

**Deloitte.**

Cyprus  
Tax Facts  
2009







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## Welcome to Deloitte Cyprus

I am pleased to introduce Deloitte's annual guide to tax facts. Our aim is to provide the reader with a general awareness of the Cyprus tax legislation.

The Cyprus tax guide that you have in your hands is an informative tool for all taxpayers which can provide immediate access to specific tax data.

In the current difficult economic climate and the market turmoil, our firm has the ability to offer practical solutions that are adapted to the needs of all businesses. Our ongoing commitment for continuous investment in all our service line deliverables and our people is the key to our success. At Deloitte, we hold ourselves accountable and proudly celebrate our accomplishments. We look forward to embracing the challenges ahead and the achievement of our vision to be the Standard of Excellence.

The provision of taxation services is a core service line offered by Deloitte both in Cyprus and in the international arena. The services offered by our tax practice cover the whole spectrum of taxation services including corporate tax, personal tax, VAT and international tax planning services.

With more than 420 people in Cyprus, supported by the 165.000 Deloitte advisors globally, our tax consultants are at your disposal to advise you on any specific tax matter you wish.

Give us the opportunity to earn your trust.



Christis M. Christoforou  
Managing Partner, CEO



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The tax information contained in this booklet is accurate as at the date of its publication.

The information in the booklet is designed to increase the reader's general awareness of the Cyprus Tax System. For explanations/clarifications or professional advice please contact your Deloitte advisors.

16 January 2009

Deloitte is one of the largest providers of audit, tax, consulting and financial advisory services in Cyprus.

Our wide range of professional services includes:

- audit of financial statements in accordance with International, UK or US audit standards
- tax services to both Cyprus and foreign companies
- consulting services including financial and management consulting, EU advisory services, information technology (IT) and human resource consulting
- investment & wealth advisory services
- e-business services including technical and tax services
- corporate finance services as well as advice and assistance to private companies considering to go public
- accounting services
- formation of companies with lawyers and special services to international business companies

### **Our International Firm**

Deloitte Touche Tohmatsu (DTT) is one of the world's leading professional services firms.

More than 165.000 people in over 140 countries serve more than 80% of the world's largest companies, as well as large national enterprises, public institutions, locally important clients, and successful, fast-growing global growth companies.

# INCOME TAX

## *Individuals*

### **Imposition of tax**

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

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

Resident in the Republic is an individual who is present in the Republic for a period exceeding 183 days in a tax year.

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

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

### **Tax rates**

| Taxable<br>Income<br>€ | Tax<br>Rate<br>% | Tax<br>€ | Cumulative<br>Tax<br>€ |
|------------------------|------------------|----------|------------------------|
| 0 - 19.500             | 0                | 0        | 0                      |
| 19.501 - 28.000        | 20               | 1.700    | 1.700                  |
| 28.001 - 36.300        | 25               | 2.075    | 3.775                  |
| 36.301 and over        | 30               |          |                        |

## Exemptions

The following are exempt from income tax:

|   |  |
|---|--|
| Widows pension granted under schemes approved by the Commissioner of Income Tax   | The whole amount   |
| Gratuity or lump sum received on retirement or commutation of pension or as a result of death or bodily injury  | The whole amount   |
| Lump sum repayment from life insurance schemes or from approved provident funds   | The whole amount   |
| Interest income.<br>Interest income arising in the ordinary course of business, including interest closely connected with the carrying on of the business, is not considered as interest but trading profit and is not exempt   | The whole amount   |
| Dividend income   | The whole amount   |
| Remuneration from any office or employment exercised in the Republic by an individual whose residence was outside the Republic before the commencement of the employment. The exemption is applicable for a period of three years from 1 <sup>st</sup> January following the year of commencement of the employment | 20% of the remuneration or €8.550 (whichever is the lower) |
| Gains from disposal of securities   | The whole amount   |
| Deposits with the Housing Finance Corporation (the annual deposits cannot exceed 25% of the gross income) Only for schemes that were in existence on 30/4/2003 (applicable to deposits made up to 30/4/2009)  | 40% of the deposits  |

|  |                  |
|--|------------------|
| Remuneration from the rendering outside the Republic of salaried services to a non-resident employer or to a permanent establishment outside the Republic of a resident employer for a total aggregate period in the year of assessment of more than 90 days | The whole amount |
|--|------------------|

|  |                  |
|--|------------------|
| Profits from a permanent establishment maintained outside the Republic (subject to certain conditions) | The whole amount |
|--|------------------|

