



Cyprus
Tax Facts & Figures
2020

Contents

Who We Are	3
Income Tax	4 - 12
Corporate Tax	13 - 27
Special Defence Contribution	28 - 32
Capital Gains Tax	33 - 34
Transfer Fees for Immovable Property	35 - 36
Stamp Duty	37
Social Insurance	38 - 41
General Health System	42
Profits from Intellectual Property (IP)	43 - 44
Value Added Tax	45 - 47
Tax Diary	48 - 50

Who We Are

Established since 1976, Harris Kyriakides LLC has grown over the years into the largest law firm in Larnaca and one of the largest law firms in Cyprus. The development of the firm has always been founded on principles of integrity, professionalism and adopting standard of excellence, yet at the same time the firm is dynamic and consistently becomes adaptive and responsive to evolving clients' needs, by introducing technology and modern practices.

The firm maintains over 35 lawyers and over 80 professionals in total. It is structured in 16 separate departments, namely Administrative and Public Law, Banking and Finance, Competition, Procurement and Regulatory, Corporate and Commercial advisory, Corporate Dispute resolution, Data Protection and Cyber Law, Debt Collection, Intellectual Property, Insurance and Personal Injury, Private Client (Trusts, Funds, Estate, Matrimonial), Private Client (Citizenship and residence), Real Estate, Employment, Sanctions, Anticorruption & AML, Shipping & Admiralty and Tax. Each team of lawyers and paralegals specialises on a specific area of law and, where necessary, co-operate in matters which require a multi-discipline focus.

The firm provides advisory services and representation in transactional work (from simple to quite complex multinational transactions) and dispute resolution (including heavy weight disputes with international elements). It maintains extensive experience and deep expertise in dealing with the complexities of litigation and transactions nationally and internationally and across a wide variety of market sectors. The firm covers the whole territory of Cyprus and serves international and local private clients, businesses, organisations, charities and institutions. Its clientele includes several governments, governmental organisations and national and multinational companies as well as high-net-worth individuals and family offices.

Harris Kyriakides LLC has been regularly recognised for its dedication to clients, its success in the legal and business community and its social responsibility. It was highly ranked in independent research on legal professionals and it was acknowledged in prestigious national and international directories and publications including Legal 500, Who's Who Legal and Chambers and Partners.

Basis of Taxation

Where an individual is a tax resident in the Republic of Cyprus ('the Republic'), tax is imposed on income accruing or arising from sources both within and outside the Republic.

Where an individual is not a tax resident in the Republic, tax is imposed on income accruing or arising only from sources within the Republic.

'Resident in the Republic' when applied to an individual, means an individual who stays in the Republic for a period or periods exceeding in aggregate 183 days.

As from 1 January 2017 an individual can be a Tax Resident of the Republic even if he/she spends less than 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 reside in any other single state for a period exceeding 183 days in aggregate, and
- ii. Is not considered tax resident by any other state, and
- iii. reside in Cyprus for at least 60 days in the year of assessment, and
- iv. maintains a permanent home in the Republic that is either owned or rented, and
- 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 year of assessment.

If the employment/business or holding of an office is terminated during the tax year, then the individual ceases to be considered a Cyprus tax resident of the Republic at any time during the tax year.

Basis of Taxation

For the purpose of calculating the days of stay in the Republic:

- i. The day of departure from the Republic is deemed to be a day outside the Republic;
- ii. The day of arrival in the Republic is deemed to be a day in the Republic;
- iii. The arrival in the Republic and the departure from the Republic in the same day is deemed to be a day in the Republic;
- iv. The departure from the Republic and the arrival in the Republic in the same day is deemed to be a day outside the Republic.

The Tax Department may request the submission of supporting evidence in connection with whether an individual is or not a resident of the Republic in any particular year, including copy of passport, air/sea tickets or boarding passes which show the dates of entry or exit.

Personal Income Tax Rates

Taxable Income	Tax Rate %	Tax €	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	7.100	10.885
60.000 and above	35		

For widow's pensions which exceed the amount of €19.500, taxpayers on an annual basis may elect to be taxed at the flat rate of 20% or added to other sources of the individual's income and taxed under the above Personal Income Tax Rates.

