type: none"> <li>• <b>“90 Days Rule”</b> Remuneration from salaried services rendered outside Cyprus for more than 90 days in a tax year to a non-resident employer or to a foreign permanent establishment of a Cyprus resident employer, the relevant emoluments are exempted.</li> </ul>	The whole amount
<ul style="list-style-type: none"> <li>• Profits from a permanent establishment maintained outside the Republic <i>(subject to conditions)</i></li> </ul>	The whole amount
<ul style="list-style-type: none"> <li>• Lump sum repayment from life insurance schemes or from approved provident funds.</li> </ul>	The whole amount
<ul style="list-style-type: none"> <li>• Lump sum received by way of retiring gratuity, commutation of pension, death gratuity, or as a lump sum compensation for bodily injury.</li> </ul>	The whole amount
<ul style="list-style-type: none"> <li>• Gains arising from a loan restructuring <i>(“Restructuring” means the direct or indirect sale and transfer of immovable property and transfer of rights under a sale contract deposited with the Department of Lands and Surveys, between one or more borrowers and/or debtors and/or guarantors regarding the same credit facility or grant or debt and one or more creditors made up to 31 December 2017, which aims to reduce or repay credit facilities or loans or debts granted to borrowers with one or more lenders)</i></li> </ul>	The whole amount
<ul style="list-style-type: none"> <li>• Rental income from preserved buildings <i>(under certain conditions)</i></li> </ul>	The whole amount
<ul style="list-style-type: none"> <li>• Foreign exchange (FX) gains, with the exception of FX gains arising from trading in foreign currencies and related derivatives. <i>(Persons trading in FX have an option to make an irrevocable election to be subject to tax only on realized FX differences).</i></li> </ul>	The whole amount
Income of a company which operates in Cyprus in the audio-visual industry <i>(subject to conditions)</i>	Up to 50%

## Deductions

In general terms, all expenses incurred wholly and exclusively for the production of taxable income are deductible. Such expenses include the following:

Interest paid for the acquisition of fixed assets for the business	100%
Expenses for the letting of premises	20% of the rental income
Interest relating to the acquisition of a building for rental purposes	100%
Subscriptions to Trade Unions or Professional Associations	100%
Expenditure incurred for maintaining a building under preservation order <i>(subject to conditions)</i>	Depending on size of the building
Donations to approved charitable institutions <i>(with receipts)</i>	100%
Profits arising from the exploitation and disposal of intellectual property rights <i>(see note 1 below)</i>	80%
Expenditure incurred by a person for the purchase of shares in an innovative business company shall be allowed as from 25.7.2014 as deduction from the taxable income of such person. <i>(subject to conditions and restricted to 50% of taxable income as calculated before this deduction with a maximum deduction of €150.000)</i>	The whole amount
Expenditure for scientific research including research and development undertaken by an innovative business.	The whole amount

## **Notes:**

### **1. Previous IP regime**

Under the previous regime, qualifying intangible assets (IP) are those defined in the Patent Rights Law, the Intellectual Property Law and the Trademarks Law.

In calculating the taxable profit, an 80% deemed deduction applies to the net profit from the exploitation and/or disposal of such intangible assets.

Any capital gain from the sale of such intangible asset by any person who did not enjoy the tax benefits of the provisions of the previous regime is exempt from tax.

The net profit is calculated after deducting from the income and/ or profit that is generated from the exploitation and/or disposal of such intangible assets, all direct expenses associated with the production of this income or profit, as well as a 20% annual capital allowance, applicable on the cost of acquisition and/or development of such an intangible asset.

Where a net loss is created, only 20% of such loss is eligible to be surrendered for group relief and/or carried forward.

The taxpayer may choose to forego the whole or part of the deduction in each year of assessment.

The above provisions can apply until the 30<sup>th</sup> of June 2021, to intangible assets that qualified under the old IP regime before 2 January 2016, or to certain IP acquired during the period 2 January 2016 - 30 June 2016.

### **New IP regime**

The provisions of the new IP regime have come into effect on 1 July 2016. According to the new regime, qualifying intangible asset means an asset which was acquired, developed or exploited by a person in the course of carrying on a business and which constitutes intellectual property, other than marketing related intellectual property associated with promotion (marketing) and which is the result of research and development activities, including an intangible asset for which there is only economic ownership. A detailed definition is provided in the relevant regulations.

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

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

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

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

## Non-allowable expenses

Expenses which have not incurred wholly and exclusively for the production of income are disallowed for tax purposes.

Further on, certain expenses are specifically disallowed as per the tax legislation of Cyprus, such as:

Business entertainment expenses including hospitality expenses of any kind incurred for the business	amount in excess of 1% of the gross income or €17.086 (the lower of the two)
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Private motor vehicle expenses	The whole amount
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Professional Fees related to capital items	The whole amount
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Immovable Property Tax	The whole amount
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<p>Interest payable or deemed to be payable in relation to the acquisition of a private motor vehicle, irrespective of whether it is used in the business or not, or other asset not used in the business. This provision does not apply after the laps of 7 years from the date of purchase of the relevant asset.</p>	<p>The whole amount</p>
<p>Interest expense incurred for the acquisition of a wholly owned subsidiary company is a deductible expense for income tax purposes if the 100% subsidiary company does not own (directly or indirectly) any assets that are not used in the business. If the subsidiary owns (directly or indirectly) assets not used in the business, then the interest expense deduction is restricted to the amount which relates to assets used in the business.</p>	<p>The whole amount</p>
<p>Expenditure which is not supported by invoices / relevant receipts or other supporting documentation</p>	<p>The whole amount</p>
<p>Wages and salaries on which contributions to the Social Insurance Fund, Redundancy Fund, Human Resource Development Fund, Social Cohesion Fund, Pension Fund and Provident Fund have not been paid in the year in which they were due.</p> <p>In case the above-mentioned contributions are paid in full (including penalties, interest etc.) within two years following the due date, such wages and salaries will be deducted from income in the year which they are paid.</p>	<p>The whole amount</p>
<p>Appropriations of profits</p>	<p>The whole amount</p>
<p>Capital Expenditure</p>	<p>The whole amount</p>
<p>Tax Payments</p>	<p>The whole amount</p>
<p>General Provisions</p>	<p>The whole amount</p>

Excess Borrowing Cost (EBC) which exceeds 30% of earnings before interest, tax, depreciation and amortization in respect of fixed and intangible assets used in the business (EBITDA).

Up to the whole amount

*(These provisions have not been voted as of the date of issuing this publication and thus are not yet effective. They are expected to be voted and to have a retrospective effect from 1 January 2019.)*

## Personal allowances

Social Insurance Contributions, life insurance payments and approved pension funds, provident funds and medical schemes (the allowable annual life insurance premium is restricted to 7% of the insured amount.)

Up to 1/6 of the taxable income before these deductions

Premiums on cancelled policies recaptured as taxable income equal to 30% if the cancellation is within 3 years and 20% if the cancellation is made in the 4th, 5th or 6th year.

