



Doing Business Guide

2024



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About Andersen

- > Andersen in Cyprus is the Cypriot member firm of Andersen Global®, an international association of member firms comprised of tax and legal professionals worldwide. It is a regulated accounting firm providing a wide range of professional services to local and international clients, in Cyprus and abroad, including without limitation, accounting and tax services, business consulting, payroll, corporate administration, trustee services and other services of fiduciary nature.
- > Andersen Cyprus was introduced as an official member of Andersen Global® in April 2019.
- > Andersen offices in Cyprus are located at one of the most popular avenues of the city which makes it easy to be located and reached. The business address is at 140 Athalassas Avenue, CY-2024 Nicosia, Cyprus.
- > Andersen Global was established in 2013 as the international entity surrounding the development of a seamless professional services model providing best in class tax and legal services around the world. Andersen Global® is an association of legally separate, independent member firms, comprised of more than 16,500 professionals worldwide, over 2,000 global partners, and a presence in over 450 locations in more than 170 countries worldwide.

Country highlights

- > Cyprus, officially the Republic of Cyprus, is an island country in the Eastern Mediterranean and the third largest and third most populous island in the Mediterranean, located south of Turkey, west of Syria and Lebanon, northwest of Israel, north of Egypt, and southeast of Greece.
- > Cyprus is covering an area of 9,251 km² with a population of 1 million approximately and is a full member of the European Union since May 2004 and the Eurozone since January 2008.
- > Greek is the official language, but English is widely spoken and, as in other jurisdictions, is the most common language of doing business.
- > Citizens of EU member-states which have ratified the Schengen treaty are free to move, live and work in Cyprus (subject to minimal requirements).
- > Nationals from non-EU countries must obtain an entry visa before arriving in Cyprus and a residence permit if also seeking employment.
- > Cyprus is a Presidential Republic. The head of state and of the government is elected by a process of universal suffrage for a five-year term. Executive power is exercised by the government with legislative power vested in the House of Representatives whilst the Judiciary is independent of both the executive and the legislature. At time of writing, the president of the Republic of Cyprus is Mr. Nicos Christodoulides, elected in February 2023.
- > Cyprus is a full member of the European Monetary Union. Its currency is the Euro.
- > Cyprus has an open free-market, service-based economy with a long record of successful economic performance. Its strong business environment, highly educated workforce and favorable and stable tax regime have remained in place and allowed the country to pass quickly through the current economic crisis. Looking ahead, with measures ongoing to reform public spending, accelerate initiatives to boost investments, develop the investment fund sector and push forward with natural gas exploitation, Cyprus ensures that its prosperity endures.
- > The Cyprus economy has been expanding rapidly with growth acceleration during the last decade. The winter forecasts of the European Commission announced on February 2024, indicate that after the impressive growth of 5,1% in 2022, the economic activity in Cyprus slowed down in 2023 while for the years 2024 and 2025, the real GDP is expected to recover.

Concessions and Investments incentives

Cyprus can be considered as an ideal country for investors due to its unique weather, fabulous beaches, the affordable prices of property, relative ease to acquire the "Permanent Residence Permit" (PRP) and Cyprus Citizenship and many advantageous tax regimes for international investors.

Attractive tax regime and incentives

- One of the lowest corporate taxes across the EU at 12.5%
- An attractive Double Tax Treaty network which covers over 60 countries
- Access to every single EU Tax Directive
- Reduced residential VAT rate. Commercial property in Cyprus attracts a 19% VAT rate, meanwhile, residential property only attracts 5% on the first 200 square meters of the first and primary permanent residence property
- Dividend income exemption based on relaxed conditions
- Tax exemption on capital gains and gains from trading in securities
- Tax neutrality on Foreign Exchange Gains
- No inheritance or succession taxes
- No withholding taxes on outgoing dividends, interest and or royalty settlements
- Notional interest deduction available for equity investment into Cyprus incorporate companies
- Very attractive personal tax regime for international expatriates residing in Cyprus for first time
- No immovable property taxes
- Specially tailored provisions for the investment funds industry
- Competitive Intellectual Property Regime
- Competitive Tonnage Tax for Shipping companies and an open registry approved by the EU
- Tax deductions to encourage investment into Cypriot startups

Incentives through other sectors

Great efforts have been made in education (excellent education facilities including many UK universities having campuses on the Island), healthcare facilities, banking, shipping, science and technology, privatization, innovation, and liberalism.

Ways of doing business

a. Overview

Cyprus offers a wide range of choice of different legal forms for setting up companies. One, therefore, has to identify the most suitable form of company from an organizational point of view, also taking into account the objects of the business to be pursued, the capital to be committed, the degree of liability each legal form involves, the various tax implications and, lastly, the complexity of the accounting and organizational measures each kind of form implies.

b. Types of business organizations

A legal entity (Company) in Cyprus can be formed by registration under the Cyprus Companies Law – Cap 113, as amended, (the "**Companies Law**"). The Companies Law provides for the following types of legal entities:

> Private Company Limited by Shares (LTD)

This type of company is the most popular in Cyprus. There is no minimum share capital requirement, however at the time of incorporation a shareholder must subscribe for at least 1 share. It is necessary that at least 1 to maximum 50 shareholders set up an LTD in Cyprus, who are liable to the company's obligations only to the extent of their contribution. The right of transfer of its shares must be restricted and any invitation to the public to subscribe for its shares is prohibited. There must

be at least 1 director and a secretary. A private company which is entirely owned by foreign investors is also known as an International Business Company.

> **Private Company Limited by Guarantee**

This type of company has a similar structure to the one of Private Company Limited by Shares, but the members give a guarantee to pay a stated sum in the event of winding up. Private Companies Limited by Guarantee are usually the type of companies established for non-profit purposes and charitable actions.

> **Public Company Limited by Shares (PLC)**

A Public Company Limited by Shares has again a similar structure to the one of a Private Company Limited by Shares with the main differences being that the shares are freely transferable and can be offered to the public. The minimum number of shareholders must be 7 without a maximum limit and there must be at least 2 directors. The incorporation of a public company limited by shares requires at least 25.630 EUR as an initial capital contribution.

> **Overseas Company (Cyprus Branch of a Foreign Legal Entity)**

A Cyprus Branch can be used by foreign legal entities as a means of establishing a place of business in Cyprus for the purpose of conducting business in the ideal environment that Cyprus provides, in accordance with the Companies Law. The difference with subsidiaries (legal entities), a branch is considered as an extension of the foreign company and therefore the foreign company is liable for the debts of the branch, whereas the subsidiary is considered as a separate legal entity. Registering a branch in Cyprus means that an Overseas Company can enjoy the same benefits that are in place for Cyprus companies, provided that the management and control of the branch office is exercised in Cyprus. Whereas the management and control of the company is not exercised in Cyprus, the profits generated from the activities of the branch are exempted from Cyprus tax and the profits will most probably be taxed in the country of incorporation of the Overseas Company.

> **Societa Europaea or SE**

The registration of a European Public Limited Company (Societa Europaea or SE) in Cyprus is in line with the Council Regulation (EC) No. 2157/2001. The main objective is to allow companies incorporated in different EU Member States to merge or form a holding company or joint subsidiary, while avoiding the legal and practical constraints of the existence of different legal systems. The incorporation of a Societa Europea can be conducted in the following 4 different ways: (a) through a "Merger" (merging a Public Limited Company from two different Member States), (b) through a "Holding" (formation of a holding Company by a Public and a Private Limited Company from two different Member States), (c) through a "Subsidiary" (which can be formed by any legal entities subject to Public or Private law from two different Member States or by a SE itself) or (d) by "Conversion" (a Public Limited Liability Company can convert into an SE if it had a subsidiary in another Member State for two years).

In addition to the above, there are also other legal arrangements through which a business can operate in Cyprus:

> **Partnerships**

The Partnerships and Business Name Law provides for two general types of Partnerships as follows:

1. **General Partnership:** A general partnership in Cyprus can be formed by 2 to 20 individuals. Registration of the partners with the Registrar of Partnerships is mandatory. There is no capital requirement and partners are fully liable to the extent of their private assets.
2. **Limited Partnership:** The difference between a general partnership and a limited partnership is that the latter must have at least have 1 General Partner who is fully liable (unlimited liability) for the partnership's obligations and rest of the partners who are liable to the extent of their contribution (limited liability). Just like the General Partnership, a limited partnership requires at least 2 partners who must register with the Registrar of Partnerships.

> Sole Proprietor (or Sole Trader)

Sole proprietors (or Sole Traders) are individuals who own and run a business on their own account without partners, and with or without employees. They may trade under their own real name or under a different business name in which case such a business name (other than their own) must be registered with the Registrar of Partnerships. Sole Proprietors have personal full liability for the business. Sole Proprietors profits are eligible to income tax, irrespective as to whether the profits are distributed to the proprietor or left in the business.

> Cyprus International Trusts

A Cyprus International Trust is a settlement whereby the Settlor transfers an immovable or movable property, the Trust Property, to an independent person, the Trustee, for the latter to hold for the benefit of the Beneficiary(ies). The Settlor and the Beneficiaries must not be residents of the Republic of Cyprus preceding the year of the establishment, but the Trustee or at least one of the Trustees must be a permanent resident of the Republic of Cyprus. The use of the Cyprus International Trusts is increasingly becoming popular as a vehicle for inheritance, international tax planning and business structuring. Income and gains of a Cyprus International Trust derived from sources outside Cyprus are exempt from any tax imposed in Cyprus.

c. Setting up a business

> Procedure for registering / incorporating a Cyprus Limited Company:

The Department of Registrar of Companies and Official Receiver (the “**Registrar**”) is the regulatory body and the place where the registration documents are filed and checked. It has the power to impose penalties and to strike off companies from its register if the registration requirements are not complied with. The registration process involves the following steps:

1. **Company name:** The choice of company name, which must be approved by the Registrar. The name must end with the word "Limited" or "Ltd" and must not sound and or be similar to existing registered names.
2. **Memorandum of Articles and Association:** Once the name has been approved, the memorandum and articles of association of the company are prepared according to the company's proposed main activity (such as, development, holding, construction or investment) and then filed with the Registrar of Companies together with information regarding the company's first officers and shareholders.
3. **Registered Office:** A registered office in the Republic of Cyprus is a requirement for the registration of a company.
4. **Board Members:** All Cyprus Limited Companies are obliged in appointing at least one Director and one Secretary. It is strongly advisable that all or at least the majority of Directors are of Cypriot Tax Residence so that on the face of it the management and control is exercised in Cyprus being the cornerstone factor for the company to be considered Cyprus tax resident. In the case of the Secretary, it is recommended to be of Cypriot Residence mainly for practical reasons.
5. **Certificate of incorporation:** When all the documents required by the registrar are completed and the requirements for the registration of the company are met, the Certificate of Incorporation of the company is issued, meaning that the company comes into existence as a separate legal entity.

The procedure for forming a Company in Cyprus can be completed within a timeframe of 7 – 10 working days. It is highly recommended that businessman attend a meeting with a tax consultant, accountant and or auditor (which are members of the Institute of Certified Public Accountants of Cyprus – ICPAC), to discuss further matters affecting the operations of the Cyprus Company i.e. substance requirement, banking, tax registration (compulsory), VAT registrations (if applicable), payroll obligations (if applicable) and annual reporting requirements (Tax, Audit, AGM).

> Procedure for registering / establishing a Cyprus Branch:

Overseas companies (or “branches” as most commonly called) may establish a branch in Cyprus by filing with the Registrar the following documents:

1. A written report including the following information:
 - the name and legal form of the overseas company, as well as the name of the branch (if it is going to be different from the name of the overseas company)
 - the registered office and address of the overseas company as well as its business address
 - the purpose and objects of the overseas company

- where applicable, the register in the third country, together with the relevant registration number of the overseas company where the basic information about the company has been filed
 - the amount of the capital subscribed (where applicable)
 - the law of the state governing the company
2. Certificate of incorporation of the company (certified)
 3. The Memorandum and Articles or the charter of the overseas company or any other document defining its constitution (certified)
 4. List of directors and secretary (if applicable) of the company and their particulars. This shall include names, and surnames, nationality, business occupation, residential address, passport number
 5. Name and address of at least one-person resident in Cyprus authorized to accept on behalf of the company any notices required to be served to it

> **Procedure for registering / establishing a Cyprus Partnership:**

An application is made to the Cyprus Registrar of Companies for approval of the name (before any applications for its registration).

Within a month of its establishment a written statement in a prescribed form is submitted to the Registrar signed by all the partners containing the following information:

1. the partnership's name
2. the nature of the business activities
3. the place where the business will take place
4. details about the partners such as names, nationality, residency and business occupation
5. the date of commencing the business activities
6. the contribution of each partner
7. the authorized representatives of the general partnership

d. Corporate compliance

> **Statutory obligations**

1. Annual General Meetings

All Cyprus incorporated companies must hold in each year a general meeting as their Annual General Meeting (AGM) in addition to any other meetings held during the year, which are called Extraordinary General Meeting.

The first AGM must be held within a period of 18 months from the date of incorporation and not more than 12 months should elapse between the date of one general meeting of the shareholders and that of the next. The articles of association normally contain certain provisions concerning notice and the place where the meeting may be held.

2. Annual returns

Every Cyprus company is required to submit an Annual Return (Form HE32) accompanied by the audited Financial Statements of the previous year. The deadline for the submission of the Annual Return is within 28 days of the AGM.

The Annual Return contains the company's statutory information as at the date of the AGM and should include among other information certified copies of the audited financial statements, directors' report and auditors' report. A delay in the submission of the Annual Return is subject penalty charges.

> **Financial obligations**

1. Registration with the Cyprus Tax Authorities

Companies have an obligation to register with the tax authorities and obtain a tax identification code (TIC) within 60 days from their incorporation.

Companies incorporated outside Cyprus and with their place of business within Cyprus, have the obligation to register with the tax authorities within 60 days from the date of their registration with the Registrar of Companies or from the date they are considered Cyprus tax residents.

Companies which have already been registered with the tax authorities are required to inform the Commissioner of Taxation of any changes that may affect the records of the tax authorities' register, within 60 days from the date that the relevant change occurred.

2. Maintenance of books and records

Every taxable person (legal entities and physical persons) is obligated for every tax year to:

- Issue receipts and invoices as specified by the regulations. Invoices should be issued within 30 days from the date of the transaction unless a written approval has been obtained by the Tax Department for the purpose of issuing the invoices later. In case where invoices are not issued within the prescribed deadline, a penalty of €100 per month may be imposed.
- Maintain books and records and prepare financial statements based on acceptable accounting standards. The financial statements should be prepared in accordance with acceptable accounting standards (IASs/IFRSs) and audited in accordance with acceptable auditing standards (ISAs), by a person that is eligible to act as an auditor. A person is obliged to update books and records within four months from the date of the transaction. In the case where books and records are not updated within the prescribed deadline, a penalty of €100 per quarter may be imposed. Books and records should be kept for at least six years and be ready to be presented to the Tax Department if requested.
- Only physical persons whose annual turnover does not exceed the amount of EUR70.000 are exempted from the obligation to prepare audited financial statements.