Foreign pension income is taxed at the flat rate of 5% on amounts over €3.420. The taxpayer can however on an annual basis elect to be taxed at the normal tax rates under the above Personal Income Tax Rates.

Exemptions

Type of Income	Exemptions
Interest, except for interest arising from the ordinary business activities or closely related to the ordinary business activities of an individual	The whole amount (Note 1)
Dividends	The whole amount (Note 1)
Profits from the production of films, series, and other related audio-visual programs	The lower of 35% of the eligible expenditure and 50% of the taxable income. Any restriction may be carried forward for 5 years.
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 income falls below €100.000 per annum.	50% of the remuneration

Exemptions

Type of Income	Exemptions
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% of the remuneration with a maximum amount of €8.550 annually
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.	The whole amount
Profits of a foreign permanent establishment under certain conditions (Note 2)	The whole amount
Lump sum received by way of retiring gratuity, commutation of pension or compensation for death or injuries	The whole amount
Capital sums accruing to individuals from any payments to approved funds (e.g. provident funds)	The whole amount
Profits from the sale of securities (Note 3)	The whole amount

Exemptions

Notes

1. Such dividend and interest income may be subject to Special Contribution for Defence - *refer to the Special Contribution for Defence section - page 24.*
2. 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.
3. 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.

Special Tax Rates

Type of Income	Tax Rate
<ul style="list-style-type: none"> The gross income derived by non-resident persons (having no permanent establishment in Cyprus) in relation to services performed in Cyprus in respect of activities connected with the exploration or exploitation of the seabed or subsoil or their natural resources, as well as in connection with activities relating to installation of exploitations on the soil, seabed or on the sea surface is subject to withholding tax The gross amount of any rental in respect of the showing of cinematographic films in Cyprus derived by any person who is not a tax resident is subject to withholding tax. 	5%
<ul style="list-style-type: none"> The gross income derived by an individual not residing in Cyprus from the exercise in Cyprus of any profession or vacation, or by public entertainers including football clubs and other athletic missions, is subject to withholding tax. The gross amount of any royalty, premium, compensation or as consideration for technical assistance derived from sources within Cyprus by any person who is not a tax resident is subject to withholding tax. 	10%
Winnings in excess of €5.000 from games of OPAP and from the National Lottery	20%

Deductions

Deducted from income	
Contributions to trade unions or professional bodies	The whole amount
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)	The whole amount
Rental income	20% of gross rental income
Donations to approved charities (with receipts)	The whole amount
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 metre (depending on the size of the building)

Note 1

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).

Deductions

Deducted from income	
Social Insurance, National Health System medical fund, private medical fund insurance contributions (maximum 1,5% of remuneration), pension and provident fund contributions (maximum 10% of remuneration) and life insurance premiums (maximum 7% of the insured amount)	Up to 1/5 of the chargeable Income (1/6 up to tax year 2018)
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) (Note 1)
Eligible infrastructure and technological equipment expenditure in the audio-visual industry	20%

Note 1

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).

Basis of Taxation

Where a company is a tax resident in the Republic, tax is imposed on income accruing or arising both from sources in and outside the Republic.

Where a company is not a tax resident in the Republic, tax is imposed on income accruing or arising only from sources in the Republic.

With effect as from 1 January 2019 Controlled Foreign Company (CFCs) rules apply, i.e. non-distributed profits of CFCs directly or indirectly controlled by a Cyprus tax resident company, may be subject to tax in Cyprus (certain exemptions may apply).

The term 'resident in the Republic' when applied to a company, means a company whose management and control is exercised in the Republic.

Management and control test:

- i. Where the majority of the directors reside, and
- ii. Where the board meetings of the company are held and
- iii. Where the general policy of the company is formulated.

The coexistence of all three criteria is essential.

The corporation tax rate for all companies is 12,5%.