## Loans or financial facilities provided by company Directors or individual Shareholders

Any amount received as a loan or financial assistance by a company's director, or by a company's individual shareholder, or by his/her spouse, or by any relative up to the second-degree kindred is considered a monthly benefit equal to 9% p.a. calculated on the amount received. Such benefit will be included in the individual's income subject to Income Tax.

The amount of tax on the monthly benefit should be withheld from the individual's monthly salary and paid to the Tax Department on a monthly basis under the Pay As You Earn (PAYE) system.

## Capital allowances

The same capital allowances available for companies are also applicable to individuals who prepare accounts (*see page 18-19 for capital allowances rate*).

## Tax Losses

### Loss Relief

The amount of Loss can be set off against an individual's income from other sources for that year of assessment or the amount of remaining loss can be carried forward and set off against such tax payers income for subsequent years.

The loss relief must be set off against the first available profits of the following years.

Where a person or a partnership converts his business into a limited liability company, any unrelieved losses may be carried forward to the new company.

### Restrictions to loss relief:

- No carry-back of losses is allowed.
- A loss claim must be for the whole loss, no part loss claim is allowed.
- A loss created by reason of donations or contributions cannot be carried-forward.
- If the tax return of the relevant year of assessment was submitted on a delay more than six years, the corresponding tax loss cannot be claimed as a loss relief.
- A loss claim must be made within five year from the year in which the loss incurred.

### Losses of a Permanent Establishment

Losses arising from a permanent establishment maintained outside the Republic can be offset against profits arising in the Republic (from any source) within the same tax year. Subsequent profits of the permanent establishment are taxable up to the amount of the losses allowed.

## Tax credit for foreign tax paid

Any tax suffered abroad on income subject to income tax will be credited against any income tax payable on such income irrespective of the existence of a double taxation treaty.

## CORPORATE TAX

Corporation tax is a tax levied on companies by reference to their taxable income for a tax year. Taxable income is a company's total income liable to corporation tax (i.e. not specifically exempt) less certain deductible amounts calculated on taxable income which is earned in the tax year.

Tax resident in the Republic is a company that is managed and controlled in Cyprus. Where a company is resident in Cyprus, for each tax year, tax is imposed on income accruing or arising from sources both within and outside the Republic. Where a company is not resident in the Republic, for each tax year, tax is imposed on the income accruing or arising from sources within the Republic.

## Tax Rate

Companies	12.5%
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## Exemptions from Corporate Tax

### Interest Income

*(Interest arising from the ordinary course of business or closely connected to the ordinary course of business, and interest from closed-ended or open-ended collective investment schemes is considered trading profit and is not exempt)*

The whole amount

### Dividend income

The whole amount

*(The income tax exemption shall not apply to the extent that dividends are deductible from the taxable income of the dividend paying company. Dividends that do not qualify for the income tax exemption are not considered as dividends for special defense contribution purposes)*

Profits from the disposal of securities

The whole amount

*(The term Securities is defined as shares, bonds, debentures, founder's shares and other securities of companies or legal persons, incorporated in Cyprus or abroad, and options there on. Further clarification from tax authorities has included in the term "securities" options on securities, short positions on securities, futures/forwards, swaps and depositary receipts on securities, as well as rights of claim on bonds and debentures, index participations only if they result on securities, repurchase agreements, units in open-ended or closed-ended collective investment schemes, participation in various types of foreign entities etc).*

Profits from a permanent establishment abroad

The whole amount

*(some conditions apply)*

Foreign Exchange (FX) gains with the exception of FX gains arising from trading in foreign currencies and related derivatives.

The whole amount

*(Persons trading in FX have an option to make an irrevocable election to be subject to tax only on realized FX differences)*

Gains arising from a loan restructuring.

The whole amount

*(Restructuring" means the direct or indirect sale and transfer of immovable property and transfer of rights under a sale contract deposited with the Department of Lands and Surveys, between one or more borrowers and/or debtors and/or guarantors regarding the same credit facility or grant or debt and one or more creditors made up to 31 December 2017, which aims to reduce or repay credit facilities or loans or debts granted to borrowers with one or more lenders).*

Rental income from a building under preservation order *(some conditions apply)*

The whole amount

## Deductions

Expenses	Exemption Limit
Donations to approved charitable institutions (with receipts)	The whole amount
Employers Contributions to social insurance and approved funds on employees' salaries	The whole amount
Notional Interest Deduction (NID) on new equity. <i>(Equity introduced to a company as from 1 January 2015 (new equity) in the form of paid-up share capital or share premium is eligible for an annual notional interest deduction (NID). The annual NID deduction is calculated as a percentage (reference rate) on the new equity. The relevant reference rate is the yield of the 10-year government bond (as at December 31 of the prior tax year) of the country where the funds are employed in the business of the company, plus a 3% premium (subject to a minimum rate which is the yield of the 10 year Cyprus government bond as at the same date, plus a 3% premium). The NID is subject to certain anti avoidance provisions.</i>	up to 80% of the taxable profit derived from assets financed by the new equity (as calculated prior to the NID deduction)
Expenditure incurred by a person for the purchase shares in an innovative business company shall be allowed as from 25.7.2014 as deduction from the taxable income of such person. <i>(subject to conditions and restricted to 50% of taxable income as calculated before this deduction with a maximum deduction of €150.000)</i>	The whole amount
Expenditure for scientific research including research and development undertaken by an innovative business.	The whole amount
Expenditure incurred for maintaining a building under preservation order <i>(subject to conditions)</i>	Depending on size of the building

Business entertainment expenses including hospitality expenses of any kind incurred for the business	amount in excess of 1% of the gross income or €17.086 (the lower of the two)
Interest on loans to acquire fixed assets used in the business	The whole amount
Expenditure on film infrastructure and technological equipment <i>(subject to conditions)</i>	Up to 20%
Profits arising from the exploitation and disposal of intellectual property rights (See note 1, page 6)	80%

## Non-deductible expenses

Private motor vehicle expenses	The whole amount
Interest payable or deemed to be payable in relation to the acquisition of a private motor vehicle, irrespective of whether it is used in the business or not, or other asset not used in the business. This provision does not apply after the laps of 7 years from the date of purchase of the relevant asset.	The whole amount
Professional tax	The whole amount
Immovable property tax	The whole amount

<p>Interest expense incurred for the acquisition of a wholly owned subsidiary company is a deductible expense for income tax purposes if the 100% subsidiary company does not own (directly or indirectly) any assets that are not used in the business. If the subsidiary owns (directly or indirectly) assets not used in the business, then the interest expense deduction is restricted to the amount which relates to assets used in the business.</p>	<p>The whole amount</p>
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<p>Expenditure not supported by invoices or invoices or other documentation</p>	<p>The whole amount</p>
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<p>Wages &amp; salaries relating to services rendered during the tax year for which the relevant contributions, (Social Insurance, Redundancy Fund, Social Cohesion Fund, HR Development Fund, Pension &amp; Provident Fund) have not been paid in the year they were due.</p> <p>In the case the above contributions are settled within two years from the due date, such wages &amp; salaries will be tax deductible in the year they were paid.</p>	<p>The whole amount</p>
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<p>Excess Borrowing Cost (EBC) which exceeds 30% of earnings before interest, tax, depreciation and amortization in respect of fixed and intangible assets used in the business (EBITDA).</p> <p><i>(These provisions have not been voted as of the date of issuing this publication and thus are not yet effective. They are expected to be voted and to have a retrospective effect from 1 January 2019.)</i></p>	<p>Up to the whole amount</p>
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## Losses

### Loss Relief

The amount of Loss can be set off against an individual's income from other sources for that year of assessment or the amount of remaining loss can be carried forward and set off against such tax payers income for subsequent years.