3. Anti-money laundering requirements

Under corporate compliance requirements in Cyprus, all companies must comply with the Anti-Money Laundering Law which was enabled in 1996. Under this legislation companies, but most of all financial institutions in Cyprus, are required to follow certain administrative requirements and to establish specific regulations. These requirements imply appointing compliance officers, the implementation of customer identification programs, record keeping proceedings and training their staff.

e. M&A

> Acquisitions (Sale and Purchase of Shares)

The Sale and Purchase of Shares is governed by the Companies Law and the Articles of Association of the Cyprus Private Company to be acquired (the "**Target Company**"). The matter is predominantly governed by the terms of a Share Purchase Agreement ("**SPA**") as a contractual matter, thus is also governed by the Cyprus Contract Law Cap. 149 and prevailing best contractual practices. This clause relates to the Sale and Purchase of Shares in the Target Company as part of acquisition of the whole or part of an active Cyprus company (it has business activities). It also applies to international cross border acquisitions where the Target Company is a holding company or another form of special purpose vehicle (SPV) holding shares in an active business company or real estate, or any other form of assets situated in foreign jurisdiction.

In practice, except for the legal requirements to be satisfied (as referenced herein below), the Sale and Purchase of Shares entails also several preliminary practical considerations, which arise from standard and best practices, that do not necessarily constitute legal requirements, such as:

(a) Memorandum of Understanding (MOU)/ Letter of Intent (LOI)/ Heads of Terms (HOT)

As a matter of standard practice, the Seller and the Buyer customarily enter into a preliminary agreement such as a MOU, LOI or HOT. The purpose of such an agreement is to solidify the interest of both parties in proceeding with the transaction and set out the principal terms i.e. the price and timeframe for negotiations. The provisions of this document are, as per its terms, not binding on the parties except where the parties specifically agree otherwise therein. In practice, there would be binding provisions such as confidentiality or exclusivity. In general, a MOU, LOI or HOT serve to satisfy the Seller's concerns about confidentiality and the Buyer's concerns about access to information/ documents to conduct legal and financial due diligence. Signing a MOU, LOI or HOT, although ideal, is not necessary and depends on facts such as the nature of the transaction and the relationship between the parties.

(b) Non-Disclosure Agreement (NDA)/ Confidentiality Agreement (CA)

Again, as a matter of standard practice, where no MOU, LOI or HOT was signed with binding confidentiality provisions, the parties may opt to enter into an NDA or CA. This facilitates the parties to disclose confidential information as part of the negotiation and due diligence process without worrying that such information will be disclosed to third parties or used in

any manner other than to effectuate the prospective sale and purchase of the Target Company. Again, the NDA or CA is not necessary and depends on facts such as the nature of the transaction and the relationship between the parties.

(c) Due Diligence

Simultaneously with negotiations, customarily prior to drafting, but in any event before entering into the SPA, the Buyer would conduct a thorough Financial and Legal Due Diligence on the Target Company. The Financial Due Diligence is conducted by qualified accountants, auditors or financial advisors of the Buyer and its purports to identify and verify the financial status of the Target Company i.e. recognize any debts, encumbrances, or other financial obligations. All assets of the Target Company, including any subsidiaries, are subject to such Financial Due Diligence. The Legal Due Diligence is conducted by Cyprus lawyers and its purpose is to primarily identify and verify ownership of the shares and the capacity of the Seller to sell the shares in accordance with the Law and the Articles of the Buyer (Corporate Due Diligence). In addition, the Legal Due Diligence extends to identifying and verifying any underlying assets, evaluation of any liabilities, litigation proceedings or encumbrances on the assets. In general, the purpose of Legal Due Diligence is to identify and verify the legal status of the Target Company, namely its rights and obligations under contract, law, or equity. All assets, including subsidiaries, are subject to Legal Due Diligence, hence where subsidiaries are in jurisdictions outside Cyprus such due diligence is conducted by legal counsels competent to practice law in such jurisdictions.

The Financial and Legal Due Diligence reports customarily describe the due diligence process, the documents reviewed and set out legal or financial risks (where identified), the nature, severity and consequences of such risks and possible solutions.

Irrespective of the preliminary considerations, the Sale and Purchase of Shares requires satisfaction of the following requirements:

(a) draft of SPA (between the Seller and the Buyer)

(b) satisfaction of the following legal requirements:

(i) proper, duly executed Instrument of Transfer of shares (to be delivered to the Target Company)

(ii) Board Resolution approving the transfer of shares (issued by the Target Company)

(iii) the transfer of shares must be duly recorded in the register of members of the Target Company

(iv) the Target Company must issue a new share certificate in relation to the acquired shares (to be delivered to the buyer within 2 months from the registration).

Form of SPA

The most important document in the context of the Sale and Purchase of Shares is the SPA the provisions of which define not only the commercial terms but also the entire process. The SPA commonly provides, inter alia, the purchase price, payment method, "conditions precedent", "conditions subsequent", "long stop date", "completion/closing", completion documents (referred herein above), bilateral warranties and other miscellaneous terms. "Conditions Precedent" are conditions in the SPA that must be satisfied before the Sale and Purchase of Shares can be effective, which may be for instance where the Target Company is under merger control that a notification is made and an approval is obtained from the competent authority. The deadline to complete such conditions is commonly referred to as "long stop date" and where such conditions are not satisfied by then, the SPA is terminated. "Conditions Subsequent" are conditions to be satisfied post completion of the Sale and Purchase of Shares which customarily include necessary filings with the Registrar reflecting the transfer.

Signing

Before any person, legal or natural, can sign the SPA, such person must have legal capacity or authority to do so. In cases of natural persons, only the legal owner of the shares can sign the SPA, except where he/she has granted a Power of Attorney (POA) to any third person (the "**Attorney**") to sign on his/her behalf, provided that the said Attorney will produce the original POA to the counterparty. In cases of legal persons entering into the SPA, such legal person must first be permitted by its objects under its constitutional documents. Any person signing on behalf of that legal person must have requisite authority in accordance with its Articles. In Cyprus companies such authority is customarily granted by the Articles to the board of directors of the company who in turn may duly resolve to grant such authority to any one or more of the directors of the company or to any other Attorney (acting on the basis of a valid POA). It is standard, before signing the SPA, to request at least copy of a board resolution authorizing the company to enter into the SPA and designating the authorised signatory. There is no legal requirement that Cyprus companies must sign the SPA under its seal (for such signature to be valid or effective), except where this is required under their Articles or a specific shareholders or board resolution resolves as such.

Closing

"Completion/Closing" is a meeting customarily set on a date immediately after the satisfaction of all "Conditions Precedent" where the effect of the Sale and Purchase of Shares takes place i.e. the Buyer pays the price and the Seller releases all completion documents. The date of effect of the Sale and Purchase of Shares is customarily the "Completion/Closing" date (not the date of signing the SPA) and the date of effect of the transfer of shares is the date the transfer is recorded in the register of members of the Target Company.

> **Mergers**

Cyprus boasts an attractive Merger and Reorganization regime not only locally (i.e. between Cyprus entities), but also at a Cross-Border, EU level. Apart from the apparent and well-known advantages of merging two companies (e.g. the creation of a stronger entity, the avoidance of liquidating group entities, the transfer of assets and liabilities without the need for the novation of contracts or other cumbersome procedures), Mergers in Cyprus are also attractive from a tax perspective, as Mergers and Reorganizations, which fall within the ambit of the law, may well result in a total exemption from tax in Cyprus (refer to Tax section below).

The Cyprus Income Tax Law (118(I)/2002), as amended, (the "Income Tax Law") classifies "Mergers", "Divisions" (demergers), "Partial Divisions", "Asset Transfers" and "Share Exchanges" as "Arrangements", all of which are regulated and carried out pursuant to sections 198 to 201 of the Companies Law, relating to compromises and reorganizations.

Local Mergers

Section 30 of the Income Tax Law defines "Merger" between Cyprus companies as an act where:

- (a) one or more companies, on its dissolution without going into liquidation, transfer all of their assets and liabilities to "another existing company" (an acquiring company) in exchange for the issue to their shareholders of shares in the capital of the receiving company and potentially in exchange for cash, not exceeding 10% of the nominal value of the shares or, in the absence of a nominal value, of the accounting par value of the shares
- (b) two or more companies, on its dissolution without going into liquidation, transfer all of their assets and liabilities to a "new company" that they establish in exchange for their shareholders being issued with shares in the new company's capital and, potentially, in exchange for cash, which should not exceed 10% of the nominal value of the shares or, in the absence of a nominal value, of the accounting par value of the shares or
- (c) one limited liability company, on its dissolution without going into liquidation, transfers all of its assets and liabilities to a "company holding all the shares" (100%) representing its capital

Local Mergers must receive Court approval before they can be conducted.

In summary, for a merger of a company to take place, a scheme for the reconstruction and amalgamation of a company pursuant to section 200 of Companies Law needs to be approved by the Court. To give effect to the reconstruction, a scheme is set out by the auditors of the companies who are also responsible for the scheme's approval by the Income Tax Authorities which in turn need to confirm that there will be no tax complications with the proposed reorganization. The board of directors of each of the related companies should pass a resolution setting out the reorganization plan as prepared by the auditors which is then put before shareholders for approval and ratification. It is a prerequisite to hold a general meeting of the shareholders, which determines the extent to which there is a necessity to compromise or arrange the liabilities between the shareholders and the creditors, as the company being acquired shall be wound up without going into liquidation and its assets shall be transferred to the acquiring company.

Further, prior to the general meeting, it is required to inform the shareholders of the acquired company by giving a notice which states the reason for which the meeting shall be held. The notice shall include a special report specifying the effects of the merger. The creditors of the company being acquired shall also receive a notice as they shall provide their consent as well for the merger to proceed. At the general meeting the members examine the restructuring plan of the company, which shall be then approved in order to proceed with the relevant procedures.

The restructuring plan shall also be approved by the general meeting of the acquiring company. The legitimacy of the restructuring process is examined by the court which issues the restructuring order, which also determines the responsibilities of the restructured companies. In particular, the court may order:

1. the transfer to the transferee company of the whole or any part of the undertaking and of the property or liabilities of any transferor company
2. the allotting or appropriation by the transferee company of any shares, debentures, policies or other like interests in that company which under the compromise or arrangement are to be allotted or appropriated by that company to or for any person
3. the continuation by or against the transferee company of any legal proceedings pending by or against any transferor company
4. the dissolution, without winding up, of any transferor company. The provision to be made for any persons, who within such time and in such manner as the Court directs, dissent from the compromise or arrangement
5. such incidental, consequential and supplemental matters as are necessary to secure that the reconstruction or amalgamation shall be fully and effectively carried out

For the Cyprus Courts to allow the restructuring, both the acquiring and the acquired companies shall have fulfilled in full their obligations to the tax authorities of the Republic of Cyprus and the Registrar, including the filing of the annual company reports.

The Registrar is notified of the said order and this marks the completion of the merger process and the scheme is binding on the company and on all parties concerned. To have binding force, such an order must be delivered to the Registrar for registration within 7 days. Although a merger is not effective until the Registrar processes the documents filed, once processed, the merger and consequently the dissolution of the absorbed entity takes effect retroactively.

In summary, in order to complete the Local Merger process the following is required:

1. Drafting the restructuring plan
2. Acquiring the consent of the creditors
3. Drafting the notice for the general meeting of the acquiring company and the minutes of the said
4. Preparation and filing of the accounts and annual reports of the acquiring and the acquired company up to the date of the filing of the restructuring application with the court
5. Drafting the restructuring application and appear before the court for the approval of the restructuring
6. Filing of the Court order with the Registrar

It should be pointed out that regarding Public Companies (sections 201A – 201H of the Companies Law), the merger procedure will be the same except for minor changes in the merger plan which must contain:

1. the name
2. the form of the registered office of the companies
3. details about the transfer of shares and the amount of money
4. information about the allocation of shares
5. the exact date when the new shareholders will have the right to profits
6. the date after which the acts of the absorbed company are considered to have been done on behalf of the absorbing or the benefited company
7. all the special privileges that are provided to the experts

Cross - Border Mergers

The Republic of Cyprus adopted the EU Directive on Cross-Border Mergers of Limited Liability Companies, EU Directive 2005/56/EC (the "**Directive 2005**"), into national law, by amending the Companies Law (Articles 201I – 201X). By such amendment of the Companies Law, the Cross-Border Merger between a European limited liability company (the Absorbed Company) and a Cyprus limited liability company (the Acquiring Company) is permissible. Following repeal of the Directive 2005 by EU Directive 2017/1132/EC (the "**Directive 2017**") relating to certain aspects of company law, Chapter II of the Directive 2017 applies, which sets out simplified provisions relating to the Cross-Border Mergers of Limited Liability Companies.

Chapter II of the Directive 2017 defines "Merger" as an act between EU companies where:

- (a) one or more companies, on being dissolved without going into liquidation, transfer all of their assets and liabilities to "another existing company" (an acquiring company) in exchange for the issue to their members of securities or shares representing the capital of the other company and, if applicable, a cash payment not exceeding 10% of the nominal value or, in the absence of a nominal value, of the accounting par value of those securities or shares

- (b) two or more companies, on being dissolved without going into liquidation, transfer all of their assets and liabilities to a company that they form, a "new company", in exchange for the issue to their members of securities or shares representing the capital of that new company and, if applicable, a cash payment not exceeding 10% of the nominal value or, in the absence of a nominal value, of the accounting par value of those securities or shares or
- (c) a company, on being dissolved without going into liquidation, transfers all its assets and liabilities to the company "holding all the securities or shares" (100%) representing its capital

The essential requirement for a Cross-Border Merger is the provision and thus permission through the national laws of each EU based company involved. Cross-Border Mergers are possible only between types of companies that can merge under the national law of the relevant EU member state and the company taking part in a Cross-Border Merger must comply with the provisions and formalities of the national law to which it is subject.

With regards to Cyprus, all companies have the legal capacity to participate in a Cross-Border Merger, except for the following companies:

- Limited liability companies by guarantee and
- Companies which are under liquidation.

In order for the companies to be able to proceed with a Cross-Border Merger the first steps to be followed is the drafting and agreement of the Terms which will 'lead' to the merger between the merging companies and then the approval of such Terms by the General meeting of the merging companies. From the time that the Terms of the Cross-Border Merger are confirmed and approved by each merging company, the said companies are ready and thus able to proceed with the procedure of "union", as the Cross-Border Merger can be defined. The Cross-Border Merger in the Cyprus is approved and completed by a Court Order of the District Court of the district where the Cyprus Company maintains its registered office, as the competent Authority on Cross-Border Merger in which a Cyprus Company is participating. The aforementioned Court Order must be submitted for registration with the Registrar in order for the Cross-Border Merger to be in force. It is important to note that a Cross-Border Merger which has entered into effect in accordance with the aforementioned procedure, cannot be declared null and void. This can also be considered as one of the most crucial benefits of such a procedure, due to the fact that this provides legal certainty.

In summary, in order to complete the Cross-Border Merger process the following is required:

1. Drafting and approving by the management the proposed terms of the merger
2. Filing of the terms of the merger with the Registrar (for the Cyprus company)
3. Publishing the terms of the merger in the Official Gazette of Cyprus
4. An independent experts' report for each merging company to be obtained, if required
5. Following the expiration of the relevant timeframe, a general meeting must be convened for the shareholders to approve the common draft terms of the cross-border merger
6. Applying to Court to obtain a Court Certificate stating that the pre-merger acts and formalities have taken place and are satisfied ("1st Court Order"). A similar pre-merger certificate must be obtained by each merging non-Cypriot company in its own jurisdiction
7. Within 6 months of the issue of the 1st Court Order, applying to Court to obtain a second Court Certificate by which the Court will approve the legality of the completion of the merger and set a date on which the Cross-Border Merger shall be deemed to take effect ("2nd Court Order")
8. Filing an official copy of the 2nd Court Order to the Registrar for registration and publication. The Registrar removes any Cyprus companies which have been absorbed in the merger and refers to the date of the commencement of the Cross- Border Merger

From a tax perspective, an application can be made to the Tax Authorities, accompanied by the merger plan and relevant information on the merging entities, for a reorganisation certificate, confirming the exemption from taxes. The tax authorities retain the discretion to issue a tax exemption certificate if they take the view that the merger or reorganisation was at arm's length and reflected economic reality.

