

# TAX FACTS AND NEWS

CYPRUS

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## THE COMPANY

Kreston Proios Ltd is a leading independent accountancy firm providing audit, assurance and advisory services since 1965.

On 23<sup>rd</sup> of November 2009 Kreston Proios Ltd became member of the 12<sup>th</sup> largest global network of independent accountancy firms, Kreston International.

Kreston Proios Ltd is an ACCA (Association of Chartered Certified Accountants) Approved Employer. The ACCA recognises the learning opportunities the organisation provides for its employees working towards their qualification and therefore enhances the quality of the company's assurance and non-assurance services.

## PERSONAL INCOME TAX

If an individual is resident in Cyprus then is subject to Cyprus tax laws. An individual is resident in Cyprus when he is physically present in Cyprus more than 183 days within a year.

All Cyprus tax resident individuals are taxed on all chargeable income accrued or derived from all sources in Cyprus and abroad. Individuals who are not tax residents of Cyprus are taxed on certain income accrued or derived from sources in Cyprus.

Foreign taxes paid can be credited against the personal income tax liability.

### PERSONAL TAX RATES

CHARGEABLE INCOME	TAX RATES (%)	TAX AMOUNT (€)	CUMULATIVE TAX (€)
0 - 19.500	0	0	0
19.501 - 28.000	20	1.700	1.700
28.001 - 36.300	25	2.075	3.775
36.301 - 60.000	30	7.110	10.885
Over 60.000	35		

### TAX EXEMPTIONS

Interest Income (except from interest arising from ordinary business activity)	100% *
Dividend Income	100% *
Gain from disposal of securities.**	100%
Remuneration from any employment exercised in Cyprus by an individual who was not a resident of Cyprus before the commencement of the employment, exemption applies for a period of 10 years for employments commencing as from 1 January 2012 provided that the annual remuneration exceeds €100.000. For employments commencing as from 1 January 2015 the exemption does not apply in case the said individual was a Cyprus tax resident for 3 (or more) tax years out of the 5 tax years immediately prior to the tax year of commencement of the employment nor in the preceding tax year. In certain cases it is possible to claim the exemption where remuneration falls below €100.000 per annum.	50% of the remuneration
Remuneration from any employment exercised in Cyprus by an individual who was not a resident of Cyprus before the commencement of the employment. For employments 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. This exemption may not be claimed in addition to the immediately above mentioned 50% exemption for employment income.	20% or €8.550 of remuneration (the lower)
Remuneration from salaried services rendered outside Cyprus to a permanent establishment or to a foreign employer for more than 90 days in a tax year	100%
Rent from Buildings in respect of which there is a Preservation Order	100%

Widow Pension	100%
Foreign Pension	5% or €3.420
Profits from permanent establishment abroad under certain conditions.	100%
Lump sum repayment from life insurance schemes or approved provident funds.	100%
Lump sum received as retiring gratuity, death gratuity or as consolidated compensation of death and injury.	100%

\*Such dividend and interest income may be subject to Special Contribution for Defence - refer to the Special Contribution for Defence section - page 10

\*\*The term "Securities" is defined as shares, bonds, debentures, founders' shares and other securities of companies or other legal persons, incorporated in Cyprus or abroad and options thereon.

## TAX DEDUCTIONS

Social Insurance, provident fund*, medical fund (maximum 1,5% of remuneration), pension fund contributions and life insurance premiums (maximum 7% of the insured amount)	Restricted to 1/6 of the taxable income
Special contribution for private sector employees, self-employed individuals and pensioners	100%
Subscriptions to professional bodies and trade unions	100%
Rent Receivable	20% of income minus loan interests and wear & tear charges
Interest in respect of the acquisition of a building for rental purposes.	100%
Donations to Approved Charities	100%
Losses of current and previous five years (only in case of audited financial statements)	100%
Profits from exploitation and/or disposal of intellectual property rights.	80%
Expenditure incurred for the acquisition of shares in an innovative business.	100%
Expenditure incurred for the maintenance of a building in respect of which there is in force a Preservation Order	Up to €1.200, €1.100 or €700 per square meter (depending on the size of the building)
Amount invested each tax year as from 1 January 2017 in approved innovative small and medium sized enterprises either directly or indirectly	Up to 50% of the taxable income as calculated prior to this deduction (subject to a maximum of €50.000 per year **)

\*Under certain conditions.