The loss relief must be set off against the first available profits of the following years.

Where a person or a partnership converts his business into a limited liability company, any unrelieved losses may be carried forward to the new company.

**Restrictions to loss relief:**

- No carry-back of losses is allowed.
- A loss claim must be for the whole loss, no part loss claim is allowed.
- A loss created by reason of donations or contributions cannot be carried-forward.
- If the tax return of the relevant year of assessment was submitted on a delay more than six years, the corresponding tax loss cannot be claimed as a loss relief.
- A loss claim must be made within five year from the year in which the loss incurred.
- If within three years there is a change in the ownership, and a substantial change in the nature of the business.
- If at any time since the scale of the company's activities has diminished or has become negligible and before any substantial reactivation of the business, there is a change in the ownership of the company's shares.

**Group relief**

Companies are considered to be part of a group for group relief purposes if:

- one is a 75% subsidiary of the other, or
- both are 75% subsidiaries of a third company
- Part of the group for the entire tax year (unless it is 100% newly incorporated company during the tax year)

Losses of a current year of a company can be offset against profits of another company as long as both companies are Cyprus Tax Residents and are members of the same group.

A group company which is tax resident in another EU country may also surrender current year tax losses to a Cyprus tax resident company, provided such company firstly exhausts all possibilities available to utilize its tax losses in

its country of residence or in the country of any intermediary EU holding company.

### **Losses of a Permanent Establishment**

Losses arising from a permanent establishment maintained outside the Republic can be offset against profits arising in the Republic (from any source) within the same tax year. Subsequent profits of the permanent establishment are taxable up to the amount of the losses allowed.

### **Tax credit for foreign tax paid**

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

### **Re-organizations**

Transfers of assets and liabilities between companies can be effected with no tax consequences within the framework of reorganization and tax losses may be carried forward by the receiving company.

Reorganizations include:

- Mergers
- Demergers
- Partial divisions
- Transfer of assets
- Exchange of shares
- Transfer of registered office

## CAPITAL ALLOWANCES

Annual wear and tear allowances on fixed assets

<b>Plant and Machinery</b>	<b>%</b>
Plant and Machinery *	10
Furniture & Fittings	10
Industrial Carpets *	10
Boreholes	10
Machinery & Tools Used in Agriculture *	15
*if acquired between 2012-2018	20
<b>Buildings</b>	<b>%</b>
Commercial Buildings	3
Industrial, Agricultural & Hotel Buildings **	4
Flats	3
Metallic Greenhouse Structures	10
Wooden Greenhouse Structures	33 1/3
**if acquired between 2012-2018	7
<b>Vehicles &amp; Means of Transportation</b>	<b>%</b>
Commercial Motor Vehicles	20
Motor Cycles	20
Excavators, Tractors, Bulldozers, Self-Propelled Loaders & Drums For Petrol Companies	25
Armored Vehicles (E.G. Security Services)	20
Specialized Machinery for Railroads	20
New Airplanes	8
New Helicopters	8
Sailing Vessels	4.5
Motor Yachts	6
Steamers, Tugs & Fishing Boats	6

Ship Motor Launches	12.5
New Cargo Vessels	8
New Passenger Vessels	6
Used Cargo/Passenger Vessels	Over their useful life
<b>Other</b>	<b>%</b>
Televisions & Videos	10
Computer Hardware & Operating Systems	20
Application Software	33 1/3
Software Application Exp <€1.709 Is Written Off in The Year of Acquisition	100
Wind Power Generators	10
Photovoltaic Systems	10
Tools in General	33 1/3
Videotapes of Video Clubs	5

# SPECIAL MODES OF TAXATION

## Shipping Companies

No tax is payable on the profits from the operation of a vessel registered in Cyprus or on the dividends received from a ship owning company flying the Cyprus flag and operating in international waters.

No tax is payable on the emoluments of the captain, the officer and the crew of a Cyprus ship.

Local companies/ individuals or International Business Companies that carry out ship management and crew management from an office in Cyprus have the choice for the financial year ended 31 December 2000 onwards to be taxed at the rate of 4.25% or rates equal to 25% of the rates applicable to the tonnage tax for foreign vessels under their management that are registered outside Cyprus. This special tax regime for ship owning and ship management companies applies until the year 2020.

## Insurance Companies

### **Insurance Companies other than Life**

- The income of these companies is calculated under a special mode of taxation as described below. The deduction of head office expenses is allowed:
  - If the head office is situated outside Cyprus
  - The deduction is capped at 3% of premiums arising in Cyprus net of re-insurances given

### **Tax Loss:**

- Relieved within the same tax year
- Carried forward and relived against the first available profits

## **Life insurance Companies**

The income of these companies is calculated as per below special mode of taxation:

- Life insurance companies are subject to a minimum tax of 1,5% of the gross premiums
- Deduction of head office expenses is allowed If the head office is situated outside Cyprus and when the deduction is capped at 2% of premiums arising in Cyprus net of the re-insurances given

### **Tax Loss:**

- Relieved within the same tax year
- Carried forward and relieved against the first available profits

## **Shipping and Aircraft Business**

Tax treatment:

- Non-resident companies which are carrying a business of operating ships or aircrafts in Cyprus are subject to income tax in Cyprus (permanent establishment or not)
- Calculation of taxable profits will be based on the proportion of sales in Cyprus and based on a tax certificate issued by the taxing authority of principal place of the foreign business

Mutual Exemption:

- Exemption is given to a such Non-Cyprus tax resident business,
- If exemption is given to Cyprus residents by the taxing authority of the principal place of business of the foreign business

## **Pensions from Overseas**

Foreign pension is exempt up to €3,420. Sums over €3,420 the taxpayer has the right to choose either to be taxed at a rate of 5% or under the normal rates if there is any further source of income.

## Intellectual property rights etc.

The gross income arising from intellectual property rights, other exploitation rights, compensations or other similar income arising from sources within the Republic, of a person who is not resident in the Republic, is subject to withholding tax at a rate of 10%, unless a double tax treaty provides otherwise.

Royalties received by a connected company registered in a European Union Member State are exempt from tax (subject to conditions).

Rights granted for use outside the Republic are not subject to any withholding tax.

Expenditure incurred for the development or acquisition of intangible assets as defined in the Patents Rights Law, the Intellectual Property Law and the Trademarks Law is tax deductible.

The annual capital allowance deduction on such intangible assets is equal to 20% of the acquisition cost. The capital allowance is tax deductible over five years including the year of acquisition.