Once the procedure of a Cross-Border Merger has been completed, the outcome is as follows:

- The assets and liabilities of the Absorbed Company are transferred to the Acquiring Company
- The shareholders of the Absorbed Company, become shareholders of the Acquiring Company
- The Absorbed Company ceases to exist.

The same applies in the cases of Cross-Border Merger by the incorporation of a new company.

> General

It is noted that in the context of Mergers, also the following relevant legislation should be considered:

- (a) Concentration of Business Law (22(I)/1999, as amended) (the "**Concentration of Business Law**"), incorporating policies to promote competition and fight monopolization:

The scope of this legislation is to concentrations that are considered to be of "major importance" and that is when the aggregate turnover of the business of at least two of the participating enterprises exceeds 2 million Cypriot pounds (€3.417.203); the commercial activities of at least of one of the participating enterprises of the concentration in question must be within the Republic of Cyprus; the aggregate turnover of the business of all the participating enterprises regarding the supply of goods or services within the Republic of Cyprus must be at least 2 million Cypriot pounds (€3.417.203) jointly.

Where a concentration is classified as of "major importance" and therefore falling within the ambit of the Concentration of Business Law, relevant notifications, evaluations, investigations and decisions are made by the competent authorities of Cyprus i.e. the Commission for the Protection of Competition and the Competition and Consumer Protection Service to determine whether the concentration is harmful to the competitiveness of the Cyprus market.

- (b) Employees' Rights in the event of Transfers of Undertakings Law (104(I)/2000, as amended) incorporating the relevant EU Directives (TUPE):

The companies involved in a merger, that is the old and new employer companies, are obliged to inform the employees who are affected by the merger of the date of the merger, the reasons for merging, the legal and social consequences of such merger and the measures to be taken with respect to the employees. The law provides for the rights of the employees to be protected and maintained by the new employer

f. Dissolution and liquidation

The Cyprus Companies Law provides three methods for winding-up a Cyprus company:

1. voluntary winding-up (either by the members or by the creditors)
2. involuntary winding-up by its creditors
3. voluntary winding-up by the Court or winding-up subject to the supervision of the Court

An alternative way for a company to cease to exist, is by way of striking-off of the Register of Companies, in accordance with section 327 of the Companies Law. The most common methods of dissolving a Cyprus private company limited by shares whose main activities is to act as a holding company is a members' voluntary winding-up and the striking-off of the register.

> Strike-off

This is a very straight-forward procedure and is generally used for companies that have terminated all activities and do not intend to carry on any business in the future. These companies are usually considered dormant companies; however, the financial statements of the company must be prepared until the date that the company ceased activities.

Also, it is essential to submit the relevant income tax return to the Cyprus Tax Authorities which will be examined by the tax office. All the tax liabilities should be settled, and a tax clearance certificate issued. A declaration of solvency must then be signed by all the directors of the company.

The declaration is a confirmation by the directors of the company that the management accounts have been prepared up to date, confirming that the company ceased its operations, has no trading activities, no obligations, no debtors/creditors and no assets and is for all intents and purposes inactive. The statement of assets and liabilities of the company must validate that the company has adequate funds to settle all its debts, and/or outstanding liabilities including the fees charged for the strike-off. The Registrar of Companies will then publish in the Official Gazette of the Republic of Cyprus, the intention

of the company to be struck-off and sends a notice to the company that within three months, the company will be removed from the records of the Registrar of Companies.

The Registrar can also proceed with the striking off of a company where he has reasonable cause to believe that the company has ceased to carry on its business (i.e. if a company does not comply with its obligation for filing of the Annual Returns to the Registrar of Companies) and/or when the company omits to pay the annual levy, as provided by the Companies Law, Cap. 113.

It is noteworthy that in case where any member or creditor feels aggrieved by the striking-off of the company, they can apply to the Court for the reinstatement of the company provided that the application will be done before the 20 years' expiration period, from the publication in the Gazette of the notice.

> **Members' Voluntary Liquidation**

A company may be wound up voluntarily when the period, if any, fixed for the duration of the company by the articles expires, or the event, if any, occurs, on the occurrence of which the articles provide that the company is to be dissolved. Furthermore, a company may be wound up voluntarily if the general meeting resolved the voluntary liquidation of the company either by the passing of a special resolution resolving that the company be wound up voluntarily, or by passing an extraordinary resolution to the effect that it cannot by reason of its liabilities continue its business, and that it is advisable to wind up.

As the first step the auditors of the company should prepare the statement of assets and liabilities of the company, as at the latest practical date before the declaration of solvency. The majority of the Company's directors swear an affidavit before the registrar in the District Court, making a Declaration of Solvency. The Declaration of Solvency must be dated on a date not preceding 5 weeks from the date of the passing of the extraordinary general meeting. The sworn Declaration of Solvency will attach the Statement of Assets and Liabilities as an exhibit.

Moreover, a decision of the meeting of the board of directors of the Company (or alternatively a unanimous written resolution of the Board of Directors in lieu of such meeting) needs to be passed, where the directors of the Company will report that a Declaration of Solvency has been made and will resolve to convene an extraordinary general meeting of the Company to approve the liquidation of the Company and to appoint a liquidator. The Extraordinary General Meeting of the Company will mainly resolve and approve the winding up of the Company and the appointment of the liquidator. Once the liquidation commences, the auditors should proceed with the filling of the audited financial statements up to the date of the appointment of the liquidator and it is essential to obtain the Tax Clearance Certificate by the Tax Authorities. Upon receipt the Tax Clearance Certificate, the liquidator should send to the Registrar of Companies the one month notice of the Final General Meeting for publication in the Official Gazette of the Republic of Cyprus, fixing such meeting.

The Final General Meeting is held whereby the liquidator presents the final accounts of the Company for approval and then within a week the Liquidator should file with the Registrar of Companies a copy of the final accounts of the Company and a report of the Final General Meeting. The Company is deemed to be dissolved on the expiration of 3 months from the registration of the said report with the Registrar of Companies and the Registrar of Companies will issue a Certificate of Dissolution.

Tax

a. Personal income tax

> **Basis of taxation**

All Cyprus tax resident individuals are taxed on all chargeable income (including certain employment benefits) 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 (s)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 (s)he satisfies the "60 day rule". The "60 day rule" applies to individuals who in the relevant tax year:

1. do not reside in any other single state for a period exceeding 183 days in aggregate, and
2. are not considered tax resident by any other state, and
3. reside in Cyprus for at least 60 days, and
4. 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/her.

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

Chargeable income for the tax year	Tax rate	Accumulated tax
First €19.500	0%	€0
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:

Type of income	Exemption
• 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)
• Dividends	The whole amount (1)
• Remuneration for "first employment" exercised in Cyprus commencing as from 1 January 2022 with remuneration exceeding €55.000 by individuals who were not residents of Cyprus for a period of 15 consecutive tax years immediately prior to the year of commencement of the employment in Cyprus. An employee is considered as exercising "first employment" in Cyprus if the said employee did not exercise any salaried services (including occasional employment) in Cyprus, either for a local or a foreign employer, for a 15-year consecutive period immediately prior to the aforesaid employee taking up employment in Cyprus. For each individual the	50% of the remuneration

exemption will apply once in their lifetime for a period of 17 years. Subject to certain conditions, individuals whose employment commenced prior to 1 January 2022, may also be eligible to claim the exemption. (2) (3)	
• Remuneration for first employments exercised in Cyprus commencing after 26 July 2022, by individuals who immediately prior to the commencement of their employment in Cyprus were not a resident of Cyprus for a period of at least 3 consecutive tax years and were employed outside of Cyprus by a non-resident employer. For each individual the exemption will apply for a period of 7 years, starting from the tax year following the tax year of commencement of employment. Individuals granted the above 50% exemption will not be eligible for this exemption. (3)	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 (3)	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 (4)	The whole amount
• Profits from the production of films, series and other related audiovisual programs	The lower of 35% of the eligible expenditure and 50% of the taxable income. Any restriction may be carried forward for 5 years

Notes:

- (1) Such dividend and interest income may be subject to Special Contribution for Defence. Refer to the Special Contribution for Defence section on page 29.
- (2) For employment commencing between 1 January 2022 and 29 June 2023, the employee may be eligible to claim 50% exemption subject to similar but not identical conditions. More specifically, employees may be eligible to claim 50% exemption if they were not tax resident in Cyprus immediately prior to the commencement of first employment for a period of 10 years, rather than 15 years. Furthermore, 'first employment' refers to employment exercised by the employee in Cyprus at any point in time, rather than the 15-year period immediately preceding the start of employment. Some additional differences apply as well.
- (3) Previously, 20% and 50% exemptions were available subject to different conditions. The exemptions were available for a period of 5 or 10 years respectively. The exemptions do not apply for employment commencing after 26 July 2022, nevertheless eligible individuals may continue to claim the exemption after this date for any remaining period.
- (4) 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.
- (5) 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:

Type of expenditure	Deduction
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 meter (depending on the size of the building)
Social Insurance, General 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
Investments as from 1 January 2017 in approved innovative small and medium sized enterprises either directly or indirectly subject to conditions (applicable up to 31 December 2026)	Part of the amount invested (20%, 35% or 50% depending on the characteristics of the investment) up to maximum 50% of the taxable income in the year of investment as calculated prior to this deduction (subject to a maximum of €150.000 per tax year) (1)
Eligible infrastructure and technological equipment expenditure in the audiovisual industry	20%
Expenditure of revenue nature for scientific research and for R&D, subject to conditions	The whole amount (and for expenditure incurred in years 2022, 2023 and 2024, an additional 20%)
Tax amortisation on any expenditure of capital nature for scientific research and for R&D, subject to conditions	The whole amount (and for expenditure incurred in years 2022, 2023 and 2024, an additional 20%) allocated over the lifetime of the asset (maximum period 20 years)

Notes:

(1) Unused deductions can be carried forward and claimed in the following 5 years.

b. Corporate income tax

> Basis of taxation

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

As from 2023, a Cyprus incorporated company will by default be considered a tax resident of Cyprus provided it is not tax resident in any other jurisdiction.

All Cyprus tax resident companies are taxed on their income accrued or derived from all chargeable sources in Cyprus and abroad.

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 become subject to tax in Cyprus (certain exceptions may apply).

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.

Foreign taxes paid can be credited against the Cyprus corporation tax liability.

Finally, Cyprus, as an EU member state, will be transposing the EU Directive on global minimum tax for multinational enterprise groups and large-scale domestic groups into its national law, with effect as from 1 January 2024.

> **Corporation tax rate**

The corporation tax rate is 12,5%.

> **Exemptions**

The following are exempt from corporate tax:

Type of income	Exemption limit
• 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
• Profits from the production of films, series and other related audiovisual programs	The lower of 35% of the eligible expenditure and 50% of the taxable income. Any restriction may be carried forward for 5 years

Notes:

- (1) For a definition of securities refer to page 17, note 5.
- (2) Such dividend income may be subject to Special Contribution for Defence (refer to page 29).
- (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 (refer to page 29).
- (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.

> 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 expenditure	Deduction limit
Interest expense incurred for the direct or indirect acquisition of 100% of the share capital of a subsidiary company will be treated as deductible for income tax purposes provided that the 100% subsidiary company does not own (directly or indirectly) any assets that are not used in the business. If the subsidiary owns (directly or indirectly) assets not used in the business the interest expense deduction is restricted to the amount which relates to assets used in the business. This applies for such acquisitions of subsidiaries from 1 January 2012.	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 is allowed to the extent the subsidiary owns (directly or indirectly) assets used in the business. Moreover, as from 1 January 2019 an interest limitation rule applies in accordance with the EU Anti-tax Avoidance Directive.
Equity introduced to a company as from 1 January 2015 (new equity) in the form of paid-up share capital or share premium may be eligible for an annual notional interest deduction (NID). The annual NID deduction is calculated as the new equity multiplied by the NID interest rate. The relevant interest rate is the yield on 10 year government bonds (as at December 31 of the prior tax year) of the country where the funds are employed in the business of the company plus a 5% premium. 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 the assets financed by the new equity (as calculated prior to the NID deduction).
Royalty income, embedded income and other qualifying income derived from qualifying intangible assets in the Cyprus intellectual property (IP) box (provision applies with effect from 1 July 2016) (1)	80% of the net profit as calculated using the modified nexus fraction (2)
Tax amortisation on any expenditure of a capital nature for the acquisition or development of IP (provision applies with effect from 1 July 2016) (3)	The whole amount allocated over the lifetime of the IP (maximum period 20 years)
Tax amortisation on any expenditure of capital nature for scientific research and for R&D, subject to conditions (3)	The whole amount (and for expenditure incurred in years 2022, 2023 and 2024, an additional 20%) allocated over the lifetime of the asset (maximum period 20 years)
Expenditure of revenue nature for scientific research and for R&D, subject to conditions	The whole amount and, for expenditure incurred in years 2022, 2023 and 2024, an additional 20%
Donations to approved charities (with receipts)	The whole amount
Employer's contributions to social insurance, General Health System (refer to page 46) and approved funds on employees' salaries	The whole amount
- 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 in force 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

Investments as from 14 February 2022 in approved innovative small and medium sized enterprises either directly or indirectly, subject to conditions (applicable up to 31 December 2026)	The amount invested up to maximum 50% of the taxable income as calculated prior to this deduction (subject to a maximum of €150.000 per tax year) (4) or 30% of the amount invested if the investments are financed from own funds (subject to a maximum of €150.000 per tax year)
Eligible infrastructure and technological equipment expenditure in the audiovisual industry	20% for small / 10% for medium enterprises

but not including:

Type of expenditure	Restriction
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:

- Qualifying 'intangible assets' maybe 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.
- A fraction is applied to the net profit based on research and development (R&D) activity. 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).
- A taxpayer may elect not to claim all or part of the available tax amortization for a particular tax year. Unclaimed tax amortisation capacity may be carried forward to be used in future years (spread over the remaining UEL of the asset).
- Unused deductions can be carried forward and claimed in the following 5 years.

> 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 transforming a business into a company can carry forward tax losses into the company for future utilisation.

Losses of an exempt foreign permanent establishment can be set off with profits of the Cyprus head office. In such case, future profits of an exempt foreign permanent establishment abroad are taxable up to the amount of losses allowed.

Notes:

- (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 in a tax neutral manner within the framework of a qualified reorganisation, and tax losses may 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	Rate
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)	4
Flats	3
Metallic greenhouse structures	10
Wooden greenhouse structure	33 1/3
Vehicles and Means of Transportation (1)	%
Commercial motor vehicles	20
Motorcycles	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	100
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 to 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). The rates stated for buildings are for new buildings. Rates are amended in the case of second-hand buildings.
- (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

1. Shipping companies

The Merchant Shipping Legislation fully approved by the EU (approval extended up to 31 December 2029) provides for exemption from all direct taxes and taxation under tonnage tax regime of qualifying shipowners, charterers and shipmanagers, 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 of 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 shipowner/ charterer/ shipmanager of a group elects to be taxed under the Tonnage Tax regime, all shipowners/ charterers/ shipmanagers of the group should elect the same.