\*\* Unused deduction can be carried forward and claimed in the following 5 years, subject to the cap of 50% of taxable income (and overall maximum of €50.000 per year).

**NOTE:** 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 any double tax treaty.

## SPECIAL CONTRIBUTION

**As from 1 January 2017, Special Contribution is abolished . The Special Contribution which applied in the period 2014-2016 is set out in the table below**

**Special contribution** for private sector employees, self-employed individuals, and pensioners.

<b>GROSS MONTHLY EMOLUMENTS</b>	<b>CONTRIBUTION (%)</b>	<b>CUMULATIVE SPECIAL CONTRIBUTION (€)</b>
0 – 1.500	0	0
1.501 – 2.500	2,5	25
2.501 – 3.500	3	55
Over 3.500	3,5	

Minimum amount of Special Contribution is €10

In the case of private sector employed individuals and private sector pensions the Special Contribution relates to services rendered in Cyprus.

For private sector employed individuals the Special Contribution does not apply, inter alia, on retirement gratuities, on payments from approved provident funds, on remuneration of the crew of qualifying ships and on reimbursements of business expenses.

In the case of private sector employed individuals the recipient of the remuneration is liable for half the Special Contribution and the employer for the other half.

In the case of self-employed individuals the Special Contribution relates to any business carried on in Cyprus.

**Special Contribution** for public sector officers, employees and pensioners.

<b>GROSS MONTHLY EMOLUMENTS</b>	<b>CONTRIBUTION (%)</b>	<b>CONTRIBUTIONS OF EMPLOYEES IN HIGHER SCALE (%)</b>
0 – 1.500	0	0
1.501 – 2.500	2,5	3
2.501 – 3.500	3	3,5
Over 3.500	3,5	4

## CORPORATION TAX

The corporation tax rate on the profits of all Cyprus tax resident companies is:	12,5%
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All Cyprus tax resident companies are taxed on their income accrued or derived from all chargeable sources in Cyprus and abroad. A non- Cyprus tax resident company is taxed on income accrued or derived from a business activity which is carried out through a permanent establishment in Cyprus and on certain income arising from sources in Cyprus.

A company is a resident of Cyprus if it is managed and controlled in Cyprus.

Foreign taxes paid can be credited against the Corporation Tax liability.

### TAX DEDUCTIONS

Generally expenses incurred wholly and exclusively in earning taxable income and supported by documentary evidence.	100%
Donations and Subscriptions to approved charity organisations only if evidence are submitted	100%
Employee Contribution to social insurance and approved funds on employees' salaries	100%
Employer's Contributions to Medical Fund	Maximum 1% of employee's remuneration.
Employer's Contributions to Provident/Pension fund for employees	Maximum 10% on employee's remuneration
Expenses of business entertainment.	1% of gross income. Maximum amount €7.086
Any expenditure incurred for the maintenance of a building in respect of which there is a Preservation Order	Up to €700, €1.100 or €1.200 per square meter (depending on the size of the building)
Expenditure incurred for the acquisition of shares in an innovative business (abolished as from 1 January 2017)	The whole amount
Profit from disposal of intellectual property and net royalty income*	80%
From 1 January 2012 interest expenses incurred for the acquisition of the share capital of a subsidiary company when the participation in the subsidiary is 100%, directly or indirectly, and provided that the subsidiary does not own any assets that are not used in the business.	100%
Interest Incurred for the acquisition of a fixed asset used in the business.	100%
Interest expense incurred for the direct or indirect acquisition of 100% of the share capital of a subsidiary company will be treated as deductible for income tax purposes provided that the 100% subsidiary company does not own (directly or indirectly) any assets	The whole amount of interest expense if the subsidiary does not own (directly or

that are not used in the business. If the subsidiary owns (directly or indirectly) assets not used in the business the interest expense deduction is restricted to the amount which relates to assets used in the business. This applies for acquisitions of subsidiaries from 1 January 2012.	indirectly) any assets not used in the business. A restricted amount of interest expense if the subsidiary owns (directly or indirectly) assets not used in the business.
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 is calculated as an interest rate on the new equity. The relevant interest rate is the yield on 10 year government bonds (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 amount which is the yield on the 10 year Cyprus government bond as at the same date plus a 3% premium). Certain anti avoidance provisions apply.	The NID deduction cannot exceed 80% of The taxable profit derived from assets financed by new equity (as calculated prior to the NID deduction)
Royalty income, embedded income and other qualifying income derived from qualifying intangible assets in the 'new' Cyprus intellectual property (IP) box (provision applies with effect from 1 July 2016)**	80% of the net profit as calculated using the modified nexus fraction ***
Royalty income, embedded income and other qualifying income derived from qualifying intangible assets in the 'old' Cyprus IP box ****	80% of the net profit
Tax amortisation on any expenditure of a capital nature for the acquisition or development of IP (provision applies with effect from 1 July 2016) *****	Allocated over the lifetime of the IP (maximum period 20 years)

\*Under certain conditions.