An 80% deemed distribution applies to the net profit from the exploitation or disposal of such intangible assets (including the compensation from irregular use of these intangible assets).

The net profit is calculated after deducting from the income or profit that is generated from the exploitation or disposal of such intangible assets, all direct expenses associated with the production of this income or profit.

Where a net loss is created, only 20% of such loss will be eligible to be surrendered/ carried forward.

## Film Royalties etc.

The gross income derived by a non-resident person in respect of royalties arising from film projection in the Republic is subject to withholding tax at a

rate of 5%. Royalties received by a connected company registered in a European Union Member State are exempt from tax (subject to conditions)

## Profits of professionals, entertainers etc.

The gross income derived by an individual not resident in the Republic from the exercise of any profession or vocation, the remuneration of public entertainers not resident in the Republic, and the gross receipts of any theatrical or musical or other group of public entertainers, including football clubs and other athletic missions from abroad, derived from performances in the Republic is subject to a 10% withholding tax (unless a tax treaty provides for a lower tax rate).

## Widow's Pension

The total amount of widow's pension received from the Social Insurance Fund and/or other approved pension funds is taxed at the flat rate of 20% on amounts exceeding €19,500. The tax payer can however elect to be taxed in accordance with the personal income tax rates.

## Income from Oil & Gas Related Activities

The gross amount or other income derived from sources within the Republic by any person who is not resident in the Republic, which does not arise from a permanent establishment in the Republic, as consideration for services carried out in the Republic with respect to the extraction, exploration or exploitation of the continental shelf, subsoil or natural resources, as well as the installation and exploitation of pipelines and other installations on the ground, the seabed or above the surface of the sea, is subject to tax at the rate of 5% (unless a tax treaty provides for a lower tax rate).

Tax withheld on payments to non-Cypriot residents should be paid to the Tax Department by the end of the following month.

In case where the tax withheld is not paid within the deadline, an additional penalty of 5% is imposed on the tax withheld in addition to any interest that may be imposed.

## Controlled Foreign Companies (CFCs)

The non-distributable income of a Controlled Foreign Company (CFC) or of a foreign permanent establishment arising from non-genuine arrangements is added to the taxable income of the controlling company resident in the Republic, subject to certain exceptions.

*(These provisions have not been voted as of the date of issuing this publication and thus are not yet effective. They are expected to be voted and to have a retrospective effect from 1 January 2019.)*

Any foreign tax paid on the income of the CFC is credited against income tax payable in the Republic.

## Variable remuneration of individuals employed in the Funds industry

The variable remuneration of employees of:

- An Alternative Investment Fund (AIF) Manager or self-managed AIF, or
- A Management company for Collective Investments in Transferable Securities (UCITS),

which is connected to the carried interest, is taxed at the flat rate of 8% with a minimum tax liability of € 10.000 per annum (subject conditions). Qualifying employees can elect to be taxed under this special mode of taxation on an annual basis for a 10-year period or otherwise be taxed in accordance with the personal income tax rates.

## Income from technical assistance

The gross income arising from sources within the Republic, as consideration for technical assistance provided by any person who is not resident in the Republic, is subject to a 10% withholding tax. Such income is exempt from withholding tax if the services are provided by a permanent establishment in Cyprus.

## Payment of tax withheld

Tax withheld on payments to non-Cypriot residents should be paid to the Tax Department by the end of the following month.

In case where the tax withheld is not paid within the deadline, an additional penalty of 5% is imposed on the tax withheld in addition to any interest that may be imposed.

## SPECIAL CONTRIBUTION FOR THE DEFENCE FUND

The persons that are subject to special contribution for defence are:

- Cyprus tax resident companies
- Individuals that are tax resident and domiciled \*

*\* Prior to 16 July 2015, individuals were subject to special defence contribution if they were tax resident in Cyprus. As from 16 July 2015, individuals are subject to special defence contribution if they are both Cyprus tax resident and Cyprus domiciled. An individual is domiciled in Cyprus for the purposes of special contribution for defence if he/she has a domicile of origin in Cyprus per the Wills and Succession Law (with certain exceptions) or if he/she has been a tax resident in Cyprus for at least 17 out of the 20 tax years immediately prior to the tax year of assessment. (Anti-avoidance provisions apply).*

Non-Cyprus tax residents are not subject to the Defence contribution.

### Anti-abuse provision:

has been introduced in relation to the taxation of dividends when these are paid to a company beneficially owned indirectly by Cyprus resident and domiciled individual(s).

If the Commissioner considers that the interposition of this company as a shareholder of the company paying the dividend does not serve any substantial commercial or economic purpose but is primarily intended to prevent, reduce or postpone the payment of SDC, the Commissioner may deem that the dividend is paid directly to the Cyprus tax resident and domiciled individual(s) who directly/indirectly control the company receiving the dividend and require the payment of the SDC on the dividend either from the company receiving the dividend or from the Cyprus tax resident individual(s) who directly/indirectly control the company.

	<b>Rates %</b>
Dividend income from Cyprus resident companies	17
Interest Income	30
Interest received by an individual from Government Savings Certificates and Government Bonds	3

Interest earned by an approved provident fund	3
Interest earned by the Social Insurance Fund	3
Rental income less 25%	3

**Notes:**

1. Dividends declared by a Cyprus tax resident company to another Cyprus tax resident company after the lapse of four years from the end of the year in which the profits were generated, are subject to 17% special contribution to the defence fund. Dividends which emanate directly or indirectly out of such dividends on which special contribution for Defence was previously suffered are exempt. (see page 22. The anti-abuse provision)

Dividend income from abroad is exempt from special contribution to the defence fund. This exemption is not applicable if:

- 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 (i.e. foreign tax burden is lower than 6%).

When the exemption does not apply, the dividend income is subject to special contribution for Defence at the rate of 17%.

Included in taxable income and is subject to personal income tax/corporation tax.

2. Interest income from Cyprus government savings bonds and development bonds and all interest earned by a provident fund is subject to special contribution for defence at the rate of 3%.

In the case where the total income of an individual (including interest income) does not exceed €12.000 in a tax year, then the rate is 3%.

3. Rental income is also subject to personal income tax / corporation tax. When the tenant is a Cyprus company, partnership, the state or local authority, Special Contribution for defence on rental income is withheld at source and is payable at the end of the month following the month

in which it was withheld. In all other cases the special contribution for the defence on rental income is payable by the landlord in 6 monthly intervals on June 30th and December 31st each year.

## Tax credit for foreign tax paid

Any foreign tax that was paid on income subject to the special contribution for defence fund will be credited against any defence contribution payable on such income irrespective of the existence of a double tax treaty.

## Deemed dividend distribution

If a Cyprus resident company does not distribute a dividend within two years from the end of the tax year, then:

- 70% of accounting profits (net of corporate tax, special defence contribution, capital gains tax and foreign taxes that has not been credited against income tax and/or special defence tax payable for the relevant year) are deemed to have been distributed.
- 17% special contribution for defence is imposed on deemed dividend distribution applicable to shareholders who are residents of Cyprus (3% on deemed dividend distribution of collective investment schemes).
- Deemed distribution is reduced with payments of actual dividends which have already been paid during the relevant year or paid during the following years from the profits of the relevant year.