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

2. 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 ship owning companies and its distribution

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

Bareboat charter out agreements remains eligible for tonnage tax, with restrictions introduced for bareboat charter agreements to third parties.

The legislation provides a definition, as well as a specific list, of what are ancillary services. Moreover, it clarifies that the revenue from the ancillary services may fall under the tonnage tax regime, provided that the income therefrom does not exceed 50% of the total income generated from Maritime Transport Activities ('Core Activities').

3. 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.

4. 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 ship managers 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 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 ship managers. 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.

5. 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 Alternative Investment Funds Law 124(I)/2018, to the extent amended (hereinafter, the 'AIF Law') defines alternative investment funds as any collective investment undertakings, including investment compartments thereof, which, collectively:

- raise capital from a number of investors, with a view to investing it in accordance with a defined investment policy for the benefit of those investors, and
- do not require authorisation pursuant to section 9 of Law 78(I)/2012, as amended (hereinafter, the 'UCI Law'), or pursuant to the legislation of another member state that harmonises the provisions of Article 5 of the Directive 2009/65/EC, as amended

The AIF Law allows for three types of AIFs to be established in Cyprus which are as follows:

- Alternative Investment Funds with Limited Number of Persons (Up to 50) (AIFLNP)
- Alternative Investment Funds with Unlimited Number of Persons (AIFs)
- Registered AIFs (RAIFs)

The various legal forms in which either type of AIFs can manifest are as follows:

AIFLNP:

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

AIF/RAIF:

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

UCITs:

The UCI Law defines UCITS as undertakings the sole object of which is the collective investment in transferable securities and/or other liquid financial instruments as referred to in section 40 (1) of the UCI Law, of capital raised from the public, which operate on the principle of risk-spreading, and the units of which are, at the request of investors, redeemed or repurchased, directly or indirectly, out of these undertakings' assets.

UCITs can take the following legal forms:

- Common Fund (CF)
- Variable Capital Investment Company (VCIC)

Taxation of Funds

Funds which are opaque for tax purposes, and which are managed and controlled in Cyprus are tax resident in Cyprus and are subject to the general provisions of the Cyprus tax framework.

In the case of funds which have compartments, each compartment is assessed separately for tax purposes subject to the provisions of the law.

Under circumstances and depending on the legal form of the fund, some funds may be transparent for tax purposes.

Sale of Fund Units

There is no Capital Gains Tax on the gains arising from the disposal or redemption of units in funds unless the fund owns directly or indirectly immovable property in Cyprus (subject to conditions).

However, even if it owns immovable property in Cyprus, no Capital Gains Tax arises if the Fund is listed on a recognized stock exchange.

Stamp Duty

The subscription, redemption, conversion or transfer of a fund's units should be exempt from Cyprus stamp duty.

No creation of a permanent establishment

Based on the Cyprus tax legislation no Cyprus permanent establishment will be deemed to arise:

- for non-Cyprus resident investors as a result of investment into Cyprus tax-transparent investment funds, or
- as a consequence of the management from Cyprus of non-Cyprus investment funds

Management services

The management fee charged for the provision of collective management services to investment funds is exempt from VAT, provided certain conditions are met.

Carried interest / performance fee for AIF and UCITS fund managers

Certain employees and executives of the following investment fund management companies or internally managed investment funds may opt for a different mode of personal taxation:

- Alternative Investment Fund Managers authorised under the Alternative Investment Fund Managers Law 56(I)/2013, as amended (hereinafter, the 'AIFM Law')
- Internally managed AIFs authorised under the AIFM Law
- UCITS Management Companies authorised under the UCI Law
- Internally managed UCITS authorised under the UCI Law
- A company to which the AIFM / UCITS Management company has delegated the portfolio management or risk management activities of the AIF/ UCITS which it manages

Subject to conditions, their variable employment remuneration which is effectively connected to the carried interest of the fund managing entity may, through an annual election, be separately subject to Cyprus tax at the flat rate of 8%, with a minimum tax liability of €10.000 per annum. This special mode of taxation is available for a period of 10 years.

c. Transfer pricing

With effect as from 1 January 2022, transfer pricing documentation requirements have been introduced. The transfer pricing documentation compliance obligations include the preparation of Master File, Summary Table, Cyprus Local File and Minimum TP Documentation for Cyprus tax resident persons and PEs of non-Cyprus tax resident persons situated in Cyprus that engage in transactions with related parties. A formal Advance Pricing Agreement (APA) procedure has also been introduced. Specific penalties for non-compliance with the new obligations are now in place.

> Transfer Pricing Documentation

TP Documentation File

As from 1 January 2022, Cyprus tax resident persons and PEs of non-Cyprus tax resident persons situated in Cyprus that engage in domestic and/or cross-border controlled transactions, subject to exemptions mentioned below, are required to prepare, on an annual basis, a Transfer Pricing Documentation File, which consists of the 'Master File' and the 'Cyprus Local File'.

Contents

The required contents of the Master File and Cyprus Local File closely follow the definition and suggested contents of Master File and Local File as per the OECD Transfer Pricing Guidelines (and BEPS Action 13 Report).

Exemptions

The following exemptions apply:

Master File:

Only Cyprus tax resident entities that are the ultimate parent or surrogate parent entity of a multinational enterprise (MNE) group falling under the scope of country-by-country (CbC) reporting have an obligation to prepare and maintain a Master File. All other persons are exempt from this obligation.

Local File:

Persons that engage in controlled transactions with arm's length value less than EUR 750,000 per annum, per transaction category in aggregate (e.g. sale/purchase of goods, provision/receipt of services, financing transactions, receipt/payment of IP licensing/royalties, others) are exempt from the obligation to prepare a Cyprus Local File.

Quality Review

A person who holds a Practicing Certificate from the Institute of Certified Public Accountants of Cyprus (ICPAC) or another approved by the Council of Ministers body of certified auditors in Cyprus is expected to perform a Quality Review of the Cyprus Local File.

Format and language

The Transfer Pricing Documentation File should be maintained by the taxpayer in electronic or paper format and may be prepared in a generally acceptable language, preferably in English; however, the Tax Authorities may request its translation in Greek if necessary.

Relevant deadlines

The TP Documentation File (consisting of the Master File and Local File as applicable) must be prepared and be subject to Quality Review (if necessary) on an annual basis, by the deadline of filing the Income Tax Return for the relevant tax year. The Transfer Pricing Documentation File needs to be retained in compliance with the general document retention obligations for tax purposes; however, it should be submitted to the Tax Authorities upon request (e.g. for the purpose of tax audit) and specifically within 60 days from the date of such request. Penalties shall be imposed for late or non-filing.

TP Documentation File updates

The TP Documentation File must be updated on an annual basis and include details regarding the impact of market fluctuations or other events on the information and analyses included therein.

Minimum TP documentation

The Cyprus Tax Department issued a Circular providing guidance to persons that are exempt from the obligation to prepare a Cyprus Local File, for maintaining Minimum TP documentation to support the arm's length nature of their related party transactions.

In this respect, persons that engage in related party transactions should maintain the following Minimum TP Documentation, to support the arm's length nature of any of their Controlled Transactions that are not required to be documented in a Cyprus Local File:

- a) Brief functional analysis (functions, assets, risks)
- b) Description of the functional profile of the entity, based on the results of the functional analysis
- c) Reasoning for selection of the most appropriate TP method
- d) Determination of the arm's length price(s) supported by relevant benchmarking results using internal or external comparables (as applicable) or any other relevant economic analysis compliant with the OECD Transfer Pricing Guidelines (e.g., the use of valuation models for financial guarantees)

The Minimum TP Documentation should be submitted to the CTD upon request (within 60 days).

Simplification Measures (safe harbor rates) for certain types of Controlled Transactions

In addition, the Circular introduces optional Simplification Measures for certain types of Controlled Transactions which fall outside the scope of Local File documentation.

Specifically, persons that engage in the following transactions:

- a) Financing granted to related parties financed by borrowings
- b) Financing granted to related parties financed by equity
- c) Financing obtained from related parties to the extent it is used in the business
- d) Low Value Adding Services ("LVAS") (received or provided)

may elect to apply the Simplification Measures (safe harbor rates) for the pricing of the said Controlled Transactions

It is important to note, that the above Simplification Measures (safe harbor rates) cannot be applied, if the (arm's length) value of all the financial transactions (for application of measures (a)-(c)) or all services transactions (for application of measure (d)) of the taxable person exceed €750,000 p.a. in aggregate per category.

Furthermore, the Simplification Measures (safe harbor rates) cannot be applied if reliable internal comparables (i.e., comparable transactions with unrelated parties) can be used to determine the arm's length price of the Controlled Transactions.

The safe harbor rates are summarised in the table below:

Transactions eligible for safe harbor election	Safe harbor rates
Loans or cash advances receivable from related parties which are funded out of financial means	Minimum return of 2.5% (after the deduction of allowable expenses)
Loans or cash advances receivable from related parties which are funded out of own capital/equity	Minimum return should be equal to the yield rate (as at 31 December of the prior tax year) of the 10-year government bond of the country in which the borrower operates, increased by 3.5%
Loans payable to related parties to the extent that the funds obtained are used in the business	Cost of debt must not exceed the yield rate (as at 31 December of the prior tax year) of the 10-year government bond of Cyprus, increased by 1.5%
Low value-adding services	5% markup on the relevant costs

Persons that elect to apply the Simplification Measures (safe harbor rates) need to maintain documentation to support their eligibility and way of application of the measures.

Summary Information Table

A Summary Table must be prepared by all taxpayers that engage in controlled transactions on an annual basis, disclosing details regarding such transactions, including the names and tax identification codes of the related counterparties, and the respective values per transaction category (sale/purchase of goods, provision/ receipt of services, financing transactions, receipt/payment of IP licences/royalties, others). The Summary Table must be submitted electronically together with the Income Tax Return for the relevant tax year.

Advance Pricing Arrangement (APA)

A formal APA procedure was introduced in the legislation as from 1 Jan 2022. Specifically, Cyprus tax resident persons and non-Cyprus tax resident persons that have a PE situated in Cyprus may submit to the Tax Authorities an APA request with respect to current or future domestic or cross-border controlled transactions. The APA may cover the various conditions and assumptions relevant for determining the arm's length pricing of the controlled transactions for a specific period. The Tax Authorities examine the APA request and either approve or reject it.

d. 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:

Source of income	Individuals (1)	Legal entities (1)
Dividend income from Cyprus tax resident companies	17% (5)	Nil (2)
Dividend income from non-Cyprus tax 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')	17% (5)	17% (5)
Gross rental income (reduced by 25%)	3% (6) (7)	3% (6) (7)

Notes:

- (1) Legal entities are subject to Special Contribution for Defence if they are tax resident in Cyprus (refer to page 18). Prior to 16 July 2015 individuals were subject to Special Contribution for Defence if they were tax resident in Cyprus (refer to page 15). 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.
- (3) 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%.

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 17% is effective as from 1 January 2024 (previously 30%).

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 and the Cyprus Social Insurance Fund is subject to Special Contribution for Defence at the rate 3% (instead of 17%).

As from 8 June 2022, the reduced rate of 3% applies to both legal persons and individuals tax resident in Cyprus earning interest income from: (i) Cyprus government bonds, (ii) Cyprus and foreign corporate bonds listed on a recognised stock exchange and (iii) bonds issued by Cyprus state organisations, or by Cyprus or foreign local authorities, listed on a recognised stock exchange. Furthermore, the reduced rate of 3% also applies to pension funds.

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 17%).

- (6) Rental income is also subject to personal income tax / corporation tax.
- (7) On 13 September 2023 the CTA issued a Circular pursuant of which rental income from self-catering accommodation that is rented out via online platforms will be treated, subject to certain conditions, as business income (therefore, subject to Income Tax and exempt from Special Defence Contribution).
- (8) 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 should be paid in two tranches, by 30 June (on rental income withheld during January – June) and 31 December (on rental income withheld during July – December).

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.

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

> **Deemed dividend distribution**

A Cyprus tax resident company is deemed to distribute as a dividend 70% of its accounting profits (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 and 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 (refer to page 29). Prior to 16 July 2015 the imposition applied to the extent the ultimate direct/indirect shareholders of the company were Cyprus tax resident individuals.

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 17% is imposed only on the amount of the actual dividend paid which exceeds the dividend that was previously deemed to have been distributed and previously suffered Special Contribution for Defence.

Notes:

- (1) 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 full 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/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 or 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 Contribution for Defence at the rate of 17%.

This provision does not apply in the case of dissolution under a Reorganisation (refer to page 22).

> **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 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 Cyprus tax resident and domiciled individuals.

e. Capital gains tax

Capital Gains Tax (CGT) is imposed (where 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 at market value (excluding exchanges, donations, and foreclosures) from unrelated parties in the period 16 July 2015 up to 31 December 2016 will be exempt from CGT upon their future disposal
- Transfers arising on death
- Gifts made from parent to child or between husband and wife or between up to third degree relatives
- Gifts to a company where the company's shareholders are members of the donor's family and the shareholders continue to be members of the family for five years after the day of the transfer
- Gifts by a family company to its shareholders, provided such property was originally acquired by the company by way of gift. The property must be kept by the donee for at least three years
- Gifts to charities and the Government
- Transfers as a result of reorganisations
- Exchange or disposal of immovable property under the Agricultural Land (Consolidation) Laws
- Expropriations
- Exchange of properties, to the extent that the gain made on the exchange has been used to acquire the new property. The gain that is not taxable is deducted from the cost of the new property, i.e. the payment of tax is deferred until the disposal of the new property
- Donations to a political party

> **Determination of capital gain for CGT purposes**

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

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

> **Lifetime Exemptions**

Individuals can deduct from the taxable capital gain the following:

- | | |
|---|---------|
| • Disposal of private principal 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.

f. Inheritance Tax

Estate duty has been abolished since 1 January 2000.

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

g. Value Added Tax

VAT is imposed on the supply of goods and provision of services in Cyprus, as well as on the acquisition of goods from the 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 four months has elapsed from the date the VAT became refundable
- input VAT which cannot be set off against output VAT until the last VAT period of the year which follows the year in which the VAT period in which the credit was created
- the input VAT relates to zero rated transactions
- the input VAT relates to the purchase of capital assets of the company
- the input VAT relates to transactions which are outside the scope of VAT but would have been subject to VAT had they been carried out within Cyprus
- the input VAT relates to exempt financial and insurance services provided to non-EU resident clients (services for which the right to recover the related input VAT is granted)

No VAT cash outflow arises on intra-community acquisition of goods (with the exception of goods subject to excise taxes) as VAT is accounted for by 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 five tax rates:

- | | |
|----------------------------------|-----|
| • Zero rate | 0% |
| • Reduced rate of three per cent | 3% |
| • Reduced rate of five per cent | 5% |
| • Reduced rate of nine per cent | 9% |
| • Standard rate | 19% |

> Exemptions

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

- leasing of buildings used for residence
- most banking, financial services and insurance services;
- most hospital, medical and dental care services;
- certain cultural educational and sports activities;
- supplies of buildings, subject to conditions;
- 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

i. Leasing of immovable property

VAT at the standard rate must be charged on the lease of immovable property (with the exception of leasing of residential dwellings) when the lessee is a taxable person and is engaged in taxable activities by at least 90%. The lessor has the right to opt not to impose VAT on the specific property. The option is irrevocable.

ii. Sale of non-developed building land

VAT at the rate of 19% must be charged on the sale of non-developed building land, as from 2 January 2018. Non-developed building land is defined as any 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.

iii. Leases of immovable property which effectively transfer the risks and rewards of ownership of immovable property

As from 1 January 2019 leases of immovable property which effectively transfer the risks and rewards of ownership of immovable property are considered to be supplies of goods. They also become subject to VAT at the applicable rate.

iv. Amendment to the VAT Law on the supply of buildings

On 11 November 2022, Schedule 8 of the VAT Law (95(I)/2000) was amended pursuant to R.A.A. 423/2022. As per the amendment, the supply of a building is subject to VAT when supplied before its first delivery and under any subsequent deliveries within a period of five (5) years from its completion, provided that no actual use has occurred by an unrelated person for a period of at least twenty-four (24) months.