\*\* Intangible assets' comprise patents, copyrighted software, utility models, intangible assets that grant protection to plants and genetic material, orphan drug designations, extensions of patent protection. It also comprises of other intangible assets which are non-obvious, useful and novel, that are certified as such by a designated authority, and where the taxpayer satisfies size criteria (i.e. annual IP related revenue does not exceed €7,5m for the taxpayer, and group total annual revenue does not exceed €50m, using a 5 year average for both calculations).

\*\*\* A fraction is applied to the net profit based on research and development (R&D) activity of the taxpayer; the higher the amount of R&D undertaken by the taxpayer itself (or via a taxable foreign permanent establishment or via unrelated third party outsourcing), the higher the amount of R&D fraction (modified nexus fraction).

\*\*\*\* The term 'intangible assets' includes copyrights, patents and trademarks. The old Cyprus IP box closed as from 30 June 2016. Under transitional/grandfathering rules, taxpayers with intangible assets that were already included in the old Cyprus IP box as at 30 June 2016 continue to apply the old Cyprus IP box provisions for a further five years i.e. until 30 June 2021 for those intangible assets. A much shorter transitional/grandfathering period to 31 December 2016 is applied in the case of intangible assets acquired directly or indirectly from related parties during the period 2 January 2016 – 30 June 2016, unless at the time of



acquisition such intangible assets were already benefitting from an IP box (including the Cyprus IP box) or were not acquired with the main purpose (or one of the main purposes) being tax avoidance. Embedded income and income earned from intangible assets economically but not legally owned will only qualify in the relevant transitional/grandfathering period if earned from those type intangible assets that would qualify for the new Cyprus IP box (i.e. patents, copyrighted software, etc.). Additionally any expenditure of a capital nature incurred for the acquisition or development of such intangible assets may be claimed as a tax deduction in the year in which it was incurred and the immediate four following years on a straight line basis.

\*\*\*\*\* Excluding goodwill and intangible assets falling under the transitional rules of the old Cyprus IP box which continue with that box's tax amortisation (see 3 above). A taxpayer may elect not to claim all or part of the available tax amortization for a particular tax year.

## TAX EXEMPTIONS

Interest Income not accruing from or not closely connected with the ordinary course of business	100% <sup>1</sup>
Dividend Income (excluding, as from 1 January 2016, dividends which are tax deductible for the paying company)	100% <sup>2</sup>
Profits from disposal of securities.	100%
Profits of a permanent establishments abroad*	100%
Rent of preserved building.	100%
Gains relating to foreign exchange differences (forex) with the exception of forex arising from trading in foreign currencies and related derivatives.	100%

\* With effect as from 1 July 2016, taxpayers may elect to tax the profits earned by a foreign permanent establishment, with a tax credit for foreign taxes incurred on those foreign permanent establishment profits. Transitional rules apply in certain cases on the granting of foreign tax credits where a foreign permanent establishment was previously exempt and subsequently a taxpayer elects to be subject to tax on the profits of the foreign permanent establishment.

## NON – DEDUCTABLE EXPENSES

Business entertainment expenses	Excess of 1% or €17.086 (lower of the two)
Private Motor Vehicle Expenses	100%
Immovable Property tax	100%
Professional Tax	100%
Expenses not supported by invoices or receipts	100%

<sup>1</sup> Interest income is subject to Special Contribution for Defense.

<sup>2</sup> Dividend income may be subject to Special Contribution for Defense.

Wages and Salaries related to services offered within the tax year on which contributions to Social Insurance, 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.*	100%
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\*In case the above contributions are paid in full including principal penalties and interests within two years' time following their due date, such salaries and wages will be tax deductible in the tax year in which they are paid.

## TAX INDUCEMENTS

The tax loss incurred during a tax year and which cannot be set off against other income, is carried forward subject to conditions and set off against the profits of the next five years.