Exemptions

Deducted from income	
Profit from the sale of securities (Note 1)	The whole amount
Dividends (excluding, as from 1 January 2016, dividends which are tax deductible for the paying company)	The whole amount (Note 2)
Interest not arising from the ordinary activities or closely related to the ordinary activities of the company (Note 3)	The whole amount (Note 4)
Profits of a foreign permanent establishment, under certain conditions (Note 5)	The whole amount
Gains relating to foreign exchange differences (forex) with the exception of forex arising from trading in foreign currencies and related derivatives.	The whole amount
Profits from the production of films, series and other related audio-visual programs	The whole amount

Exemptions

Notes

1. For a definition of securities *see page 9*.
2. Such dividend income may be subject to Special Contribution for Defence.
3. All the interest income of Collective Investment Schemes is considered to be arising from the ordinary activities or closely related to the ordinary activities of the Scheme.
4. Such interest income is subject to Special Contribution for Defence.
5. 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.

Deductions for expenses

Corporate tax deductions for expenses

Generally expenses incurred wholly and exclusively in earning taxable income and supported by documentary evidence are deductible for corporate tax purpose, including:

Type of Expense	Deduction Limit
<p>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 acquisitions of subsidiaries from 1 January 2012.</p>	<p>The whole amount 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 if the subsidiary owns (directly or indirectly) assets not used in the business. Moreover as from 1 January 2019 an interest limitation rule applies in accordance with the EU Anti-tax Avoidance Directive.</p>
<p>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) (Note 1)</p>	<p>80% of the net profit as calculated using the modified nexus fraction (Note 2)</p>

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Deductions

Type of Expense	Deduction Limit
Royalty income, embedded income and other qualifying income derived from qualifying intangible assets in the 'old' Cyprus IP box (Note 3)	80% of the net profit
Equity introduced to a company as from 1 January 2015 (new equity) in the form of paid-up share capital or share premium is eligible for an annual notional interest deduction (NID). The annual NID deduction is calculated as 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). For 2016 the minimum relevant interest rate is 6,685%. A taxpayer may elect not to claim all or part of the available NID for a particular tax year. 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)
Tax amortisation on any expenditure of a capital nature for the acquisition or development of IP (provision applies with effect from 1 July 2016) (Note 4)	Allocated over the lifetime of the IP (maximum period 20 years)
Donations to approved charities (with receipts)	The whole amount

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Deductions

Type of Expense	Deduction Limit
Employer's contributions to social insurance and approved funds on employees' salaries	80% of the net profit
Employer's contributions to: - Medical fund for employees - Provident/Pension fund for employees	1% on employee's remuneration 10% on employee's remuneration
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 metre (depending on the size of the building)
Entertainment expenses for business purposes	Lower of €17.086 or 1% of the gross income of the business
Expenditure incurred for the acquisition of shares in an innovative business (abolished as from 1 January 2017)	The whole amount
Eligible infrastructure and technological equipment expenditure in the audio-visual industry	20% for small/10% for medium enterprises

Table to be continued on next page...

Deductions

Notes

1. '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).
2. 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).
3. 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.
4. 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 amortisation for a particular tax year.

Deductions

Expenses not allowed	Deduction Limit
Expenses of a private motor vehicle	The whole amount
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	The whole amount for 7 years from the date of acquisition of the asset

Losses carried forward

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 (Note 1).

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, or,

Both of the companies are at least 75% (voting shares) held, directly or indirectly, by a third company.

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Deductions

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 1

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.

Reorganisations

Transfers of assets and liabilities between companies can, subject to conditions, be effected without tax consequences within the framework of a reorganisation and tax losses can be carried forward by the receiving entity.

Reorganisations include:

- mergers
- demergers
- partial divisions
- transfer of assets
- exchange of shares
- transfer of registered office of a European company (SE) or a European cooperative company (SCE).