For the purposes of the above provision, the following definitions shall take precedence:

1. Completion means the completion of the building so as to be able to be put in use for the purpose which is intended.
2. Actual use means the use of the building on a systematic basis.

3. Related person has the meaning given in paragraph 1(4) of the Fourth Schedule to the VAT Law. The new provision substitutes the previous rule which provided that the supply of a building was subject to VAT when supplied before its first use.

The amendments are effective as of 11 November 2022.

> **Imposition of the reduced rate of 5% on the acquisition and/ or construction of residences for use as the primary and permanent place of residence**

On 8 June 2023, the House of Representatives passed the amending bill for the application of the reduced VAT rate of 5% on primary residence. The provisions of the amendment became effective on 16 June 2023.

The amendment set new conditions for the 5% VAT on primary and permanent residence, transitional provisions, and new conditions for the right to re-apply for the 5% VAT on primary residence within 10 years.

According to the new provisions of the VAT Law (95(I)/2000) as amended, the reduced VAT rate of 5% will apply to the first 130 sqm of a primary residence, up to a value of €350,000, provided that the total transaction value does not exceed €475,000 and the total buildable area does not exceed 190 sqm.

As an exception to the above, individuals with disabilities can apply for the reduced VAT rate of 5% on the first 190 sq.m. of buildable area irrespective of the total buildable area of the property. Individuals that are eligible for the 5% VAT under this provision must fall within the definition of "individuals with disabilities" as newly defined in the VAT Law. The transaction value per square meter may be revised by the Tax Commissioner, after the decision of the Council of Ministers.

A transitional period is also provided during which the proposed amendments to the VAT Law, with the exception of the amendments concerning the re-application for the 5% VAT within the 10 year period, will not apply in cases where urban planning permission has been obtained or an application for such permission has been submitted until 31 October 2023 and for which a duly completed application has been submitted to the Competent Authority, within three years from the date the new provision came into effect.

Where the transaction falls within the transitional provisions and thus the previous provision of the VAT Law will be applicable, the reduced rate of 5% VAT will be applicable to the first 200 sqm based on the building coefficient as determined based on the building permit irrespective of the total buildable area of the property or the total value of the transaction.

According to the previous provision of the VAT Law, a person who has exercised the right to acquire a residence with the reduced VAT rate of 5% may exercise said right for the purpose of acquiring another residence before the expiration of ten (10) years, provided that the person:

1. ceased using the residence as a primary place of residence before the expiration of ten (10) years,
2. notified the Commissioner and
3. paid the difference in VAT between the standard and reduced VAT rates applicable at the time of the acquisition or construction of the residence, irrespective of the period for which the property was used as the primary and permanent residence. Therefore, a person who wished to reapply for the reduced rate 5% for another property before the expiration of a ten-year period from the original application, was obliged to pay in full the difference between reduced rate and the standard rate of VAT due at the time of acquisition of the original property

The new VAT Law amends the conditions for the right to re-apply 5% of VAT for another property during the period of 10 years.

According to the new provision, an individual can apply for the 5% VAT on the new property provided that the person:

1. Notifies the Commissioner within thirty (30) days from the date he ceased using it as a place of residence and

2. Pays the amount of the difference between the amounts of the VAT which result from the application of the reduced rate and the standard VAT rate attributable to the remaining period of 10 years for which the property will not be used as the main and primary place of residence, except in case of death of the beneficiary person or in case of transfer by the beneficiary to any of his adult children, provided that the said child is a beneficiary at the time of transfer

The above provision also applies to properties falling under the transitional provision as stated above. In light of the new amendment, a person who applied for the 5% VAT and is intending to purchase a new property before the lapse of the 10- year period from original acquisition, will be liable to pay only the proportional VAT corresponding to the remaining number of years for which the property will not be used as the permanent and primary residence over the 10-year period.

The reduced rate is imposed only after obtaining a certified approval from the Tax Authority.

The eligible person must submit an application on a designated 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.

Eligible persons include residents of Cyprus, EU and non-EU Member States, provided that the residence will be used as their primary and permanent place of residence in the Republic.

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

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

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

The renovation and repair of used 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.

As from 20 August 2020, the reduced rate of 5% applies also to any additions made to a private home for which three years have passed since its first occupation.

In addition 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%.

> Introduction of 3% VAT rate and addition of certain goods to the list of zero-rated items

On June 15, 2023, the Council of Ministers of Cyprus approved a Decree to amend the VAT Law, in accordance with the new provisions of the EU VAT Directive.

As per the new provisions, the super reduced VAT rate of 3% and a zero rate will be applied on certain goods and services.

As per the amended VAT legislation, the following provisions have been introduced:

1. Adoption of the reduced VAT rate of 3% for the following categories of goods and services:
 - Right of entry from the first performance of theatrical performances of musical and dance works of classical works
 - Waste collection and treatment cleaning services, except those provided by State Authorities, Local Government Authorities and public law organizations. Tax Facts & Figures 2024 - Cyprus 48
 - Disposal and treatment of sewage and discharge of tanks and industrial tanks
2. Reduction of the VAT rate from 5% to 3% VAT on the following categories of goods intended for the promotion of cultural goods and goods intended to serve citizens with special needs:
 - The delivery of books, newspapers and magazines provided either physically or electronically or both, excluding publications intended wholly or primarily for advertising purposes and of publications consisting wholly or mainly of video content or audio music, production of publications for nonprofit organizations and services relating to production of this kind
 - Special lifting devices, stairs, elevators, machines, lifts and the similar products used for serving disabled people
 - Wheelchairs and other vehicles for the disabled
 - Orthopedic products and devices, including medical surgical belts and bandages, splints, supports and other products and devices for fractures
3. Extension of the zero rate VAT to include the following items for the personal use of blind and disabled persons:
 - Typewriters with characters and special electronic typewriters for disabled persons
 - Chair-type carriages and other vehicles for the disabled, whether or not powered by another propulsion mechanism, provided that they are intended solely for the personal use of disabled persons

The new rates were part of targeted measures to help certain groups of the population and supplies of certain goods and services which provide a public benefit.

On 5 May 2023, the VAT Law was amended pursuant to the decision of the Council of Ministers to apply the 0% VAT rate on basic goods such as bread, milk, eggs, children's food, diapers and feminine hygiene products from 5 May 2023 until 31 October 2023.

Following the recent decision of the Council of Ministers, on 22 September 2023, the application of the 0% VAT rate on basic goods was extended until 30 April 2024 and it also includes coffee and sugar.

In addition, on Friday, 17 November 2023, a new amendment in the VAT Law was published in the Official Gazette of the Republic, regarding the imposition of the 0% VAT on meat and vegetables falling under the specific codes provided in the amendment, as part of the Government's targeted measures to support households.

> **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 charged 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 of saloon cars
- entertainment and hospitality expenses (except those relating to employees and directors)

> VAT treatment of vouchers

A voucher is an instrument (whether in physical or in electronic form) which contains an obligation to accept it as consideration, or partial consideration, for a supply of goods or services. It does not include discount vouchers, an instrument functioning as ticket or postage stamps.

As per the legislative provisions, two types of vouchers exist, namely "single-purpose" and "multi-purpose" vouchers and the timing at which the VAT must be accounted for is different.

"Single-purpose" vouchers

A "single-purpose" voucher is a voucher with respect to which the place of supply of the goods or services to which the voucher relates, and the VAT due on those goods or services, are known at the time of issue of the voucher.

The VAT due on the underlying goods and services is due at the time of issue of the voucher, as well as at the point in time of any future transfer of the voucher if that transfer is effected for consideration.

"Multi-purpose" vouchers

A "multi-purpose" voucher is a "voucher other than a single-purpose voucher".

The VAT due on the underlying goods and services is accounted for at the time of redemption of the voucher while at the time of issue or during any subsequent transfer of the voucher prior to its redemption, there is no supply from a VAT perspective.

> Registration

Established persons in the Republic of Cyprus

Persons that have a business establishment or other permanent establishment in the Republic of Cyprus in relation to its business activities will constitute an established person in Cyprus for registration purposes. For persons established in Cyprus 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 or 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 States 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 of 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.

Persons with no establishment in the Republic of Cyprus

As from 20 August 2020, registration is compulsory for persons with no establishment in Cyprus which are engaged or expect to be engaged in taxable activities in Cyprus in the course of their business. No VAT registration threshold exists for the non-established persons engaging in such activities.

The non-established person may request to obtain an exemption for VAT registration in Cyprus from the Tax Commissioner, on the basis that it is engaged only/merely in activities which are subject to 0% VAT.

> **VAT declaration - payment/refund of VAT**

VAT returns must be electronically submitted on a quarterly basis 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. In cases where the deadline falls on a public holiday of the Republic of Cyprus or weekend, it is automatically transferred to the next business day.

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

As from 20 August 2020, the Tax Commissioner reserves the right to suspend the payment of a VAT credit balance and applicable interest in cases where taxpayers have failed to comply with the obligation to submit income tax returns. The refund is suspended until the taxpayer complies with the relevant obligations.

The right to request refund of a VAT credit balance will be limited to six years from the end of the VAT period in which it arose. Any requests submitted after the six-year period has elapsed will be examined at the discretion of the Tax Commissioner.

Under Cyprus VAT Law, the domestic reverse charge mechanism is applicable to the following transactions between business persons:

Domestic reverse charge	Article of the Law	Registration threshold
Construction services	11B	€15.600
Trade of specific goods (i.e. scrap metals)	11C	€15.600
Supply of certain electronic devices	11E	€15.600
Supply of raw and semi-finished precious metals	11F	€15.600

> **IOSS & OSS**

As from 1 July 2021, the implementation of the EU VAT e-commerce package came into effect in which the Mini One Stop Shop (MOSS) has been extended and turned into a One Stop Shop (OSS). The scheme covers the following:

1. New harmonised threshold of €10,000 for the place of supply of distance sales of goods within the EU and supply of Telecommunication, Broadcasting and Electronically supplied services, below which the VAT rate of the member state of establishment of the supplier shall apply and above which the VAT rate of the member state of establishment of the customer shall apply.
2. Extension of MOSS to all B2C services and intra-EU B2C sales of goods subject to threshold of €10,000 (covers goods and telecommunication, broadcasting and electronic services).
3. Online marketplaces and electronic interfaces become liable to collect and pay VAT for B2C supplies of goods (when they invoice or are responsible for the transfer of the goods).
4. In addition, as of 1 July 2021, the Import One-Stop Shop (IOSS) is the new electronic portal that businesses can be used to comply with their VAT e-commerce obligations on distance sales of imported goods, subject to the value of each consignment not exceeding EUR150.

5. A supplier is responsible to collect VAT, even if there is indirect involvement in the transfer of the goods.
6. The low value import exemption from VAT for goods up to EUR 22 has been abolished.
7. A simplification mechanism for the collection of import VAT by postal operators has been introduced for consignments not exceeding EUR150 and for which the IOSS is not used.

> Thresholds and penalties

Threshold / Penalty	Amount
Registration threshold for established persons in the Republic of Cyprus (taxable supplies in Cyprus)	€15.600
Registration threshold for non-established persons in the Republic of Cyprus (taxable supplies in Cyprus)	no threshold
Registration threshold for distance sales (sale of goods consumers in Cyprus as well as electronically supplied services to consumers established in Cyprus, by suppliers resident in another EU Member State)	€10.000
Registration threshold for acquisition of goods in Cyprus from suppliers resident in another EU Member State	€10.251,61
Registration threshold for intra-community supply of services	no threshold
Registration threshold for receipt of services from abroad for which the recipient must account for VAT under the reverse charge provisions	€15.600
From 20 August 2020 penalty for late submission of VAT return	€100 for each return
Penalty for failure to apply the reverse charge provisions (Effective as of 1 July 2021)	€200 for each return up to a maximum of €4.000
Penalty for omission to keep books and records for a period of 6 years	€341
Penalty for late submission of VIES return	€50 for each return
Penalty for late submission of corrective VIES return	€15 for each return
Omission to submit the VIES return constitutes a criminal offence with a maximum penalty of	€850
Penalty for late VAT registration	€85 per month of delay
Penalty for late VAT deregistration	€85 (one-off)
Penalty for late payment of VAT	10% additional tax plus default interest on the late payment of VAT, including the 10% additional tax

h. Customs and Excise Duties

> Customs Duties

Cyprus, being a Member State of the European Union (EU), belongs to the Customs Union of the EU. The Customs Union means that all EU Member States work together as if they were one, applying the same tariffs to goods imported into their territory from the rest of the world and applying no tariffs internally. Therefore, upon the importation of goods into Cyprus from outside the EU, customs duties may be levied as well as customs controls on imported goods aiming to protect consumers, animals and the environment from goods which could be bad or dangerous.

Additionally, all the Community customs laws are directly applicable in Cyprus. The most significant acts are the Union Customs Code (UCC) and its implementing regulations, as well as the Common Customs Tariff, also known as the EU's Combined Nomenclature (CN). These laws are complemented by Cypriot national laws, particularly with regard to areas that are not covered by the UCC.

The nature and value of the goods, as well as the relevant TARIC classification codes, determine whether quotas and other measures apply, as well as the level of customs duties to be imposed. Specifically, the Common Customs Tariff stipulates a tax rate to be applied to the value or number of imported goods, depending on their type. It can either be represented as a fixed amount applied to a certain quantity (i.e. specific tax) or as a percentage applied to the customs value (i.e. ad valorem tax).

Customs duties are calculated based on three main drivers:

Classification	Origin	Valuation
The Common Customs Tariff provides a duty rate to be applied to the value or quantity of the imported products for each type of good. The proper customs classification of the goods is one of the most crucial factors that should be taken into account on the importation of goods in Cyprus. A wrong classification may result in the application of higher customs duties than necessary and additional tax burden, or lower customs duties, which would increase the risk of a tax assessment by the Cypriot Customs Authorities.	If the goods imported have a preferential origin based on international trade agreements between the European Union and non-EU countries, they may benefit from a reduced or zero duty rate upon importation given that the applicable criteria are met. For example, the EU has concluded a free trade agreement with the UK following Brexit, therefore Cypriot companies can benefit from zero rate of customs duties when they trade with the UK. However, they have to collect and maintain appropriate evidence to be able to prove to the customs authorities the preferential origin.	The customs value of goods imported in the EU is determined according to the rules provided in the UCC. The most common rule of determining the customs value is the 'transaction value', subject to certain additions or deductions. The transaction value is primarily based on the price of the goods, however additional expenses should be added to determine the customs value in case they are incurred by the buyer. For example, the following expenses need to be considered, among others, when determining the customs value: • Commissions (except buying commissions) • Transport costs and insurance (to the EU) • Royalties and licence fees

Other valuation methods include:

1. The transaction value of identical goods
2. The transaction value of similar goods
3. The deductive method
4. The computed method
5. The fallback method

> **Special customs procedures**

Special customs procedures exist that allow for the import of goods into Cyprus from non-EU countries with full or partial relief from customs duties or suspension of customs duties. These procedures have been put in place to promote economic growth in the EU and include, among others, the Temporary Admission, Inward Processing Relief, Outward Processing Relief and Customs Warehousing. Each special customs procedure has different specific requirements that shall be met in order to benefit from the relief or suspension.

