



FACTS 2019

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INTRODUCTION

The present Alliot Partellas Kiliaris publication is for informative purposes only and aims to provide the reader with an overview and quick reference guide to Cyprus tax system.

Situations should be viewed separately based on specific facts of each scenario.

The taxation department of Alliot Partellas Kiliaris Limited is comprised with professionals that use real world experience and technical expertise to assess, analyse and then formulate tax effective solutions that will help clients implement decisions that can deliver value to their personal and business plans and strategies.

The taxation department of Alliot Partellas Kiliaris Limited is at your disposal for any information and/or specialized advice that you may require on your tax matters.

PERSONAL INCOME TAX

1.

Individuals who are Cyprus tax residents are subject to tax on their worldwide income. A Cyprus tax resident individual is a person who stays at the Republic of Cyprus for more than 183 days in a calendar year. Individuals who are not Cyprus tax residents are subject to tax only for their sources of income earned in Cyprus.

Calculation of days in and out of Cyprus is as follows:

- The day of departure is considered a day outside Cyprus;
- The day of arrival is considered a day in Cyprus;
- Arriving in Cyprus and departing on the same date is considered a day in Cyprus; and
- Departing from Cyprus and arriving on the same day is considered a day outside Cyprus.

1.1 Personal Income Tax Rates

Taxable Income	Tax Rate %	Tax Amount	Cumulative Tax
0 - 19,500	-	-	-
19,501 - 28,000	20%	1,700	1,700
28,001 - 36,300	25%	2,075	3,775
36,301 - 60,000	30%	7,110	10,885
> 60,001	35%		

1.2 Tax Exemptions

Type of Income	Exemption applies to:
Remuneration from salaried services rendered outside the Republic to a permanent establishment or to a foreign employer for more than 90 days in the tax year.	100%
Dividend income.	100%
Interest income.	100%
Remuneration from any employment exercised in Cyprus commencing from 1st January 2012 by an individual who was not resident in the Republic before the commencement of employment. The exemption is applicable for 5 years commencing 1st January following the year of employment until the year 2020.	the lower of 20% or €8,550 of remuneration

Remuneration from any employment in Cyprus by an individual, who was a non Cyprus resident before the commencement of the employment, provided that the annual remuneration exceeds €100,000.

The above exemption applies for a 10 year period.

The individual will not be eligible for the exemption in cases where the individual was a Cyprus tax resident in any three of the previous five tax years preceding the commencement of employment in Cyprus. However, this only applies to employments that commenced on or after 1 January 2015. The exemption will be granted for any tax year in which the annual total gross emoluments from the employment exceed €100,000 regardless if in a specific tax year these were less than €100,000. This is subject to the total emoluments exceeding €100,000 at the start of the employment and the Tax Department must be satisfied that the fluctuation in the total gross emoluments is not solely for the reasons of obtaining this exemption.

50% of employment income

It should be noted that were the individual is benefiting from the 50% exemption, this individual cannot at the same time benefit from the 20% exemption, as stated on the note above.

Rental income from buildings of which there is a Preservation Order.*	100%
Profit from the sale of securities.	100%
Profit from a permanent establishment abroad.*	100%
Widows pension up to €19,500. (Above €19,500 a special tax rate of 20% is applied)	100%
Foreign pensions up to €3,420. (Above €3,420 a special rate of 5% is applied)	100%
Capital payments from approved provident funds or life insurance plans.*	100%

*Under certain conditions.

1.3 Tax Deductions

Type of Expense	Deduction applies to:
Rental income.	20% of rental income + 3% wear and tear allowance on the cost of the building (provided that the rented property is a building)
Pensions and provident fund contributions	Maximum 10% of remuneration
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)
Expenses incurred wholly and exclusively for the production of taxable income supported by relevant documentation such as agreements, invoices, receipts etc.	100%

Interest in respect of the acquisition of a building for rental purposes.	100%
Subscriptions to trade unions or professional bodies.	100%
Donations to approved charitable organisations.	100%
Tax losses of current year and previous years. This applies to individuals required to prepare audited financial statements. Deduction applies to current year losses as well as the losses of the previous five years.	100%
Profits from the exploitation and/or disposal of intellectual property rights.	80%

1.4 Tax Allowances

Type of Expense	Allowance applies to:
Annual life insurance premiums.	Restricted to 7% of the insured amount
Social insurance contributions, contributions to approved provident and pension funds, contributions to medical, national health system or other approved funds as well as life insurance premiums. Premium payments to approved medical funds and national health system are tax deductible provided that they do not exceed 1.5% of the gross salary income.	The total amount of the allowances is limited to 1/6 of the taxable income as calculated before deducting the allowances.
Cancellation of a life insurance policy within 6 years from the date it was entered into, part of the life insurance already given as an allowable deduction will be taxable.	Cancellation within 3 years - 30% taxable. Cancellation within 4 to 6 years - 20% taxable.