Capital Allowances

Annual wear and tear allowances on tangible fixed assets

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

Fixed Assets	
Plant and machinery	%
Plant and machinery	10
Furniture and fittings	10
Industrial carpets	10
Boreholes	10
Machinery and tools used in an agricultural business	15
Buildings	%
Commercial buildings	3
Industrial, agricultural and hotel buildings	4
Flats	3
Metallic greenhouse structures	10
Wooden greenhouse structures	33 1/3

Capital Allowances

Vehicles and Means of Transportation	%
Commercial motor vehicles	20
Motor cycles	20
Excavators, tractors, bulldozers, self-propelled loaders and drums for petrol companies	25
Armoured Motor Vehicles (e.g. used by Security Services)	20
Specialised Machinery for the laying of Railroads (e.g. Locomotive engines, Ballast wagons, Container wagons and Container Sleeper Wagons)	8
New Airplanes	8
New Helicopters	4.5
Sailing vessels	63
Motor Yachts	6
Steamers, tugs and fishing boats	12.5
Shipmotor launches	8
New cargo vessels	6
New passenger vessels	Over their useful lives
Used cargo/passenger vessels	

Capital Allowances

Other	%
Televisions and videos	10
Computer hardware and operating systems	20
Application software	33 1/3
Expenditure on application software less than €1.709, is written off in the year of acquisition	
Wind Power Generations	10
Photovoltaic Systems	10
Tools in general	33 1/3
Videotapes property of video clubs	50

Special modes of taxation

Shipping companies

The Merchant Shipping Legislation fully approved by the EU provides for exemption from all direct taxes and taxation under tonnage tax regime of qualifying ship-owners, charterers and ship managers, from the operation of qualifying community ships (ships flying a flag of an EU member state or of a country in the European Economic Area) and foreign (non community) ships (under conditions), in qualifying activities.

The legislation allows non community vessels to enter the tonnage tax regime provided the fleet is composed by at least 60% community vessels. If the requirement is not met, then non community vessels can still qualify if certain criteria are met.

The legislation includes an “all or nothing rule”, meaning that if a ship-owner/charterer/ship manager of a group elect to be taxed under the Tonnage Tax Regime, all ship-owners/charterers/ship managers of the group should elect the same.

Exemption is also given in relation to the salaries of officers and crew aboard a ship.

Ship owners

The exemption applies to:

- Profits derived from the use/chartering out of the ships
- Interest income relating to working capital of the company
- Profits from the disposal of qualifying ships
- Dividends received from the above profits at all distribution levels
- Profit from the disposal of ship owning companies and its distribution

The exemption also applies to the bareboat charter of a vessel flying the Cyprus flag under parallel registration

Special modes of taxation

Charterers

Exemption is given to:

- Profits derived from the operation of chartered in ships
- Interest income relating to the working capital of the company
- Dividends received from the above profits at all distribution levels

The law grants the exemption provided that the option to register for Tonnage Tax is exercised for all vessels and provided a composition requirement is met: at least 25% (reduced to 10% under conditions) of the net tonnage of the vessels owned or bare boat chartered in.

Ship managers

The exemption covers:

- Profits from technical and/or crew management
- Dividends paid out of these profits at all levels of distribution
- Interest income relating to the working capital of the company

In order to qualify ship managers must satisfy the following additional requirements:

- Maintain a fully fledged office in Cyprus with personnel sufficient in number qualification
- At least 51% of all onshore personnel must be community citizens
- At least 2/3 of total tonnage under management must be managed within the company (Any excess of 1/3 taxed under corporation tax)

Special modes of taxation

Ship managers

The application of the tonnage tax system is compulsory of owners of Cyprus flag ships and optional for owners of non Cyprus flag ships, charterers and ship managers.

Those who choose to enter the Tonnage Tax regime must remain in the system for at least 10 years unless they had valid reason to exit such as disposal of their vessels and cessation their activities.

Insurance Companies

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

Special Defence Contribution (the “SDC”) is imposed on dividend income, ‘passive’ interest income and rental income earned by companies tax resident in Cyprus and by individuals who are both Cyprus tax resident and Cyprus domiciled. It is charged at the rates shown in the table on page 29.

The concept of Domicile

For the purposes of SDC Law an individual has a ‘domicile in the Republic’ if he/she has a domicile of origin in Cyprus based on the provisions of the Wills and Succession Law (WSL), i.e. domicile of the father at the time of birth, except for:

- i. An individual who has acquired and maintains a domicile of choice outside Cyprus based on the provisions of the WSL, i.e. an individual permanently lives and intends to live in another country, provided that he/she has not been tax resident in Cyprus for any period of at least 20 consecutive years prior to the relevant tax year, or
- ii. An individual who has not been resident in Cyprus for a period of at least 20 consecutive years immediately prior to the entry into force of the provisions of this Law (the 16th of July 2015).

