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CYPRUS TAX FACTS

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## CONTENTS

01	CORPORATION TAX	4
02	SPECIAL CONTRIBUTION FOR DEFENCE FUND	10
03	CAPITAL GAINS TAX	13
04	PERSONAL INCOME TAX	15
05	SOCIAL INSURANCE	20
06	VALUE ADDED TAX	22
07	IMMOVABLE PROPERTY TAX	30
08	TRANSFER FEES BY THE LAND REGISTRY DEPARTMENT	32
09	TRUSTS	34
10	STAMP DUTIES	36
11	DOUBLE TAXATION AGREEMENTS	38
12	TAX CALENDAR	43
13	PENALTIES	45

# 01

## CORPORATION TAX



# 01

## CORPORATION TAX

### CYPRUS TAX RESIDENT COMPANIES

Companies which are tax residents of Cyprus are taxed on all income accrued or derived from all sources in Cyprus and abroad. A company must register with the Inland Revenue Department within 60 days of incorporation.

### NON-CYPRUS TAX RESIDENT COMPANIES

A non-Cyprus tax resident company is taxed on income arising from immovable property in Cyprus and on income accrued or derived from a business activity, which is carried on through a permanent establishment in Cyprus. Permanent establishment is a fixed place of business through which the business of an enterprise is wholly or partly carried on. The term permanent establishment includes a place of management, a branch, an office, a factory and a workshop.

As per the Income Tax Legislation (Article 5(4)), legal or natural persons non-Cyprus tax resident but with a permanent establishment in Cyprus, may elect to be treated as Cyprus tax resident persons.

A Company is a tax resident of Cyprus if it is managed and controlled in Cyprus. Under the Cyprus Law there is no exact definition of management and control. However, the basic requirements for management and control are as follows:

- The residency of the majority of the directors.
- The location where the board meetings of the Company are held.
- The location of the formation of the general policy of the Company.

### CORPORATION TAX RATES

All companies are taxed at a rate of 10% on the net profits.

### EXEMPTIONS

TYPE OF INCOME	EXEMPTION LIMIT (%)
Profit from the sale of securities (Note 1)	100
Dividends	100
Interest not arising from the ordinary activities or closely related to the ordinary activities of the Company (passive income)(Note 2)	100
Profits of a permanent establishment abroad, subject to certain conditions (more than 50% of the income of the permanent establishment abroad derives from trading activities and the tax rate abroad is not significantly lower than the rate applicable in Cyprus)	100
Unrealized foreign exchange profits	100

## TAX DEDUCTIONS

All expenses incurred, which are wholly and exclusively for the purpose of the trade are allowable including the following:

TYPE OF EXPENSE	EXEMPTION LIMIT(%)
Donations to charities approved by the Council of Ministers.	100
Bad debts of any business	100
Entertaining expenses for business purposes	Up to 1% of the total gross income or € 17,086.01, whichever is the lowest
Expenditure for scientific research	100
Employer's contribution to social insurance and approved funds on employees' salaries	100
Expenditure on patents or patent rights or royalties incurred for the benefit of the business	100
Interest in relation to the acquisition of business assets used in the business provided it concerns a taxable activity	100

No expenses are allowed unless supported by invoices, receipts or other relevant documents

## TAX LOSSES

The tax loss incurred during the year, which cannot be set off against other income, is carried forward to be utilized from the first available future taxable profits. The provision is applicable for all losses incurred from 1997 onwards.

Set-off of group losses are allowable only with profits of the corresponding fiscal year. Both Companies should be Cyprus companies and should be members of the same group for the whole year of assessment.

**Two companies are deemed to be members of the group if:**

- One is by 75% subsidiary of the other; and
- both companies are by 75% subsidiaries of a third company (direct and indirect control).

A partnership or a sole trader converted to a limited liability company can transfer tax losses into the company for future utilization.

Losses from permanent establishment abroad can be set off with profits of the company in Cyprus. Subsequent profits of the permanent establishment abroad are taxable up to the amount of losses allowed.

## ANNUAL WEAR AND TEAR ALLOWANCES ON FIXED ASSETS

The following allowances which are given as a percentage on the cost of acquisition deducted from the chargeable income:

FIXED ASSETS	(%)
<b>A. Plant and Machinery</b>	
Plant and Machinery	10
Furniture and fittings	10
Televisions and videos	10
Industrial carpets	10
Boreholes	10
Machinery and tools used in an agricultural business	15
<b>B. Motor vehicles (except saloons) and motorcycles</b>	20
<b>C. Computer Hardware and software</b>	
Hardware and operating systems	20
Application software	
Costing up to € 1,708.60	100
Over € 1,708.60	33 1/3
<b>D. Tractors, excavators, trenches, cranes, bulldozers</b>	25
<b>E. Buildings</b>	
Commercial Buildings	3
Industrial, agricultural and hotel buildings	4
Flats	3
Metallic greenhouse structures	10
Wooden greenhouse structures	33 1/3
<b>F. Boats</b>	
Sailing vessels	4.5
Steamers, tugs and fishing boats	6
Ship motor launches	12.5
New cargo vessels	8
New passenger vessels	6
Used cargo/ passenger vessels	Over their useful lives
<b>G. Tools</b>	
Tools in general	33 1/3

## SPECIAL TYPE OF COMPANIES

**A. Shipping and Ship Management Companies.**

A new Cyprus Tonnage tax Scheme is in place. Please contact us directly concerning Cyprus Shipping.

**B. Insurance companies**

Profits of insurance companies are liable to corporation tax similar to all other Companies, except in the case where the corporation tax payable on taxable profit of life insurance business is less than 1,5% on gross premium. In this case the difference is paid as additional corporation tax.

The Income Tax Legislation depicts the method of computing these profits in a special manner in order to consider also the reserves as required by the insurance legislation.

**C. Trading Companies with inventories of goods.**

Such companies are required to carry out a year-end stock count. If requested , the stock count records must be made available to the Inland Revenue Department.

## NOTES

1. The following list of investments / financial instruments fall within the term “securities” for the purpose of this exemption:

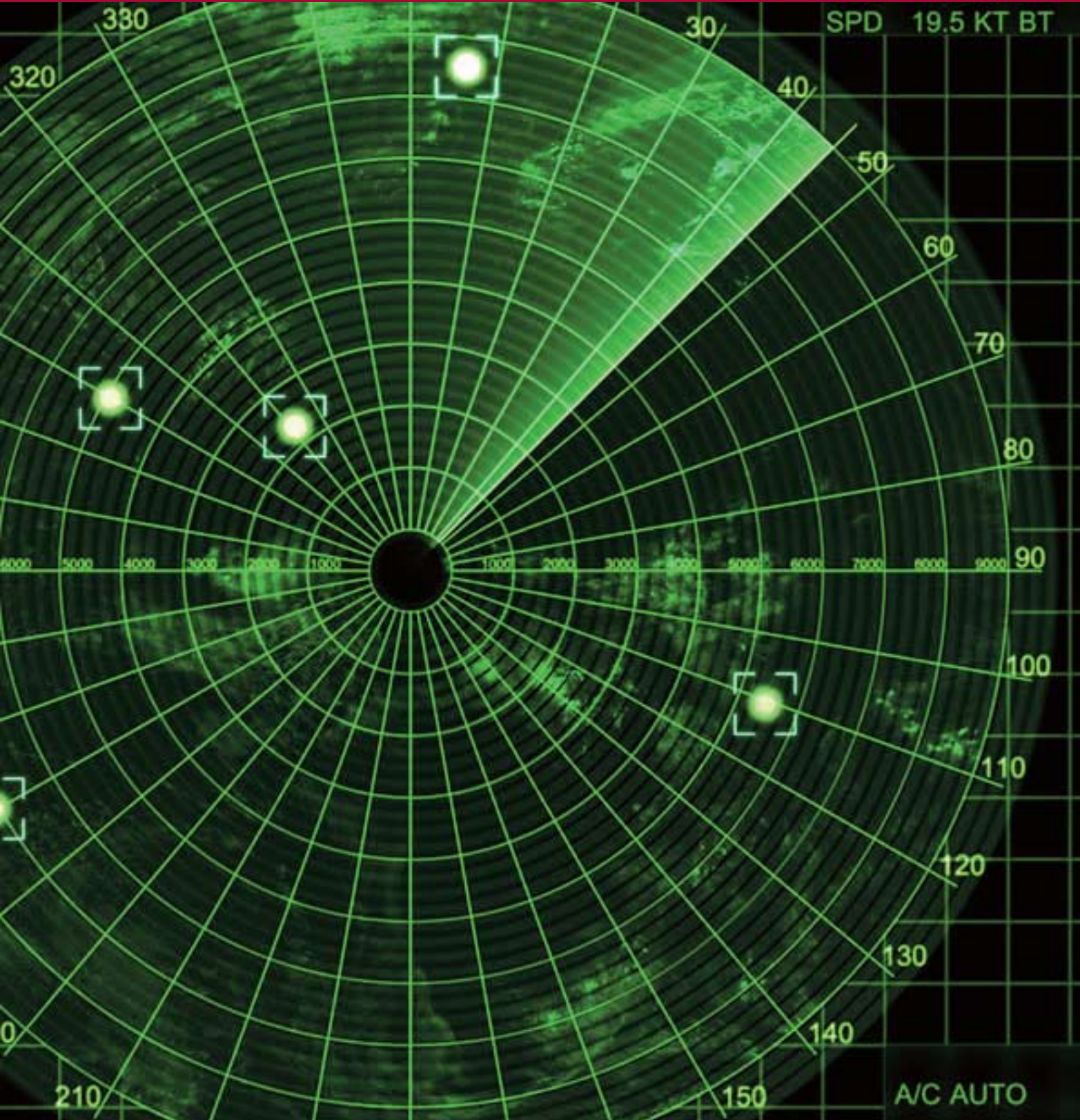
- ordinary shares;
- founders’ shares;
- preference shares;
- options on titles;
- debentures;
- bonds;
- short positions on titles;
- futures/ forwards on titles;
- swaps on titles;
- depositary receipts on titles (such as American Depositary Receipts – ADRs and Global Depositary Receipts – GDRs);
- rights of claim on bonds and debentures (excluding rights on the interest income attached on such rights);
- index participations (only if they represent titles);
- repurchase agreements or REPOS on titles;
- participations in companies like Russian entities designated as OOO, ZAO, in American companies designated as LLC (provided that these entities are not transparent entities for the purpose of taxation of their income) in Romanian companies designated as SA and SRL and in Bulgarian companies designated as AD and OOD;
- units in open-end collective investment schemes (which have been established, registered and operating as per the provisions of a particular and relevant legislation of the country in which they have been created). Examples:
  - Investment trusts investment funds, mutual funds, unit trusts and real estate investment trusts (REIT);
  - International collective investment schemes (ICIS);
  - Undertakings for collective investments in transferable securities (UCITS);
  - Similar investing organizations.

It should be noted that promissory notes and bills of exchange do not fall under the definition of “securities”.

2. A written request could be submitted to the Inland Revenue Department for the issuing of a tax ruling in advance clarifying as to whether a certain transaction/ financing arrangement is to be treated as falling within the ordinary activities/ or closely connected therewith, of the business.

# 02

## SPECIAL CONTRIBUTION FOR DEFENCE FUND



# 02

## SPECIAL CONTRIBUTION FOR DEFENCE FUND

Special contribution for defense fund is imposed on the income earned by Cyprus tax residents. Non-tax residents are exempt from special contribution for defense fund. Such tax is charged at the rates shown in the table below and levied on the gross income received or credited.

### TAX RATES

	INDIVIDUALS %	LEGAL ENTITIES %
Dividend income from Cyprus resident Companies *	15	Nil
Dividend income from non-Cyprus resident Companies	15	Nil
Interest income arising from the ordinary activities or closely related to the ordinary activities of the business (active income) and interest earned by an open or close collective investment scheme	Nil	Nil
Other interest (passive income) and notional interest.	10	10
Interest from saving certificates, development bonds and deposits with the Housing Finance Corporation	3	10
Interest accruing to provident fund	Nil	3
Rental income minus 25%	3	3

\* Donation of assets to related parties is deemed to be a dividend distribution at the market value of the donated assets and will be taxed at the applicable rates.

### EXEMPTION

Dividend income from abroad is exempted from defense contribution provided that:

- more than 50% of the income of the company paying the dividends derives directly or indirectly from trading activities, or;
- the foreign tax rate must exceed half the tax rate payable in Cyprus.

When the exemption does not apply, the dividend income is subject to defense contribution at the rate of 15%.

### REFUND

For individuals, whose annual income (including interest), does not exceed the amount of € 11,960.21 the rate is reduced to 3%.

### PAYMENTS

Special contribution for defense is payable in 6 monthly intervals on 30 June and 31 December each year.

In the case gross interest and royalties are received, any defense due is payable at the end of the month following the month in which they were received.

For rents paid by companies, partnerships, the Government or any Local Authority, Special Contribution to Defence Fund must be withheld at source and paid on the above 6 monthly basis.

## 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 (after some adjustments) are deemed to have been distributed;
- 15% special contribution for defence is imposed on deemed dividend distribution applicable to shareholders (individuals and companies) who are residents of Cyprus;
- Deemed distribution is reduced with payments of actual dividends which have already been paid during the two years from the profits of the relevant year.

When an actual dividend is paid after the deemed dividend distribution, then defence tax is imposed only on the additional dividend paid.

Deemed distribution does not apply to the shareholders who are not Cyprus residents.

In the case of actual dividend distribution to non – Cyprus tax resident shareholders out of profits which at some point have been subjected to the provisions of deemed dividend distribution, then the corresponding amount of special defence contribution is refunded to these non – Cyprus tax resident shareholders.

## DISSOLUTION OF COMPANIES

The total profits of the last five years prior to the dissolution not yet distributed as dividends are deemed to be distributed in the dissolution and will be subject to Special Defence Contribution at the rate of 15% applicable to shareholders. The declaration of deemed distribution and the payment of the relevant Special Contribution to Defense Fund must be made within 30 days from the date of the resolution for liquidation.

These provisions do not apply in the case of dissolution under reorganization, in accordance with certain pre-requisites set out in regulations and where the shareholders are non-residents in the Republic.

## REDUCTION OF CAPITAL

In the case of a reduction of capital of a company, any amounts due or paid to the shareholders in excess of the share capital will be considered as distributed dividends subject to special defence contribution at 15% (after deducting any amounts which have been deemed as distributable profits).

These provisions do not apply where the shareholders are non-residents in the Republic.

## TAX CREDIT FOR FOREIGN TAX PAID

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

# 03

## CAPITAL GAINS TAX



# 03

## CAPITAL GAINS TAX

Capital gains tax is imposed on gains from the disposal of immovable property situated in Cyprus including gains from the disposal of shares in companies, which own immovable property situated in the Republic and such shares are not listed in stock markets.

### TAX RATE AND DETERMINATION OF PROFIT

The tax is imposed on the net profit from disposal at the rate of 20%. The tax is payable within one month from the date of the disposal.

The net profit is calculated as the disposal proceeds, less the greater of the cost or market value on 1 January 1980 adjusted for inflation. Inflation is calculated using the official Retail Price Index.

### EXEMPTIONS

The following disposals of immovable property are not subject to Capital Gains Tax:

- Transfer arising on death;
- Gift made from parent to child or between husband and wife or between up to third degree relatives;
- Gift to a limited company where the company's shareholders are members of the donor's family and the shareholders continue to be members of the family for five years after the date of transfer;
- Gift by a family company to its shareholders, provided such property was originally acquired by the company by way of donation. The property must be kept by the recipient for at least 3 years;
- Gift to charities and Government;
- Transfer of shares or immovable property as a result of reorganization;
- Exchange or disposal of immovable property under the Agricultural Land (Consolidation) Laws;
- Gain on disposal of shares, which are listed on any Stock Exchange;
- Transfer of property between ex-husband and ex-wife whose marriage has been dissolved following court order and the transfer of property between such people in the process of regulating matrimonial matters as per the relevant legislation.