1.5 Non-deductible Expenses

Type of Expense	Amount not deductible:
Immovable property tax.	100%
Professional tax.	100%
Expenses not incurred wholly and exclusively for the production of taxable income or expenses incurred wholly and exclusively for the production of taxable income which are not supported by the relevant documentation such as agreements, invoice, receipts etc.	100%
Donations to non-approved charitable organisations.	- 100%
Private motor vehicle expenses.	100%

1.6 Double Tax Relief

Double taxation relief is available for any foreign tax paid abroad on income subject to tax in Cyprus. Where a double tax treaty exists, its provisions will state the method of how relief should be obtained. In the absence of a double tax treaty, the foreign tax is unilaterally relieved as a credit against the Cyprus income tax payable on such income, provided that the relevant supporting documentation is in place in the Greek or English language.

1.7 Benefits in kind to company directors or individual shareholders

If a company director, or an individual shareholder, or his/her spouse, or any relative up to the second degree, receives a loan or any other financial assistance from the company, such person is deemed to have obtained a monthly benefit in kind equal to 9% per annum of the monthly balance of the loan/financial assistance and this amount is included in the individual's income subject to income tax.

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

1.8 Submission of Tax Returns

- Individuals with gross income in excess of €19,500 in a tax year, have an obligation to file an income tax return.
- Sole proprietors with an annual turnover of more than €70,000 are obliged to prepare audited financial statements.

CORPORATION TAX

2.

A Cyprus tax-resident company is subject to tax on its worldwide income. A company is considered a Cyprus tax-resident if the following three criteria co-exist:

- The majority of the directors reside in Cyprus and thus manage and control the company from there.
- The board meetings are held in Cyprus.
- The general policy of the company is formulated in Cyprus.
- Actual administrative office is held in Cyprus from where management and control is exercised.

A Cyprus tax-resident company, or a permanent establishment in Cyprus of a non-Cyprus tax-resident company, is subject to the corporation tax rate of 12.5% on its taxable profits.

2.1 Tax exemptions

Type of Income	Exemption applies to:
Income from dividends.* Dividend income may be subject to special defence contribution.	100%
Interest income. If the interest income arises from the ordinary course of business or is closely connected with the carrying on of the business, then it will be considered as business income and will not be exempt. Interest income not arising from the ordinary course of business will be subject to special defence contribution.	100%
Capital gains from the sale of Immovable property assets.	100%
Profits from a permanent establishment abroad.**	100%
Profits from sale of securities.	100%
Profits relating to foreign exchange differences.	100%
Gains arising from a loan restructuring.	100%

*As of 1st January 2016, dividends which are tax deductible for the paying company are no longer considered as dividends but as trading profits subject to corporation tax.

**Under certain conditions.

2.2 Tax Deductions

Type of Expense	Deduction applies to:
Expenses incurred wholly and exclusively for the production of taxable income which are supported by the relevant documentation such as agreements, invoices, receipts etc.	100%
Interest expense incurred for the acquisition of a directly or indirectly owned subsidiary (100%), given that the wholly owned subsidiary does not own any assets which are not used in the business. If the wholly owned subsidiary does own assets which are not used in the business, then the interest expense is restricted to the amount which relates to the assets not used in the business. The above applies to acquisitions of wholly owned subsidiaries as from 1st January 2012.	100%
Amortisation of the cost of acquisition or development of intangible assets.	Lower of useful life of IP assets or 20 years.
Losses from a permanent establishment abroad.*	100%
Business entertainment expenses.	1% of gross income not exceeding €17,086
Subscriptions and donations to approved charities.	100%
Net royalty income arising from intangible assets	80%
Employer's contribution on staff salaries.*	100%
As from 1st January 2015, new equity introduced to a company is eligible for an annual notional interest deduction provided that the new equity is used for business purposes. The annual notional interest is calculated as an interest rate on the new equity. The relevant interest rate is the yield on 10 year government bonds of the country in which the new equity is invested, increased by 3%. The bond yield is the one applicable as of 31st December of the year preceding the tax year.	80% of taxable profit arising from new equity
Interest relating to the acquisition of fixed assets used for business purposes.	100%