It is provided that regardless of the domicile of origin, any individual who is resident in Cyprus for at least 17 out of the last 20 years prior to the relevant tax year, will be deemed to be domiciled in Cyprus for the purposes of this Law.

Non-Domicile rule:

Cyprus tax resident individuals who are not domiciled in Cyprus are exempt from SDC on Dividend, interest and rental income.

Tax Rates

Type of Income	Received by	Rate of SDC	Method of payment	Due Date
Actual Dividend	Individuals	17%	Withholding	End of following month
Actual Dividend	Companies	Exempt (Notes 1,2&3)	-	-
Actual Dividend	Non residents	Exempt (Notes 1,2&3)	-	-
Deemed Dividend	Individuals	17%	Self assessment	31 January after the end of 2 years of the year end
Deemed Dividend	Companies	17%	Self assessment	31 January after the end of 2 years of the year end
Deemed Dividend	Non residents	Exempt	-	-
Rent(reduces by 25%)	Individual and Companies (tenant is an individual)	3% (Note 6)	Self assessment	30 June and 31 December of the year of assesment
Rent(reduced by 25%)	Individual and Companies (tenant is a company)	3% (Note 6)	Withholding	End of following month
Interest	Individual and Companies	30% (Notes 4&5)	Withholding	End of following month

Notes

1. Legal entities are subject to Special Contribution for Defence if they are tax resident in Cyprus (see page 11). Prior to 16 July 2015 individuals were subject to Special Contribution for Defence if they were tax resident in Cyprus (see page 2). 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.
2. Dividends received by a Cyprus tax resident company from other Cyprus tax resident companies are exempt, subject to certain anti-avoidance provisions. 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.
3. When the exemption does not apply, the dividend income is subject to Special Contribution for Defence at the rate of 17%. As from 1 January 2016 this section also does not apply to dividends which are deductible for tax purposes by the paying company. In such cases, dividends are subject to corporation tax and not Special Contribution for Defence.
4. Such interest income is subject to personal income tax / corporation tax.
5. The Special Contribution for Defence rate on interest income of 30% is effective for interest received or credited from 29 April 2013 onwards. Interest income earned by individuals from corporate bonds (as from 26 June 2019), Cyprus government savings and development bonds as well as all interest earned by a provident fund is subject to Special Contribution for Defence 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 rental income where the tenant is a Cyprus company, partnership, the state or local authority Special Contribution for Defence on rental income is withheld at source and is payable at the end of the month following the month in which it was withheld. In all other cases the Special Contribution for Defence on rental income is payable by the landlord in 6 monthly intervals on 30 June and 31 December each year. For Cyprus sourced interest and dividends Special Contribution for Defence 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 dividends, interest and rental income Special Contribution for Defence is payable in 6 month intervals on 30 June and 31 December each year
6. Rental Income is also subject to personal income tax/corporation tax.

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 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 the profits were generated.

Such a deemed dividend distribution is reduced by the amount of actual dividends paid during the two preceding years and during the tax year to which the profits relate. On the remaining net amount (if any) of deemed dividend 17% Special Contribution for Defence is imposed to the extent that the ultimate direct/indirect shareholders of the company are individuals who are both Cyprus tax resident and Cyprus domiciled (see page 25).

Prior to 16 July 2015 the imposition applied to the extent the ultimate direct/indirect shareholders of the company were Cyprus tax resident individuals. Instead of the rate of 17% a rate of 3% is applicable on deemed dividend distribution of Collective Investment Schemes.

When an actual dividend is paid after the deemed dividend distribution date, then if Special Contribution for Defence is due on such a dividend, the tax is imposed only on the amount of the actual dividend paid which is over and above the dividend that was previously deemed to have been distributed and previously suffered Special Contribution for Defence.

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/her up to second degree or his/her 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 of his/her 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 defence contribution at the rate of 17%.