The current year loss of one company can be set off against the profit of another, subject to conditions, provided the companies are Cyprus tax resident companies of a group.

Group is defined as:

- One Cyprus tax resident company holding directly or indirectly at least 75% of the voting shares of another Cyprus tax resident company
- Both of the companies are at least 75% (voting shares) held, directly or indirectly, by a third company

As from 1 January 2015 interposition of a non- Cyprus tax resident company(ies) will not affect the eligibility for group relief as long as such company(ies) is tax resident of either an EU country or in a country with which Cyprus has a double tax treaty or an exchange of information agreement (bilateral or multilateral).

A partnership or a sole trader transferring a business into a company can carry forward tax losses into the company for future utilisation.

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

**NOTE:** 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 any double tax treaty.

In addition as from 1 January 2015 a Cyprus tax resident company may also claim the tax losses of a group company which is tax resident in another EU country, provided such EU company firstly exhausts all possibilities available to utilise its losses in its country of residence or in the country of any intermediary EU holding company.

## ANNUAL WEAR AND TEAR ALLOWANCES

<b>BUILDINGS</b>	
Commercial	3%
Industrial, Agricultural and Hotel Buildings	4%
Industrial and Hotel Buildings (Acquired during 2012-2016)	7%
Metallic frame of Greenhouse	10%
Wooden frame of Greenhouse	33 1/3%
<b>PLANT AND MACHINERY</b>	
Plant and Machinery	10%
Plant and Machinery (acquired during 2012-2016)	20%
Fork Lifts, Excavators, Loading Vehicles, bulldozers and oil barrels	25%
Plant and Machinery used in agriculture	15%
Water Drillings, Industrial carpets, video recorders, televisions	10%
<b>FIXTURES AND FITTINGS</b>	
Fixtures and Fittings	10%
<b>MOTOR VEHICLES</b>	
Motor vehicles of all types (except private salon cars)	20%
<b>COMPUTER SOFTWARE AND HARDWARE</b>	
Personal Computer hardware and operating software	20%
Application Software up to €1.709	100%
Application Software above €1.709	33 1/3%
<b>TOOLS</b>	
All tools in general	33 1/3%
Videotapes used by Video clubs	50%
<b>SHIPS</b>	
Steamships, tug-boats and ships used in the fishing industry	6%
Sailing Vessels	4.5%
Ship launching machinery	12.5%
New commercial ships	8%
New passenger ships	6%
Motor Yachts	6%
<b>ALLOWANCES FOR SPECIALISED FIXED ASSETS</b>	
Armoured Cars (used by security services providers)	20%
Wind Generators (Cost + Installation – Subside)	10%
Photovoltaic Systems (Cost + Installation – Subside)	10%
New Airplanes	8%
New Helicopters	8%
Specialized machinery for laying railroads	20%

## SPECIAL CONTRIBUTION FOR DEFENCE

Special contribution for defence is imposed on certain income earned by Cyprus tax residents. Non-tax residents are exempt from contribution for defence.

Legal entities are subject to Special Contribution for Defence if they are tax resident in Cyprus. Prior to 16 July 2015 individuals were subject to Special Contribution for Defence if they were tax resident in Cyprus. As from 16 July 2015 individuals are subject to Special contribution for defence 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 (s)he has a domicile of origin in Cyprus per the Wills and Succession Law (with certain exceptions) or if (s)he 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.

See rates below:

	Individuals	Legal Ent.
Interest Income of Cyprus tax residents from sources within and outside the Republic <sup>3</sup>	30%	30%
Interest income arising from the ordinary activities or closely related to the ordinary activities of the business <sup>4</sup>	Exempted	Exempted
Interest Received from Provident Funds	3%	3%
Rental Income. Deduction of 25% is applicable. (Cyprus tax residents only) <sup>5</sup>	3%	3%
Interest Income from Government Development Bonds and Government Saving bonds	3%	3%
Dividends Received from Cyprus tax resident companies <sup>6</sup>	17%	Exempted
Dividends Received from non-Cyprus tax resident companies **	17%	Exempted

<sup>3</sup> The Special Contribution for Defense rate on interest income of 30% is effective for interest received or credited from 29 April 2013 onwards.

Interest income earned by individuals from Cyprus government savings bonds and development bonds is subject to Special Contribution for Defense at the rate 3% (instead of 30%).

