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Personal income tax

Basis of taxation

All Cyprus tax residents 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.

An individual is tax resident in Cyprus if he spends in Cyprus more than 183 days in any one calendar year.

With effect as from 1 January 2017, an individual may also be considered tax resident in Cyprus if he satisfies the “60 day rule”. The “60 day rule” applies to individuals who in the relevant tax year:

- do not reside in any other single state for a period exceeding 183 days in aggregate, and
- are not tax resident in any other state, and
- reside in Cyprus for at least 60 days, and
- have other defined Cyprus ties.

To satisfy this condition the individual must carry out any business in Cyprus and/or be employed in Cyprus and/or hold an office (director) of a company tax resident in Cyprus at any time in the tax year, provided that such is not terminated during the tax year. Further the individual must maintain in the tax year a permanent residential property in Cyprus which is either owned or rented by him.

For the purposes of both the “183 days rule” and the “60 days rule” days in and out of Cyprus are calculated as follows:

- The day of departure from Cyprus counts as a day of residence outside Cyprus
- The day of arrival in Cyprus counts as a day of residence in Cyprus
- Arrival and departure from Cyprus in the same day counts as one day of residence in Cyprus
- Departure and arrival in Cyprus in the same day counts as one day of residence outside Cyprus

Personal tax rates

The following income tax rates apply to individuals:

<i>Chargeable income</i>	<i>Tax rate</i>	<i>Accumulated tax</i>
€	%	€
First 19.500	Nil	Nil
From 19.501 – to 28.000	20	1.700
From 28.001 – to 36.300	25	3.775
From 36.301 – to 60.000	30	10.885
Over 60.000	35	

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 and bands set out above.

Cyprus source widow(er)'s pension is taxed at the flat rate of 20% on amounts over €19.500. The taxpayer can however on an annual basis elect to be taxed at the normal tax rates and bands set out above.

Exemptions

The following are exempt from income tax:

<i>Type of income</i>	<i>Exemptions</i>
<ul style="list-style-type: none"> • Interest, except for interest arising from the ordinary business activities or closely related to the ordinary business activities of an individual 	The whole amount (1)
<ul style="list-style-type: none"> • Dividends 	The whole amount (1)
<ul style="list-style-type: none"> • 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
<ul style="list-style-type: none"> • 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
<ul style="list-style-type: none"> • 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 permanent establishment under certain conditions (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 (3) The whole amount

Notes:

1. Such dividends and interest income is subject to Special Contribution for Defence – refer to the Special Contribution for Defence section - page 13.
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.

Tax deductions

The following are 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 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 meter (depending on the size of the bulding)

- Social Insurance, medical fund (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 1/6 of the chargeable income
- Amount invested each tax year as from 1 January 2017 in approved innovative small and medium sized enterprises either directly or indirectly.

Note:

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).

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.

Gross monthly emoluments from employment / pension €	Government and semi-government employees and pensioners	Private sector employees, self-employed individuals and private sector pensioners (2) (3) (4)
2014-2016		
First 1.500	Nil	Nil
From 1.501 – to 2.500	2,5% (1)	2,5% (minimum €10)
From 2.501 – to 3.500	3,0% (1)	3,0%
Over 3.500	3,5% (1)	3,5%

Notes:

1. The Special Contribution rate becomes 3%, 3,5% and 4% respectively for highly ranked civil services officials/employees within their respective scale.
2. In the case of private sector employed individuals and private sector pensions the Special Contribution relates to services rendered in Cyprus. In the case of self-employed individuals, the Special Contribution relates to any business carried on in Cyprus.
3. 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.
4. 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.

Corporation tax

Basis of taxation

All companies tax resident of Cyprus 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.

Corporation tax rates

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

Exemptions

The following are exempt from corporate tax:

<i>Type of income</i>	<i>Exemption limit</i>
• Profit from the sale of securities (1)	The whole amount
• Dividends (excluding, as from 1 January 2016, dividends which are tax deductible for the paying company)	The whole amount (2)
• Interest not arising from the ordinary activities or closely related to the ordinary activities of the company (3)	The whole amount (4)
• Profits of a foreign permanent establishment, under certain conditions (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

Notes:

1. For a definition of securities see page 3.
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 foreign permanent establishment.