The 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 physical persons 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 16/07/2015 the above three provisions applied only to the extent that the ultimate shareholders (direct or indirect) are Cyprus tax resident individuals. As from 16/07/2015 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 (the “CGT”) applies to the gains of an individual or company arising from the disposal or disposition of chargeable property situated in Cyprus and shares in companies which directly or indirectly own immovable property situated in Cyprus.

Such gains are not subject to income tax. The Law in question is the Capital Gains Tax Law 52/80 as amended.

Chargeable property means:

- Immovable property situated in Cyprus;
- Shares of companies, which are not listed on a recognised Stock Exchange, and which own immovable property situated in Cyprus;
- Shares of companies which directly or indirectly participate in a company or companies which own immovable property situated in Cyprus and at least 50% of the market value of these shares, without taking into account any liabilities derives from the market value of the immovable property situated in Cyprus;
- Rights under a sales agreement for the sale of immovable property situated in Cyprus.

The gain made from a chargeable disposal or disposition of property is subject to CGT at the rate of 20%.

Certain disposals are exempt from CGT. These are the following:

- A transfer by reason of death;
- Gifts from parent to child and transfers between husband and wife;
- Gifts or transfers to relatives up to third degree of kindred;
- Gifts to a company where the company’s shareholders are and continue to be members of the donor’s family for a minimum period of five years after the day of the transfer;

- Gifts by a family company to its shareholders, provided that the property was originally acquired by the company by way of gift. The property must have been kept by the donee for a period of at least three years;
- Gifts to charities and the Government;
- Transfers under a company reorganisation scheme approved by the tax authorities;
- 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;
- Transfers of property between spouses after the issue of divorce and which constitutes a settlement of property between them.

Lifetime Exemptions

Individuals can deduct from the capital gain the following:

	€
Disposal of private residence (subject to certain conditions)	85.430
Disposal of agricultural land by a farmer	25.629
Any other disposal of immovable property	17.086

- The Transfer of Immovable property is made at the District Lands Office.
- Transfer fees are charged by the Department of Land and Surveys to the acquirer on transfers of immovable property.
- The transfer fees are calculated on the market value of the property or lease/sublease as estimated by the Department of Land and Surveys at the following rates:

Market Value	Rate	Fees (€)	Accumulated Fees (€)
Up to €85.000	3%	2.550	2.550
From €85.000 to €170.000	5%	4.250	6.800
Over €170.000	8%		

- The following transfers are exempt from transfer fees:
 - Transfer of immovable property on which VAT is imposed;
 - Transfer of immovable property from a company to company under a reorganisation scheme.
- Transfer fees are **reduced by 50%** in cases where the purchase of immovable property is not subject to VAT.
- The following rates are applicable in the case of free transfers:

• From parents to children	0%
• Between spouses	0,1%
• Between third degree relatives	0,1%
• To trustees	€50

Documents relating to property situated in the Republic or to any matters or issues executed or performed in the Republic are subject to stamp duty.

Type of document	Amount/Rate	Type of document	Amount/Rate
Letters of guarantee	€4	Will	€18
Letter of credit	€2	Estate administration document	€9
Receipts of amount over €4	€0,07	Contracts with a specified consideration:	0%
Customer documents (depending on document type)	€18 - €35	- For amounts up to €5.000	0,15%
Bills of landing	€4	- For amounts between €5.001 - €170.000	0,2%
Bills of exchange (payable within 3 days, on demand or at sight)	€1	- For amounts over €170.000	€35
Charterhire document	€18	Contracts without a specified consideration	€80
General power of attorney	€6	Issue of tax residency certificate by the Tax Department	
Special power of attorney	€2		
Certified copies of contracts and documents	€2		

Contribution Rates

Contributions	Employer	Employee	Self – Employed
Social Insurance	8,3% (Note 1)	8,3% (Note 1)	15,6% (note 4)
Redundancy Fund	1,2% (Note 2)	-	-
Industrial	0,5% (Note 2)	-	-
Social Cohesion Fund	2,0% (Note 3)	-	-
Holiday Fund (if not exempt)	8,0% (Note 2)	-	-
National Healthcare System (note 5)	1,85% up to 28/02/2020 2,90% from 01/03/2020	1,70% up to 28/02/2020 2,65% from 01/03/2020	2,55% up to 28/02/2020 4% from 01/03/2020

	Weekly	Monthly	Yearly
Weekly employees	€1.055		€54.864
Monthly employees		€4.572	€54.864

Self – employed individuals

The amount of contributions payable by self-employed individuals is subject to a lower and an upper weekly limit depending on the occupation of the self-employed individual.