In the case where the total income of an individual (including interest) does not exceed €12.000 in a tax year, then the rate on interest income is reduced to 3% (instead of 30%).

For Cyprus sourced interest Special Contribution for Defense due is withheld at source and is payable at the end of the month following the month in which they were paid.

However for foreign sourced interest, Special Contribution for Defense, is payable in 6 month intervals on 30 June and 31 December each year.

<sup>4</sup> Such interest income is subject to personal Income Tax / Corporation Tax.

<sup>5</sup> For Cyprus sourced rental income where the tenant is a Cyprus company, partnership, the state or local authority Special Contribution for Defense 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 Defense on rental income is payable by the landlord in 6 monthly intervals on 30 June and 31 December each year.

Rental income is also subject to personal income tax / corporation tax.

<sup>6</sup> For Cyprus sourced dividends, Special Contribution for Defense due is withheld at source and is payable at the end of the month following the month in which they were paid.

Dividends received by a Cyprus tax resident company from other Cyprus tax resident companies are exempt, subject to certain anti avoidance provisions.

\*\*As from 1 January 2016 this section only applies to dividends which are not deductible for tax purposes by the paying company. Dividends which are deductible for tax purposes by the paying company are subject to Corporation Tax.

The exemption of this section does not apply if:

- more than 50% of the paying company's activities result directly or indirectly in investment income and
- the foreign tax is significantly lower than the tax burden in Cyprus. The tax authorities have clarified through a circular that "significantly lower" means an effective tax rate of less than 6,25% on the profit distributed.

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

**NOTE:**

Foreign taxes paid can also be credited against the Special Contribution for Defence liability.

**Deemed dividend distribution**

A Cyprus tax resident company is deemed to distribute as a dividend 70% of its accounting profits two years from the end of the tax year in which the profits were generated.

**Disposal of assets to shareholder at less than market value**

When a company disposes of an asset to an individual shareholder or a relative of his up to second degree or his spouse for a consideration less than its market value, the difference between the consideration and the market value will be deemed to have been distributed as a dividend to the shareholder. This provision, does not apply for assets originally gifted to the company by an individual shareholder or a relative of his up to second degree or his spouse.

**Company dissolution**

The cumulative profits of the last five years prior to the company's dissolution, which have not 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 Reorganisation.

## **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 previously paid-in equity will be considered as dividends distributed subject to special defence contribution at the rate of 17% after deducting any amounts which have been deemed as distributable profits.

The redemption of units or shares in a Collective Investment Scheme is not subject to the above provisions.

Prior to 16 July 2015 the above provisions applied only to the extent that the ultimate shareholders (direct or indirect) are Cyprus tax resident individuals. As from 16 July 2015 the above provisions apply only to the extent that the ultimate shareholders (direct or indirect) are individuals who are both Cyprus tax resident and Cyprus domiciled.

## CAPITAL GAINS TAX

Capital Gains Tax is imposed (when the disposal is not subject to income tax) at the rate of 20% on gains from the disposal of immovable property situated in Cyprus including gains from the disposal of shares in companies which directly own such immovable property.

Further, as from 17 December 2015, shares of companies which indirectly own immovable property located in Cyprus and at least 50% of the market value of the said shares derives from such immovable property are subject to Capital Gains Tax.

Shares listed on any recognised stock exchange are excluded from these provisions.

### **Exemptions**

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

- Subject to conditions, land as well as land with buildings, acquired in the period 16 July 2015 up to 31 December 2016 will be exempt from Capital Gains Tax upon its disposal.
- Transfers arising on death
- Gifts made from parent to child or between husband and wife or between up to third degree relatives
- Gifts to a 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 day of the transfer
- Gifts 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 donee for at least three years
- Gifts to charities and the Government
- Transfers as a result of reorganisations
- Exchange or disposal of immovable property under the Agricultural Land (Consolidation) Laws
- Expropriations
- Exchange of properties, provided that the whole of the gain made on the exchange has been used to acquire the other property. The gain that is not taxable is deducted from the cost of the new property, i.e. the payment of tax is deferred until the disposal of the new property

Applicable life-time exceptions:

▪ Disposal of immovable property	€17.086
▪ Disposal of agricultural land	€25.629
▪ Disposal of private residence*	€85.430

\*Under certain conditions

Any gains arising from the disposal of an immovable property outside the Republic are exempted from Capital Gains Tax.

