

TAX FACTS AND NEWS

CYPRUS

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THE COMPANY

Kreston Proios Ltd is a leading independent accountancy firm providing audit, assurance, advisory, and management consulting to local and international companies and individual clients since 1965.

The firm's offices are located in Nicosia and offer professional and dedicated services that strive to meet the needs of our clients wherever they are based and whatever their structure is.

So, whether your business is well established or a start-up, an international company or an owner managed business we can help. And, if you're an individual looking for tax and wealth advice, we can help with that too.

Kreston Proios Ltd is a member of "Kreston International", the 12th largest global network of independent accounting firms.

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.

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

- i. does not spend more than 183 days in any other country;
- ii. is not a tax resident of any other country;
- iii. spends at least 60 days in the Republic;
- iv. maintains a permanent home in the Republic that is either owned or rented;
- v. carries on a business in the Republic, is employed in the Republic or holds an office in a person who is a tax resident of the Republic at any time during the tax year.

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

For the purpose of calculating the days of presence in the Republic individuals must take into account the following:

- the day of arrival into the Republic is considered as a day in the Republic
- the day of departure from the Republic is considered as a day out of the Republic
- the arrival into the Republic and departure from the Republic on the same day is considered as a day in the Republic and
- the departure from the Republic and return to the Republic on the same day is considered as a day out of the Republic.

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) ¹	100%
Dividend Income ¹	100%
Gain from disposal of securities. ²	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 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%
Profits from permanent establishment abroad under certain conditions. 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.	100%
Rent from preserved building. (subject to certain conditions)	100%
Lump sum received as retiring gratuity, commutation of pension, death gratuity or as consolidated compensation of death and injury.	100%
Lump sum repayment from life insurance schemes or from approved provident funds.	100%
Foreign exchange (FX) gains, with the exception of FX gains arising from trading in foreign currencies and related derivatives. Persons trading FX have an option to make an irrecoverable election to be subject to tax only on realised FX difference.	100%
Gain arising from Restructuring ³	100%

TAX DEDUCTIONS

Social insurance contributions, contributions to approved provident and pension funds and the General Health Plan, contributions to medical or other taxable approved funds as well as life insurance income premiums in respect of the life of the before this claimant. ⁴	Limited to the 1/6 of the taxable income before this allowance
Subscriptions to professional bodies and trade unions	100%
Rental Income	20% of gross rental income
Interest relating to the acquisition of fixed assets used in the business.	100%
Donations to Approved Charities (Receipts required if above €300)	100%
Loss of current year and previous years (for individuals required to prepare audited financial statements, current year losses and losses of the previous five years only may be deducted)	100%
Profits from the exploitation of intellectual property rights. (page15)	80%
Profits from disposal of intellectual property rights. (page15)	Up to 100%
Expenditure for scientific research.	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 €150.000 per year) ⁵

1) Such dividend and interest income may be subject to Special Contribution for Defence - refer to the Special Contribution for Defence section - page 15

2)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. Circulars have been issued by the Tax Authorities further clarifying what is included in the term Securities. According to the circulars the term includes, among others, options on Securities, short positions on Securities, futures/forwards on Securities, swaps on Securities, depositary receipts on Securities (ADRs, GDRs), rights of claim on bonds and debentures (rights on interest of these instruments are not included), index participations only if they result on Securities, repurchase agreements or Repos on Securities, units in open-end or close-end collective investment schemes. The circulars also clarify specific types of participation in foreign entities which are considered as Securities.

3) “Restructuring” means the direct or indirect sale and transfer of immovable property and transfer of rights under a sale contract deposited with the Department of Lands and Surveys, between one or more borrowers and/or debtors and/or guarantors regarding the same credit facility or grant or debt and one or more creditors made up to 31 December 2019, which aims to reduce or repay credit facilities or loans or debts granted to borrowers with one or more lenders

4) Social insurance and medical fund are restricted to the 1.5% of remuneration and pension and provident fund contributions are restricted to the 10% of remuneration. The allowance for the annual life insurance premium is restricted to 7% of the insured amount.

Life insurance policies, in respect to the life of the claimant’s spouse, which were in existence up to the 31 December 2002 and for which the claimant was receiving a tax allowance, will continue to be deductible by the claimant.

In the event of cancellation of a life insurance contract within 6 years from the date it was entered into, a portion of the life insurance premiums already given as an allowance will be taxable as follows:

- cancellation within 3 years 30%
- cancellation between 4 to 6 years 20%

5) 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 €150.000 per year).