### LIFETIME EXEMPTIONS FOR INDIVIDUALS

Individuals can deduct from the capital gain the following:

	€
Disposal of principal residence	85,430.07
Disposal of agricultural land by a farmer	25,625.02
Disposal of any other property	17,086.01

The above exemptions are given only once and not for every disposal. An individual claiming a combination of the above is only allowed a maximum exemption of €85,430.07.

# 04

## PERSONAL INCOME TAX



# 04

## PERSONAL INCOME TAX

### TAXATION

Cyprus tax residents are taxed on all income accrued or derived from all sources in Cyprus and abroad. Non-tax resident individuals are taxed on income accrued or derived from sources in Cyprus only provided that they are physically in Cyprus when earning this income.

### CYPRUS TAX RESIDENTS

An individual is considered to be tax resident in Cyprus if he stays in Cyprus more than 183 days in the year of assessment.

**Tax residents are taxable on the following income:**

- Income from business in Cyprus and outside Cyprus;
- Income from any office or employment;
- Dividends and interest;
- Rents and royalties in Cyprus and abroad;
- Pensions and annuities in Cyprus.

### NON - TAX RESIDENTS

Non-tax residents are taxable on the following income:

- Income from a permanent establishment situated in Cyprus;
- Income 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;
- Directors' fees and similar remunerations in their capacity as directors of companies considered to be tax resident companies of Cyprus.

### PERSONAL TAX RATES

CHARGEABLE INCOME €	CHARGEABLE INCOME %	AMOUNT OF TAX €	ACCUMULATED TAX €
0-19,500	Nil	Nil	Nil
19,501-28,000	20	1,700	1,700
28,001-36,300	25	2,075	3,775
Over 36,301	30		

## 04

## PERSONAL INCOME TAX

## EXEMPTIONS FROM INCOME TAX

TYPE OF INCOME	EXEMPTION LIMIT %
Income from interest	100
Income from dividends.	100
Profits from the sale of securities*.	100
Lump sum payment on retirement, computation of pension or compensation for death or injuries.	100
Capital sums from life insurance or approved provident funds.	100
Profits of a permanent establishment abroad under certain conditions.	100
Remuneration for salaried services rendered outside Cyprus for more than 90 days in a tax year to a non-Cyprus resident employer or to a foreign permanent establishment of a Cyprus resident employer.	100
Remuneration from any office or employment exercised in Cyprus by an individual who was not resident of Cyprus before commencement of his employment, for a period of 3 years commencing from 1st January following the year of commencement of the employment.	20 or €8,543.01 (lower of)
Widow's pension	100
Income from scholarship or other educational endowment	100

\* Securities are those listed as per Note 1 of Chapter 1: Corporation Tax.

## 04

## PERSONAL INCOME TAX

## TAX DEDUCTIONS FROM INCOME

	DEDUCTION LIMIT (%)
Contributions to trade unions or professional bodies	100
Rental income	20% of the rents
Interest paid in respect of rented buildings	100
Loss of current year and previous years	100
Donations to approved charities	100
Expenditure incurred for the maintenance of a building in respect of which there is in force a preservation order	Up to € 512.58, €854.30 or €939.73 per square meter (depending on the size of the building)
Social insurance, provident fund, medical fund, pension fund contributions and life insurance premiums (the allowable annual life insurance premium is restricted to 7% of the insured amount)	Up to 1/6 (of the chargeable income)
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.	
• Cancellation within 3 years	30
• Cancellation from 4 to 6 years	20

# 04

## PERSONAL INCOME TAX

### EXAMPLE OF PERSONAL TAX COMPUTATION

	€		
Salary	42,000		
Rental Income	5,000		
Interest receivable	300		
Dividends receivable	250		
Social insurance contribution	2,860		
Life insurance premiums	3,200		
Insured amount	40,000		
Donations to approved charities			
Professional subscriptions	400		
Provident fund contributions	3,000		
<b>Tax Computation</b>		<b>€</b>	<b>€</b>
Salary		42,000	
Rental Income		5,000	
Dividends receivable (exempt)		-	
Interest receivable (exempt)		-	
<b>Total income</b>		<b>€</b>	<b>€</b>
Deductions			47,000
Professional subscriptions		400	
Donations		200	
20% of rental income		1,000	1,600
<b>Net total income</b>			<b>45,400</b>
Life insurance premium: Restricted to 7% of the insured amount ( $€40,000 \times 7\% = €2,800$ )			7,567
Provident fund, social insurance contributions and life insurance premiums restricted to 1/6 of the net total income ( $3,000 + 2,860 + 2,800 = 8,660$ ) Restricted to 1/6 of 45,400*			
Chargeable Income			37,833
<b>Tax Payable</b>			
-First €36.300			3,775
-Rest € 1,533			459.90
<b>Income tax payable</b>			<b>4,234.90</b>
Special contribution for Defence			
Dividends receivable $€250 \times 15\%$			38
Interest receivable $€300 \times 10\%$			30
Rent receivable $€5,000 - 25\% = €3,750 \times 3\%$			113
Special defence contribution payable			181

\* Net total income is equal to total income including dividends and interest less deductions.