> **Customs representation**

When dealing with the Cypriot Customs Authorities to perform the customs formalities and obligations required by the customs legislation, a person may appoint a customs representative. Customs representation may be direct, where the representative acts in the name and on behalf of another person, or indirect, where the representative acts in their own name but on behalf of another person. Customs declarations in Cyprus can be lodged by the owner of the goods or a representative or a person who has control over the goods.

> Trade measures

According to the law, the importation and exportation of certain goods is prohibited or restricted, aiming to protect society and the environment. Such goods may include potentially hazardous goods to human health or the environment (e.g. chemical products), goods with controlled end-use (e.g. explosives), agricultural products and dual use products (i.e. both civil and military use). These goods require import/export licences from the relevant authorities and their importation/exportation may be subject to certain conditions or even prohibited.

> Authorised Economic Operator (AEO) status

Traders established in the EU customs territory who are engaged in international trade and customs operations may apply for EU AEO status. This status demonstrates that the holder is verified by the EU Customs Authorities according to various criteria and can be considered as a safe part of the supply chain and a reliable business partner. Entities with AEO status are eligible for streamlined access to simplified customs procedures. AEO status can be granted in any EU Member State and will be valid throughout the EU. For example, it can be obtained by the Cypriot Customs Authorities and will be recognised in all 27 Member States.

> Import Control System 2 (ICS2)

ICS2 is a cargo pre-departure information system, which is part of the customs safety and security regulatory regime. Economic operators have to submit Entry Summary Declarations (ENS) within this system for the goods they transport to or via the common security area of EU, Switzerland and Norway. Currently it applies to postal and air freight traffic. As of 1 March 2024, it will be also extended to all economic operators transporting goods by sea, inland waterways, road and rail.

> Excise Duties

Excise duties are imposed on certain products produced in Cyprus, imported from third countries or arrived from other EU Member States. As an EU Member State, Cyprus follows the EU Excise Duties Directive and imposes excise duties on energy products, alcoholic beverages and manufactured tobacco. Cyprus also imposes excise duties on other products like smoked salmon and caviar, as the EU rules allow Member States to tax additional products.

The excise duty rates which are currently applied in Cyprus are prescribed by the Cyprus Excise Duties Law No. 91(I) of 2004, as amended or replaced from time to time. The relevant list of excise goods and duty rates, based on the last amendment of November 2023, are presented in the below tables.

Energy products	Excise duty rate
Products of CN Codes 2707 10 00, 2707 30 00 and solvent naphtha of CN 2707 50 00 (per 1000 liters)	€429 (temporarily* €359)
Products of CN Codes 2710 19 99 and 2710 20 90 excluding other lubricating oils or other oils not available for sale or used as motor fuel or as motor fuel additives (per 1000 liters)	€429 (temporarily* €359)
Pentanes, hexanes, heptanes, octanes, octadecanes of CN code 2901 10 00, benzene of CN code 2902 20 00 and mixed xylene isomers of CN code 2902 44 00 (per 1000 liters)	€429 (temporarily* €359)
Unleaded petrol (per 1000 liters)	€429 (temporarily* €359)
Leaded petrol (per 1000 liters)	€421
Gas oil used as motor fuel (per 1000 liters)	€400 (temporarily* €330)
Gas oil used as heating fuel (per 1000 liters)	€74,73 (temporarily* €21)
Gas oil used for agriculture purposes (per 1000 liters)	€21
Gas oil for other uses (per 1000 liters)	€74,73 (temporarily* €21)
Kerosene used as motor fuel (per 1000 liters)	€400 (temporarily* €330)
Kerosene used as heating fuel (per 1000 liters)	€74,73 (temporarily* €21)
Kerosene used for agriculture purposes (per 1000 liters)	€21
Kerosene, for other uses (per 1000 liters)	€74,73 (temporarily* €21)
Heavy fuel-oil used as heating fuel (per 1000 kg)	€15

Liquid petroleum gas used as motor fuel (per 1000 kg)	€125
Liquid petroleum gas used as heating fuel (per 1000 kg)	€0
Liquid petroleum gas for other uses (per 1000 kg)	€0
Natural gas used as motor fuel (per gigajoule gross calorific value)	€2,60
Natural gas used as heating fuel (per gigajoule gross calorific value)	€2,60
Natural gas for other uses (per gigajoule gross calorific value)	€2,60
Coal and coke used as heating fuel (per gigajoule gross calorific value)	€0,31
Coal and coke for other uses (per gigajoule gross calorific value)	€0
Electricity (per MWh)	€0

** Temporarily means from 3 November 2023 until 3 March 2024 according to regulatory acts (unless it is extended by new regulatory acts).*

*** Temporarily means from 15 November 2023 until 31 March 2024 according to regulatory acts (unless it is extended by new regulatory acts).*

Alcohol and alcoholic beverage	Excise duty rate
Ethyl alcohol (per hectoliter of unhydrous ethyl alcohol)	€956,82
Beer (a) when brewed by independent small breweries (per hectoliter per degree of alcohol of final product)	€3
Beer (b) when brewed by breweries other than independent small Breweries (per hectoliter per degree of alcohol of final product)	€6
Still Wine	€0
Sparkling wines	€0
Fermented beverages other than wine and beer	€0
Intermediate products (per hectoliter)	€45

Tobacco products	Excise duty rate
Cigarettes (per packet of 20 cigarettes)	€1,10 and 34% on retail sale price*
Cigars and cigarillos (per kilogram)	€90
Fine-cut tobacco for the rolling of cigarettes (per kilogram)	€150
Other smoking tobacco (per kilogram)	€150
Heated tobacco products (per kilogram of net weight of tobacco mixture)	€150

** Provided that a minimum excise duty of €2,43 per packet of 20 cigarettes shall be charged and collected regardless of the highest retail sale price.*

Other products	Excise duty rate
Smoked salmon and smoked sturgeon including fillets (per kilogram)	€5,13
Caviar (per kilogram)	30% ad valorem
Articles of crystal which fall within CN Codes 7010, 7013, 7018 and 9405, with a lead monoxide (PbO) content by weight 24% or more and articles made of porcelain which fall within CN Codes 6913 and 6914	20% ad valorem
Liquid used in electronic cigarettes regardless of whether it contains nicotine (per ml)	€0,12

As a general rule, excise duties become payable in Cyprus when excise goods are released for consumption in Cyprus. This may happen in the following cases:

- Production of excise goods in Cyprus outside a suspension arrangement
- Importation of excise goods in Cyprus, which do not subsequently enter into a suspension arrangement
- Exit of excise goods from a suspension arrangement
- Possession of excise goods outside a suspension arrangement if the duties have not been previously paid

> **Suspension arrangements**

The production, process, possession or movement of excise goods under a suspension arrangement is generally performed through an authorised tax warehouse, for which a licence is needed by the Cypriot Customs Authorities, regardless of whether you are the owner or user of the tax warehouse. In order to operate a tax warehouse, you have to obtain a permit from the Cypriot Customs Authorities and comply with certain obligations such as the payment of a financial guarantee and maintenance of relevant books and records. The permit type depends on the type of excise goods.

For the movement of excise goods between Member States under a suspension arrangement, it is required to be registered in the common EU registry SEED (System of Exchange of Excise Data), submit the electronic administrative document (e_AD) through the EMCS (Excise Movement and Control System) and pay a financial guarantee.

> **Special licences in relation to excise goods**

In all cases, a licence is required to produce excise goods or operate a tax warehouse. In certain cases, special licences are also required. For example, you need a special licence to sell or display for sale manufactured tobacco. Depending on the type of licence, an annual licence fee is due to the Cypriot Customs Authorities.

> **Excise Movement and Control System (EMCS)**

Further to the intra-Community movement of excise goods under suspension of excise duties, as from 13 February 2023, EMCS was extended to the movement of excise goods that were released for consumption in the territory of one Member State and are moved to another Member State for commercial purposes.

> **Refund of excise duties**

In some cases, a refund of the excise duties paid may be granted. For example, if excise duties are released for consumption in a Member State, excise duties are paid. Subsequently, if those goods are moved to another Member State for commercial purposes, excise duties become payable in that Member State. Once the excise duties are paid in the second Member State by the consignee, the consignor is entitled to a refund of the excise duties paid in the first Member State.

The Cypriot Customs Authorities are obliged to return all or part of the amount of excise duties paid within three years from the payment if proof can be provided that the duties were not payable.

> **Exemptions from excise duties**

The Cypriot legislation provides for certain exemptions in relation to the use of excise goods, such as excise goods which are intended to be used in the context of diplomatic or consular relations, by recognised international organisations, as supplies for ships or aircraft, for temporary import and subsequent re-export, etc.

i. Levy on Cyprus property disposals

As from 22 February 2021 a levy of 0,4% applies on all disposals of immovable property that are within the current control of the Republic (i.e. both trading-nature and capital-nature disposals).

As from 18 November 2022, the levy applies on all disposals of immovable property as well as disposals of shares of a company which, directly or indirectly, holds immovable property (1).

In cases involving a direct disposal of immovable property, the levy is imposed on the disposal consideration, whereas in cases involving a disposal of shares of a company the levy is imposed on the latest general valuation undertaken by the Department of Land & Surveys.

The obligation for payment of the levy lies with the seller. The following direct or indirect disposals of immovable property are exempt:

- Debt for asset swaps
- Qualifying reorganisations and
- Shares listed on a recognised stock exchange

Notes:

- (1) During the period 22 February 2021 – 17 November 2022, different provisions applied with respect to certain aspects of the levy. For example, during this period the levy is applied only on disposals of immovable property itself and disposals of shares of a company which directly held immovable property to the extent that the buyer of the shares assumes control of such company.

j. Immovable Property Tax

Immovable Property Tax has been abolished as of 1 January 2017. Until tax year 2016, the owner of immovable property situated in Cyprus was liable to pay an annual IPT which was 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 €500.001 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 had a total value of €12.500 or less (as at 1 January 1980) were exempt from Immovable Property Tax from year 2013 to 2016.*

> Exemptions

The following were never subject to Immovable Property Tax:

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

k. Trusts

A trust may be defined as the obligation under which a person to whom property is transferred (i.e. the trustee) is bound to deal with the beneficial interest in such property in a particular manner in favor of a specified person or persons or class of persons (i.e. the beneficiaries). The creator of the trust is the settlor. 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 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 of Cyprus, are subject to every form of taxation imposed in Cyprus and
- (ii) Where the beneficiary is not a resident of Cyprus, the income and profits of a Cyprus International Trust which are earned or deemed to be earned from sources within Cyprus, are subject to every form of taxation imposed in Cyprus

1. Transfer fees by the department of land and surveys

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

Market Value	Rate	Accumulated fee
First €85.000	3%	€2.550
From €85.001 to €170.000	5%	€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 0,01%
- between third degree relatives 0,01%
- 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.

Further, certain debt-for-asset swap arrangements may under conditions be exempted from transfer fees.

m. Social insurance

> Contributions for employees

Employer's and employee's obligation for contribution to social insurance and other funds are as follows:

Fund	Employer	Employee
Social insurance fund	8,8 % (1) (2)	8,8 % (1) (2)
Social cohesion fund	2,0 % (3)	-
Redundancy fund	1,2 % (4)	-
Industrial training fund	0,5 % (4)	-
Holiday fund (if not exempt)	8,0 % (4)	-

Notes:

- (1) The rate of Social insurance contributions is applied to a maximum level of emoluments. The maximum level of emoluments for 2024 is €62.868 (weekly €1.209/monthly €5.239).
- (2) The rate of 8,8% applies for both the employer and the employee as from 1 January 2024 and for the next five years. Thereafter, the rate will increase every five years until it reaches 10,7% as from 1 January 2039.
- (3) Social cohesion fund is calculated on total employee's emoluments and has no maximum level.
- (4) Applied to the maximum level of employee's emoluments as with the social insurance contributions.

> Contributions for self-employed individuals

As from 1 January 2024 the contributions of self-employed persons are calculated at 16,6% on their income. Thereafter, the rate will increase every five years until it reaches 20,4% as from 1 January 2039. 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. Self-employed persons contributions are payable on quarterly basis.

n. General Health System

As per General Health System Law of 2001 (89(I)/2001 as amended 2017, a general health system was introduced in Cyprus aiming to provide to the population equal access to a holistic health care system. Patients will have the option to select a health care provider from the private as well as the public health care sector.

Contributions relating to the implementation of the General Health System (NHS) started on 1 March 2019, and the current rates are as per the table below:

Ref.	Category	Applied on	Rate
(i)	Employees	Own emoluments	2,65%
(ii)	Employers	Employees' emoluments	2,90%
(iii)	Self-employed	Own income	4,00%
(iv)	Pensioners	Pension	2,65%
(v)	Persons holding office*	Officers' Remuneration	2,65%
(vi)	Republic of Cyprus or Natural/Legal person responsible for the remuneration of persons holding an office	Officers' Remuneration	2,90%

(vii)	Persons earning rental, interest, dividend and other income	Rents, Interests, Dividends and any other income not included in (i) to (vi)	2,65%
(viii)	Republic's Consolidated Fund	Emoluments/Pensions of persons (i), (iii), (iv) and (v)	4,70%

** Relates to holders of public or local authority office or other office, the income out of which does not come within the scope of (i) or (iii) or (iv) of (vii).*

General Health System contributions are capped at €180.000 total annual earnings.

o. 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	Amount / rate of duty
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	
- the first €5.000	0‰
- between €5.001 to €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.*

p. Capital duty

> Upon incorporation of a Cyprus company

Authorised share capital €105

Issued share capital There is no capital duty payable if the shares are issued at their nominal value.
There is a €20 flat duty if the shares are issued at a premium.

> Upon subsequent increases

Authorised share capital €105

Issued share capital €20 on every issue, whether the shares are issued at nominal value or at a premium.

q. Tax treaties and withholding tax (WHT) tables

Cyprus does not levy a WHT on dividends, interest and royalties paid to non-residents of Cyprus except in the case of royalties earned on rights used within Cyprus, which are subject to a WHT of 10% (5% in the case of cinematographic films). Such Cyprus WHT on royalties for rights used within Cyprus may be reduced or eliminated by double tax treaties entered into by Cyprus or by the EU Interest and Royalty Directive as enacted in the Cyprus tax legislation.

It is noted that, as from 31 December 2022, Cyprus applies WHT of 17% on dividends paid by non-quoted companies, 17% (30% during 31 December 2022 - 31 December 2023) on payments of passive interest (excluding payments by individuals) and 10% on payments of royalties and similar type payments (excluding payments by individuals) if the recipient of the payment is a company in a jurisdiction included on the EU list of non-cooperative jurisdictions on tax matters (commonly referred to as the EU 'blacklist').