2.3 Non-deductible Expenses

Type of Expense	Amount not deductible:
Expenses not incurred wholly and exclusively for the production of taxable income or expenses incurred wholly and exclusively for the production of taxable income which are not supported by the relevant documentation such as agreements, invoice, receipts etc.	100%
Immovable property tax.	100%
Overseas tax.	100%
Donations to non-approved charitable organisations.	100%
Losses relating to foreign exchange differences.	100%
Interest payable or deemed to be payable for the acquisition of a private motor vehicle or other assets not used in the business. The above restriction applies for 7 years from the date of acquisition of the relevant asset.	100%
Expenses paid on behalf of other group companies.	100%
Entertainment expenses.	Amount exceeding 1% of turnover or €17,086 (the lowest of)
Private motor vehicle expenses.	100%
Interest payable or deemed to be payable for the acquisition of a not wholly owned subsidiary/associate. The above restriction applies for 7 years from the date of acquisition of the subsidiary/associate.	100%
Expenses of a capital nature.	100%
Expenses relating to the acquisition of securities.	100%
Wages and salaries on which the relevant Social Insurance contributions and the contribution to provided funds have not been paid in the year in which they are due. In circumstances where the above contributions are paid in full within two year following the due date, such wages and salaries will be tax deductible in the tax year in which they are settled.	100%

2.4 Annual wear and tear allowances

Plant and Machinery	%
Machinery	10*
Furniture & Fittings	10*
Commercial vehicles	20
Agricultural machinery	15*
Computer hardware and operating systems	20
Application software	33 1/3
Application software up to a cost of €1,708	100
Buildings	%
Commercial buildings	3
Industrial, agricultural and hotel buildings	4**
Apartments	3
Other	%
Wind Power Generators	10
Photovoltaic systems	10
Television and videos	10
Tools in general	33

*20% for the period 2012-2016

**7% for the period 2012-2016

2.5 Tax Incentives

- **Group Relief** is allowed when the surrendering the claimant companies are members of the same group for the entire tax year and are both Cyprus tax-resident. Current year tax losses can therefore be set-off against the taxable profits of any of the company within the same group (under certain conditions).
- **Tax losses** incurred during a tax year can be carried forward over the next five years from the end of the tax year in which they are incurred and be set off against future taxable income.
- **Double tax relief** is available on any foreign tax paid abroad on income subject to tax in Cyprus. Where a double tax treaty exists, its provisions will state the method of how relief should be obtained. In the absence of a double tax treaty, the foreign tax is unilaterally relieved as a credit against the Cyprus income tax payable on such income, provided that the relevant supporting documentation is in place in the Greek or English language.

2.6 Transfer Pricing

- **Introduction**

As from July 2017, loan transactions between related parties are subject to Transfer Pricing Guidelines in order to confirm whether these are market compliant. Therefore, all intra-group back to back financing arrangements are required to follow the arm's length principle under the transfer pricing framework.

The intra-group back to back financing arrangements apply where loans are granted by a financing company to related parties, and which are financed by financial means and instruments, such as private loans, cash advances, bank loans and debentures.

- **Arm's Length principle for intra group financing transactions**

The related party transactions should be priced similarly as it would have been accepted by independent entities in comparable circumstances, taking into account the economic nature of the transaction.

The Cypriot tax legislation allows adjusting the reported profits of a Cypriot tax resident company in case the transfer prices differ from prices that would have been agreed between independent entities.

- **Transfer Pricing Study ("TPS")**

A TPS is defined as the document to be provided to the Cyprus Tax Authorities as a supporting document, evidencing that the transaction which took place, was based on the arm's length principle.

According to the legislation, a TPS should include the following:

- **Comparability analysis**

An appropriate comparability analysis must be carried out in order to determine whether transactions between independent entities are comparable to transactions between related entities.

- **Functional analysis**

The purpose of the functional analysis is to identify the economically significant activities, responsibilities and functions, the assets used or contributed and the risks assumed by the parties in the context of the transaction.

The functions that can be performed by companies conducting intra-group financing transaction relate to origination of the transaction and managing the transaction.

- **Simplification measures**

A financing company which meets the substance requirements and is engaged in purely intermediary financing activities, borrowing from related entities and lending to related entities, will be deemed for the sake of simplification to comply with the arm's length principle if it receives in relation to its controlled transactions a minimum return of 2% after-tax on assets (ie. 2,286%).

The simplification procedures can only be used by a group financing company, which meets the criteria for substance, such as an actual presence in Cyprus, which takes into account the following:

- The number of members of the board of directors who are tax resident of Cyprus.
- The number of meetings of the board of directors taking place in Cyprus.
- The availability of qualified personnel to control the transactions performed.

In order to benefit from this simplification measure, entities should communicate to the Tax Department the use of the simplification procedure, by completing the relevant field in the tax return of the corresponding fiscal year.

A deviation from the minimum return of 2% after-tax on assets (ie. 2,286%) is not allowed unless it is duly justified by an appropriate transfer pricing analysis.