## IMMOVABLE PROPERTY TAX

Immovable Property Tax is abolished as from 1 January 2017. Until tax year 2016, the owner of immovable property situated in Cyprus was liable to pay an annual IPT which is calculated on the market value of the property as at 1 January 1980, at the varying rates as noted in the table below, which apply per owner and not per property.

<u>Property Value as at 01.01.1980</u>	<u>Tax Rate</u>	<u>Tax</u>	<u>Accumulated Tax</u>
€1 - €40.000	0,6%	€240*	€240
€40.001 - €20.000	0,8%	€640	€880
€20.001 - €70.000	0,9%	€450	€1.330
€70.001 - €300.000	1,1%	€1.430	€2.760
€300.001 - €500.000	1,3%	€2.600	€5.360
€500.001 - €800.000	1,5%	€4.500	€9.860
€800.001 - €3.000.000	1,7%	€37.400	€47.260
Over €3.000.000	1,9%		

### NOTE:

Property owners whose property has a total value of €12.500 or less (using values of 1.1.1980) are exempt from Immovable Property Tax.

For 2016, taxpayers are entitled to the following discounts on the applicable IPT:

- 75% of the IPT if paid until 31 October 2016 (i.e. 25% payable until 31 October 2016),
- 72,5% of the IPT if paid between 1 November 2016 and 31 December 2016 (i.e. 27,5% payable between these two dates).

The following are not subject to Immovable Property Tax:

- Public cemeteries
- Churches and other religious buildings (partly exempt)
- 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 organisations
- Agricultural land used in farming or stock breeding, by farmer or stock breeder residing in the area



## TRANSFER FEES

Value (€)	Tax Rate (%)	Transfer Fees (€)	Accumulate (€)
Up to 85.000	3	2.550	2.550
85.000 – 170.000	5	4.250	6.800
Over 170.000	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 transfers of property between the following parties, the transfer fees are calculated on the value of the property as at 1 January 2013 at the following rates:

- from parents to children 0%
- between spouses 0,1%
- between third degree relatives 0,1%

### Exemptions from transfer fees

The following transfers are exempt from transfer fees:

- under a qualifying reorganization
- under qualifying loan restructuring
- in the context of bankruptcy, liquidation, disposal of mortgaged immovable property by the lender
- transfers that are subject to VAT.

## VALUE ADDED TAX

### **What is Value Added Tax (VAT) and should the business be registered?**

Value Added Tax is imposed on the supply of all goods and services in Cyprus, on the acquisition of goods from other Member States and on the importation of goods from third countries.

Taxable persons charge VAT on their taxable supplies (output tax) and are charged with VAT on goods or services which they receive (input tax). 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 excess input tax is carried forward as a credit and set off against future output VAT.

Immediate refund of excess input VAT can be obtained in the following cases:

- a period of three years has elapsed from the date the VAT became refundable (reduced to one year as from 1/1/2015 and eight months as from 1/1/2016)
- 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)

For intra-community acquisition of goods (with the exception of goods subject to excise duty) the trader does not pay VAT on receipt of the goods in Cyprus but instead accounts for VAT using the acquisition accounting method. This involves a simple accounting entry in the books of the business whereby it self-charges VAT and at the same time claims it back, provided it relates to supplies for which the right to recover input VAT is granted, thereby creating no cost to the business.

In cases the acquisition relates to a transaction for which the right to recover the input VAT is not granted, the trader must pay the VAT that corresponds to the acquisition.

### Rates:

Standard rate applicable (from 14/1/2013 until 12/1/14)	18%
Standard rate (from 13/1/14)	19%
Reduced rate (from 1/8/05 until 12/1/14)	8%
Reduced rate (from 13/1/14)	9%
Reduced rate	5%
Zero rate	0%

### Reduced rate 9% (from 13 January 2014) applies to:

- Restaurants and catering services
- Accommodation in hotels and tourist lodgements
- Transportation of passengers

### Reduced rate 5% applies to:

- The supply of foodstuff
- The supply of pharmaceutical products and vaccines
- Books, newspapers and magazines
- Entry fees of museums, theatres, circus and other entertainment events.
- Renovation and repair of private households after three years of first residence.
- Acquisition and construction of residence.

### Zero Rated applies to:

- The exportation of goods
- Supply, modification, repair, maintenance, chartering and hiring of sea-going vessels and aircrafts as well as the supply of services of sea-going vessels and aircrafts.