Corporate tax deductions for expenses

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

Type of expense	Exemption limit
<ul style="list-style-type: none"> Interest expenses 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>The whole amount of interest expense if the subsidiary does not own (directly or indirectly) any assets not uses in the business. A restricted amount of interest expense if the subsidiary owns (directly or indirectly) assets not used in the business.</p>
<ul style="list-style-type: none"> 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. 	<p>The NID deduction cannot exceed 80% of the taxable profit derived from assets financed by new equity (as calculated prior to the NID deduction)</p>
<ul style="list-style-type: none"> 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) (1) 	<p>80% of the net profit as calculated using the modified nexus fraction (2)</p>
<ul style="list-style-type: none"> Royalty income, embedded income and other qualifying income derived from qualifying intangible assets in the 'old' Cyprus IP box (3) 	<p>80% of the net profit</p>
<ul style="list-style-type: none"> Tax amortization on any expenditure of a capital nature for the acquisition or development of IP (provision applies with effect from 1 July 2016) 	<p>Allocated over the lifetime of the IP (maximum period 20 years)</p>

- Donations to approved charities (with receipts) The whole amount
- Employer's contributions to social insurance and approved funds on employees' salaries The whole amount
- Employer's contributions to:
 - Medical fund for employees 1% on employee's remuneration
 - Provident / Pension fund for employees 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 meter (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 The whole amount

But not including:

- 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

Notes:

1. Qualifying '**Intangible assets**' may be legally or economically owned and 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). Marketing – related intangible assets, such as trademarks, do not qualify.
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 '**qualifying intangible assets**' under the old Cyprus IP box 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 amortization for a particular tax year.

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 (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.

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:

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)

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 (1)	%
Plant and machinery	10
Furniture and fittings	10
Industrial carpets	10
Boreholes	10
Machinery and tools used in an agricultural business	15
Buildings (2)	%
Commercial buildings	3
Industrial, agricultural and hotel buildings (3)	4
Flats	3
Metallic greenhouse structures	10
Wooden greenhouse structure	33 1/3
Vehicles and Means of Transportation (1)	%
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)	20
New Airplanes	8
New Helicopters	8
Sailing vessels	4,5

Motor Yachts	6
Steamers, tugs and fishing boats	6
Shipmotor launches	12,5
New cargo vessels	8
New passenger vessels	6
Used cargo/passenger vessels	Over their useful lives
Other (1)	%
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 Generators	10
Photovoltaic Systems	10
Tools in general	33 1/3
Videotapes property and video clubs	50

Notes:

1. Plant and machinery, vehicles (excluding private motor vehicles) and other assets acquired during the tax years 2012 – 2018 (inclusive) are eligible to accelerated tax depreciation at the rate of 20% per annum (excluding such assets which are already eligible for a higher annual tax rate of tax depreciation).
2. The rates stated for buildings are for new buildings. Rates are amended in the case of second-hand buildings.
3. In the case of industrial and hotel buildings which are acquired during the tax years 2012 - 2018 (inclusive), an accelerated tax depreciation at the rate of 7% per annum applies.
4. Buildings for agricultural and livestock production acquired during the tax years 2017-2018 (inclusive) are eligible for accelerated tax depreciation at the rate of 7% per annum.

Special type of companies

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 this 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 elects 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 Cyprus ship.

Ship-owners

The exemption applies to:

- Profits derived from the use / chartering out of the ships
- Interest income relating to the 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 shipowning companies and its distribution

The exemption also applies to the bare boat charterer of a vessel flying the Cyprus flag under parallel registration

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 tax 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 shipmanagers must satisfy the following additional requirements:

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

The application of the tonnage tax system is compulsory for owners of Cyprus flag ships and optional for owners of non-Cyprus flags ships, charterers and shipmanagers. Those who choose to enter the Tonnage Tax regime must remain in the system for at least 10 years unless they had a 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.