## **Deductions**

The following are deducted from income:

|   |                  |
|---|------------------|
| Interest relating to the acquisition of fixed assets used in the business | The whole amount |
|---|------------------|

|                                   |                          |
|-----------------------------------|--------------------------|
| Expenses for letting of buildings | 20% of the rental income |
|-----------------------------------|--------------------------|

|  |                  |
|--|------------------|
| Interest in respect to the acquisition of a building for rental purposes | The whole amount |
|--|------------------|

|  |                  |
|--|------------------|
| Subscriptions to trade unions or professional bodies | The whole amount |
|--|------------------|

|   |   |
|---|---|
| Expenditure for the maintenance of buildings under preservation order (subject to certain conditions) | Up to €700, €1.100 or €1.200 per sq. m. (depending on the size of the building) |
|---|---|

|   |                  |
|---|------------------|
| Donations to approved charitable organisation (with receipts) | The whole amount |
|---|------------------|

## **Non-deductible expenses**

The following expenses are not tax deductible:

|   |  |
|---|--|
| Business entertainment expenses including hospitality expenses of any kind which are incurred for the purpose of the business | amount in excess of 1% of the gross income or €17.086 (whichever is the lower) |
|---|--|

|  |                  |
|--|------------------|
| Private motor vehicle expenses   | The whole amount |
| Professional tax   | The whole amount |
| Immovable property tax   | The whole amount |
| Interest payable or deemed to be payable in relation to the acquisition of a private motor vehicle, irrespective of whether it is used in the business or not, or other asset not used in the business. This restriction is lifted after 7 years from the date of purchase of the relevant asset | The whole amount |
| Contributions to the Social Cohesion Fund  | The whole amount |

## **Capital Allowances**

Capital allowances available for companies (pages 12 and 13) are also available to individuals who prepare accounts.

## **Losses**

### *Carry forward of losses*

Losses are carried forward indefinitely. Losses for the years 1997 onwards, which have not been offset against profits arising up to the year 2002, will be carried forward to 2003 and subsequent years without time restriction.

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

## *Loss of a permanent establishment outside the Republic*

Losses arising from a permanent establishment maintained outside the Republic can be offset against profits arising in the Republic. However, when a profit arises from such a permanent establishment, an amount equal to the losses that have been utilised in the past against profits arising in the Republic, will be included in the taxable income.

## **Personal allowances**

The following are deductible from income:

|   |  |
|---|--|
| Social insurance contributions, contributions to approved provident and pension funds, the General Health Plan, contributions to medical or other approved funds as well as insurance premiums in respect of the life of the claimant | The whole amount up to 1/6 of the taxable income before this allowance |
|---|--|

- the annual life insurance premium is restricted to 7% of the insured amount
- life insurance policies, in respect to the life of the claimant's spouse, which were in existence up to the 31 December 2002 and for which the claimant was receiving a tax allowance, will continue to be deductible by the claimant
- in the event of cancellation of a life insurance contract within 6 years from the date it was entered into, part of the life insurance premiums already given as an allowance will be taxable as follows:

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

## **Tax credit for foreign tax paid**

Any tax suffered abroad on income subject to income tax will be credited against any income tax payable on such income irrespective of the existence of a double tax treaty.

### **Imposition of tax**

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

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

Resident in the Republic is a company that is managed and controlled in the Republic.

### **Tax rates**

|                         |     |
|-------------------------|-----|
| Companies               | 10% |
| Public corporate bodies | 25% |

### **Exemptions**

|  |     |
|--|-----|
| Interest income. Interest income arising in the ordinary course of business including interest closely connected with the carrying on of the business, is not considered interest but trading profit and therefore the 50% exemption is not applicable | 50% |
|--|-----|

|                 |                  |
|-----------------|------------------|
| Dividend income | The whole amount |
|-----------------|------------------|

|  |                  |
|--|------------------|
| Profit from the disposal of securities | The whole amount |
|--|------------------|

|  |                  |
|--|------------------|
| Profits from a permanent establishment maintained outside the Republic (subject to certain conditions) | The whole amount |
|--|------------------|

### **Deductions**

Deductible from income are all expenses incurred wholly and exclusively for the production of income including:

|   |                  |
|---|------------------|
| Interest incurred for the acquisition of a fixed asset used in the business | The whole amount |
|---|------------------|

|   |   |
|---|---|
| Expenditure for the maintenance of buildings under preservation order (subject to certain conditions) | up to €700, €1.100 or €1.200 per sq. m. (depending on the size of the building) |
| Donations to approved charities (with receipts)   | The whole amount  |

### **Non-deductible expenses**

The following are not deductible from income:

|  |   |
|--|---|
| Business entertainment expenses including hospitality expenses of any kind which are incurred for the business   | amounts in excess of 1% of the gross income or €17.086 (whichever is the lower) |
| Private motor vehicle expenses   | The whole amount  |
| Professional tax   | The whole amount  |
| Immovable property tax   | The whole amount  |
| Interest payable or deemed to be payable in relation to the acquisition of a private motor vehicle, irrespective of whether it is used in the business or not, or other asset not used in the business. This restriction is lifted after 7 years from the date of purchase of the relevant asset | The whole amount  |
| Contributions to the Social Cohesion Fund  | The whole amount  |

### **Losses**

#### *Carry forward of losses*

Losses are carried forward indefinitely. Losses for the years 1997 onwards which have not been offset

against profits arising up to the year 2002, will be carried forward to 2003 and subsequent years without time restriction.