NON – DEDUCTIBLE EXPENSES

The following expenses are not deductible in calculating taxable income:

Expenses not incurred wholly and exclusively for the production of income	The whole amount
Business entertainment expenses	Amount in excess of 1% of the gross income or €17.086 (whichever is lower)
Private motor vehicle expenses	The whole amount
Immovable property tax	The whole amount
Interest payable or deemed to be payable in relation to the acquisition of a private motor vehicle, irrespective of whether it is used in the business or not, or any other asset not used in the business. This restriction is lifted after 7 years from the date of purchase of the relevant asset.	The whole amount

Interest expense incurred for the acquisition of shares in a wholly owned (direct or indirect) subsidiary will be deductible for income tax purposes provided that this subsidiary does not own (directly or indirectly) any assets which are not used in the business. If this subsidiary does own (directly or indirectly) assets that are not used in the business, the interest expense that corresponds to the percentage of assets not used in the business will not be deductible. This applies to shares acquired from 1 January 2012.

Expenditure which is not supported by appropriate supporting documentation as required by the relevant Regulations	The whole amount
Wages and salaries relating to services offered within the tax year on which social insurance and other contributions, have not been paid in the year in which they were due.	The whole amount

In case the above contributions (including any penalties and interests) are paid within 2 years following the due date, such wages and salaries will be tax deductible in the tax year in which they are paid.

Loans or other financial assistance provided to company directors or individual shareholders

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

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

Annual wear and tear allowances

Annual wear and tear allowances available for companies (pages 13) are also available to individuals.

Losses

Losses carried forward:

Individuals who have an obligation to prepare audited financial statements (i.e. those with turnover in excess of €70.000) may carry forward tax losses incurred during a tax year over the next five years, to be offset against taxable income.

Where a person, including a partnership, converts his/her business into a limited liability company, any unutilised tax losses can be transferred to the new company.

Losses of a permanent establishment outside the Republic

Tax losses arising from a permanent establishment maintained outside the Republic can be offset against taxable profits of the company arising in the Republic in the same year. However, any subsequent taxable profits from such a permanent establishment are taxable up to the amount of tax losses previously offset.

Tax credit for foreign tax paid

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

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.

GROSS MONTHLY EMOLUMENTS	CONTRIBUTION (%)	CUMULATIVE SPECIAL CONTRIBUTION (€)
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.

GROSS MONTHLY EMOLUMENTS	CONTRIBUTION (%)	CONTRIBUTIONS OF EMPLOYEES IN HIGHER SCALE (%)
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

All expenses incurred wholly and exclusively for the production of income are deductible in calculating taxable income, including:

Donations and Subscriptions to approved charity organisations only if evidences 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 €17.086
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)
Profit from disposal of intellectual property rights (page15)	Up to 100%
Profits from the exploitation of intellectual property rights (page15)	Up to 80%
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 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 such acquisitions of subsidiaries from 1 January 2012.	100% of interest expense if the subsidiary does not own (directly or indirectly) any assets not used in the business. A restricted amount of interest expense is allowed to the extent the subsidiary owns (directly or indirectly) assets used in the

Equity introduced to a company as from 1 January 2015 (new equity) in the form of paid-up share capital or share premium may be eligible for an annual notional interest deduction (NID). The annual NID deduction is calculated as the new equity multiplied by the NID interest rate. 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). For 2017 the minimum relevant NID interest rate is 6,489% (6,685% for 2016). A taxpayer may elect not to claim all or part of the available NID for a particular tax year. Certain anti-avoidance provisions apply.	business. The NID deduction cannot exceed 80% of the taxable profit derived from the assets financed by the new equity (as calculated prior to the NID deduction).
Interest Incurred for the acquisition of a fixed asset used in the business.	100%
Expenditure for scientific research including research and development undertaken by innovative business.	100%

TAX EXEMPTIONS

Interest Income not arising from or not closely connected with the ordinary course of business	100% ¹
Dividend Income (excluding, as from 1 January 2016, dividends which are tax deductible for the paying company)	100% ²
Gains arising from the disposal of securities.	100%
Profits of a permanent establishments abroad*	100%
Rent of preserved building. (subject to certain conditions)	100%
Foreign Exchange (FX) gains with the exception of FX gains arising from trading in foreign currencies and related derivatives. (Persons trading in FX have an option to make an irrevocable election to be subject to tax only on realised FX differences)	100%
Gain arising from restructuring. **	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.