# 05

## SOCIAL INSURANCE



# 05

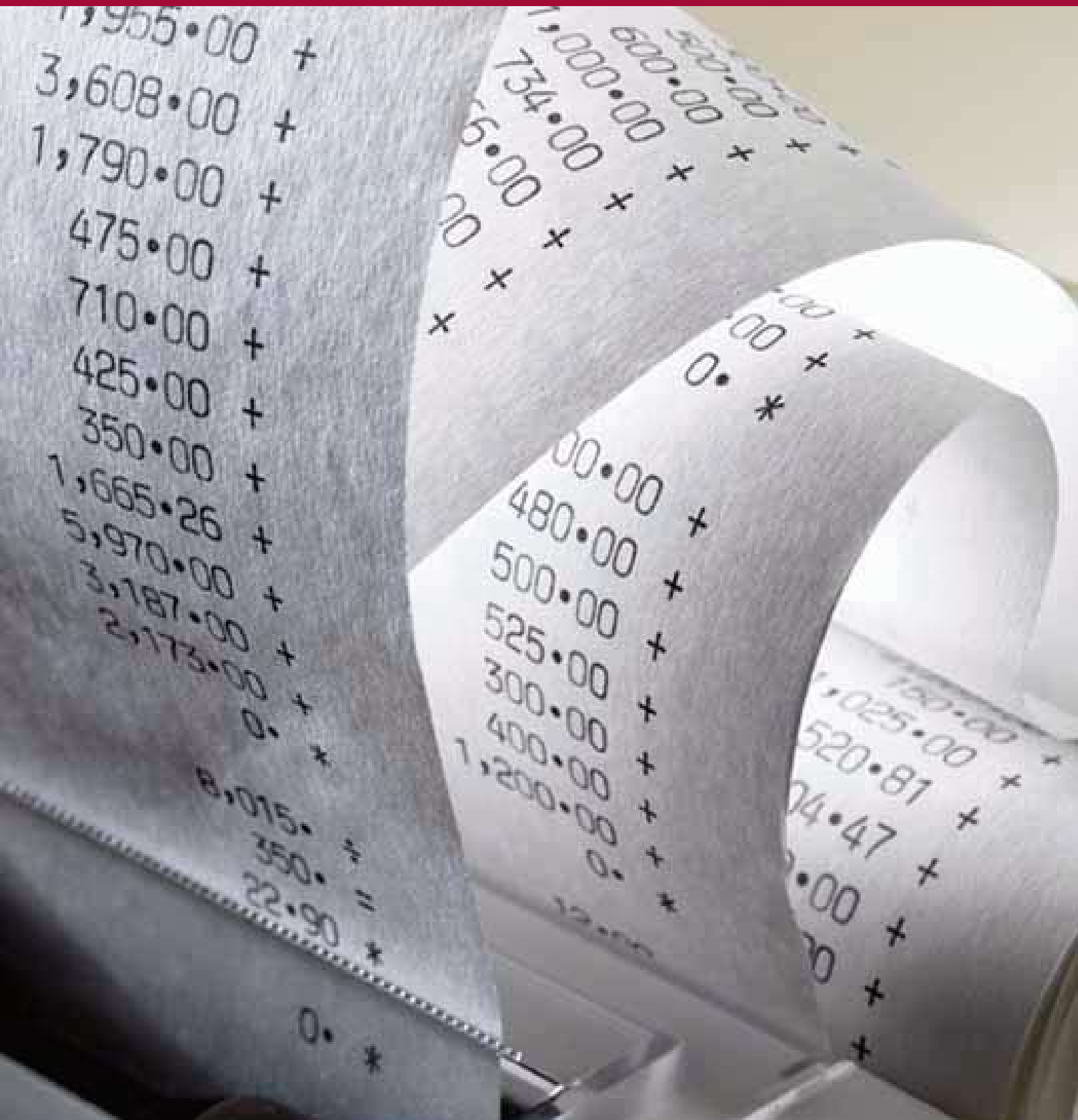
## SOCIAL INSURANCE

### CONTRIBUTION RATES

Self employed individuals				12.6%
Employee				6.8%
Employer				6.8%
Employer's contribution to the Redundancy Fund				1.2%
Employer's contribution to the Industrial Training Fund				0.5%
It is imposed on the whole salary				
Employer's contribution to the Social Cohesion Fund				2.0%
Employer's contribution to the Holiday Fund (if it is not exempt)				8.0%
<b>Maximum limit of emoluments</b>				
The maximum level of annual income on which social insurance contributions are paid on is as follows				
	Per week	Per month	Per year	
	€	€	€	
Weekly employees	1,002	-	52,104	
Monthly employees	-	4,342	52,104	
<b>Minimum limit of emoluments for self-employed</b>				
The lower limits of income on which self-employed persons pay social insurance contributions are:				
				€
Persons exercising a profession:				
-for a period under 10 years				18,616
-for a period over 10 years				37,336
Wholesales, estate agents, insurance agents, manufacturers and other businessmen				37,336
Builders and other related businesses				22,672
Technicians and other persons working in urban areas				18,044
Drivers of transportation media, operators of Excavators and similar occupations				18,044
Farmers, stockbreeders, fishermen and other related activities, traveling salesmen and priests				12,532
Persons not included under any other occupational category				18,616

# 06

## VALUE ADDED TAX



VAT is imposed on the provision of goods and services in Cyprus, as well as on the importation of goods into Cyprus and on the acquisition of goods from the European Union.

Taxable persons charge VAT on their taxable supplies (output tax) and have the right to claim VAT suffered on goods and services, which they receive (input tax) for the purpose of their business.

If output tax in a VAT period exceeds total input tax, a payment has to be made to the state. If input tax exceeds output tax, the refundable amount is transferred to be set against any payable amount in future VAT returns. A payment is due from the state according to the following criteria:

- a period of three years has elapsed since the date the VAT became refundable;
- input VAT which cannot be set off against output VAT until the last VAT period of the year which follows the year in which the VAT period in which the credit was created falls;
- the input VAT relates to zero rated transactions;
- the input VAT relates to the purchase of capital assets of the company;
- the input VAT relates to transactions which are outside the scope of VAT but would have been subject to VAT had they been carried out within Cyprus;
- the input VAT relates to exempt financial and insurance services provided to non EU resident clients (services for which the right to recover the related input VAT is granted).

The new VAT package came into effect as of 1st January 2010 establishing Cyprus as an EU regulations compatible member state. Changes brought about mainly concern:

- The place of services supplied;
- The reverse charge mechanism;
- The VAT refunding procedures.

**The following VAT rates apply to the taxable supplies:**

- Zero rated (0%)
- Reduced rate (5%)
- Reduced rate (8%)
- Standard rate (15%)

**Zero rated goods and services include the following:**

- Exports
- International air and sea transportation of persons, goods and related services
- Ship management services

Goods and services subject to the reduced rate of 5% include the following:

- Animal feeding stuffs;
- Fertilizers;
- Services of road cleaning;
- Funeral services and supply of coffins;
- Services of authors, composers, artists and critics of works of art;
- Supply of seeds;
- Supply of live animals of a kind generally used for human consumption;
- Newspapers, magazines and books;
- Bottled and non-bottled water, ready made drinks and juices (excluding refreshments and alcohol beverages);
- Ice-creams, ice-cream products and similar products;
- Dry nuts, potato crisps, cheese puffs, cereal and similar products;
- Donuts
- Gas irrespective of packaging;
- Rural and urban bus services;
- Hairdressing services;
- Entry fees to theatres, circuses, festivals, Luna parks, concerts, museums, zoos, cinemas, exhibitions and similar circular events and related places;
- Entry fees at sports events and fees for using athletic centers;
- Goods used by disabled persons;
- Supplies of medicines and vaccines excluding those which are subject to the zero rate of VAT;
- Repair and maintenance of private residences after three years of first occupancy (subject to certain conditions);
- Importation of items of archaeological value (code CN 9706 00 00).

As of 10 January 2011 subject to the reduced rate of 5% are:

- a) Supply of foodstuff for human consumption including beverages but excluding alcoholic beverages and refreshments which are subject to the standard rate of 15%
- b) Supply of drugs and vaccines used in medicine and veterinary
- c) Supply of drugs used for medical treatment and disease prevention both in medicine and veterinary
- d) Supply of food and beverages for take-away and delivery including beverages but excluding alcoholic beverages and refreshments which are subject to the standard rate of 15%

Goods and services subject to the reduced rate of 8% include the following:

- Taxi services;
- Hotel and tourists accommodation including renting of camping sites and camping for caravans;
- Tourist, excursion and long distance bus services;
- Catering services and supplies of goods in the course of catering
- Air and sea transportation services within Cyprus.

From 10 January 2011 supply of alcoholic beverages and refreshments in the course of catering services is subject to the reduced rate of 8%

Standard rated (15%) goods and services not covered by any of the aforementioned.

## Exemptions

Certain goods or services are exempted from VAT including:

- Rents;
- Medical services;
- Insurance and financial services;
- Educational services (including music academy);
- Building land;
- Supply of immovable property for which a valid application for planning permission was submitted before first of May 2004.

## Difference between zero rate and exempt supplies

Zero rate is a taxable rate and an obligation for registration is compulsory once the criteria for registration are met whilst businesses engaged in only exempt activities are not eligible for registration.

## Irrecoverable input VAT

Input VAT cannot be recovered in a number of cases, which include the following:

- When businesses make only exempt supplies;
- Purchase, import or hire of saloon cars;
- Expenditure for entertainment of persons other than staff;
- Housing expenses of directors.

## Registration

A person/company is obliged to register for VAT when:

- 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 8% and/or 15%) exceed € 15,600 during the 12 preceding months.
- At any time, if there are reasonable grounds for believing that the value of the taxable supplies in the following 30 days then beginning will exceed € 15,600.
- Receives services from abroad (EU and non EU) if the value exceed € 15,600.
- Provides services to businesses established in EU member States
- Purchases goods from businesses established in EU member States (Intra-Community acquisitions) the value of which exceeds €10.251,61
- Distance selling to consumers in the Republic of Cyprus starting 1st January each year which exceeds the threshold of €35.000

Businesses with turnover of less than €15,600 can be registered voluntarily if they are involved in taxable activities.

### VAT declaration, payment/return of VAT

VAT returns are submitted quarterly within 40 days from the end of each quarter. The payment due to the authorities must be made prior submitting the return.