- **Minimum requirements for transfer pricing analysis**

The minimum requirements for transfer pricing analysis, include:

- A description of the computation of equity allocation required to assume risks.
- A description of the group and the inter-linkages between the functions performed by the entities.
- The precise scope of the transactions analyzed.
- A complete list of the potentially comparable transactions searched.
- A rejection matrix for rejected potentially comparable transactions with justifications.
- The final list of comparable transactions selected.
- A general description of the market conditions.
- A list of all previous transfer pricing agreements concluded with other countries in relation to the transactions.
- A list of all previous agreements concluded and being still valid with the entity/ies under analysis.
- Projected income statements for the years covered by the request.

The TPS should be prepared by a Transfer Pricing Expert and must be submitted to the Cyprus Tax Department by a person who has license to act as auditor of a company in Cyprus, who is required to carry an assurance control of the transfer pricing analysis.

- **Exchange of information**

The issuance of advance tax rulings or advanced pricing arrangements, as well as the use by a taxpayer of the simplification measures, will be subject to the exchange of information rules set under the Directive on Administrative Cooperation.

SOCIAL INSURANCE

3.

Contributions are as follows:

Fund	Rate %
Social Insurance Fund (employer contribution)	8.3%
Social Insurance Fund (employee contribution)	8.3%
Social Cohesion Fund (employer contribution)	2.0%
Redundancy Fund (employer contribution)	1.2%
Human Resources Development Fund (employer contribution)	0.5%
Central Holiday Fund (employer contribution)	8.0%
Self-employed contributions	15.6%

As from 1.1.2019 the maximum level of monthly income on which the contributions are payable is €4,554. The weekly income is €1,051. Employees must contribute 8.3% of their salary up to a monthly limit of €4,554 to the Social Insurance fund. The contributions payable by the employee are remitted to the Social Insurance Office through the PAYE system on a monthly basis. No other contributions in respect of other funds are due from the employee.

As from 1.1.2019 contributions of self-employed individuals are subject to the rate of 15,6%. It should be mentioned that 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.

The lower limits of income on which self-employed persons pay social insurance contributions are:

Person exercising a profession:	€
> For a period under 10 years	19,949
> For a period over 10 years	40,351
Wholesales, estate agents and other businessmen	40,351
Builders and other related businesses	24,483
Guards, messengers, cleaners and shop owners	18,589

NATIONAL HEALTH INSURANCE SYSTEM (“NHIS”)

4.

The National Health Insurance System (“NHIS”) Law is introduced in 2019 and transforms the existing public health care system. Patients will have the freedom to choose their health care provider, from the private as well as the public health care sector, from those providers registered with the Health Insurance Organization (“HIO”).

The NHIS is a universal health care system, financed through individual, employer and government contributions. According to the NHIS, employer and employee contributions for the implementation of the system commence in March 2019.

Contributions as from 1 March 2019

As from 1st March 2019, the contributions to cover only outpatient care are set to:

- 1,70% for employees and pensioners,
- 1,85% for employers,
- 1,65% for the government and
- 2,55% for self-employed individuals.

Contributions as from 1 March 2020

As from 1st of March 2020, the contributions to cover both outpatient and inpatient care will be amended to:

- 2,65% for employees and pensioners,
- 2,90% for employers,
- 4,70% for the government and
- 4% for self-employed individuals.

Method of deduction

NHIS contributions will be deducted from the entire earnings of the employee (as defined in the Social Insurance Law) up to €180,000 per annum. The insurable earnings limit of Social Insurance Fund Contributions does not apply in this case.

The employer is responsible for paying both their own and their employees’ contributions through Social Insurance Services (by means of deduction from their salary).

Summary table of Contributions

Category	Applicable on	As from 1 March 2019	As from 1 March 2020
(a) Employees	Own emoluments	1,70%	2,65%
(b) Employers	Employees' emoluments	1,85%	2,90%
(c) Self-employed	Own income	2,55%	4,00%
(d) Pensioners	Pension	1,70%	2,65%
(e) Persons holding office (Note1)	Officers' Remuneration	1,70%	2,65%
(f) Republic of Cyprus or Physical/Legal person responsible for the remuneration of persons holding an office	Officers' Remuneration	1,85%	2,90%
(g) Persons earning rental, interest, dividend and other income	Rental, Interest, Dividend Income etc.	1,70%	2,65%
(h) Republic's Consolidated Fund	Emoluments/ Pensions of persons (a), (c), (d) and (g).	1,65%	4,70%

Note 1: Relates to holders of public or local authority office or other office, the income out of which does not come within the scope of (a) employees, (c) self-employed, (d) pensioners, (g) persons earning rental, interest, dividend and other income.