> WHT on other types of income

Cyprus levies a 10% WHT on the remuneration of non-Cyprus tax residents for technical services provided to Cyprus payers, subject to certain conditions. However, no such WHT is levied if such services are performed via a permanent establishment in Cyprus of the non-resident or if performed between 'associated' companies as these are defined by the EU Interest and Royalty Directive as enacted in the Cyprus tax legislation.

Cyprus also levies a 10% WHT on the gross income/ receipts derived by a non-resident individual from the exercise in Cyprus of any profession or vocation and the remuneration of non-resident public entertainers (such as theatrical, musical including football clubs, other athletic missions, etc).

Further, a 5% WHT is levied on gross income derived from within Cyprus by non-residents with no local permanent establishment for services in regard to the exploration, extraction or exploitation of the continental shelf as well as the establishment and use of pipelines and other installations on the ground, on the seabed and on the surface of the sea.

> WHT on dividend, interest and royalties tables

Withholding tax on inbound payments to Cyprus

The following table and accompanying notes list the maximum withholding tax rates that may be deducted from income received by a Cyprus tax resident from a tax resident of a country that has signed a tax treaty with Cyprus.

Paid from	Dividends %	Interest %	Royalties %
Andorra	0	0	0
Armenia (53)	0 (31)	5 (32)	5
Austria (53)	10	0	0
Bahrain (53)	0	0	0
Barbados (53)	0	0	0
Belarus	5 (4)	5	5
Belgium (53)	10 (1)	10 (16)	0
Bosnia (27) (53)	10	10	10
Bulgaria (53)	5 (19)	7 (25)	10 (20)
Canada (53)	15	15 (8)	10 (11)
China (53)	10	10	10
Croatia (50) (53)	5	5 (51)	5
Czech Republic (53)	0 (29)	0	10
Denmark (53)	0 (33)	0	0

Egypt	5 (45)	10	10
Estonia (53)	0	0	0
Ethiopia	5	5	5
Finland (53)	5 (36)	0	0
France (52) (53)	10 (7)	10 (9)	0
Georgia (53)	0	0	0
Germany	5 (2)	0	0
Greece (53)	25	10	0 (12)
Guernsey (53)	0	0	0
Hungary (53)	5 (1)	10 (8)	0
Iceland (53)	5 (38)	0	5
India (53)	10	10 (8)	10
Iran	5 (19)	5	6
Ireland (53)	0	0	0 (12)
Italy (53)	15	10	0
Jersey (53)	0	0	0
Jordan	5 (38)	5 (49)	7
Kazakhstan	5 (46)	0 (47)	10
Kuwait	0	0	5
Latvia (53)	0 (41)	0 (41)	0 (42)
Lebanon	5	5 (16)	0
Lithuania (53)	0 (39)	0	5
Luxembourg	0 (34)	0	0
Malta (53)	0 (22)	10 (8)	10
Mauritius (53)	0	0	0
Moldova	5 (19)	5	5
Montenegro (27)	10	10	10
Netherlands (49)	0 (48)	0	0
Norway (53)	0 (3)	0	0
Poland (53)	0 (35)	5 (8)	5
Portugal (53)	10	10	10
Qatar (53)	0	0	5
Romania (53)	10	10 (8)	5 (14)
Russia (26) (53)	15 (6)	15 (30)	0
San Marino (53)	0	0	0
Saudi Arabia (53)	0 (43)	0	5 (44)
Serbia (27) (53)	10	10	10
Seychelles (53)	0	0	5
Singapore (53)	0	10 (23)	10
Slovakia (28) (53)	10	10 (8)	5 (14)
Slovenia (53)	5	5 (32)	5
South Africa (53)	10 (40)	0	0
Spain (53)	0 (34)	0	0
Sweden (53)	5 (1)	10 (8)	0
Switzerland	0 (37)	0	0
Syria	0 (1)	10 (8)	15 (13)
Thailand	10	15 (17)	5 (18)

Ukraine (53)	5 (21)	5	5 (15)
United Arab Emirates (53)	0	0	0
United Kingdom	0 (24)	0	0
USA	5 (5)	10 (10)	0

Withholding tax on outbound payments from Cyprus

The following table and accompanying notes list the maximum withholding tax rates provided in the relevant tax treaties.

Paid to	Dividends %	Interest %	Royalties %
EU non-cooperative jurisdictions	17	17	10
Non-treaty countries	0	0	0 (54)
Andorra	0	0	0
Armenia (53)	0 (31)	5 (32)	5
Austria (53)	10	0	0
Bahrain (53)	0	0	0
Barbados (53)	0	0	0
Belarus	5 (4)	5	5
Belgium (53)	10 (1)	10 (16)	0
Bosnia (27) (53)	10	10	10
Bulgaria (53)	5 (19)	7 (25)	10
Canada (53)	15	15 (8)	10 (11)
China (53)	10	10	10
Croatia (50) (53)	5	5 (51)	5
Czech Republic (53)	0 (29)	0	10
Denmark (53)	0 (33)	0	0
Egypt	5 (45)	10	10
Estonia (53)	0	0	0
Ethiopia	5	5	5
Finland (53)	5 (36)	0	0
France (52) (53)	10 (7)	10 (9)	0
Georgia (53)	0	0	0
Germany	5 (2)	0	0
Greece (53)	25	10	0 (12)
Guernsey (53)	0	0	0
Hungary (53)	5 (1)	10 (8)	0
Iceland (53)	5 (38)	0	5
India (53)	10	10 (8)	10
Iran	5 (19)	5	6
Ireland (53)	0	0	0 (12)
Italy (53)	0	10	0
Jersey (53)	0	0	0
Jordan	5 (38)	5 (49)	7
Kazakhstan	5 (46)	0 (47)	10
Kuwait	0	0	5
Latvia (53)	0 (41)	0 (41)	0 (42)

Lebanon	5	5 (16)	0
Lithuania (53)	0 (39)	0	5
Luxembourg	0 (34)	0	0
Malta (53)	15	10 (8)	10
Mauritius (53)	0	0	0
Moldova	5 (19)	5	5
Montenegro (27)	10	10	10
Netherlands (49)	0 (48)	0	0
Norway (53)	0 (3)	0	0
Poland (53)	0 (35)	5 (8)	5
Portugal (53)	10	10	10
Qatar (53)	0	0	5
Romania (53)	10	10 (8)	5 (14)
Russia (26) (53)	15 (6)	15 (30)	0
San Marino (53)	0	0	0
Saudi Arabia (53)	0 (43)	0	5 (44)
Serbia (27) (53)	10	10	10
Seychelles (53)	0	0	5
Singapore (53)	0	10 (23)	10
Slovakia (28) (53)	10	10 (8)	5 (14)
Slovenia (53)	5	5 (32)	5
South Africa (53)	10 (40)	0	0
Spain (53)	0 (34)	0	0
Sweden (53)	5 (1)	10 (8)	0
Switzerland	0 (37)	0	0
Syria	0 (1)	10 (8)	15 (13)
Thailand	10	15 (17)	5 (18)
Ukraine (53)	5 (21)	5	5 (15)
United Arab Emirates (53)	0	0	0
United Kingdom	0 (24)	0	0
USA	0	10 (10)	0

Notes:

- (1) 15% if received by a company controlling less than 25% of the voting power
- (2) 5% if received by a company controlling more than or equal to 10% of the capital. 15% in all other cases
- (3) NIL if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the company paying the dividend. 15% in all other cases
- (4) 5% if the amount invested by the beneficial owner is not less than €200.000 irrespective of the percentage of voting power acquired. 10% if recipient holds directly at least 25% of the share capital of the paying company. 15% in all other cases
- (5) 5% if received by a company controlling at least 10% of the voting power. 15% in all other cases
- (6) 5% if the beneficial owner is an insurance undertaking or pension fund, the Government or a political subdivision or a local authority, the Central Bank, or a company whose shares are listed on a registered stock exchange provided that no less than 15% of the voting shares are in free float and which holds directly at least 15% of the dividend paying company throughout a period of 365 days, that includes the day of the dividend payment. 15% in all other cases

- (7) 10% if received by a company controlling more than or equal to 10% of the capital. 15% in all other cases
- (8) NIL if paid to the Government of the other State
- (9) NIL if paid to the Government of the other State or in connection with the sale on credit of any industrial, commercial, or scientific equipment or any merchandise by one enterprise to another or in relation to any form of loan granted by a bank or is guaranteed from the Government or other governmental organisation
- (10) NIL if paid to the Government of the other State, to a bank or a financial institution or in respect to debt obligations arising in connection with the sale of property or the provision of services
- (11) NIL on literary, dramatic, musical or artistic work with the exception of films used for television programs
- (12) 5% on film royalties (except films shown on TV)
- (13) 10% on literary, musical, artistic work, films and TV royalties
- (14) NIL on literary, artistic or scientific work including films
- (15) 5% on royalty payments in respect of any copyright of scientific work, any patent, trademark, secret formula, process or information concerning industrial, commercial or scientific experience. 10% in all other cases
- (16) NIL if paid to the Government of the other State, a political subdivision or a local authority, the National Bank or any institution the capital of which is wholly owned by the State or a political subdivision or a local authority or in the form of interest income from bank deposits
- (17) 10% on interest received by financial institutions, on interest paid in connection with industrial, commercial, scientific equipment or the sale of merchandise between two companies
- (18) 10% on the right to use industrial, commercial or scientific equipment or for information concerning industrial, commercial or scientific experience and 15% for patents, trademarks, designs, models, plans, secret formulas or processes
- (19) 5% if the dividend is received by a company owning directly at least 25% of the capital of the dividend paying company. 10% in all other cases
- (20) This rate does not apply, where 25% or more of the capital of the Cypriot resident is owned directly or indirectly by the Bulgarian resident paying the royalties and the Cyprus company pays less than the normal rate of tax
- (21) 5% is applicable if the dividend is received by a company owning at least 20% of the capital of the dividend paying company and has invested in the acquisition of shares or other rights of the dividend paying company of at least €100.000. 10% in all other cases
- (22) The treaty provides that the tax on the gross amount of the dividends shall not exceed that chargeable on the profits out of which the dividends are paid
- (23) 7% if paid to a bank or similar financial institution. NIL if paid to the Government
- (24) 15% if dividends are paid out of income derived from immovable property by certain investment vehicles
- (25) NIL if paid to or is guaranteed by the Government, statutory body, the Central Bank
- (26) The additional Protocol signed on 8 September 2020 between Cyprus and Russia that amends the tax treaty is effective from 1 January 2021
- (27) The treaty between the Republic of Cyprus and the Socialist Federal Republic of Yugoslavia still applies

- (28) The treaty between the Republic of Cyprus and the Czechoslovak Socialist Republic still applies
- (29) NIL if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the dividend paying company for an uninterrupted period of not less than one year. 5% in all other cases.
- (30) NIL if the beneficial owner is an insurance undertaking or pension fund, the Government or a political subdivision or a local authority, the Central Bank, or a bank or if it is paid in respect of government or corporate bonds or Eurobonds, all listed on a registered stock exchange
- 5% if the beneficial owner is a company whose shares are listed on a registered stock exchange provided that no less than 15% of the voting shares are in free float and which holds directly at least 15% of the dividend paying company throughout a period of 365 days, that includes the day of the dividend payment
- (31) 5% if the beneficial owner has invested in the capital of the company less than €150.000 at the time of the investment
- (32) NIL if paid to the Government or to a local authority, or to the Central Bank
- (33) NIL if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the company paying the dividends for an uninterrupted period of no less than 12 months
- NIL if the beneficial owner is the other Contracting State or the Central Bank of that other State, or any national agency or any other agency (including a financial institution) owned or controlled by the Government of that other State
- NIL if the beneficial owner is a pension fund or other similar institution providing pension schemes in which individuals may participate in order to secure retirement benefits, where such pension fund or other similar institution is established, recognised for tax purposes and controlled in accordance with the laws of that other State. 15% in all other cases
- (34) NIL if the dividend is received by a company (other than a partnership) holding at least 10% of the capital of the dividend paying company. 5% in all other cases
- (35) NIL if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the dividend paying company for an uninterrupted period of no less than 24 months. 5% in all other cases
- (36) 5% if the dividend is received by a company (other than a partnership) which controls directly at least 10% of the voting power in the dividend paying company. 15% in all other cases
- (37) NIL if the beneficial owner is: i. a company (other than a partnership) the capital of which is wholly or partly divided into shares and which holds directly at least 10% of the capital of the dividend paying company for an uninterrupted period of at least one year, or ii. a pension fund or other similar institution recognised as such for tax purposes, or iii. the Government, a political subdivision, local authority or Central Bank of one of the two contracting states. 15% in all other cases
- (38) 5% if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the dividend paying company. 10% in all other cases
- (39) NIL if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the dividend paying company. 5% in all other cases
- (40) 5% if the dividend is received by a company which holds at least 10% of the capital of the dividend paying company. 10% in all other cases
- (41) NIL if the beneficial owner is a company (other than a partnership). 10% in all other cases
- (42) NIL if the beneficial owner is a company (other than a partnership). 5% in all other cases
- (43) NIL if the beneficial owner is a company which holds directly or indirectly at least 25% of the capital of the dividend paying company. 5% in all other cases

- (44) 5% on royalties for the use of, or the right to use, industrial, commercial or scientific equipment. 8% in all other cases
- (45) 5% if the beneficial owner is a company (other than a partnership) which holds directly at least 20% of the capital of the dividend paying company throughout a period of 365 days, that includes the day of the dividend payment. 10% in all other cases
- (46) 5% if the beneficial owner is a company which holds directly at least 10% of the capital of the dividend paying company. 15% in all other cases
- (47) NIL if the beneficial owner is the Government of the other Contracting State, a political subdivision, a central or local authority, the Central Bank or any other financial institution wholly owned by the Government of the other Contracting State. 10% in all other cases
- (48) NIL if the beneficial owner is: i. a company that holds directly at least 5% of the capital of the company paying the dividends, throughout a period of 365 days, that includes the day of the dividend payment, or ii. a recognised pension fund which is generally exempt under the Cyprus Income Tax Law. 15% in all other cases
- (49) NIL if interest is derived and beneficially owned by the government, political subdivision, local authority or the National Bank of the other contracting State
- (50) The treaty has been signed but has not yet entered into force as at the date of this publication
- (51) NIL if paid in connection with the sale on credit of any industrial, commercial or scientific equipment or any merchandise by one enterprise to another or in relation to any form of loan granted by a bank
- (52) A new treaty was signed on 11 December 2023 that has not entered into force as at the date of this publication
- (53) 10% in the case of royalties granted for use within the Republic. 5% on film and TV rights
- (54) The treaty is a Covered Tax Agreement for the purpose of the Multilateral Instrument (MLI) which has entered into force for Cyprus on 1 May 2020 - Cyprus has approved the minimum standards of BEPS Action 6 (Purpose of Covered Tax Agreement), Action 7 (Prevention of Treaty Abuse) and Action 14 (Making Dispute Resolution Mechanisms More Effective). The treaty is automatically amended to include these provisions

r. Tax calendar

Date	Obligation	Tax return
End of each month	Payment of PAYE deducted from employees' salaries for the previous month	TD61
	Payment of tax withheld on payments made to non-Cyprus tax residents during the previous month	TD11
	Payment of SDC (and GHS contributions if payment is made to a Cyprus tax resident individual) withheld on dividends and interest paid in the previous month to Cyprus tax residents	TD602 TD603
31 January	Payment of SDC and GHS contributions on deemed dividend distribution for the profits of tax year 2021	TD623
31 March	Electronic submission of the income tax return for tax year 2022 for individuals preparing audited financial statements and companies	TD1 TD4
30 April	Payment of the first instalment of the premium tax for insurance companies (life business) for 2024	TD199
31 May	Electronic submission of the 2023 employer's return	TD7