### Exemptions

Exempted Supplies include:

- Rental of immovable property
- Financial services (with some exceptions)
- Hospital and medical caring services
- Postal services
- Insurance services
- Educational services at all levels of education under certain conditions
- Lottery tickets and betting coupons for football and horse racing
- Management services provided to mutual funds

## **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.**

The reduced rate of 5% applies to contracts that have been concluded from 1 October 2011 onwards provided they relate to the acquisition and/ or construction of residences to be used as the primary and permanent place of residence for the next 10 years. Following a legislative amendment, the restriction that existed for the imposition of the reduced rate of VAT on the first 200 square meters for private residences up to 275 square meters no longer applies.

Based on the amendment, the reduced rate of VAT of 5% applies on the first 200 square meters whereas for the remaining square meters as determined based on the building coefficient, the standard VAT rate is imposed. The reduced rate is imposed only after obtaining a certified confirmation. The eligible person must submit an application on a special form, which will state that the house will be used as the primary and permanent place of residence. The applicant must attach a number of documents supporting the ownership rights on the property and evidencing the fact that the property will be used as the primary and permanent place of residence. The application must be filed prior to the actual delivery of the residence to the eligible person.

As from 8 June 2012 eligible persons include residents of non EU Member States, provided that the residence will be used as their primary and permanent place of residence in the Republic.

### Who is obliged to register:

Every individual or company is obliged to register if:

- a) at the end of any month, the value of taxable supplies recorded in the last 12 months exceeds €15.600 or
- b) at any point in time the value of taxable supplies are expected to exceed €15.600 in the next 30 days
- c) provides services to a VAT registered person within European Union with nil registration threshold
- d) offers distant sales with registration threshold of €35.000
- e) is involved in the acquisition of goods from other EU member states and relates to persons who offer exempt supplies of goods and services or are non-profitable organisations with registration threshold of €10.250
- f) offers zero rated supplies of goods or services
- g) acquires a company on a going concern basis.

## VAT RETURNS SUBMISSION AND PENALTIES

Any registered person has to submit to the Commissioner a VAT return not later than the 10th 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 will have to submit their quarterly VAT returns on line, via the Taxisnet system.

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 claim is conducted by the Commissioner, the time period of four months is extended to eight months

Failure to Register to Vat Authorities	€85
Delayed VAT Return submission	€1 / Vat Return
Delayed payment of Output Vat	10% one off penalty plus interest
Delayed registration to VIES System	€50/VIES Statement
Delayed submission of VIES statement	€50/VIES Statement
Delayed correction of VIES statement	€15/VIES Statement
Failure to submit VIES statement – Constitutes a Criminal Offence	€50/VIES Statement
Delayed registration to INTRASTAT declaration	€15/INTRASTAT Return
Delayed submission of INTRASTAT declaration	€15/INTRASTAT Return
Delayed correction of INTRASTAT declaration	€15/INTRASTAT Return
Failure to submit INTRASTAT declaration	Criminal Offense
Delayed Deregistration from VAT Register	€85 one-off penalty

## SOCIAL INSURANCE

Employer's Contributions	7,8%
Employee's Contributions	7,8%
Self – employed Individuals	14,6%

Maximum level of Annual Income on which the above rates are applicable:

	€	Per annum €
Weekly Employees	1.046	54.396
Monthly Employees	4.533	54.396

The rate of 7,8% applies for both the employer and the employee up to 31 December 2018.

### **Other Employer's Contributions:**

Social Cohesion Fund (no restrictions apply)	2,0%
Redundancy Fund*	1,2%
Industrial Trading Fund*	0,5%
Annual Leave Fund*	8,0%

\*Restricted to the maximum level of income as per above table.

The contributions of self-employed persons are 14,6% of their income. The amount of the contributions is subject to a lower and a maximum limit, depending on the profession or trade of the Self- Employed Person. These limits are set on an annual basis.

## CAPITAL DUTY

Upon Incorporation of the company:

Authorised share Capital	€105 plus 0,6% on the authorized
Issued share capital	There is no capital duty payable if the shares are issued at the nominal value. There is a €20 flat duty if the shares are issued at a premium.

Upon subsequent increase:

Authorised Share Capital	0,6% on the additional share capital
Issued Share Capital	€20 flat duty on every issue, whether the shares are issued at a nominal value or at a premium.