SPECIAL CONTRIBUTION FOR DEFENCE

5.

Cyprus tax residents, individuals as well as Cyprus domiciled, are subject to special defence contribution on the sources of income as per the table below.

Cyprus tax resident individuals, who are non domiciled or non Cyprus tax resident individuals, are not subject to special defence contribution.

Source of Income	Cyprus tax resident but non-domiciled Individuals	Cyprus tax resident and domiciled individuals	Cyprus tax resident companies
Dividend income received from Cyprus tax resident companies	0%	17%	0% Dividends received by a Cyprus tax resident company from another Cyprus tax resident company are subject to 17% after the lapse of 4 years from the end of the year in which the profits which were distributed as dividends arose.
Dividend Income received from non-Cyprus tax resident companies	0%	17%	<p>0% The zero rate is not applicable and the dividend will be subject to 17% special contribution for defence if the following exist:</p> <p>(a) more than 50% of the activities of the foreign company paying the dividend lead to investment income; and</p> <p>(b) the foreign tax burden on the income of the foreign company paying the dividend is substantially lower than the tax burden of the Cyprus tax resident company.</p> <p>The tax department has clarified that 'significantly lower' means an effective tax rate less than 6.25% on distributed profits.</p>
Interest income arising from the ordinary activities or	0% Subject to personal tax	0% Subject to personal tax	0% Subject to personal tax

closely connected with the ordinary activities of the business			
Other interest income	0%	30%	30%
		A person whose total annual income including interest is below €12.000 and receives interest that is subject to special defence contribution can claim a refund of 27% (effective special contribution for defence payable of 3%)	
75% of rental income	0%	3%	3%
		Rental income is subject to personal income tax as well	Rental income is subject to corporation tax as well
		For Cyprus sourced rental income where the tenant is a Cyprus company, partnership, the state or local authority the special contribution for defence should be withheld by the tenant and should be paid to tax authorities by the end of the month following the month in which it was withheld.	

Any foreign tax paid/withheld on any of the above mentioned sources of income, can be claimed against the special contribution for defence liability provided that the relevant supporting documentation is in place.

5.1 Non-Domiciliation

Since 16 July 2015 individuals that are both Cyprus tax resident and Cyprus domiciled are subject to Special Contribution for Defence.

In accordance to the domicile concept under the tax legislation the following cases apply:

- a. The domicile received by him/her at birth ('domicile of origin'), or
- b. The domicile acquired or retained by him/her by his/her own act ('domicile of choice').

Under (a) above, the domicile of origin of a legitimate child is that of the father's, or in case of an illegitimate child, that of the mother's.

Under (b) above, a person may acquire a domicile of choice by establishing his/her home at any place within the Republic of Cyprus with the intention of permanent or indefinite residence.

For tax purposes, a non-domiciled individual will be treated as domiciled in Cyprus if he/she has been a Cyprus tax resident for at least 17 out of the last 20 years prior to the relevant tax year (deemed domicile rule).

An individual who has a domicile of origin in Cyprus, may still qualify as non-domiciled mainly if he/she has not been a Cyprus tax resident for a consecutive period of 20 years.

5.2 Deemed Distribution

Companies are deemed to have distributed to their Cyprus tax resident shareholders 70% of their after tax accounting profits, within two years from the end of the year in which the profits were earned. Special Contribution for defence at the rate of 17% should be withheld on such deemed distribution and paid to Cyprus tax authorities.

The deemed distribution provision applies to tax resident corporate shareholders and do not apply to non-Cyprus tax resident shareholders.

On 13/09/2011 the Tax Department issued Circular No. 2011/10, having a retrospective effect from 2003 onwards, according to which the exemption with regards to profits attributable to non resident corporate shareholders, has now been extended to profits attributable to resident corporate shareholders of a Cypriot resident company to the extent that such profits are indirectly attributable to ultimate shareholders which are non-residents of Cyprus.

From 16/07/2015 the deemed distribution provisions should not apply to the extent that the ultimate direct/indirect shareholders of the company are individuals who are Cyprus tax residents but non-Cyprus domiciled.

The amount of deemed dividend is reduced by the amount of actual dividend distributed during the year to which the profits relate, or the following two years. In cases where an actual dividend is paid after the deemed dividend distribution date, any deemed distribution reduces the actual dividend on which the defence contribution is withheld.

5.3 Capital Reduction

In case of a reduction of share capital any amounts paid to the individual shareholders in excess of the amount of the share capital that was actually paid by the individual shareholders will be treated as a deemed dividend subject to special contribution for defence provided that the ultimate shareholders are Cyprus domiciled and tax residents.