Lower weekly limit	Upper weekly limit
Depends on the occupational category	€1.051

Additional fee for late payment of contributions

Every employer or self-employed individual who fails to pay the contributions within the time limit, is obliged to pay an additional fee in the range of 3% and 27%, depending on the period of delay, calculated on the amount of contributions due for payment.

Payment of Contributions

Employers:

Pay their contributions including the employer' share by the end of the following month from the end of each contribution month. For example, the contributions on January's salaries are payable by the end of February

Self Employed persons:

Pay their contributions quarterly in arrear within one month and 10 days from the end of the quarter as follows:

Quarter	Payment to be made by:
January – March	10 May
April – June	10 August
July – September	10 November
October – December	10 February

Payment of Contributions

Notes

1. The rate of 8,3 applies for both the employer and the employees as from 01 January 2019 until 31 December 2023. Thereafter, the rate will increase by 0,5% every five years until it reaches 10,3% as from 01 January 2039.
2. Restricted to the maximum level of emoluments as with the social insurance contributions
3. Social cohesion fund is calculated on total emoluments and has no maximum level.
4. The rate of 15,6% applies as from 01 January 2019 until 31 December 2023. Thereafter, the rate will increase by 1% every five years until it reaches 19,6% as from 01 January 2039.
5. A national

Contribution Rates

Contributor's category	01/03/2019 – 29/02/2020	01/03/2020 - onwards
Employees /pensioners /income earners/persons holding an office	1,70%	2,65%
Employers on employees emoluments	1,85%	2,90%
Self-employed	2,55%	4,0%
The Republic or natural/legal person responsible for the remuneration of Officers	1,85%	2,90%
The Republic	1,65%	4,70%
Pensioners (pension)	1,70%	2,65%
Persons earning rental, interest, dividend and other income (rental, interest, dividend)	1,70%	2,65%

Old IP regime

Under the old IP regime, qualifying intangible assets 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 to 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 old IP regime as described above will continue to apply until 30 June 2021 to existing IP assets as at 1st January 2016, or to IPs developed or acquired from non-related persons between 2 January and 30 June 2016.

New IP regime

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

The new IP regime apply only to patents and patents equivalents, copyrighted software, utility models and other IP assets that are non-obvious, useful and novel. Any marketing related IP assets such as trademarks will not be treated as qualified assets.

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.

Qualifying profits will be calculated by using the following ratio:

Qualifying profits =

Basic Principles

VAT is charged on the supply of goods and services in Cyprus and on acquisition of goods and services from other Member States on Imports.

Taxable persons charge VAT on their taxable supplies (output tax) and 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 Commissioner of Taxation. If input tax exceeds output tax, the excess input tax is carried forward as a credit and set off against future output VAT.

VAT rates	
Standard VAT rate (effective from 13 January 2014 onwards)	19%
Reduced VAT rate (effective from 13 January 2014 onwards) - Catering services, restaurant services, transport of passengers, etc.	9%
Reduced VAT rate - Medicine, books, theatres, etc.	5%
Zero VAT rate	0%

Also there are certain goods and services that are exempt from VAT.

VAT Registration

Registration is compulsory for businesses with (a) turnover subject to VAT in excess of €15.600 during the 12 proceeding months or (b) expect turnover subject to VAT in excess of €15.600 within the next 30 days

If the turnover does not exceed the thresholds of €15.600, but the business has the right to claim the amount of input VAT, then is entitled to apply for voluntary registration.

Intrastat registration

A taxable person who acquires goods in Cyprus from other EU Member States for a value greater than €160.000 from the year 2018 should register for Intrastat for arrivals purposes in Cyprus and submit monthly intrastat for arrival forms.