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

¹ Interest income is subject to Special Contribution for Defense.

² Dividend income may be subject to Special Contribution for Defense.

NON – DEDUCTABLE EXPENSES

Expenses not incurred wholly and exclusively for the production of income	100%
Private Motor Vehicle Expenses	100%
Interest applicable to the cost of acquiring a private motor vehicle irrespective of its use and to the cost of acquiring any other asset not used in the business	100% for 7 years from the date of acquisition of the asset
Interest expense incurred for the acquisition of shares in a wholly owned (direct or indirect) subsidiary will be deductible for income tax purposes provided that this subsidiary does not own (directly or indirectly) any assets which are not used in the business. If this subsidiary does own (directly or indirectly) assets that are not used in the business, the interest expense that corresponds to the percentage of assets not used in the business will not be deductible. This applies to shares acquired from 1 January 2012.	100%
Expenses not supported by invoices or receipts	100%
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%

*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.

LOSSES

Losses carried forward

Companies may carry forward tax losses incurred during a tax year over the next five years to be offset against taxable income.

Group relief

Current year tax losses may be surrendered by one Cyprus tax resident group company to another. A group company which is tax resident in another EU country may also surrender current year tax losses to a Cyprus tax resident company, provided such company firstly exhausts all possibilities available to utilise its tax losses in its country of residence or in the country of any intermediary EU holding company.

Group relief is available if both companies are members of the same group for the entire tax year.

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

- one is a 75% subsidiary of the other, or
- both are 75% subsidiaries of a third company

The interposition of a non-Cyprus tax resident company does not affect the eligibility for group relief as long as such company is tax resident in either an EU country or in a country with which Cyprus has either a tax treaty or an exchange of information treaty (bilateral or multilateral).

Where a company has been incorporated by its parent company during the tax year, this company will be deemed to be a member of this group for group relief purposes for that tax year.

Losses of a permanent establishment outside the Republic

Tax losses arising from a permanent establishment outside the Republic may be offset against taxable profits of the company arising in the Republic in the same year. However, any subsequent taxable profits from such a permanent establishment are taxable, up to the amount of tax losses previously offset.

Tax credit for foreign tax paid

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

ANNUAL WEAR AND TEAR ALLOWANCES

Annual wear and tear allowances are calculated as a percentage on the cost of acquisition of the asset used in the business, and are deductible from taxable income.

BUILDINGS	
Commercial Buildings	3%
Industrial, Agricultural and Hotel Buildings	4%
Industrial and Hotel Buildings (Acquired during 2012-2018)	7%
Metallic frame of Greenhouse	10%
Wooden frame of Greenhouse	33 1/3%
PLANT AND MACHINERY	
Plant and Machinery*	10%
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%
*if acquired during 2012-2018	20%
FIXTURES AND FITTINGS	
Fixtures and Fittings	10%
MOTOR VEHICLES	
Motor vehicles of all types (except private salon cars)	20%
COMPUTER SOFTWARE AND HARDWARE	
Personal Computer hardware and operating software	20%
Application Software up to €1.709	100%
Application Software above €1.709	33 1/3%
TOOLS	
All tools in general	33 1/3%
Videotapes used by Video clubs	50%
SHIPS	
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%
Used Ships	In accordance with special agreement
Used commercial and passenger ship and capital additions	Remaining useful economic life in accordance with the class certificate
ALLOWANCES FOR SPECIALISED FIXED ASSETS	
Armored 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 rail roading	20%
INTAGIBLE ASSETS	
Intangible assets with some exceptions. The capital cost of any intangible asset, excluding goodwill and assets qualifying under the old IP regime (page 15), is tax deductible as a capital allowance over the economic useful life of the asset, as determined by acceptable accounting principles. (maximum useful life 20 years)	5%-100%

INTELLECTUAL PROPERTY

Old IP regime

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

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

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

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

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

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

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

The provisions of the **new IP regime** are effective from 1 July 2016.

According to the new regime, qualifying intangible asset means an asset which was acquired, developed or exploited by a person in the course of carrying on a business and which constitutes intellectual property, other than marketing related intellectual property associated with promotion (marketing) and which is the result of research and development activities, including an intangible asset for which there is only economic ownership.

In calculating the taxable profit, an 80% deemed deduction applies to the profit from the exploitation of such qualifying intangible assets which is calculated based on a specific formula that follows the modified nexus approach.