Where in a quarter input tax is higher than output, the difference is either refundable or is transferred to the next VAT quarter to be credited against any payable amount.

### International Business Companies (IBCs)

IBCs are subject to the same registration rules as companies involved in taxable activities locally. However the activities of most IBCs fall outside the scope of VAT thus there is no obligation for registration.. IBC's have the option of voluntary registration; this enables them to be refunded VAT paid on Cypriot expenses.

#### (a) Intra-community trade

This refers to supply of goods between EU Member States and their VAT treatment. The sale is taxed at zero rate if the following criteria are satisfied:

- The seller has adequate proof that the goods have left the State.
- The goods have been transferred to another Member State.
- The buyer is an EU VAT registered person and the VAT number of the buyer is recorded on the invoice.
- The goods sold are not goods for which the seller is taxed under the provisions of the margin scheme.
- The seller maintains adequate evidence that the goods have been transferred to that Member State.

With regard to intra-community acquisitions the trader does not pay VAT on the receipt of the goods in Cyprus but instead accounts for VAT using acquisition accounting. This involves a simple accounting entry in the books of the business whereby he self-charges VAT and at the same time claims it back if it related to taxable supplies thereby creating no cost to the business (reverse charge rule).

#### b) Triangular trade

This is the case where three Member States are involved and there is only one actual movement of goods but two invoices are issued, one from the first country to the intermediary and another from the intermediary to the recipient of goods.

The intermediary supplier must apply the simplification procedures and the invoice issued to the recipient must include the phrase "VAT, EU Article 28, Simplified Invoice".

## (c) Provision of services

## I. General Rule / Place of supply of services

The main rule states that services are taxable in the country where the recipient of the service is established.

SUPPLIER	CLIENT	TREATMENT
Cyprus VAT registered Company	Cyprus VAT registered Company	Cyprus VAT charge (15%)
Cyprus VAT registered Company	Non EU Company	No VAT charge
Cyprus VAT registered Company	EU VAT registered Company	VAT in the country of the recipient (reverse charge rule applies)
Cyprus VAT registered Company	EU Non VAT registered Company	Cypriot VAT charge (15%)
EU VAT registered Company and Non EU Company	Cyprus VAT registered Company	Self account for VAT using the reverse charge mechanism, If the Cyprus company is a partially business person, VAT input is restricted only to taxable activities.

## Examples of services:

- a) transfers and assignments of copyrights, patents, licenses, trademarks and similar rights
- b) advertising services
- c) the services of consultants, engineers, consultancy bureau, lawyers, accountants and other similar services, as well as data processing and the provision of information
- d) banking, financial and insurance transactions, including reinsurance, with the exception of hire of safes
- e) the supply of staff
- f) the hiring out of movable tangible property
- g) the provision of access to, and of transport or transmission through, natural gas and electricity distribution systems and other services directly linked thereto
- h) telecommunication services
- i) radio and television broadcasting
- j) electronically supplied services
- k) the supply of services by intermediaries in the name and on behalf of other persons, where those intermediaries take part in the supply of the services referred to in this paragraph

## Exemptions

- a) services relating to immovable property
- b) access to cultural, artistic scientific, educational, entertainment and similar services, the organisation of trade and other exhibitions
- c) ancillary services relating to the above
- d) passenger transport
- e) restaurant and catering
- f) restaurant and catering on board a ship/aircraft/train
- g) short-term hiring of means of transport (continues use for up to 30 days for motor vehicles and 90 days for vessels)

As of 1 January 2011 services relating to cultural, artistic scientific, educational, entertainment and similar services, the organisation of trade and other exhibitions and ancillary services that does not consist access to are taxed according to the provisions of the main rule

## II. Additional Reporting requirements

VIIES (VAT Information Exchange System)

VAT registered businesses involved in intra-community trade, triangular trade and the provision of services within European Union territory, summary details of those supplies must be returned to VAT authorities on a monthly basis, electronically through Taxisnet website, 15 days following the month of reporting. This return, known as the VIIES return, was created to enable the authorities in each EU Member State to ensure that Intra-Community transactions are properly recorded and accounted for

INTRASTAT (Intracommunity Statistics)

Businesses engaged in intra-Community trade are also obliged to make a periodic INTRASTAT return, for statistical purposes, where the value of goods acquired by them from other Member States for 2011 exceeds €85,000 per annum or the value of goods supplied by them to other EU Member States exceeds €55,000 per annum. The statistical thresholds are subject to annual changes.

Intrastat return is submitted monthly 10 days following the month of reporting.

## PENALTIES AND INTEREST

Late registration	€85.00 for every month of late Registration
Late deregistration	€85.00 one-off
Late submission of VAT form	€51.00 one-off
Late payment of outstanding tax	10% of the outstanding amount plus 8% interest
Late submission of Intrastat form	€8.00 per working day up to the maximum of 30 working days
Late submission of VIIES form	€50.00 for every month up to the maximum of three months

## 8th Directive Refunds

As of the 1st of January 2010, EU companies are able to reclaim foreign VAT, by applying electronically in their own state, meaning that there will not be any obligation to file a VAT refund application in each member state where the VAT incurred.

The resident member state will forward the VAT refund claims electronically to the member states concerned by 30 September of the calendar year following the period to which the VAT relates. Minimum amount for an application per member state is €400 (or equivalent).

### VAT Grant for acquisition of first residence

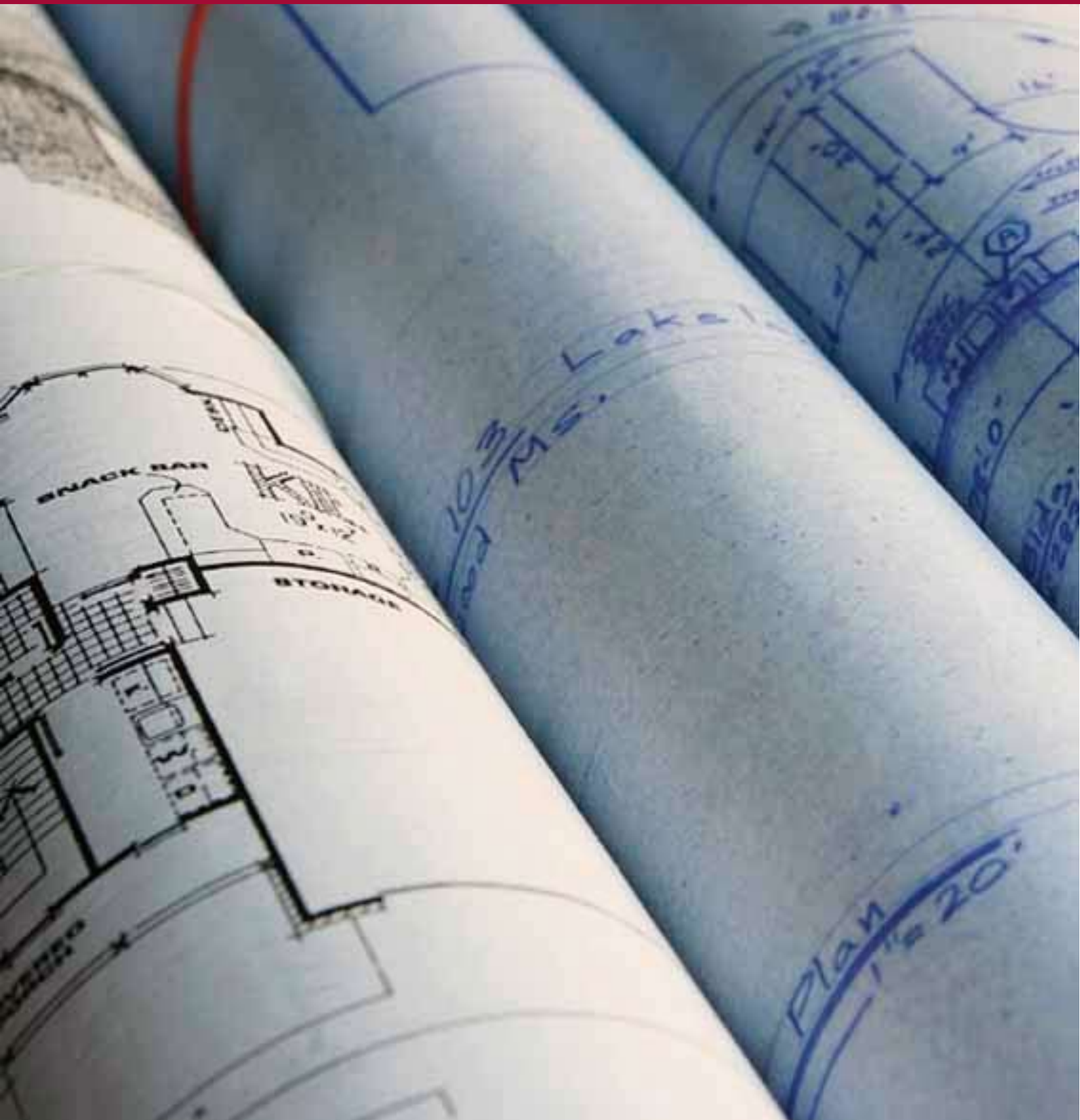
The grant is available to eligible persons, for the acquisition or construction of a new house used as the primary place of residence. The application for the grant is submitted to the Ministry of Finance.