30 June	Payment of SDC (and GHS contributions if payment is made to a Cyprus tax resident individual) on rents, dividends or interest earned from sources outside the Republic for the first 6 months of 2024	Through tax portal under payment codes 604, 612, 613
	Payment of SDC (and GHS contributions if payment is made to Cyprus tax resident individual) withheld on rent* paid for the first 6 months of 2024	TD614 (payment code 614)
30 June	*Where the tenant is a Cyprus company, partnership, the Government or a local authority there is an obligation to withhold SDC and GHS on the amount of the rent paid	
31 July	Electronic submission of the 2023 personal tax return by individuals and payment of the income tax liability	TD1
	Submission of the 2024 provisional tax return and payment of the first instalment of provisional tax	Through tax portal under payment codes 200 and 213 for self-employed individuals
1 August	Payment of the 2023 tax balance through self-assessment by individuals preparing audited financial statements and companies	Through tax portal under payment code 300
31 August	Payment of the second instalment of the premium tax for insurance companies (life business) for 2024	TD199
31 December	Submission of the 2024 revised provisional tax return (if applicable) and payment of the second instalment of provisional tax	Through tax portal in case of downward or upward revision
	Payment of SDC (and GHS contributions if payment is made to a Cyprus tax resident individual) on rents, dividends or interest earned from sources outside of Cyprus for the last 6 months of 2024	Through tax portal under payment codes 604, 612, 613
	Payment of SDC (and GHS contributions if payment is made to Cyprus tax resident individual) withheld on rent* paid for the last 6 months of 2024	TD614 (payment code 614)
	*Where the tenant is a Cyprus company, partnership, the Government or a local authority there is an obligation to withhold SDC on the amount of the rent paid	
	Payment of the third and last instalment of the premium tax for insurance companies (life business) for 2024	

Notes:

- (1) For tax years up to 2021, physical persons are required to submit personal tax returns only when their gross taxable income exceeds €19,500. As from tax year 2021, this threshold is abolished and therefore all individuals have an obligation to submit an individual tax return.
- (2) A physical person is obliged to submit audited financial statements if his/her annual income from trade/business, rents, dividends interest, royalties or income relating to trading goodwill exceeds €70,000. Such physical person should be paying his/ her 2023 income tax by 1 August 2024 and submitting his/her electronic tax return by 31 March 2024.

> Interest and Penalties

Administrative penalties

An administrative penalty of €100 or €200 (depending on the specific case), is imposed for the late submission of a tax return or late submission of supporting documentation requested by the Commissioner.

In case of late payment of the tax due, a penalty of 5% is imposed on the tax due. An additional penalty of 5% is imposed if the tax remains unpaid two months after the payment deadline.

Interest on late payment

The official interest rate applicable on late payment of taxes is set through a Decree (by the Finance Minister) and it is imposed on a completed month basis. The rate for 2024 is 5%.

The applicable interest rates for previous years are as follows:

Interest period	Interest rate
Up to 31/12/2006	9,00%
1/1/2007 - 31/12/2009	8,00%
1/1/2010 - 31/12/2010	5,35%
1/1/2011 - 31/12/2012	5,00%
1/1/2013 - 31/12/2013	4,75%
1/1/2014 - 31/12/2014	4,50%
1/1/2015 - 31/12/2016	4,00%
1/1/2017 - 31/12/2018	3,50%
1/1/2019 - 31/12/2019	2,00%
1/1/2020 - 31/12/2022	1,75%
1/1/2023 - 31/12/2023	2,25%

Employment matters

a. Overview

Employment law in Cyprus is a mixture of statutes and case law, based on Article 25 of the Cypriot Constitution which guarantees the right to work. The main statutory instruments are the Termination of Employment Law 1967, the Annual Paid Leave Law 1967 and the Social Insurance Law 1980, as amended. Specific matters arising from the employment relationship are governed by specific statutes such as the Protection of the Maternity Law 1997, the Equal Treatment at Work and Employment Law 2004 and the Safety and Health at Work Law 1996. General contractual principles governing the employment relationship are derived from the Contract Law, Cap. 149.

b. Employment contracts

According to the law (Employment Relationship Law), the employer is obliged to inform the employee in writing, within one month after the beginning of employment, of the basic terms applicable to his contract of employment or employment relationship.

The basic terms of an employment contract or employment relationship, that the employer is obliged to inform in writing the employee are the following:

- The place of his work
- His duties, his grade or category of work, as well as the content and object of his work
- The starting date of the contract or the employment relationship and its probable duration, in the case of employment on a fixed term
- The duration of paid leave, to which the employee is entitled, as well as the method and time in which it may be taken
- The probation period, if any
- All types of remuneration to which the employee may be entitled and the time schedule for their payments
- The duration of his daily or weekly work
- Mention of any collective agreements which govern the terms of employment

c. Salaries

The salary is negotiated between the employer and the employee. However, the Ministerial Council has set a minimum national salary.

The minimum national salary effectively from 1 January 2024 is as follows:

- Starting salary (up to 6 months employment) from €885 to €900 per month
- Salary after 6 months of employment from €940 to €1.000 per month

d. Working hours

Normal weekly working hours are provided for either in collective agreements, or by an agreement between the employer and the employee. In general, normal weekly working hours based on collective agreements, usual practice and agreement between employer and employee range between 38 and 40 hours.

Under the Working Time Law, which applies to all employees except for employees in specific occupations, the number of working hours for a 5-day week should not exceed 48 hours per week, including overtime. Where the employer requires the worker to work longer than 48 hours, this may be done only by prior mutual agreement. The worker has the right to refuse, without any detriment to his employment. Where, with the worker's consent, the work exceeds the maximum weekly working time (48 hours), the employer has to (a) keep a record of the names of all workers working longer than 48 hours, and (b) make this record available to the Ministry of Labour and Social Insurance, together with the workers' particulars, including their consent to perform work exceeding the maximum of 48 hours.

Employees are generally entitled to a minimum of 11 continuous hours of rest per day, 24 continuous hours of rest per week and either two rest periods of 24 continuous hours each or a minimum of 48 continuous hours within every 14-day period. When the daily work exceeds 6 working hours, the employee is entitled to a break of a continuous period of 15 minutes. The period of a break and the technical specifications thereof are determined by an agreement between the employer and the employee.

For specific occupations such as clerks, hotel & catering employees, shop employees, quarry workers and miners, different fixed hours apply regulated by specific laws, regulations or orders. For example, for every person employed as a clerk or in an executive or administrative capacity, including low rank employees and messengers, but excluding employers, partners, company directors or officials, in offices at which any trading or banking business or liberal profession is carried out (with the exception of persons employed in offices that are located in industrial undertakings, doctor's practices, hospitals or shops), the total number of hours of work cannot exceed 44 per week (including overtime) or 8 per day.

e. Termination of employment

According to the Termination of Employment Law:

- (a) An employer who intends to terminate an employee, who has completed at least 26 weeks of continuous employment with that employer, has an obligation to give minimum written notice as follows:

From 26 weeks work to 51 weeks (6 months – 1 year): one-week notice

From 52 weeks work to 103 weeks (1 year – 2 years): two weeks' notice

From 104 weeks work to 155 weeks (2 years – 3 years): four weeks' notice

From 156 weeks work to 207 weeks (3 years – 4 years): five weeks' notice

From 208 weeks work to 259 weeks (4 years – 5 years): six weeks' notice

From 260 weeks work to 311 weeks (5 years – 6 years): seven weeks' notice

From 312 weeks' work or more (6 years +): eight weeks' notice

An employer can dismiss an employee without notice in the cases of:

- a serious offence by the employee in the course of his duty
- a criminal offence without the agreement, expresses or implied consent by his employer
- improper behavior by the employee in the course of his duties and
- serious or repeated violation or disregard of work regulations or other rules in relation to the employment

If the employer does not exercise his right of dismissal within a reasonable period following the matter which gave rise to this right, the dismissal may be considered as unlawful.

An employee who is dismissed unlawfully by an employer, with whom he has been continuously employed for not less than 26 weeks, has a right to compensation payable by the employer. An employee is also entitled to compensation in the case where he terminates his employment due to the behavior of the employer against him. An employee is not entitled to compensation for termination of employment if before the date of termination of his employment he has attained the pensionable age.

- (b) An employee, who intends to terminate his employment, should give his employer a minimum period of notice depending on the period of his employment as shown below:

From 26 weeks work to 51 weeks (6 months – 1 year): one-week notice

From 52 weeks work to 259 weeks (1 year – 5 years): two weeks' notice

From 260 weeks work and over (5 years – over): three weeks' notice

f. International Mobility

The rules applicable to worker mobility in Cyprus depend on whether the nationals are from a Member State of the EU or from outside of it.

> Employment of EU nationals in Cyprus

(a) Freedom of movement:

The free movement of workers is a fundamental principle enshrined in Article 45 of the Treaty on the Functioning of the EU and developed by EU secondary legislation and Court of Justice case law. Law 7(I) of 2007 (the right of EU citizens and their family members to move and reside freely within the Republic of Cyprus) is the main legislative instrument regulating the free movement of EU nationals working in Cyprus. When employment requires EU nationals to remain in Cyprus for more than three months, the statute requires them to register with the competent authority, i.e., the Ministry of Interior, and calls for registration.

(b) Social insurance:

The rules for determining which Member State's legislation applies are set out in Articles 11 to 16 of Regulation 883/2004, and the related implementing provisions are set out in Articles 14 to 21 of Regulation 987/2009.

The guiding principle is that EU nationals are subject to the legislation of a single Member State for the purposes of social insurance. For employees, the legislation of the Member State where the activity is carried out usually applies (*lex loci laboris*). People receiving certain short-term cash benefits based on their employment or self-employment are also subject to the legislation of the Member State of activity. Any other person is subject to the legislation of the Member State of residence.

(c) Posting of workers:

Posting Directive 96/71/EC, concerning the posting of workers for the provision of services, as amended (PWD), aims to facilitate aspects of the freedom of movement of workers. The Enforcement Directive of 2014 (yet to be transposed in Cyprus) supplements the PWD by addressing shortcomings related to implementing existing rules. Cyprus transposed the PWD into the Cypriot legislation in the form of the Posting of Workers in the Framework of the Provision of Services Law of 2002, L. 137(I) of 2002 (PWL).

Under PWL, a worker is any person working for another person, either under an employment contract or under circumstances from which the existence of an employer-worker relationship can be inferred, irrespective of that person's title in the country of origin.

This could be seen as encouraging attempts to circumvent employment or social security legislation. A Cypriot subsidiary could be used to post EU nationals of one country to another, with a view toward saving on wages. These issues are expected to be addressed through the transposition of the 2014 Enforcement Directive.

> **Employment of third-country nationals**

The Constitution guarantees equal treatment rights to non-nationals. The main legislative instrument regulating the employment of third-country nationals is the Aliens and Immigration Law, Cap. 105 of the laws of Cyprus. Moreover, Cyprus has adhered to Article 19 of the Revised European Social Charter (i.e., the right of migrant workers and their families to protection and assistance). Third-country nationals can apply to obtain an immigration permit (temporary or permanent).

If no particular circumstances exist for special adjustments or an ad hoc policy, the basic precondition for granting a permit for employment of third-country nationals is the absence of Cypriot or EU candidates to meet the employer's specific needs. That determination will be made after an investigation by the competent authorities. Subject to exceptions, third-country nationals can remain for employment for a maximum of four years.

g. Social Security

The Social Insurance Scheme covers compulsorily every person gainfully occupied in Cyprus either as an employed person or as a self-employed person. Persons working abroad in the service of Cypriot employers and persons who interrupt their compulsory insurance are allowed, under certain conditions, to be insured voluntarily. The insured persons are classified in three categories; employed persons, self-employed persons and voluntary contributors.

The Social Insurance Scheme is financed by contributions paid by the employers, the insure persons and the State as a percentage on the insurable earnings.

The rates of contribution for employers, employed and self-employed persons are described on page 46.

The rate of contribution for voluntary insured persons working abroad in the service of Cypriot employer as from the 1st January 2024 is 22,8%, of which 17,6% is paid by the voluntary insured person and 5,2% from the Consolidated Fund of the Republic. Thereafter, the rate will increase every 5 years until it reaches 26,7% from 1 January 2039, of which 20,6% is paid by the voluntary insured person and 6,1% from the Consolidated Fund of the Republic.

The rate of contribution for voluntary insured persons who exercised their right to continue to be insured under the Cyprus Social Insurance Scheme, following termination of their employment, as from the 1st January 2024 is 19,7%, of which 15% is paid by the voluntary insured person and 4,7% from the Consolidated Fund of the Republic. Thereafter, the rate will increase every 5 years until it reaches 23,6% from 1 January 2039, of which 18% is paid by the voluntary insured person and 5,6% from the Consolidated Fund of the Republic.

The Scheme provides cash benefits for marriage, maternity, sickness, unemployment, widowhood, invalidity, orphan hood, old age, death and employment injury. The Scheme provides also free medical treatment for persons receiving invalidity pension and for employed persons who sustain injuries as a result of an employment accident or an occupational disease.

The implementation of a National Health System (NHS) aims to provide to the population equal access to a holistic health care system introduced in Cyprus in 2017 and has been in effect from 1 March 2019.

The rates of contribution for employers, employed and self-employed persons are described on page 46.

h. Workers representatives and trade unions

> **Workplace representatives**

Workplace representation in Cyprus is through the unions. Arrangements at workplace level depend on the particular circumstances that apply in each workplace.

Apart from the area of health and safety, where a committee should be elected by all employees in workplaces where more than 10 are employed, there is no other body representing employees.

Workplace representation is also, in line with the rest of the Cyprus industrial relations system, not closely regulated by legislation. However, the industrial relations code makes specific reference to consultation stating that the employer should engage in joint consultation in any case where the union or the employees believe that a decision may adversely affect

them or may have a repercussion on their relations with their employer. In addition, legislation introduced in 2005 to implement the EU directive on information and consultation has strengthened the legal framework for workplace representation.

The numbers involved depend on the union and the particular circumstances. They will generally work through joint meetings with management.

Union workplace committees will typically deal with issues such as health and safety, work organisation, discipline and the implementation of the collective agreement. The committee also provides the link to the union structures, encouraging employees to join the union, getting support and advice from the full-time officials where necessary.

Trade union representatives at the workplace are elected by a meeting of the members. Typically, the term of office is one year.

There are no specific legal protections against dismissal for workplace trade union representatives but discrimination on grounds of trade union activity is unlawful.

> Trade unions

Cyprus has a relatively high level of trade union organization. The three major trade union confederations are PEO and SEK which are of broadly similar size, as well as one smaller DEOK. In addition, there are important unions outside the confederations, in particular PASYDY which covers public servants, ETYK which organises bank staff, OELMEK which organises secondary teachers, and POED, another teachers' union.

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