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

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

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

NOTE:

The capital cost of any intangible asset, excluding goodwill and assets qualifying under the old IP regime is tax deductible as a capital allowance over the useful economic life of the asset, as determined by acceptable accounting principles (with a maximum useful life of 20 years).

SPECIAL CONTRIBUTION FOR DEFENCE

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

- Cyprus tax resident companies
- Individuals who are tax resident and domiciled 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 he/she has a domicile of origin in Cyprus per the Wills and Succession Law (with certain exceptions) or if he/she has been a tax resident in Cyprus for at least 17 out of the 20 tax years immediately prior to the tax year of assessment. Anti-avoidance provisions apply.

See Rates Below:

<u>SOURCE</u>	<u>RATES</u>
DIVIDENDS ¹	17%
INTEREST INCOME ²	30%
INTEREST RECEIVED BY INDIVIDUALS FROM GOVERNMENT SAVINGS CERTIFICATES AND GOVERNMENT BONDS	3%
INTEREST RECEIVED BY APPROVED PROVIDEND FUND	3%
INTEREST EARNED BY SOCIAL INSURANCE FUND	3%
RENTAL INCOME LESS 25%	3%

1) Dividends – The following exceptions apply:

- Dividends received by a company resident in the Republic from another company resident in the Republic, excluding dividends paid indirectly after the lapse of 4 years from the end of the year in which the profits which were distributed as dividends were generated.
In case where the actual dividend is received by a company which is owned indirectly by Cyprus tax resident and domiciled individual(s) and the Commissioner considers that the interposition of this company as a shareholder of the company paying the dividend does not serve any substantial commercial or economic purpose but is primarily intended to prevent, reduce or postpone the payment of special contribution for defence, the Commissioner may deem that the dividend is paid directly to the individual(s) who directly/ indirectly control the company receiving the dividend and require the payment of the special contribution for defence on the dividend either from the company receiving the dividend or from the individual(s) who directly/indirectly control the company.

- Dividends received directly or indirectly from dividends on which defence contribution has already been paid.
- Dividend received by a company resident in the Republic or not resident in the Republic which maintain a permanent establishment in the Republic from a company which is not resident in the Republic

This exception does not apply if:

- a) more than 50% of the activities of the non-resident dividend paying company lead to investment income; and
- b) the foreign tax burden on the income of the dividend paying company is substantially lower than the tax burden of the Cyprus tax resident company or the non-resident company which has a permanent establishment in the Republic.

2) Interest Income

Interest earned as a result of the ordinary carrying on of the business (including interest closely connected to the ordinary carrying on of the business, and interest earned by a collective investment scheme) is not considered interest for special contribution for defence purposes and is exempt from special contribution for defence.

An individual whose total annual income, including interest, does not exceed €12.000, who receives interest which has been subject to defence contribution, has the right to a refund of the amount of defence contribution suffered in excess of 3%.

Deemed distribution

A company resident in the Republic is deemed to have distributed 70% of its profits after taxation in the form of dividends at the end of the two years from the end of the tax year in which such profits were generated. Special contribution for defence is imposed to the extent that the ultimate direct/indirect shareholders of the company are Cyprus tax resident and Cyprus domiciled individuals.

The deemed distribution provisions do not apply to profits which relate directly or indirectly to non-resident or resident but non-domiciled shareholders.

For the purpose of calculating the amount of the deemed distribution, the term «profits» means the accounting profits arrived at using generally acceptable accounting principles, after the deduction of any transfers to reserves as specified by any law. Any losses brought forward, group losses as well as any amounts, including any additional depreciation, which emanate from the revaluation of movable and immovable property are ignored.

The term «taxation» includes:

- 3) The corporation tax, which includes charges of additional tax
- 4) The special contribution for defence
- 5) the capital gains tax and
- 6) any tax paid abroad that has not been credited against income tax and/or special defence tax payable for the relevant year

The amount of deemed dividend is reduced by the amount of actual dividend distributed during the year the profits were generated, or the following two years.

In case where an actual dividend is paid after the deemed dividend distribution date, any deemed distribution reduces the actual dividend on which the defence contribution is withheld.²⁰

In the case of an individual not resident or non-domiciled in the Republic receiving dividends from a company which is resident in the Republic, emanating from profits which at any stage were subject to deemed distribution, the defence contribution paid as a result of the deemed distribution which is attributable to such person is refundable.