The Cyprus Alternative Investment Funds (AIFs) and Undertakings for Collective Investment in Transferable Securities (UCITs)

The sole objective of AIFs and UCITs is the collective investment of funds raised from a number of Investors/unitholders for the benefits of those Investors/unitholders.

The Alternative Investment Fund Law 131(I)/2014 ("AIF Law") allows for two (2) types of AIFs to be registered in Cyprus which are as follows:

- Alternative Investment Funds with limited number of investors (75)
- Alternative Investment Funds with no limitations as to the number of investors
Cyprus AIFs may be established with limited or unlimited duration and can take various legal forms depending on structuring orientations and tax considerations. The various legal forms in which an AIF can manifest in are as follows:

AIF with limited number of investors:

- Variable Capital Investment Company (VCIC)
- Fixed Capital Investment Company (FCIC)
- Limited Partnership (LP)

AIF with no limitation as to the number of investors:

- Variable Capital Investment Company (VCIC)
- Fixed Capital Investment Company (FCIC)
- Limited Partnership (LP)
- Common Fund (CF)

UCITs can take the following legal forms:

- Common Fund
- Variable Capital Investment Company

AIFs and UCITs are liable to tax or not depending on their legal status.

Under certain conditions, management fees and administration fees charged for AIFs and UCITs funds can be exempt from VAT.

Special Contribution for Defence

Special Contribution for Defence 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 below:

	Tax rates	
	Individuals (1) %	Legal entities (1) %
Dividend income from Cyprus resident companies	17(5)	Nil(2)
Dividends income from non-Cyprus resident companies	17(5)	Nil(3)
Interest income arising from the ordinary activities or closely related to the ordinary activities of the business	Nil (4)	Nil(4)
Other interest income ("passive")	30(5)	30(5)
Rental income (reduced by 25%)	3(5)(6)	3(5)(6)

Notes:

1. Legal entities are subject to Special Contribution for Defence if they are tax resident in Cyprus (see page 4). Prior to 16 July 2015 individuals were subject to Special Contribution for Defence if they were tax resident in Cyprus (see page 1). 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 has a domicile of origin in Cyprus per the Wills and Succession Law (with certain exceptions) or if 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.
3. As from 1 January 2016 this section only applies to dividends which are not deductible for tax purposes by the paying company. Dividends which are deductible for tax purposes by the paying company are subject to Corporation Tax and not Special Contribution for Defence.

The exemption of this section does not apply if:

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

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

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 Cyprus government savings bonds 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 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 Tax Liability.

Deemed dividend distribution

A Cyprus tax resident company is deemed to distribute as a dividend 70% of its accounting profits (as adjusted for Special Contribution for Defence purposes (1) and net of Corporation Tax, Special Contribution for Defence on company incomes, Capital Gains Tax and unrelieved foreign taxes) two years from the end of the tax year in which the profits were generated.

Such a deemed dividend distribution is reduced with payments of actual dividends paid during the relevant year the profits were generated or paid during the two following years.

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 13). 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.

Note:

A number of adjustments to the accounting profit are required for deemed distribution purposes, including for tax years 2012, 2013 and 2014 if the company has acquired in those years' plant, machinery or buildings (excluding private motor vehicles) for business purposes, the cost of these assets will be deductible against the accounting profits.

Disposal of assets to shareholder at less than market value

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

Company dissolution

The cumulative profits of the last five years prior to the company's dissolution, which have not been distributed or deemed to have been distributed, will be considered as distributed on dissolution and will be subject to Special Contribution for Defence at the rate of 17% (3% for Collective Investment Schemes).

This provision does not apply in the case of dissolution under a Reorganisation.

Reduction of capital

In the case of a reduction of capital of a company, any amounts paid or due to the shareholders over and above the previously paid-in equity will be considered as dividends distributed subject to Special Defence Contribution at the rate of 17% after deducting any amounts which have been deemed as distributable profits.

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

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

Capital gains tax

Capital Gains Tax (CGT) 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 derive from such immovable property are subject to Capital Gains Tax. In the case of share disposals only that part of the gain relating to the immovable property situated in Cyprus is subject to CGT.