Circular 2004/6 provides that redemption of redeemable preference shares, when the redemption is done out of distributable profits is also considered as capital reduction.

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

5.4 Disposal of assets to shareholder at less than market value

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

INTELLECTUAL PROPERTY

6.

The old IP Box regime provided for an exemption from taxation of 80% of the gross royalty income following the deduction of all direct costs, such as amortization (over 5 years) and interest expense. In the case of a tax loss, only 20% of the tax loss could be surrendered to other group companies (under the group relief provisions) or be carried forward to subsequent years (subject to the 5 years rule restriction).

The 80% exemption applied also for any profit arising from the disposal of the IP.

The above provisions related to intangible assets which were defined in the Patents Law, the Trade Marks Law and the Intellectual Property Rights Law.

Transitional provisions have been included for taxpayers who have previously entered the old IP Box regime. More specifically those taxpayers shall be able to continue to benefit from the application of the old IP regime until 30 June 2021, with respect to IP which:

- (a) was acquired before 2 January 2016, or
- (b) was acquired directly or indirectly from a related person during the period from 2 January 2016 until 30 June 2016 and which assets at the time of their acquisition were benefiting under the IP Box regime or under a similar scheme for intangible assets in another state, or
- (c) was acquired from an unrelated person or developed during the period from 2 January 2016 until 30 June 2016.

For intangible assets which were acquired directly or indirectly from a related person during the period from 2 January 2016 until 30 June 2016 and which do not fall under the above provisions, a transitional period until 31 December 2016 will apply.

The income qualified for the application of the current IP Box regime now includes embedded income and income from intangible assets for which only economic ownership exists.

IMPORTANT: Only intangible assets which as at 30 June 2016 have either generated income or their development has been completed, will qualify for the transitional rules.

6.1 New Cyprus IP Box regime

The new Cyprus IP box applies as from 1 July 2016. An 80% deduction is provided for qualifying profits relating to a qualifying IP. Accordingly, in effect, only 20% of the qualifying profits will be taxed at the rate of 12.5%. A taxpayer may elect not to claim all or part of the available 80% deduction for a particular tax year. Qualifying tax losses in the new Cyprus IP box are restricted to 20% of their amount.

6.1.1 Qualifying IP assets

Qualifying intangible asset means one which was acquired, developed or exploited by a person in furtherance of his business, which is the result of research and development activities and includes intangible assets for which only economic ownership exists.

The new provisions restrict qualifying IP assets to patents, computer software, as well as IP assets which are non-obvious, useful and novel and from which the income of a taxpayer does not exceed, in a 5 year period, €7.500.000 per annum (€50.000.000 for taxpayers forming part of a Group). The later should be certified by a competent Cypriot or foreign authority.

Further, qualifying IP assets under the nexus approach do not cover trademarks including brands, image rights and other intellectual property rights used for the marketing of products or services.

6.1.2 Qualifying income

Qualifying profits are determined under the OECD BEPS Action 5 nexus approach.

Qualifying income includes, but is not limited to the following:

- royalties or other amounts in connection with the use or license of qualifying intangible assets
- any amount received from insurance or as compensation in relation to the qualifying intangible asset
- gains relating to the disposal of qualifying intangible asset
- embedded income of qualifying intangible asset.

6.1.3 The Modified Nexus Approach and qualifying expenditure

The “Modified Nexus Approach” provides that there should be sufficient substance and an essential nexus between the expenses, the IP assets and the related IP income in order to benefit from a new Cyprus patent box regime.

The following formula has been introduced to determine the qualifying profits that can benefit from an IP regime relating to a qualifying asset:

$$[(\text{Qualifying expenditure} + \text{Up-lift expenditure}) / \text{Total expenditure}] \times \text{Overall IP Income}$$

Qualifying expenditure include among other expenses wages and salaries, general expenses relating to installations used for research and development and expenses for supplies related to research and development activities.

Qualifying expenditure, excludes though the R&D costs of outsourcing to related parties, contrary to the cost of outsourcing to unrelated parties which are considered as part of ‘qualifying expenditure”, the cost of the acquisition of intangible assets and costs which cannot be directly connected to a specific qualified IP asset.

In addition up-lift expenditure equal to the lower of the two below will be added to the qualifying expenses:

- (i) 30% of the eligible costs, or
- (ii) the total amount of the cost of acquisition and outsourcing to related parties for research and development in relation to the eligible intangible asset.

6.1.4 Accounting records

Proper books of account and records of income and expenses must be kept for each intangible asset for which a benefit is claimed under the new regime.