A person who is deemed to receive dividends from a collective investment scheme is subject to a defence contribution of 3% on the deemed dividend.

The deemed distribution provisions do not apply to profits arising either from a loan restructuring (note 10), subject to conditions, or from a reorganisation (note 13).

Disposal of assets to shareholders at less than market value

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

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

Company dissolution

The aggregate profits of the last five years prior to the company's dissolution, which have not been distributed or been deemed to be distributed, will be considered as distributed on dissolution and will be subject to defence contribution.

Companies that are under voluntary dissolution or liquidation are obliged to submit within one month from the date of the approval of the resolution, a deemed dividend declaration and pay any special defence contribution in relation to the profits of the specific tax year and the two preceding years.

The deemed dividend distribution provisions do not apply on any accounting profits arising during the dissolution or liquidation if the assets of the company are not sufficient for the repayment of its creditors and no amount is available to be distributed to its shareholders.

Where assets are distributed to the company's shareholders upon the company's liquidation or dissolution, which have a market value that exceeds the cost of their acquisition by the company, the deemed distribution provisions will apply. The amount of the dividend that is deemed to be distributed to its shareholders will be equal to the difference between the market value of the assets and the cost of acquisition of the particular asset by the company.

The deemed dividend distribution of profits that become realised upon the company's dissolution or liquidation may not exceed the amount of the net assets distributed to the shareholders.

The dissolution of an open-ended or closed-ended collective investment scheme falls under the deemed distribution provisions but the undistributed profits will be subject to special defence contribution of 3%.

These provisions do not apply in the case of dissolution under reorganisation, in accordance with certain prerequisites set out in the relevant Regulations or where the shareholders are not resident or non-domiciled in the Republic.

Reduction of capital

In the case of a company's capital reduction, any amounts paid or due to shareholder individuals in excess of the amount of the share capital that was actually paid by the shareholder will be treated as a deemed dividend subject to special defence contribution (provided that the ultimate shareholders are Cyprus tax resident and Cyprus domiciled individuals).

The buy back or redemption of units or other ownership interests in an opened-ended or closed-ended collective investment scheme is not considered a capital reduction and is not subject to special defence contribution.

Tax credit for foreign tax paid

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

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.

Disposals for the purposes of CGT includes: exchange, leasing, gifting, abandoning use of right, granting of right to purchase and any sums received upon cancellation of disposal of property.

Shares listed on any recognized 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 future disposal subject to certain anti-avoidance provisions.
- 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, to the extent that the gain made on the exchange has been used to acquire the new 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.

Determination of capital gain for CGT purposes

Liability arises only on gains accruing as from 1 January 1980, i.e. deducted from gross proceeds on the disposal of immovable property are its market value at 1 January 1980, or the costs of acquisition and improvements of the property, if made after 1 January 1980, as adjusted for inflation up to the date of disposal on the basis of the consumer price index in Cyprus.

Expenses that are related to the acquisition and disposal of immovable property are also deducted, subject to certain conditions e.g. interest costs on related loans, transfer fees, legal expenses etc.

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 has been abolished as from 1 January 2017.

ESTATE DUTY

Estate duty has been abolished since 1 January 2000.

The executor/administrator of the estate of the deceased, is however required by the Deceased Persons Estate Law, to submit to the tax authorities a statement of assets and liabilities of the deceased within six months from the date of death.

TRANSFER FEES

The fees charged by the Department of Land and Surveys to the acquirer for transfers of immovable property are as follows:

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 restructuring. “Restructuring” means the direct or indirect sale and transfer of immovable property and transfer of rights under a sale contract deposited with the Department of Lands and Surveys, between one or more borrowers and/or debtors and/or guarantors regarding the same credit facility or grant or debt and one or more creditors made up to 31 December 2019, which aims to reduce or repay credit facilities or loans or debts granted to borrowers with one or more lenders.
- in the context of bankruptcy, liquidation, disposal of mortgaged immovable property by the lender
- transfers that are subject to VAT.