Disposal for the purposes of CGT specifically includes; exchange, leasing, gifting, abandoning use of right, granting of right to purchase, and any sums received upon cancellation of disposals of property.

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

Exemptions

The following disposals of immovable property are not subject to CGT:

- 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 CGT upon its 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, 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

Determination of capital gain

Liability is confined to gains accruing since 1 January 1980. The cost that is deducted from gross proceeds on the disposal of immovable property are its market value at 1 January 1980, or the cost 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 acquisitions and disposal of immovable property are also deducted, subject to certain conditions e.g. interest costs on related loans, transfer fees, legal expenses etc.

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	17.086

The above exemptions are lifetime exemptions subject to an overall lifetime maximum of €85.430

Estate duty

Estate duty has been abolished since 1 January 2000.

The executor / administrator of the estate of the deceased, is 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.

Value Added Tax

VAT is imposed on the supply of goods and provisions services in Cyprus, as well as on the acquisition of goods from the European Union (EU) and the importation of goods into Cyprus.

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 created falls
- The input VAT relates to zero and 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.

VAT rates

The legislation provides for the following four tax rates:

- Zero rate (0%)
- Reduced rate of five per cent (5%)
- Reduced rate of nine per cent (9%)
- Standard rate of 19% as from 13 January 2014

Exemptions

Certain goods of services are exempt from VAT. They include:

- Leasing of buildings used for residence;
- Most banking and financial services and insurance services;
- Most hospital, medical and dental care services;
- Certain cultural educational and sports activities;
- Supplies of second-hand buildings;
- Postal services provided by the national postal authority;
- Lottery tickets and betting coupons for football and horse racing;
- Management services provided to mutual funds

VAT on immovable property

A number of recent amendments to Cyprus VAT Legislation concerning transactions in real estate were enacted during 2017, these amendments comprise of:

(a) Imposition of VAT on leasing of immovable property (land and commercial buildings, other than residential buildings) when used by lessee in making taxable supplies. The lessor has the right to opt not to impose VAT on the specific property. The option is irrevocable.

(b) The imposition of 19% VAT on the sale of non- developed building land, as from 2 January 2018, which is defined as a land intended for the construction of one or more structures in the course of carrying out a business activity. No VAT will be imposed on the purchase or sale of land located in a livestock zone or areas which are not intended for development such as zones/areas of environmental protection, archaeological and agricultural.

(c) The application of reverse charge on transactions relating to transfers of immovable property during the process of loan restructuring and for compulsory transfer to the lender, as from 2 January 2018.

Imposition of the reduced rate 5% on the acquisition and/or construction of residences for use a 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 the 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 provided or in the legislation 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 statement 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%.

Difference between zero rate and exempt supplies

The difference between zero rate and exempt supplies is that businesses that make exempt supplies are not entitled to recover the VAT charge on their purchases, expenses or imports.

Irrecoverable input VAT

As an exception to the general rule, input VAT cannot be recovered in a number of cases which include the following:

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

Registration

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

Businesses with turnover of less than €15.600 with supplies that are outside the scope of VAT but for which the right to claim the amount of the related input VAT is granted, have the option to register on a voluntary basis.

An obligation for registration also arises for businesses which make acquisition of goods from other EU Member State in excess of €10.251,61 during any calendar year. In addition, as from 1 January 2010 an obligation for VAT registration arises for businesses engaged in the supply of intra-community services for which the recipient must account for VAT under the reverse charge provisions. Furthermore, an obligation for VAT registration arises for businesses carrying out economic activities from the receipt of services from abroad for which an obligation to account for Cyprus VAT under the reverse charge provision exists subject to the registration threshold of €15.600 per any consecutive 12-month period. No registration threshold exists for the provision of intra-community supplies of services.

Exempted products and services, and disposals for items of capital nature are not taken into account for determining annual turnover for registration purposes. Registration is effected by completing the appropriate application form.

VAT declaration – payment/refund of VAT

VAT returns must be submitted quarterly and the payment of the VAT must be made by the 10th day of the second month that follows the month in which the tax period ends.

VAT registered persons have the right to request for a different filling period. Approval of the VAT authorities is required. The VAT Commissioner also has the right to request from a taxable person to file his VAT returns for a different period.