A taxable person who dispatches goods from Cyprus to other EU Member States for a value greater than €55.000 for the year 2018 should register for intrastat for dispatches purposes in Cyprus and submit monthly intrastat for dispatches forms.

VIIES registration

A taxable person delivering intracommunity supplies of goods and/or services to taxable persons in other EU Member States has an obligation to register with VIIES. In addition, the taxable person has an obligation to submit monthly electronic VIIES forms.

VAT on Immovable Property

1. As from 1 January 2019 the long term leasing of immovable property which essentially gives the lessee the right to sell the property as owner or the right to sell the property is considered as a supply of good and not as a supply of service which is subject to VAT at 5% or 19% (depending on the case of the purchaser). The imposition of VAT does not cover cases where the right of the immovable property is transferred after its first occupation and is therefore not subject to VAT. Transitional provisions apply for all cases which were completed or agreed before 1 January 2019 and each case must be examined separately.
2. As from 2 January 2018, VAT at 19% is imposed on the transfer of non-developed building land indented for the construction of structures in the course of carrying out a business activity.
3. Also in the course of loan restructuring or compulsory transfer of property to the lender, the recipient of the property is liable to account for VAT (reverse charge mechanism).
4. As from 13 November 2017 leasing of immovable property, except of residential dwellings, to taxable persons for taxable business activities is subject to 19% unless a permanent non-imposition of VAT option is exercised by the lessor.

The most important dates of 2019 for Tax Purposes

Obligation	Date	Form
Payment of tax balance for the previous year by individuals who do not submit audited accounts but are obligated to issue invoices, receipts etc.	30 June	TD158
Payment of Contribution to the Defence Fund on rental income received during the first half of the year 2019	30 June	TD601
Submission of Temporary Tax Assessment for the year 2019	31 July	TD6
Electronic submission of the 2018 employers' return	31 July	TD7
Electronic submission of the 2018 personal tax return by salaried individuals whose gross income exceeds €19.500 for 2018.	31 July	TD1
Payment of the tax balance for the year 2018	1 August	TD158
Electronic submission of the 2018 personal tax return by individuals who do not prepare audited financial statements if their gross income exceeds €19.500 for 2018.	30 September	TD1

Obligation	Date	Form
Payment of tax deducted from employees' salary (PAYE)	End of the following month	IR61A
Payment of Social Insurance deducted from employee Emoluments	End of the following month	
Payment of Special contribution for defence withheld on payments of dividends, interest or rents (when the tenant is a company, partnership, the state or local authority) made to Cyprus tax residents.	End of the following month	IR61AM, IR602, IR614
Payment of tax withheld on payments to non-Cyprus residents	End of the following month	IR11
Submission of declaration of deemed dividend distribution	31 January	TD623
Qualifying charterers and managers as well as qualifying owners of foreign flagged vessels shall submit tonnage tax declaration and pay tonnage tax for the previous year.	28 February	MS TT 2 A/B/C
Electronic submission of the income tax return for individuals and companies preparing audited financial statements for the tax year 2017.	31 March	TD1, TD4

Obligation	Date	Form
Submission of revised Temporary Tax Assessment for the year 2019, if considered necessary	31 December	TD6
Payment of second instalment of tax based on the Temporary Tax Assessment	31 December	
Payment of Special Contribution to the Defense Fund on rental income received during the second half of the year 2019.	31 December	TD601
Payment of Capital Gains Tax	Within 30 days	
Obtaining a Tax Identification Code: Following the registration or incorporation of a company with the Registrar of Companies, the company is obliged to submit an application for registration with the Tax Department. Similar rules apply in the case of companies incorporated outside Cyprus that become tax residents of Cyprus.	Within 60 days	TD162
Notification of changes of company details (i.e. registered office, activities, auditors, etc.)	Within 60 days of such a change	TD162
Updating of books and records by businesses which are obliged to keep accounting books	Four months from the month of the transaction	
Unless the taxable person requests an extension in writing and receives the extension from the Commissioner	Within 30 days	

This content does not constitute tax advice and is intended for general information purposes only. You are advised not to use any information contained herein as a substitute for consultation with professional advisors.

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