Qualifying for the grant is property for which an application has been submitted for the issue of a planning permission after 1 May 2004 and it is given for houses whose total covered area is up to 250m<sup>2</sup>. Eligible persons are individuals who are citizens of the Republic of Cyprus or of any other EU member state residing permanently in the Republic and have reached eighteen years of age at the time of the application.

The level of the grant is limited to 130m<sup>2</sup> (extended for families with more than three dependants) and depends on the type of the property and if the property is purchased or constructed. The grant is adjusted annually for the increases in the Retail Price Index.

# 07

## IMMOVABLE PROPERTY TAX



## 07

## IMMOVABLE PROPERTY TAX

Immovable Property Tax is imposed on the market value as at 1 January 1980 and applies to the immovable property owned by the tax payer on 1 January of each year.

This tax is payable on 30 September each year. Physical and legal persons are both liable to Immovable Property Tax.

## TAX RATES

PROPERTY VALUE	RATE	TAX	ACCUMULATED TAX
€	%	€	€
Up to 170,860.14	Nil	Nil	Nil
170,860.15- 427,150.36	0.25	641	640.73
427,150.37- 854,300.72	0.35	1,495.03	2,135.76
Over 854,300.73	0.40		

## EXEMPTIONS

The following are not subject to immovable Property Tax:

- Public cemeteries
- Churches and other religious buildings
- Public hospitals
- Schools
- Immovable property owned by the Republic
- Foreign embassies and consulates
- Common use and public places
- Property under Turkish occupation
- Buildings under a Preservation Order
- Buildings of charitable organizations
- Agricultural land used in farming or stock breeding, by farmer or stock breeder residing in the area.

# 08

## TRANSFER FEES BY THE LAND REGISTRY DEPARTMENT



# 08

## TRANSFER FEES BY THE LAND REGISTRY DEPARTMENT

Real-estate transfers are subject to a transfer fee based on the selling price or on the current market value of the property.

The fees charged by the land registry department for transfers of immovable property are as follows:

TRANSFER RATES			
VALUE PER PLOT	RATE	FEES	ACCUMULATED FEES
€	%	€	€
Up to 85,430.07	3	2,562.90	2,562.90
85,430.08-170,860.14	5	4,271.50	6,834.40
Over 170,860.15	8		
<b>MORTGAGE FEES</b>			
Imposed on the value of the mortgage			1%

In the case of property transferred to a family company, transfer fees are refundable after five years if the property remains with the company and the shareholders remain the same.

In the case of property transferred from a company whose shareholders are spouses/and or children, to one of the two spouses or their children or to a relative up to third degree of relation, the transfer fees are calculated on the value of the property as follows:

Transfer to a spouse	8%
Transfer to a child	4%
Transfer to a relative up to third degree	8%

Also the following rates are applicable in the case of free transfers:

From parents to children	4%
Between spouses	8%
Between third degree relatives	8%
To trustees	€ 8,54

Value in these cases is the one written on the title deed.

In the case of companies' reorganizations, transfers of immovable property are not subject to transfer fees by the Land Registry Department.

# 09

TRUSTS



# 09 TRUSTS

A trust is established by an individual “the settlor” and is a means whereby property “the trust property” is held by one or more persons “the trustees” for the benefit of another or others “the beneficiaries” or for specified purposes.

Trusts have traditionally been very important tax planning devices. Even today a very high proportion of tax saving schemes involves trusts and their duration lasts up to 99 consecutive years.

## INTERNATIONAL TRUSTS

International Trusts are governed by the International Trusts Law of Cyprus. International Trusts are not taxable in Cyprus. In fact, Cyprus International Trusts enjoy important tax advantages, providing significant tax planning opportunities. The following advantages are indicative of the possible options for tax minimization.

- All income, whether trading or otherwise, of an International Trust (i.e. a trust whose property is located in and its income derives from outside Cyprus) is not taxable in Cyprus.
- Dividends, interest or other income received by a Trust from a Cyprus international business company is neither taxable nor subject to any withholding taxes.
- Gains on the disposal of assets of an International Trust are not subject to capital gains tax in Cyprus.
- An alien who creates an International Trust in Cyprus and retires in Cyprus is still exempt from tax if it is provided that all the property is settled and the income earned is in abroad , even if he is beneficiary.
- The assets of an International Trust are not subject to estate duty in Cyprus.
- Trusts are usually used by wealthy individuals for the purpose of protecting their inheritance or capital gains taxes in their home country. They can also be used by expatriates settling a trust before repatriating, assets acquired while working abroad, to protect such assets from the tax net of their home country.

International Trusts are treated like Cyprus Companies able to claim almost all tax benefits available under the Cypriot jurisdiction.

# 10

## STAMP DUTIES



# 10

## STAMP DUTIES

The table provided gives the amount or rate of duty payable on certain documents. Transactions which fall within the scope of reorganizations are exempt from stamp duty. Also any contracts relating to assets situated outside Cyprus or business affairs that take place outside Cyprus are exempt from stamp duty.

### NATURE OF DOCUMENTS

<b>Receipts</b>	
-for amounts of € 3.42- € 34.17	€ 0.03
-for amount over € 34.17	€ 0.07
<b>Contracts</b>	
-for amounts up to € 170,860.14	€ 2.56 for every € 1,708.60
-for amounts over € 170,860.14	€ 3.42 for every € 1,708.60
-unspecified amount	€ 34.17
-for amounts over € 8.5m	Up to € 17,086
<b>Cheques</b>	€ 0.05
<b>Letters of credit</b>	€ 1.71
<b>Letters of guarantee</b>	€ 3.42
<b>Bills of exchange</b>	€0.85
<b>Bills of lading</b>	€ 3.42
<b>Powers of attorney</b>	
-general	€ 5.13
-limited	€ 1.71
<b>Certified copies of contracts and documents</b>	€ 1.71
<b>Registration of a limited liability company Upon incorporation of the company</b>	
Authorized capital	€ 102.52 plus 0.6% capital duty on the authorized share capital
Issued share capital	€ 17.09
<b>Upon subsequent increases</b>	
Authorized share capital	0.6% capital duty on the additional share capital
Issued share capital	€ 17.09 flat duty on every issue whether the shares are issued at nominal value or at a premium
<b>Submission of annual return</b>	€ 17.09

# 11

## DOUBLE TAXATION AGREEMENT



		47.19	75.71
		124.74	99.85
		48.51	50.53
		66.26	35.37
		51.87	30
		49.83	40.41
		33.19	25.5
		33.93	24.7