Where in a quarter input tax is higher than output tax, the difference is refunded or is transferred to the next VAT quarters.

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

The grace period for the VAT Authorities to reply the refundable amounts is extended by four months (i.e. eight months in total) in the event that the Commissioner is carrying out an investigation in relation to the submitted claim.

Thresholds and penalties

Amount in Euro (€)

Thresholds and penalties	Amount in Euro (€)
1 Registration threshold (taxable supplies in Cyprus)	15.600
2 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
3 Registration threshold for acquisition of goods in Cyprus from suppliers resident in another EU Member States	10.251,61
4 Registration threshold for intra-community supply of services	No threshold
5 Registration threshold for receipt of services from abroad for which the recipient must account for VAT under the reverse charge provisions	15.600
6 Penalty for late submission of VAT return	51 for each return
7 Penalty for omission to keep books and records for a period of 6 years	341
8 Penalty for late submission of VIES return	50 for each return
9 Penalty for late submission of corrective VIES return	15 for each return
10 Omission to submit the VIES return constitutes a criminal offence with a maximum penalty of	850
11 Penalty for late registration with the VAT authorities	85 per month of delay

Immovable Property Tax

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

Tax rates

Property value (as at 1 January 1980) €	Rate ‰	Accumulated tax €
First 40.000*	6	240
From 40.001 – to 120.000	8	880
From 120.001 – to 170.000	9	1.330
From 170.001 – to 300.000	11	2.760
From 300.001 – to 500.000	13	5.360
From 501.000 – to 800.000	15	9.860
From 800.001 – to 3.000.000	17	47.260
Over 3.000.000	19	

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

Exemptions

The following are not subject to Immovable Property Tax:

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

Trusts

A trust may be defined as the obligation of a person (i.e. the trustee) to whom property is transferred by the owner of the property and the creator of the trust (i.e. the settlor), to hold and manage such property for a defined period according to the wishes of the settlor, oral or written as these as expressed in a Deed of Trust or a Will, in favor of a specified person or persons or class of persons (i.e. the beneficiaries). A trust is not a separate legal entity.

International Trusts

The Law defines an International Trust as being a trust in respect of which: (a) The settlor is not a Tax resident in Cyprus during the calendar year which precedes the year of creation of the trust; (b) At least one of the Trustees from time to time is a tax resident in Cyprus during the trust period; and (c) None of the beneficiaries are Tax residents in Cyprus during the calendar year which precedes the year of creation of the trust.

According to applicable law: (i) Where the beneficiary is resident in Cyprus, the income and profits of a Cyprus International Trust which are earned or deemed to be earned from sources within and outside Cyprus, are subject to every form of taxation imposed in Cyprus. (ii) Where the beneficiary is not a resident of Cyprus, the income and profits of a Cyprus International Trusts which are earned or deemed to be earned from sources within Cyprus, are subject to every form or taxation imposed in Cyprus.

Transfer fees by the department of land and surveys

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

Value	Rate	Fee	Accumulated fees
€	%	€	€
First 85.000	3	2.550	2.550
From 85.001 – to 170.000	5	4.250	6.800
Over 170.000	8		

However:

- No transfer fees are payable if VAT is applicable upon purchasing the immovable property.
- The above transfer fees are reduced by 50% in case the purchase of immovable property is not subject to VAT.

In the case of free transfers of property, the transfer fees are calculated on the value of the property as follows:

- from parents to children – Nil
- between spouses – 0,1%
- between third degree relatives – 0,1%
- to trustees €50

'Value' in these cases refers to values as at 1 January 2013.

Mortgage registration fees are 1% of the current market value.

In the case of companies' reorganisations, transfers of immovable property are not subject to transfer fees or mortgage registration fees.

Social insurance

The rate of Social insurance contributions is applied to a maximum level of emoluments. The maximum level of emoluments for 2018 (as with 2017, 2016 and 2015) is €54.396 (weekly €1.046/monthly €4.533).