## STAMP DUTY

The following table 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

Receipts - for sums of over €	€0,07
Cheques	€0,05
Letters of credit	€
Letters of guarantee	€
Bills of exchange (payable within three Days, on demand or at sight)	€
Contracts with a fixed amount:	
- The first €5.000	0,0‰
- €5.001- €170.000	1,5‰
-more than €170.000	2,0‰*
Contracts without fixed sum	€5
Customs declaration documents (depending on the document)	€8 - €35
Bills of lading	€
Charter party	€8
Powers of attorney:	
General	€
Limited	€
Certified copies for contracts and documents	€

\*Capped at a maximum of €20.000

## TAX DIARY

Submission of the deemed dividend distribution declaration (IR623) for the tax year 2014	31/01
Electronic submission of the income tax return for individuals and companies preparing audited financial statements for the tax year 2015	31/03
Submission of return and payment of the first instalment of the special tax levy by Credit Institutions for 2017	
Submission of the 2016 personal tax return (IR1) by salaried individuals whose gross income exceeds €19.500 for the tax year 2016	30/04
Payment of the first instalment of the premium tax for insurance companies (life business) for the first quarter of 2017	
Submission of the 2016 personal tax return (IR1) by individuals who do not prepare audited financial statements if their gross income exceeds €19.500 for the tax year 2016.	
Payment of tax balance for the tax year 2016 through self-assessment by individuals. (excluding those individuals who prepare audited financial statements)	30/06
Payment of special contribution for defense on rents, dividends or interest from sources outside Cyprus for the first 6 months of 2017.	
Payment of the second instalment of the special tax levy by Credit Institutions for 2017.	
Payment of Annual Levy	30/06
Electronic submission of the 2016 personal tax return (IR1) by salaried individuals whose gross income exceeds €19.500 for the tax year 2016	
Electronic submission of the 2016 employers' return.(IR7)	31/07
Submission of the 2017 provisional tax Return (IR6) and payment of the first instalment.	
Payment of the 2016 tax balance through self-assessment (IR 158) by individuals and companies preparing audited financial statements	01/08



<p>Payment of the second instalment of the premium tax for insurance companies (life business) for the second quarter of 2017</p>	<p>31/08</p>
<p>Electronic submission of the 2016 personal tax return (IR1) by individuals who do not prepare audited financial statements if their gross income exceeds €19.500 for the tax year 2016.</p> <p>Payment of the third instalment of the special tax levy by Credit Institutions for 2017</p>	<p>30/09</p>
<p>Payment of the second instalment of the 2017 provisional tax.</p> <p>Payment of special contribution for defense on rents, dividends or interest from sources outside Cyprus for the last 6 months of 2017.</p> <p>Payment of the third instalment of the premium tax by insurance companies (life business) for the last quarter of 2017.</p> <p>Payment of the fourth instalment of the special tax levy by Credit Institutions for 2017</p>	<p>31/12</p>
<p>Payment of PAYE deducted from employees' salaries for the previous month.</p> <p>Payment of tax withheld on payments made to non tax residents during the previous month.</p> <p>Payment of special defense contribution withheld on dividends, interest or rent* paid in the previous month to Cyprus tax residents</p> <p>*Where the tenant is a Cyprus company, partnership, the Government or any local authority there is an obligation to withhold special defense contribution on the amount of the rent paid.</p>	<p>End of the following month.</p>

## KRESTON INTERNATIONAL

Kreston International Limited is a global network of independent accounting firms. Founded in 1971 and offering reliable and convenient access to efficient and seamless advisory and assurance services through member firms located around the globe, Kreston:

- Is ranked the 12th largest accounting network in the world
- Covers over 110 countries
- Has a resource of 21,000 professional and support staff.

Kreston International members are accustomed to working together to deliver cohesive international solutions to ensure clients receive the highest quality of expertise available in their respective countries. Beyond assurance, quality and experience, clients will enjoy the unique synergy that stems from the trusted relationships that Kreston members have created globally and which support the consistent delivery of exceptional international service.

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Kreston International has won the International Accounting Bulletin “Rising Star Network” Award of 2012.

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**The tax information included in this “Tax Facts and News” is accurate as at the date of its publication. The scope of this calendar is to raise the reader’s awareness of the Cyprus Tax System. For any explanations, clarifications or professional advice please do not hesitate to contact us.**