# 11

## DOUBLE TAXATION AGREEMENTS

	RECEIVED IN CYPRUS		
	DIVIDENDS (%)	INTEREST (%)	ROYALTIES (%)
Austria	10	0	0
Belarus	5 (1)	5	5
Belgium	10 (2)	10 (3)	0
Bulgaria	5	7 (4)	10
Canada	15	15	10
China	10	10	10
Czech Republic	0 (5)	0 (6)	10
Denmark	10 (2)	10 (3)	0
Egypt	15	15	10
France	10 (7)	10 (3)	0 (9)
Germany	10 (8)	10 (3)	0 (9)
Greece	25	10	0 (10)
Hungary	5 (11)	10 (3)	0
India	10 (7)	10 (3)	15
Ireland	0	0	0 (10)
Italy	15	10	0
Kuwait	10	10 (3)	5 (12)
Lebanon	5	5	0
Malta	0	10 (3)	10
Mauritius	0	0	0
Moldova	5/10 (13)	5	5
Norway	0 (14)	0 (6)	0
Poland	10	10 (3)	5(23)
Qatar	0	0	5
Romania	10	10 (3)	5 (12)
Russia	5 (15)	0	0
San Marino	0	0	0
Seychelles	0	0	5
Singapore	0	10 (16)	10
Slovakia	10	10 (3)	5 (12)
South Africa	0	0	0
Sweden	5 (11)	10 (3)	0
Syria	0 (17)	10 (3)	10 (18)
Thailand	10	10 (19)	5 (20)
United Kingdom	15 (21)	10	0 (9)
United States of America	5 (22)	10 (3)	0
USSR (27)	0	0	0
Yugoslavia (28)	10	10	10

# DOUBLE TAXATION AGREEMENTS

	PAID FROM CYPRUS		
	DIVIDENDS (%)	INTEREST (%)	ROYALTIES (%)
Non-treaty countries	0	0	0
Austria	10	0	0
Belarus	5 (1)	5	5
Belgium	10 (2)	10 (3)	0
Bulgaria	5 (13)	7 (24)	10
Canada	15 (25)	15 (3)	10 (26)
China	10	10	10
Czech Republic	0 (5)	0 (6)	10
Denmark	10 (2)	10 (3)	0
Egypt	15	15	10
France	10 (7, 25)	10 (3)	0 (9)
Germany	10 (2, 25)	10 (3)	0 (9)
Greece	25	10	0 (10)
Hungary	0	10 (3)	0
India	10 (7)	10 (3)	15
Ireland	0	0	0 (10)
Italy	0	10	0
Kuwait	10 (25)	10 (3)	5 (12)
Lebanon	5	5	0
Malta	15	10 (3)	10
Mauritius	0	0	0
Moldova	5/10 (13)	5	5
Norway	0	0	0
Poland	10	10 (3)	5
Qatar	0	0	5
Romania	10	10 (3)	5 (12)
Russia	5 (15)	0	0
San Marino	0	0	0
Seychelles	0	0	5
Singapore	0 (16)	10	10
Slovakia	10 (25)	10 (3)	5 (12)
South Africa	0	0	0
Sweden	5 (11)	10 (3)	0
Syria	0 (17)	10 (3)	10 (18)
Thailand	10	10 (19)	5 (20)
United Kingdom	0	10	0 (9)
United States of America	0	10 (3)	0
USSR (27)	0	0	0
Yugoslavia (28)	10	10	10

## NOTES

1. If interest is less than €200,000 dividends are subject to 10% withholding tax provided that the recipient company holds directly 25% of the share capital of the paying company. In all other cases 15% is withheld.
2. 10% on the gross if the recipient is a company with not less than 25% direct share holding. In all other cases 15% is withheld.
3. Subject to certain exemptions
4. Nil if interest is paid by the government of the other state or statutory body to the central bank of the other state, These rates shall not apply in case Bulgarian residents hold at least 25% of the share capital of the Cypriot resident paying the interest, except where Cypriot resident is not liable to tax which is lower than the usual tax rate.
5. Rate applies if shares of at least 10% share capital are held for an uninterrupted period of one year In all other cases 5% is imposed on dividend gross amount
6. At the rate applicable according to the domestic legislation.
7. 10% if received by a company with at least 10% direct share interest. In all other cases 15% is withheld.
8. 10% if received by a company with at least 25% direct share interest; 27% if recipient is a company with more than 25% direct or indirect share interest as long as the German corporate tax on distributed profits is lower than that on undistributed profits and the difference between the two rates is 15% or more; 15% in all other cases is withheld.
9. 5% on films and TV royalties
10. 5% on cinematography films not including television films.
11. 5% if recipient is a company with at least 25% direct share interest. In all other cases 15% is withheld.
12. Nil if royalties are on literary, artistic or scientific work including films, cinematography films or tapes for radio broadcasting or television.
13. 5% in case the beneficial owner holds directly at least 25% of the share capital of the company paying dividends; 10% in all other cases.
14. 5% if received by a company controlling less than 50% of the voting power.
15. 5% on dividends paid by a company in which the beneficial owner has invested directly in the capital more than US \$100,000. In all other cases, 10% is withheld.
16. When received by a bank or financial institutions 7% withheld. In all other cases 10% withheld. Governmental interest payments to the other state are exempt from taxation.
17. Nil when the company holds at least 25% of the share capital of the company paying the dividends. In all other cases, 15% is withheld.

# DOUBLE TAXATION AGREEMENTS

## NOTES (continued)

18. 15% for any patent, trade mark, design or model, plan, secret formula or process or any industrial, commercial or scientific equipment or for information concerning industrial, commercial or scientific experience.
19. In case interest is paid to the government of the other state it is exempt from taxation. 10% imposed on the gross amount if it is received by any financial institutions, 15% withheld in all other cases.
20. 10% of the gross amount of royalties received as consideration for the use of, or the right to use industrial, commercial or scientific experience, 15% of the gross amount of royalties received as consideration for the use of, or the right to use any patent, trade mark, design or model, plan, secret formula or process.
21. Special tax credit provisions in place.
22. 5% imposed if the recipient is a company with at least 10% direct share interest. In all other cases 15% is withheld.
23. Royalties withheld should not exceed 5% withholding tax.
24. Nil if interest is paid or it is guaranteed by the government of the other state or a statutory body thereof or to the central bank of the other state.
25. As long as Cyprus does not impose dividend tax over and above the corporation tax, dividend payments from Cyprus to this jurisdiction shall be exempt from any tax in Cyprus chargeable on dividends.
26. Nil if royalties are dramatic, musical, literary or artistic work not including film or videotape royalties.
27. USSR Treaty with Cyprus is applied with: Armenia, Kyrgyzstan, Tajikistan, Uzbekistan and Ukraine. Azerbaijan, Georgia and Kazakhstan renounced it.
28. Yugoslavian Treaty with Cyprus is applied with: Slovenia, Serbia and Montenegro.

## Treaties not yet in force:

- Cyprus and Italy signed an amending protocol to the income tax treaty of 1974 pending ratification.
- Amending protocol to the Treaty between Cyprus and Russia has been signed on 7th October 2010 and is currently pending ratification.
- A new Treaty has been signed with Kuwait and is currently pending ratification.
- A new Treaty with Denmark has been signed on 11th October 2010 and it expects ratification.
- Slovenia and Cyprus have signed a new Treaty on 12th October 2010 and it awaits ratification.
- Cyprus and the United Arab Emirates have concluded a new Treaty text on 19th-21st October 2010. The treaty still awaits signatures from both sides in order to proceed with ratification.