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

Other employer's contributions

The employer makes the following other contributions bases on employee's emoluments:

	%
Social cohesion fund	2,0*
Redundancy fund	1,2**
Industrial training fund	0,5**
Holiday fund (if it is not exempt)	8,0**

* Social cohesion fund is calculated on total emoluments and has no maximum level

** Restricted to the maximum level of emoluments as with the social insurance contributions

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.

Stamp duty

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

Nature of documents

Receipts (if not exempt) – for sums of over €4	7 cents
Cheques	5 cents
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

As from 1 March 2013:

-the first €5.000	0%
-between €5.001 - €170.000	1.5%
- above €170.000	2%*

Contracts without fixed sum	€35
Customs declaration documents (depending on document type)	€18 - €35
Bills of lading	€4
Charterparty	€18
Powers of attorney	
-general	€6
-limited	€2
Certified copies of contracts and documents	€2

*Capped at a maximum of €20.000.

Capital duty

Upon incorporation of a Cyprus company

Authorized share capital	€105,00 plus 0,6% on the authorised share capital
Issued share capital	There is no capital duty payable if the shares are issued at their nominal value. There is a €20,00 flat duty if the shares are issued at a premium

Upon subsequent increases

Authorised share capital	0,6% on the additional share capital
Issued share capital	€20,00 flat duty on every issue, whether the shares are issued at nominal value or at a premium

2018 Tax diary

End of each month

- Payment of tax deducted from employees' salary (PAYE) in the preceding 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 in the preceding month
- Payment of tax withheld in the preceding month on payments to non-Cyprus residents

31 January

- Submission of declaration of deemed dividend distribution (TD623) for the year ended 31 December 2015

31 March

- Electronic submission of the 2016 corporation tax return (TD4) for the accounting period ending on 31 December 2016 (TD4).
- Electronic submission of the 2016 income tax return of physical persons preparing audited financial statements (2).

30 April

- Payment of premium tax for life insurance companies – first installment for 2018
- Non-electronic submission of 2016 personal tax returns of individuals whose incomes do not include income from a trade/business, rents, dividends, interest, royalties nor income relating to trading goodwill (1).

30 June

- Payment of Special Contribution for Defence for the first six months of 2018 on rents if such tax is not withheld at source by tenant and on dividends or interest from sources outside Cyprus
- Payment of 2017 personal income tax under the self-assessment method by individuals not preparing audited financial statements (2).
- Non-electronic submission of 2017 personal tax returns of individuals not required to prepare audited financial statements but whose incomes include income from a trade/business, rents, dividends, interest, royalties or income relating to trading goodwill (1) (2).

31 July

- Electronic submission by employers of the total 2017 payroll (form TD7)
- Submission of the 2018 provisional tax return and payment of the first installment
- Electronic submission of 2017 personal tax returns of individuals whose incomes do not include income from a trade / business, rents, dividends, interest, royalties nor income relating to trading goodwill (1)

1 August

- Payments of 2017 final corporation tax under the self-assessment method
- Payment of 2017 personal income tax under the self-assessment method by individuals preparing audited financial statements (2)

31 August

- Payment of premium tax for life insurance companies – second installment for 2018

30 September

- Electronic submission of 2017 personal tax returns of individuals not required to prepare audited financial statements but whose income include income from a trade / business, rents, dividends, interest, royalties or income relating to trading goodwill (1) (2)

31 December

- Payment of provisional tax second and last installment for 2018
- Payment of Special Contribution for Defence for the last six months of 2018 on rents and on dividends or interest from sources outside Cyprus
- Payment of premium tax for life insurance companies – third and last installment for 2018

Interest and Penalties

The official interest rate, as set by the Finance Minister, for all amounts due after 1 January 2017 is 3,5% (4% for 2015-2016, 4,5% for 2014, 4,75% for 2013, 5% for years 2012 and 2011, 5,35% for the year 2010, 8% for the years 2007-2009 and 9% up to 31 December 2006).

In addition to the interest, penalties are also charged depending on the circumstances.

Notes:

- (1) Physical persons are required to submit personal tax returns only when their gross taxable income exceeds €19.500.
- (2) A physical person is obliged to submit audited financial statements if his/her turnover exceeds €70.000 annually.