6.1.5 Non-qualifying assets for the IP Box regime

Expenditure of acquiring a non-qualifying intangible asset in accordance with the new rules or which does not qualify for the transitional provisions and the asset is used in furtherance of the business of the taxpayer can be amortized over the period of its useful life (maximum of 20 years) in accordance with the accepted accounting principles. Upon sale of this intangible asset, a balancing statement must be prepared. This is the same treatment as when a fixed asset is sold. Goodwill does not qualify for amortization.

VALUE ADDED TAX

7.

7.1 VAT Rates:

	%
Standard VAT rate (effective from 13 January 2014 onwards)	19%
Reduced VAT rate (applicable for hotel accommodations, restaurant and catering services)	9%
Reduced VAT rate (applicable for supply of water, medicine, gas, newspapers, food, admission to performances, books)	5%
Zero VAT rate (applicable for export of goods, leasing of aircrafts and vessels)	0%
Exempt VAT transactions (applicable for sale of buildings after first use, hospital and medical services, financial and insurance services, letting and leasing of immovable property etc)	-

7.2 Registration with the VAT

Compulsory registration	Registration threshold
Supply of goods and services within the Republic.	€ 15,600
Supply of goods and services to persons established in other Member States, where they not hold a valid VAT number.	€ 15,600
Intra-community acquisition of goods during any calendar year.	€ 10,251.61
Supply of services subject to the reverse charge mechanism to a taxable VAT registered person who is established in another Member State.	N/A
Distance sales of goods by a VAT registered supplier who is resident in another Member State made to individuals resident in Cyprus.	€ 35,000

7.3 Obligations after registering with the VAT

Type of obligation	Clarifications
Submission of VAT returns	Monthly or quarterly electronically via the Taxis Net system.
Issue of legal receipts	With a taxable supply of goods or services to individuals or non-VAT registered persons
Issue of VAT invoices	In relation to taxable supplies of goods and services to taxable persons in the Republic and/or to any EU established persons.
INFRASTAT declaration for monthly dispatches	For dispatch of goods to other Member States. Threshold for 2017 is €55,000

INFRASTAT declaration for monthly arrivals	For acquisition of goods from other Member States. Threshold for 2017 is €100,000
Monthly VIES statements	Provided that the counterparty holds a valid VAT number in their country this applies for the dispatch of goods to other Member States, the provision of services to persons situated in other Member States and for triangular trade. There is no registration threshold.
Deregistration from the Cyprus VAT register	Compulsory within 60 days from the termination of trading operations

7.4 Penalties

Non-compliance	Penalty
Failure to register with the Cyprus VAT register	€85 per month
Delayed submission of VAT return	€51 per VAT return
Delayed submission of VIES return	€50 per VIES return
Delayed correction of mistake on VIES return	€15 per VIES return
Delayed submission of INFRASTAT return	€15 per INFRASTAT return
Delayed payment of VAT	a one off payment of 10% on the due amount plus interest for any complete month for which the amount still remains due
Late deregistration	a one off €85 payment

CAPITAL GAINS TAX

8.

Capital Gains Tax is only imposed on the sale of property situated in Cyprus. The gain arising after the deduction from the sale proceeds, of the value of the property as at 1.1.1980 or the cost of acquisition after 1.1.1980 adjusted for inflation, is taxed at the rate of 20%.

Lifetime exemptions from the sale of immovable property which are applicable to individuals are as follows:

	Gains up to €
Any disposal of immovable property.	17,086
Disposal of agricultural land.	25,629
Disposal of private residence*	85,430

*Under certain conditions.

IMMOVABLE PROPERTY TAX

9.

Immovable property tax has been abolished as from 1st January 2017.

LAND TRANSFER FEES

10.

Tax Rates

Value €	Tax Rate %	Transfer fees €	Cumulative€
Up to 85,000	3	2,550	2550*
85,000 - 170,000	5	4,250	6,800*
Over 170,000	8		

* No transfer fees are paid in the event of an immovable property transferred that is subject to VAT. In the event where the transfer is not subject to VAT, land transfer fees are reduced by 50%.

Note: No transfer fees apply in the case of companies' reorganizations.

STAMP DUTY

11.

Cyprus stamp duty is levied only on 'documents' (ie. Written agreements / contracts) concerning assets situated in Cyprus and transactions or matters that will be carried out in Cyprus.

The stamp on agreements with a fixed value is levied as follows:

Value of contract	Stamp Duty
Equal of more than €5,000	0%
From €5,001 to €170,000	0.15%
Equal or less than €170,001	0.20% but capped at €20,000

SHIP MANAGEMENT SERVICES

12.