# 12

TAX CALENDAR

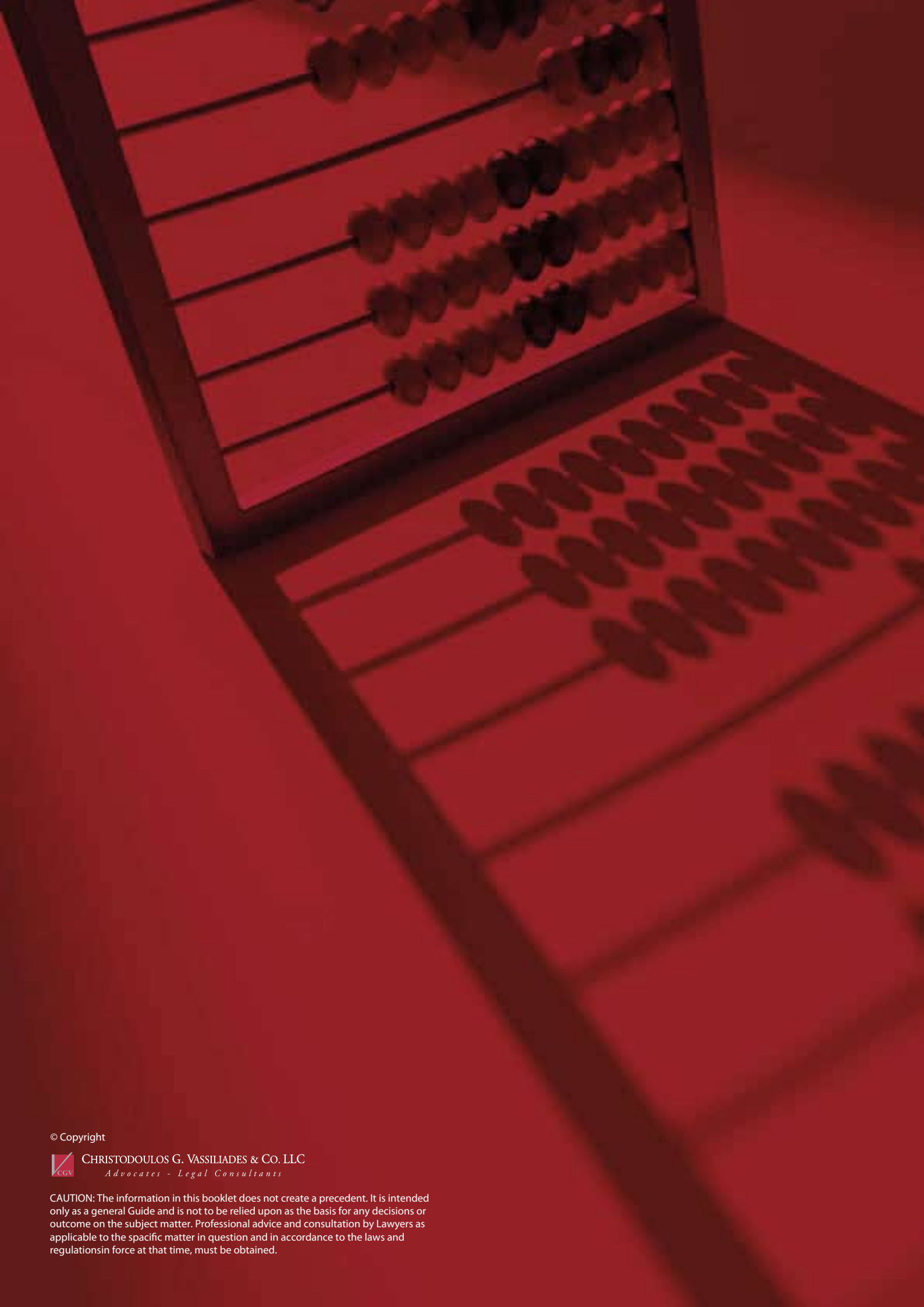


# 12 TAX CALENDAR

DATE	OBLIGATION	FORM	PENALTY NOTES
30 April	Submission of tax return by employee Submission of employer's return	I.R.1 I.R.7	1,4,10
30 June	Payment of special contribution for defence for the first six months of the year Submission of tax return by self-employed not preparing audited financial statements	I.R.601 I.R.1	2 1,4,10,13
01 August	Submission of Temporary Tax Assessment for the current year Payment of first installment of provisional Tax for the year Payment of the balance of tax for the previous year under the self-assessment method.	I.R.6	3 3 4
30 September	Payment of the second installment of tax based on the Temporary Tax Assessment Payment of Immovable Property Tax		3 8
31 December	Submission of previous year's accounts and tax returns (companies and self-employed preparing audited financial statements) -Companies -Self employed Payment of third and last installment for the Temporary Tax Assessment Payment of second installment of special contribution for defence for the last six months of the year Submission of revised temporary tax assessment for the current year if necessary	I.R.4 I.R.1 I.R.601 I.R.6	1,4,10,13 1,4,10,13 3 2 3
By the end of the next month	Payment of Social Insurance for the previous month Contribution to the Defence Fund withheld from dividends and interests Payment of tax deducted from employees salary (P.A.Y.E)	I.R.601 I.R.61	9 2 5
By the 10th of the 2nd month after the end of the VAT period	Submission of VAT return and payment VAT due Submission of VIES	VAT 4 VIES1	6,7 11
By the 10th of the next month after the end of the period	Submission of Intrastat	INTRASTAT 1.1	12

## PENALTIES

- Note: 1** A penalty of €17.00 per day for as long as a failure continues is imposed or imprisonment up to twelve months or both. Any person who without any excuse omits any object of the tax from the return shall be liable, on conviction to a fine up to €3,417 plus the tax due in 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.
- Note: 2** Interest at the rate of 8% per annum is imposed from the first day after the end of the six month period (interest is calculated daily) until 31/12/09. As from 01/01/10 the rate is 5,35%.
- Note: 3** Failure to pay any installment of the temporary tax assessment by the due date:
- Interest at the rate of 8% ( 5,35% as from 01.01.10) per annum is imposed ( Interest is calculated for complete months)
  - If no temporary tax assessment was submitted and an assessment is issued by the Inland Revenue, interest at 8% (5,35% as from 01.01.10), per annum is payable on the overdue installment plus an additional penalty of 5% on the whole amount of the temporary tax.
  - In addition, a penalty is imposed equal to 10% of the difference between the tax due per the final assessment and the tax per the temporary assessment if the temporary taxable income is less than 75% of the taxable income per the final assessment (interest is calculated for complete months).
- Note: 4** Failure to pay tax by the due date:
- Interest is imposed at the rate of 8% (5,35% as from 01.01.2010) per annum ( Interest is calculated for complete months).
  - Any tax due is liable to an additional penalty of 5% in the case where the tax return is not submitted within 30 days after the deadline and payment of the tax due is not made.
- Note: 5** Failure to pay P.A.Y.E and the Defence tax by the due date:
- Interest is imposed at the rate of 8% (5,35% as from 01.01.2010) per annum from the due date and additional penalty of 1% per month as long as the delay continues.
  - The total amount of the additional penalty cannot exceed 11% of the tax due (interest is calculated for complete months).
- Note: 6** Late submission of the VAT return:
- Impositions of a penalty of €51.00 per VAT return form.
- Note: 7** Late payment of outstanding VAT
- Penalty at the rate of 10% of the outstanding amount
  - Interest is imposed at the rate of 8% (5,35% as from 01.01.2010) per annum on the amount of the penalty ( interest is calculated for complete months)
- Note: 8** Late payment of immovable tax results in the imposition of interest at the rate of 8% (5,35% as from 01.01.2010) per annum from the due date.
- Note: 9** Late payment of social insurance results in the imposition of a cumulative monthly penalty of 3% for each month of delay as long as the delay continues. The total amount of the penalty cannot exceed 27% of the amount due.
- Note: 10** Late submission results in the imposition of penalty equal to €51.00.
- Note: 11** Late submission of VIES results in the imposition of a penalty of €51.00 for each late month up to 3 months. If the form is not submitted within 3 months a fine up to €2,652 may be imposed.
- Note: 12** Late submission of INTRASTAT results in the imposition of a penalty of €8.00 for each late working day up to 30 working days, a fine up to €2,652 may be imposed.
- Note: 13** Late submission of company tax return results in the imposition of a penalty of €200.



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