CAPITAL DUTY

Upon Incorporation of the company:

Authorised share Capital	€105 plus 0.6% on the authorized share capital
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 €4	€0,07
Cheques	€0,05
Letters of credit	€2
Letters of guarantee	€4
Bills of exchange (payable within three Days, on demand or at sight)	€1
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	€35
Customs declaration documents (depending on the document)	€18 - €35
Bills of lading	€4
Charter party	€18
Powers of attorney:	
General	€6
Limited	€2
Certified copies for contracts and documents	€2

*Capped at a maximum of €20.000

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 eight months has elapsed from 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)

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 (from 13/1/14)	19%
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
- Movement of passengers in inland waters and their accompanying luggage

Reduced rate 5% applies to:

- The supply of foodstuff
- The supply of prepared or unprepared foodstuff and/or beverages (excluding alcoholic drinks, beer, wine and soft drinks) or both, irrespective of whether the goods are delivered from the supplier to the customer or taken away by the customer
- The supply of pharmaceutical products and vaccines
- The supply of live animals used for the preparation of food
- Books, newspapers and magazines
- Entry fees of museums, theatres, circus and other entertainment events.
- Entry fees at sports events and fees for using athletic centres
- Hair dressing services
- Renovation and repair of private households after three years of first residence. (conditions apply)
- Acquisition and construction of residence. (conditions apply)

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.
- Supply, modification, repair, maintenance, chartering and hiring of aircrafts, used by airlines operating for reward mainly on international routes.
- Supply of services to meet the direct needs of sea going vessels and aircrafts
- Transportation of passengers from the Republic to a place outside the Republic and vice versa using a seagoing vessel or aircraft.
- Supplies of gold to the Central Bank of the Republic etc.

- Exemptions
- Exempted Supplies include:
- Rental of immovable property for residential purposes.
- Financial services (with some exceptions)
- Hospital and medical caring services
- Postal services
- Insurance services
- Disposal of immovable property where the application for building permission has been submitted prior to 1 May 2004.
- Educational services at all levels of education under certain conditions.

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.

Right for registration:

Persons who trade, outside the Republic, in goods or services which would have been taxable if they were provided within the Republic, Groups of companies and Divisions of Companies.

Administration of intra-community trading and intra-community services

Businesses that undertake intra-community trading, i.e. acquisitions and sales of goods and supply of services from/to EU member states need to complete the following forms:

Intra-Community Acquisitions:

1. Intrastat - Arrivals of Goods
2. Inclusion in the VAT return (on a total basis)

Intra-Community Supplies:

1. Intrastat - Departures of goods
2. Recapitulative statement for supplies of goods and services (VIES form)
3. Inclusion in the VAT return (on a total basis)

Intrastat submission process:

INTRASTAT forms are submitted to the Tax authorities within 10 days from the end of the related month, in electronic form only, provided that the supplies of a taxable person exceed the registration threshold for Intrastat purposes.

The Recapitulative statement, is submitted to the Tax authorities within 15 days from the end of the related month in electronic form.

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.

The documents supporting the ownership of the property must be submitted together with the application. The documents supporting the fact that the residence will be used as the primary and permanent place of residence (copy of telephone, water supply or electricity bill or of municipal taxes) must be submitted within six months from the date on which the eligible person acquires possession of the residence.

A person who ceases to use the residence as his primary and permanent place of residence before the lapse of the 10-year period must notify the Commissioner of Taxation, within thirty days of ceasing to use the residence, and pay the difference resulting from the application of the reduced and the standard rate of VAT attributable to the remaining period of 10 years for which the property will not be used as the main and primary place of residence.

In addition, based on the amendment, persons who have already acquired a residence on which the reduced VAT rate was imposed, can re-apply and acquire a new residence on which the reduced VAT rate will be imposed, irrespective of whether the 10-year prohibition period for using the residence has lapsed or not. A condition for this to apply is that in case the 10-year period of using the residence as the main and permanent place of residence has not lapsed, the persons must pay back to the Tax Department the difference in the VAT between the standard and reduced VAT rates applicable at the time of the acquisition or construction of the residence.

Persons who make a false declaration to benefit from the reduced rate are required by law to pay the difference of the additional VAT due. Furthermore, the legislation provides that such persons are guilty of a criminal offence and, upon conviction, are liable to a fine, not exceeding twice the amount of the VAT due, or imprisonment up to 3 years or may be subject to both sentences.

Imposition of the reduced rate of 5% on the renovation and repair of private residences

As from 4 December 2015 the renovation and repair of old private residences (for which a period of at least three years has elapsed from the date of their first use) is subject to VAT at the reduced rate of VAT of 5%, excluding the value of materials which constitute more than 50% of the value of the services.