Ship management services means the services provided by a ship manager to an owner or bareboat charterer of a ship by virtue of a relevant written ship management agreement relating to the crew management services and/or to the technical management services of the ship. A ship manager who provides commercial management services will not be considered a qualifying ship manager for such services and will be liable to pay Income Tax on the corresponding part of his income. Income derived from the rendering of ship management services is subject to Income Tax at the ordinary rate of 12.5%.

A ship owner, ship manager, charterer who has opted for application of the Tonnage Tax System must remain under this system for at least 10 years. Early withdrawal will result in penalties and in such case the ship manager cannot re-elect to apply the Tonnage Tax System until the initial ten-year period has lapsed.

The following are exempt from any taxation in accordance with the provisions of the Merchant Shipping Law and may be subject to tonnage tax:

The income of a qualifying ship owner from the operation of a qualifying Cyprus, community and/or foreign vessel engaged in qualifying shipping activities.

The income of a qualifying charterer from the operation of a qualifying Cyprus, community and/or foreign vessel, engaged in qualifying shipping activities.

The income of a qualifying ship manager from the provision of crew and/or technical administration services.

12.1 Exemptions

In addition to the above, the below sources of income are also exempt from any taxation in Cyprus:

- Interest income relating to the working capital of the company.
- Salaries and other benefits paid to officers, masters and the crew of a qualifying Cyprus vessel engaged in a qualifying shipping activity.
- Dividends paid directly or indirectly from the profits which arose from qualifying shipping activities.
- Income from the transfer of shares of a ship owning company or the sale of a Cyprus-registered vessel.
- No stamp duty is payable on ship mortgage deeds or other security documents.
- No stamp duty of inheritance tax is levied following the death of a shareholder.

TAX CALENDAR

13.

Date*	Obligation	Tax form
End of each month	Payment of PAYE deducted from employees' salaries for the previous month	TD61
	Payment of tax withheld on payment made to non-Cyprus tax residents during the previous month	TD11
	Payment of special contribution for defense withheld on dividends, interest or rent ** paid in previous month to Cyprus tax residents ** Where the tenant is a Cyprus company, partnership, the Government or a local authority there is an obligation to withhold special contribution for the defense on the amount of rent paid	TD601
31 st January	Submission of the deemed dividend distribution declaration for the tax year 2016	TD623
31 st March	Electronic submission of the income tax return for individuals and companies preparing audited financial statements for the tax year 2017	TD1, TD4
30 th April	Payment of the first instalment of the premium tax for insurance companies (life business) for 2019	TD199
30 th June	Payment of tax balance for the tax year 2018 through self-assessment by individuals who don't prepare audited financial statements	TD158
	Payment of special contribution for defense on rents, dividends or interest from sources outside of the Republic for the first 6 months of 2019	TD601
31 st July	Electronic submission of the 2018 personal tax return by salaried individuals whose gross income exceeds €19,500 for 2018	TD1
	Electronic submission of the 2018 employers' return	TD7
	Submission of the 2019 provisional tax return and payment of the first provisional tax instalment	TD5, TD6
1 st August	Payment of the 2018 tax balance through self-assessment by individuals and companies preparing audited financial statements	TD158
31 st August	Payment of the second instalment of the premium tax for insurance companies (life business) for 2019	TD199
30 th September	Electronic submission of the 2018 personal tax return by individuals who do not prepare audited financial statements if their gross income exceeds €19,500 for 2018	TD1
31 st December	Submission of the 2019 revised provisional tax return (if applicable) and payment of the second provisional tax instalment	TD5, TD6
	Payment of special contribution for defense on rents, dividends or interest from sources outside of Cyprus for the last 6 months of 2019	TD601
	Payment of the third and last instalment of the premium tax for insurance companies (life business) for 2019.	TD199

*In cases where the deadline for the submission of a tax return or payment of a tax or other liability falls on a Saturday or Sunday or Public holiday, the deadline for complying with these obligations is extended until the next business day.

Electronic submission of tax returns

Every person (individual or company) who has an obligation to submit a tax return in accordance with the provisions of the Assessment and Collection of Taxes law must do so electronically.

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 the case of late payment of the tax due, a penalty of 5% is imposed on the unpaid tax. An additional penalty of 5% is imposed if the tax remains unpaid 2 months after the payment deadline.

Public interest rate

The interest rate applicable on late payment of taxes is set by the Minister of Finance through a Decree is as follows:

Period	Interest Rate %
Up to 31/12/2006	9
01/01/2007 – 31/12/2009	8
01/01/2010 – 31/12/2010	5.35
01/01/2011 – 31/12/2012	5
01/01/2013 – 31/12/2013	4.75
01/01/2014 – 31/12/2014	4.5
01/01/2015 – 31/12/2016	4
01/01/2017 – 31/12/2018	3.5
01/01/2019 – 31/12/2019	2