When an actual dividend is paid after the deemed dividend distribution, then special contribution for defence is imposed only on the dividend paid over and above the dividend that was previously deemed to have been distributed.

In case of subsidiaries whose parent companies are owned 100% by non-resident shareholders, the defense contribution need not be paid by the subsidiary. In the case where the subsidiary is not 100% held by non-resident shareholders, defence contribution paid by the subsidiary on deemed distribution is refundable to any non-resident shareholders upon receipt of an actual dividend.

In case where a company disposes of an asset to its Cyprus Tax resident shareholder (individual) or to a relative of up to second degree or spouse, without consideration or lower than market values consideration, the company is deemed to have distributed dividends to its shareholder, equal to the difference of the market value of the asset and the amount the relevant asset was disposed for.

## Disposal of assets to shareholders at less than market value

In the case where a company disposes an asset to its Cyprus tax resident and domiciled shareholder (individual) or to his/her relative of up to second degree of kindred or his/ her spouse, without consideration or for a consideration which is less than the market value of the asset disposed, it is deemed that the company has distributed dividends to its shareholder, equal to the difference between the market value of the asset and the amount of the consideration.

The above provision will not apply in case where the asset was received by the company by way of a gift from its shareholder (individual) or from his/her relative of up to second degree of kindred or from his/her spouse.

## Company Dissolution

The cumulative profits of the last five years prior to the company's dissolution, which have been distributed or deemed to have been distributed, will be considered as distributed on dissolution and will be subject to special contribution for defence at the rate of 17% (3% for collective investment schemes)

This provision does not apply in the case of dissolution under a re-organization.

## Reduction of Capital

In the case of a reduction of capital of a company, any amounts paid or due to the shareholders over and above the paid up share capital will be treated as deemed dividends subject to special defence contribution (provided that

the ultimate shareholders are Cyprus tax resident and Cyprus domiciled individuals.

## SOCIAL SECURITY CONTRIBUTIONS

### Contributions

	%
Employer	8,3
Employee	8,3
Self-Employed	15,6

The maximum level of annual income on which social security contributions are paid on is as follows:

	<b>Weekly €</b>	<b>Monthly €</b>	<b>Yearly €</b>
Weekly Employees	1.051		54.652
Monthly Employees		4.554	54.648

Upper limits are adjusted in accordance to inflation rates yearly.

### Other Employer's Contributions

The employer makes the following contributions based on employees' emoluments, up to the above maximum amounts, unless otherwise indicated:

	%
Social Cohesion Fund (no maximum amount)	2,0
Redundancy Fund	1,2
Human Resource Development Fund	0,5

## Minimum limit for emoluments self-employed

	<b>Lower Weekly Limit €</b>	<b>Upper Weekly Limit €</b>
<b>Self - employed</b>	depends on the occupational category	1,051

## Payment of Social Security Contribution

- The contributions that the employer is obliged to pay in accordance with the Law should be paid not later than the end of the calendar month following the month that the contributions relate to.
- The contributions of self-employed are paid on a quarterly basis as follows:

<b>Months that the contributions relate</b>	<b>Date</b>
January – March	10 <sup>th</sup> May
April – June	10 <sup>th</sup> August
July – September	10 <sup>th</sup> November
October – December	10 <sup>th</sup> February

- Failure to pay the contributions on time leads to penalties ranging from 3% to 27% depending on the period of the delay and the amount of the contributions due.

## Contributions to the National Health System

As from 1 March 2019 the contributions towards the National Health System will come into force and will be calculated and paid as a percentage on the gross emoluments/pensions as follows:

	<b>01/03/19-29/02/2020</b>	<b>01/03/2020 onwards</b>
Employees/ Retirees/income earners	1.7%	2.65%
Employers	1.85%	2.90%
Self-employed	2.55%	4.00%
The State	1.65%	4.70%

For the purposes of calculating the National Health contributions the gross emoluments are limited to €180.000 per annum.

# CAPITAL GAINS TAX

Capital Gains Tax (CGT) is imposed on profits from the Disposal of immovable property situated in Cyprus or shares in companies which own immovable property in Cyprus and are not listed on a recognized Stock Exchange.

The tax is imposed on the net profit from disposal at a rate of 20%. In the case of late payment of the tax due, an additional penalty at the rate of 5% is imposed on the unpaid tax.

The net profit is calculated as the disposal proceeds less the market value on 1st January 1980, or the cost of acquisition and the cost of any improvements on the property, if made after 1st January 1980, as adjusted for inflation (using the official Retail Price Index) up to the date of disposal. Expenses related to the disposal of immovable property are also deducted, e.g. transfer and legal fees.

The following expenses are not considered expenses wholly and exclusively for the production of the gain and therefore are not deductible:

- Immovable Property Tax
- Immovable Property Fees
- Sewerage Council Fees

## Exemptions

### Temporary Exemptions

#### **Exemption of capital gains on chargeable property acquired from 16.07.2015 until 31.12.2016**

A capital gain arising from the disposal of chargeable immovable property consisting of land, land with building or land with buildings is exempt, provided that such immovable property has been acquired:

- within the period from 16.07.2015 to 31.12.2016
- by purchase or agreement for purchase, as its market value from a non-connected person and not by way of exchange or gift

the exemption is not given on a disposal of properties that were obtained as a result of a default of the owner on his/her mortgage. This last provision will

not allow the properties that are auctioned by credit institutions as a result of repossession to benefit from the exemption.

### **Principal residence exemption from -7.05.2015 until 06.05.2017**

As from 07.05.2015 no capital gains tax is payable regarding a disposal of a principal residence used by its owner exclusively for residential purposes, if the disposal proceeds do not exceed the amount of €350.000 and the disposal takes place from 07.05.2015 until 31.12.2017, because of a loan restructuring scheme between a borrower and a lender or other legally approved scheme (*under the bankruptcy law or personal loan repayment or a company liquidation order or under the Transfer and Mortgage of Immovable Property Law provisions*).