In addition, as from 4 December 2015 the renovation and repair of old private residences (for which a period of at least three years has elapsed from the date of their first use) and which are used as the place of residence of vulnerable groups or residences that are used as the place of residence and which are located in *remote* areas are subject to VAT at the reduced rate of VAT of 5%.

Imposition of 19% on non-developed building land

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

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

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

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

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

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

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

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

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

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.

As from 19 February 2013 taxpayers who make a claim for VAT refund will be entitled to repayment of the principal amounts together 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.

The grace period for the Tax Department to repay the refundable amounts is extended by four months (i.e. eight months in total) in the event that the Commissioner of Taxation is carrying out an investigation in relation to the submitted claim.

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

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

Thresholds and penalties Amount in Euro

	€
Registration threshold (taxable supplies in Cyprus)	15.600
Registration threshold for distance sales (sale of goods to persons not subject to VAT registration in Cyprus, by suppliers resident in another EU Member State)	35.000
Registration threshold for acquisition of goods in Cyprus from suppliers resident in another EU Member State	10.251,61
Registration thresholds for intra-community supply of Services	No threshold
Registration threshold for receipt of services from abroad for which the recipient must account for VAT under the reverse charge provisions	15.600
Penalty for late submission of VAT return	51 for each return
Penalty for omission to keep books and records for a period of 6 years	341
Penalty for late submission of VIES return	50 for each return
Penalty for late submission of corrective VIES return	15 for each return
Omission to submit the VIES return	constitutes a criminal offence with a maximum penalty of 850
Penalty for late registration with the VAT authorities	85 per month of delay

SOCIAL INSURANCE

Contributions rates

Social insurance and other contributions are calculated on the employee's gross weekly/monthly emoluments at the following rates:

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.

TAX DIARY-2017

DATE	OBLIGATION	TAX FORM
Submission of the deemed dividend distribution declaration for the tax year 2015.	31/01	TD623
Electronic submission of the income tax return for individuals and companies preparing audited financial statements for the tax year 2016.	31/03	TD1, TD4
Payment of the first instalment of the premium tax for insurance companies (life business) for the first quarter of 2018.	30/04	TD199
Payment of tax balance for the tax year 2017 through self-assessment by individuals who don't prepare audited financial statements.	30/06	TD158
Payment of special contribution for defence on rents, dividends or interest from sources outside Cyprus for the first 6 months of 2018.		TD601
Payment of Annual Levy		
Electronic submission of the 2017 personal tax return by salaried individuals whose gross income exceeds €19.500 for the tax year 2017	31/07	TD1
Electronic submission of the 2017 employers' return		TD7
Submission of the 2018 provisional tax return and payment of the first provisional tax instalment		TD5, TD6
Payment of the 2017 tax balance through self-assessment by individuals and companies preparing audited financial statements	01/08	TD158
Payment of the second instalment of the premium tax for insurance companies (life business) for the second quarter of 2018.	31/08	TD199
Electronic submission of the 2017 personal tax return (IR1) by individuals who do not prepare audited financial statements if their gross income exceeds €19.500 for the tax year 2017.	30/09	TD1
Submission of the 2018 revised provisional tax return (if applicable) and payment of the second provisional tax instalment.	31/12	TD5, TD6
Payment of special contribution for defence on rents, dividends or interest from sources outside of Cyprus for the last 6 months of 2018.		TD601
Payment of the third and last instalment of the premium tax for insurance companies (life business) for 2018.		TD199
Payment of PAYE deducted from employees' salaries for the previous month.	End of the following month.	TD61
Payment of tax withheld on payments made to non-Cyprus tax residents during the previous month to Cyprus tax residents.		TD11
Payment of special contribution for defence withheld on dividends, interest or rent* paid in the previous month to Cyprus tax residents. *Where the tenant is a Cyprus company, partnership, the Government or a local authority there is an obligation to withhold special contribution for the defence on the amount of the rent paid.		TD601

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OUR OFFICE AND YOUR CONTACTS FOR TAX MATTERS IN KRESTON PROIOS LTD

Nicos Drymiotis
Managing Partner.
Email: nicos.drymiotis@krestonproios.com

Christina Charalambous
Assistant Manager
Email: christina.charalambous@krestonproios.com

OFFICE:

Corner of Nikis Avenue
& 2, Kastoros Street
P.O. Box 28530
2080 Nicosia – Cyprus

Tel: (+357) 22 490 094
Fax: (+357) 22 490 494

info@krestonproios.com

www.krestonproios.com



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.