### **Standard Exemptions**

- Transfer on death
- Gifts to relatives up to the third degree
- Gift to a company whose shareholders are members of the donor's family and continue to be members of the family for a period of five years from the date of the gift
- Gift by a family company to its shareholders provided the property was originally acquired as donation, and the shareholders keep the property for at least 3 years, or they will not be entitled to the deductions listed below
- Gifts to approved charitable institutions and the Government and governmental authorities
- Exchange or disposal in accordance with the Agricultural Land (Consolidation) Laws
- Exchange of properties, provided that the whole of the gain made on the exchange has been used to acquire the other property. The gain from the exchange reduces the cost of the new property and the payment of tax is deferred until the new property is disposed.
- Gain on disposal of shares which are listed on any Stock Exchange
- Expropriations
- Transfers as a result of company re-organizations
- Principal residence (subject to conditions)

- Transfer of property of a missing person under administration
- Transfer of ownership between spouses that their marriage has been dissolved by a court order or in case of transfer of ownership between the same persons for the purpose of settling their property according to the Settlement of Property Relationships between Spouses Law
- Transfer under a qualifying loan "Restructuring" (subject to conditions)

*("Restructuring" means the direct or indirect sale and transfer of immovable property and transfer of rights under a sale contract deposited with the Department of Lands and Surveys, between one or more borrowers and/or debtors and/or guarantors regarding the same credit facility or grant or debt and one or more creditors or non-related persons made from 31 December 2015 up to 31 December 2019, which aims to reduce or repay credit facilities or loans or debts granted to borrowers with one or more lenders.*

*The direct or indirect sale and transfer of immovable property and transfer of rights under a sale contract deposited with Department of Lands and Surveys may also be made to a non "related person" for the reduction or repayment of credit facilities or grants or debts arising under a written agreement with the creditor, who had become non-performing on or before 31 December 2015).*

### Lifetime Deductions for Individuals

	€
Disposal of principal private residence (subject to conditions)	85.430
Disposal of agricultural land by a farmer	25.629
Other disposals	17.086

The above deductions are given to an individual only once and not for every disposal. An individual claiming a combination of the above is only allowed a maximum of €85.430.

## IMMOVABLE PROPERTY TAX

Immovable property tax is abolished as from 1 January 2017 for the tax year 2017 and for each subsequent year.

## TRANSFER FEES ON IMMOVABLE PROPERTY

Transfer fees are calculated on the market value of the property as estimated by the Land Registry Department.

### Transfer Fees

Market Value €	Rate %	Fees €	Cumulative Fees €
Up to 85.000	3	2.550	2.550
85.001-170.000	5	4.250	6.800
Over 170.001	8		

The above rates are reduced by 50% except in the case of transfers under Part VI and Part VIA of the Transfers and Mortgages of Immovable Property Law.

In the case of free transfer fees are calculated on the value of the property as at 1 January 2013 at the following rates:

Transfer to spouse – 0%

Transfer to children – 0,1%

Transfer to relative – 0,1%

## STAMP DUTY

Type of Document	Duty
Letters of guarantee	€4
Letters of Credit	€2
Receipts	€0,07
Custom Declaration documents	€18-€35
Bills of lading	€4
Bills of exchange (payable within 3 days, at sight or on demand)	€1

Charterparty document	€18
General power of attorney	€6
Special power of attorney	€2
Certified copies of contracts and documents	€2
Will	€18
Estate administration document	€9
Contracts:	
For amounts up to €5.000	0%
For amounts between €5.001-€170.860	0,15%
For amounts over €170.860	0,2%(Max €20.000
Without fixed amount	€35
Issue of tax residency certificate by the Inland Revenue Department	€80

Transactions related to company reorganization are exempt from stamp duty.

## COMPANIES REGISTRAR RIGHTS & FEES

Registration of a limited company by shares or guarantee, with share capital	€105
Registration of a company without share capital	€175
Registration of an increase in the company's share capital	€40
Registration of issue of shares where the value of the shares issued is payable in cash or in kind	€20
Change of name of company	€40
Reduction of Capital	€80
Application for registration of a general or a limited partnership	€120
Application for registration of a business name	€80

### Filing with the Registrar of the following documents:

Annual Report	€20
Annual Report which is overdue	€40
Notification of a registered mortgage on immovable property in the Republic of Cyprus irrespective the sum of money	€20

### Registration of a charge apart from a mortgage on immovable property within the Republic of Cyprus:

On the form of notification of the charge	€40
On the charge document securing maximum amount:	
• For a sum of money up to €17.086,00	€100
• For a sum of money exceeding €17.086,01 but not over €34.172,03	€200
• For a sum of money exceeding €34.172,03 but not over €85.430,07	€340
• For a sum of money exceeding €85.430,07 but not over €170.860,14	€500
• For a sum of money over €170.860,14 where no amount is mentioned	€600

## SPECIAL LEVY

All companies registered in Cyprus are required to pay an annual levy of €350 no later than the 30th of June of each year, including their year of incorporation.

In the case of a group of companies the total amount of levies to be paid by all members of the group shall not exceed €20.000.

### Penalties

Late payment of the special levy is penalized as follows:

- in case of a delay of up to 2 months a penalty of 10% is imposed
- in case of delay between 2 – 5 months a penalty of 30% is imposed

Non-payment of the levy may result in deregistration (strike-off) of a company by the Cyprus Registrar of Companies.

If the company is struck-off, it may be reinstated within two years by the Registrar of Companies upon payment of €500 (*in addition to the outstanding amount of the levy*). In such case the reinstatement will be automatic and the Registrar shall re-enter the company in the Register.

In case the company is not reinstated within two years from the date on which it was struck-off, the Registrar shall again make the relevant entry in the

Register and reinstate the company but the amount payable for this shall be €750 (in addition to the outstanding amount on the special levy).

## VALUE ADDED TAX

VAT is imposed on the provision of goods and services in Cyprus, on the supply of goods from other European countries, and on the importation of goods from other countries.

Taxable persons charge VAT on their taxable expense (output tax) and are charged VAT on goods and services which they receive (input tax).

If output tax in a VAT period exceeds input tax, a payment has to be made to the state. If input tax exceeds in a period output tax the excess input tax is carried forward as a credit set off against future output VAT.

### Intra-Community trade

In the case of intra community acquisitions, the trader does not pay VAT on receipt of the goods in Cyprus but instead accounts for VAT using acquisition accounting. This involves simple accounting entry in the books of the business whereby itself charges VAT and at the same time claims it back if it relates to taxable supplies, thus not creating any cost to the business.

In cases where the acquisition relates to an exempt transaction, the trader must pay the VAT that corresponds to the acquisition.

### Rates

Standard rate	19%
Reduced rate	9%
Reduced rate	5%
Zero rate	0%

### **Standard rate 19%:**

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

### **Reduced rate 9%:**

The reduced rate of 9% applies to:

- All restaurant services and other catering services (including the supply of alcohol, beer, wine and soft drink)
- Accommodation in hotels, tourist lodgments and any other similar lodgments including the provision of holiday lodgments.
- Transportation of passengers and their accompanying luggage within the Republic using urban, intercity and rural taxis and by tourist intercity buses
- Movement of passengers in inland waters and their accompanying luggage

### **Reduced rate 5%:**

The reduced rate of 5% applies to:

- The supply of food stuff
- The supply of food stuff for animal
- The supply of live animals used for the preparation of food
- Books, newspapers and magazines
- The supply of pharmaceutical products and vaccines for medical and veterinary purposes
- Entry fees to theatres, circus, festivals, Luna parks, concerts, museums, zoos, cinemas, exhibitions etc.
- Entry fees at sports events and fees for using athletic centers
- Hairdressing services
- Repair and maintenance of private households after 3 years of initial residence
- Supply of food in the school canteens
- Acquisition or construction of residence as from October 1st 2011 (subject to conditions)

### **Zero rate:**

The zero rate applies to:

- Export of goods
- Transportation of passengers and goods in and out of the Republic, via aircrafts and seagoing vessels
- Supply, modification, repair, maintenance, chartering and hiring of aircrafts used by airlines operating for reward mainly on international routes
- Ship management services
- Supplies of gold to the Central Bank of the Republic etc
- Supply of services to meet the direct needs of vessels and aircrafts

**Exemptions:**

The following goods and services are exempt from VAT:

- Rental income from immovable property for residential purposes (**see page 45-46**)
- Financial services (some exemptions apply)
- Hospital, medical and dental services
- Postal services
- Insurance services
- Building land and second hand buildings
- Disposal of immovable property where the application for building permit has been submitted to the authorities prior to May 1st 2004
- Management services to mutual funds
- Educational services at all levels of education under some conditions

## Irrecoverable input VAT

Input VAT cannot be recovered in the following cases:

- Acquisitions used for making exempt supplies
- Purchase or import or hire of saloon cars
- Entertainment and hospitality expenses (except those relating to employees and directors)
- Housing expenses of directors

Every individual is obliged to register if:

- at the end of any month, the value of the taxable supplies recorded in the last 12 months exceeds €15.600 or
- at any point in time the value of taxable supplies are expected to exceed €15.600 in the next 30 days
- services are provided to a VAT registered person within the European Union with nil registration threshold
- distant sales are offered with registration threshold of €35.000
- is involved in the acquisition of goods from other European member states and relates to persons who offer exempt supplies of goods and services or are non-profitable organizations with registration threshold of €10.250
- zero rated goods and services are supplied
- a company on a going concern basis is acquired

Businesses with a turnover of less than €15.600 can be registered voluntarily if they are trading in taxable supplies.

## VAT returns and payment

VAT returns must be submitted on a quarterly basis and the payment of the VAT must be made within 40 days from the end of each quarter.

Any registered person has to submit to the Commissioner a VAT return not later than the 10<sup>th</sup> day following the end of the month following the end of each VAT period and pay the VAT due.

As from 2 May 2017 all taxable persons have to submit their quarterly VAT returns online, via the Taxisnet system.

Claim for a VAT refund is made electronically by completing form 4B via the Taxisnet system as from the 2<sup>nd</sup> of May 2017.

Every taxable person who makes a claim for VAT refund will be entitled to repayment of the VAT amount with interest, in the event that the repayment

is delayed for a period exceeding four months from the date of the submission of the claim.

In case a VAT audit regarding the claims is conducted by the Commissioner, the time period of four months is extended to eight months.

From 2018, VAT refunds will be made via bank transfer.

Payment of the VAT due can be made through the till of any commercial bank, by bank transfer to the Central Bank, as well as via the «Internet Banking» platform of selected banking institutions.

## Administration of Intra-community trade and intra-community services

### **Suppliers**

1. Complete the VIES return form on a monthly basis. The VIES form is submitted within 15 days after the end of the relevant month by electronic filing only.
2. Complete the Intrastat return form for supply of goods on a monthly basis.
3. Record intra-community supplies on the VAT return form.
4. Include the EU VAT number of the buyer in the invoice.

### **Buyers**

1. Complete the Intrastat return form for acquisition of goods on a monthly basis. The Intrastat return forms are submitted within 10 days after the end of the relevant month in electronic form only (as from July 2012).
2. Record intra-community acquisitions on the VAT return form.
3. Inform the supplier of their EU VAT numbers prior to the issuance of the invoice.

## Penalties and Interest

Late Registration €85 for every month of delay

Late submission of Return €51 for each return

Late Payment of VAT	10% of amount due plus interest
Late de-registration	€85 one-off
Late submission of Intrastat form	€15 for each return
Late submission of VIES form	€50 for each return
Late submission of corrective VIES form	€15 for each return

## Tax Tribunal/Appeals

As from 7 July 2017, the right of taxable persons to appeal to the Minister of Finance is abolished and replaced with their right to submit a hierarchical appeal to the Tax Tribunal.

The hierarchical appeal should be filed within 45 days from the date of the notification to the taxable person of the relevant decision or act of the Commissioner (may be extended subject to the approval of the Tax Tribunal).

## Imposition of 19% VAT on leasing and/or letting of immovable property for business purposes

As from 13 November 2017, VAT at 19% is imposed on the leasing and/or letting of immovable property to a taxable person for the purposes of carrying on taxable activities, commencing on/or after 13 November 2017.

The leasing of buildings used as residences remains an exempt transaction for VAT purposes.

The lessor has the right to notify the Tax Commissioner by submitting a relevant form, to opt for the non-imposition of VAT to the lessee of the immovable property, subject to the terms and conditions specified in the relevant Notification of the Tax Commissioner.

The initial decision of the lessor, to opt for the non-imposition of the VAT of the immovable property is irrevocable.

## Imposition of 19% VAT on non-developed building land

As from 2 January 2018, VAT at 19% is imposed on the transfer of non-developed building land. Specifically, VAT is imposed on the transfer of ownership, transfer of indivisible land portion, transfer of ownership under a sale agreement or an agreement which specifically provides that the ownership will be transferred on future date or by virtue of a leasing agreement with the right to buy non-developed building land which is intended for the construction on one or more structures in the course of carrying out a business activity.

Non-developed building land includes all non-developed land plots that are intended for the construction of one or more structures. In the above definition are included non-developed building land that is either covered or not from the water supply and cover land plots of all sorts as listed below:

- Land plots under development
- Finished land plots
- Land plots with a final approval certificates or,
- Land plots with land title

Other types of land plots are also included in the list of non-developed building.

## Long-term lease of immovable property

As from 1 January 2019 the long term leasing of immovable property which essentially gives the lessee the right to sell the property as owner or the right to sell the property is considered as a supply of good and not as a supply of service which is subject to VAT at 5% or 19% (depending on the case of the purchaser).

The imposition of VAT does not cover cases where the right of the immovable property is transferred after its first occupation and is therefore not subject to VAT.

Transitional provisions apply for all cases which were completed or agreed before 1 January 2019 and each case must be examined separately.

## Imposition of the reduced rate of 5% on the acquisition and/or construction of residences for use as the primary and permanent place of residence

As from 8 June 2012, the reduced rate of 5% applies to the acquisition and/or construction of residences to be used by eligible persons (residents of the Republic or/and other EU member states or other non-EU member states) as the primary and permanent place of residence, only after obtaining a certified confirmation from the Commissioner.

The statutory declaration may be filed at any stage at the time of construction of the residence or in case of supply prior to the eligible person obtaining possession.

As from 18 November 2016, the reduced rate 5% applies for the first 200 square meters of the residence's buildable area as determined by the building coefficient (and not on the first 200 square meters of a residence which does not exceed 275 square meters as was the case up until 17 November 2016).

In case of families with more than 3 children the allowable total covered area increases respectively.

Under the new provisions of the law which apply as from 18 November 2016, a person who has exercised the right to purchase a residence with a reduced rate of VAT is eligible to exercise this right again for the purposes of the purchase of another residence before 10 years have elapsed only if that person has ceased to use the residence as the primary and permanent place of residence before the period of 10 years has elapsed, has notified the Tax Commissioner accordingly and has paid the difference in the VAT between the reduced VAT rate and standard VAT rate as were applicable during the time of delivery or construction of the residence.

## Imposition of the reduced rate 5% on the renovation and repair of private residential homes

The reduced rate of 5% on the renovation and repair of private residential homes applies to all the residential homes (and not only to the main and permanent place of residence applied as of 03/12/2015). The renovation and repair consists of plumbing, electrical, carpentry, painting, building, and construction work. In cases that the value of the materials exceeds the total value of the supply by more than fifty per cent (50%), the value of the materials is subject to the standard rate of VAT.

## **MAINTENANCE OF ACCOUNTING BOOKS & RECORDS**

For every individual, company or partnership engaging in any type of business activity, profession or vocation, or any other occupation generating income the following apply:

- Issue receipts and invoices (within 30 days from the date of transaction)
- In case of a business maintaining stocks, annual stock takes are compulsory
- maintain accounting books and records which must be updated by the end of the 4th month following the month to which they relate
- an individual having annual turnover of less than €70.000 does not have an obligation to maintain books and records

The commissioner of Income Tax can inspect business premises with reasonable notification.

In the case where invoices are not issued within the deadlines stated above a penalty of €100 per month is imposed, as from 01.01.2012.

Also in the case that books and records are not updated within the deadlines stated above a penalty of €100 per month will be imposed, as from 1.1.2012. Books and records must be kept for a period of at least 6 years.

# CONSOLIDATION

The Companies' Law ("Basic Law") was amended by the Law 97 (I) of 2016, as published in the official gazette of the Republic on 23 September 2016 (the "Amending Law"). The provisions of the Amending Law are the result of the transposition of the EU Accounting Directive (2013/34/EU) into domestic law.

These changes have had an impact on the requirements regarding the preparation of Consolidated Financial Statements, as indicated below:

## Categories of Companies and Groups:

### A. Categories of Companies

Categories of companies have been established as set out in the table below.

**Table 1**

Category	Criteria			Condition	
	Total Assets	Gross	Net Turnover (1)	Average No of employees during the FY	
<b>Small Companies</b>	Less than €4.000,000	Less than	Less than €8.000,000	Less than 50	As at their balance sheet dates do not exceed the limits of at least two of the three criteria.
<b>Medium-sized Companies</b>	Less than €20.000,000	Less than	Less than €40.000,000	Less than 250	Are not small companies and which as at their balance sheet dates do not exceed the limits of at least two of the three criteria.
<b>Large Companies</b>	More than €20.000,000	More than	More than €40.000,000	More than 250	As at their balance sheet dates exceed at least two of the three criteria.

1 'Net turnover' means the amounts derived from the sale of products and the provision of services after deducting sales rebates and value added tax and other taxes directly linked to turnover.

## B. Categories of Groups

**Table 2**

Category	Criteria			Condition
	Total Gross Assets <sup>2</sup>	Net Turnover (1), (3)	Average No. of employees during the FY	
<b>Small Groups (2)</b>	Less than €4.000,000	Less than €8.000,000	Less than 50	On a consolidated basis, do not exceed the limits of at least two of the three criteria as at the balance sheet date of the parent company
<b>Medium-sized Groups (2)</b>	Less than €20.000,000	Less than €40.000,000	Less than 250	Groups which are not small groups, and which, on a consolidated basis, do not exceed the limits of at least two of the three criteria as at the balance sheet date of the parent company
<b>Large Groups (2)</b>	More than €20.000,000	More than €40.000,000	More than 250	Groups which on a consolidated basis, exceed the limits of at least two of the criteria as at the balance sheet date of the parent company

<sup>1</sup> 'Net turnover' means the amounts derived from the sale of products and the provision of services after deducting sales rebates and value added tax and other taxes directly linked to turnover.

<sup>2</sup>As groups shall be considered any groups consisting of parent and subsidiary companies to be included in a consolidation.

<sup>3</sup> For the purpose of calculation of the limits presented in Table 2 above, it is permissible not to apply the following:

Carrying value of the share capital of the group entities and the percentage of the share capital of the subsidiaries participating in the group can be netted-off against the percentage of their Net Assets;

Offset the following intercompany balances and transactions:

Intercompany assets and liabilities,

Intercompany revenues and expenses,

Unrealized profits/losses on intercompany transactions.

In such cases, when the above are not applied, the limits for the Total Gross Assets and Net Turnover criteria shall be increased by 20%. (Article 141.A)

### **Exemptions from consolidation**

The exemption of the Law to prepare consolidated financial statements which applied to small groups has been extended to apply to Small and Medium-size groups (as these are defined in section I above) except where any affiliated<sup>1</sup> company is a public-interest entity or where the obligation to draw up consolidated financial statement is required by other legislations. (Article 142(1)(ε))

The provisions of the Law exempting group of companies from preparing consolidated financial statements if the ultimate parent or parent companies publish consolidated financial statements based on Generally Recognized Accounting Principles continue to apply

The provisions for consolidation exemption in the cases of (i) severe and long-term restrictions, (ii) disproportionate cost or undue delay and (iii) held exclusively with the view to subsequent sell, as these were provided by the Article 142.A.(5) of the Law have been abolished.

## ADMINISTRATIVE PENALTIES

An administrative penalty of €100 or €200 (depending on the specific case), is imposed for the late submission of a tax return or late submission of supporting documentation requested by the Commissioner.

In the case of late payment of the tax due, a penalty of 5% is imposed on the unpaid tax. An additional penalty of 5% is imposed if the tax remains unpaid 2 months after the payment deadline.

### **Public interest rate**

The public interest rate for late payment of tax is set by the Minister of Finance through a decree and it is applicable for the whole year. The rate for 2019 is 2%.

The applicable interest rates for the previous years are as follows:

Period	Interest rate %
<b>Up to 31/12/2006</b>	9
<b>01/01/2007 – 31/12/2009</b>	8
<b>01/01/2010 – 31/12/2010</b>	5,35
<b>01/01/2011 – 31/12/2012</b>	5
<b>01/01/2013 – 31/12/2013</b>	4,75
<b>01/01/2014 – 31/12/2014</b>	4,5
<b>01/01/2015 – 31/12/2015</b>	4
<b>01/01/2016 – 31/12/2016</b>	4
<b>01/01/2017 – 31/12/2017</b>	3,5
<b>01/01/2018 – 31/12/2018</b>	3,5
<b>01/01/2019 – 31/12/2019</b>	2,0

ACS Accountserve Ltd. has taken all reasonable care to ensure the information provided in this booklet is accurate to the date of publication. The information contained herein is a summary of the Cyprus Legislation and is designed to increase general awareness of the Cyprus Tax System. For explanations/clarifications or professional advice please contact us at [info@acs.com.cy](mailto:info@acs.com.cy) tel. 22777012 fax. 22772543, Alkaiou 24, 1st floor, 2064 Strovolos, Nicosia, CYPRUS.