### *Group relief*

Losses for the current year only can be surrendered by a group company to another group company. Group relief will be given provided that both companies are members of the same group for the whole of a tax year.

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

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

### *Loss of a permanent establishment outside the Republic*

Losses arising from a permanent establishment outside the Republic can be offset against profits arising in the Republic. However, when a profit arises from such a permanent establishment, an amount equal to the losses that have been utilised in the past against profits arising in the Republic will be included in the taxable income.

### *Insurance companies*

- losses of the life business can be offset against profits of the general business
- losses of the life business can be offset against profits from other sources
- losses of the life business can be carried forward indefinitely.

### **Tax credit for foreign tax paid**

Any tax suffered abroad on income subject to income tax will be credited against any income tax payable on such income irrespective of the existence of a double tax treaty.

### **Insurance companies**

Insurance companies of general and life business are taxable in the same way as all other companies. In the case where there is no tax payable or where the tax payable on the taxable income of the life business is less than 1.5% of the gross amount of the insurance premiums then the insurance company pays the difference as additional tax.

### **Ship management companies**

Income arising from ship management activities is subject to tax at 4,25%. A company can elect to pay special tonnage tax if more beneficial.

### **Pension income from services rendered abroad**

The pension income of any individual resident in the Republic, which arises from services rendered abroad, is taxed at a rate of 5% for amounts exceeding €3.420 per annum.

The taxpayer has the right to choose to be taxed either under the special mode of taxation as stated above or at normal rates. If the latter is chosen the pension is added to the individual's other income.

### **Intellectual property rights etc**

The gross income arising from intellectual property rights, other exploitation rights, compensations or other similar income arising from sources within the Republic, of a person who is not resident in the Republic, is subject to withholding tax at a rate of 10%.

Royalties received by a connected company registered in a European Union Member State are exempt from tax (subject to conditions).

Rights granted for use outside the Republic are not subject to any withholding tax.

## **Film royalties etc**

The gross income derived by a non-resident person in respect of royalties arising from film projection in the Republic is subject to withholding tax at a rate of 5%. Royalties received by a connected company registered in a European Union Member State are exempt from tax (subject to conditions).

## **Profits of professionals, entertainers etc**

The gross income derived by an individual not resident in the Republic from the exercise in the Republic of any profession or vocation, the remuneration of public entertainers not resident in the Republic, and the gross receipts of any theatrical or musical or other group of public entertainers, including football clubs and other athletic missions from abroad, derived from performances in the Republic is subject to a 10% withholding tax.

## Capital Allowances

### Allowances for the annual wear and tear

#### *Plant and machinery*

Fork lifts, excavators, loading vehicles, bulldozers and oil barrels 25%

Motor vehicles of all types except from private saloon cars 20%

Personal computers (hardware) and operating software 20%

Application software  
up to €1.709 100%  
above €1.709 33 1/3%

*Plant and machinery used in agriculture* 15%

Water drillings, industrial carpets, video recorders, televisions 10%

Any other plant and machinery 10%

Furniture and fittings 10%

#### *Buildings*

Metallic frame of greenhouses 10%

Wooden frame of greenhouses 33 1/3%

Industrial, agricultural and hotel buildings 4%

Commercial 3%

#### *Ships*

Steamships, tug-boats and ships used in the fishing industry 6%

Sailings vessels 4 1/2%

Ship launching machinery 12 1/2%

|   |   |
|---|---|
| Used ships  | in accordance with special agreement                                    |
| New commercial ships                                      | 8%  |
| New passenger ships                                       | 6%  |
| Used commercial and passenger ships and capital additions | remaining useful economic life in accordance with the class certificate |
| <i>Tools</i>  |   |
| All tools in general                                      | 33 1/3 %  |
| Videotapes used by video clubs                            | 50%   |

## SPECIAL CONTRIBUTION FOR DEFENCE

### Rates

All residents of the Republic are subject to defence contribution on the sources of income indicated below. Non residents are not subject to the defence contribution.

|   |     |
|---|-----|
| Dividends   | 15% |
| Interest income   | 10% |
| Interest received by an individual from Government Savings Certificates | 3%  |
| Interest received by an individual from Government Bonds                | 3%  |
| Interest earned by an approved provident fund                           | 3%  |
| Rental income less 25%  | 3%  |
| Profits earned by public corporate bodies                               | 3%  |

### Dividends

Exemptions:

- dividends paid by a company resident in the Republic to another company resident in the Republic
- dividends received by a company resident in the Republic or a company not resident in the Republic which maintains a permanent establishment in the Republic from a company which is non-resident in the Republic and of which at least 1% of the share capital is held (with certain criteria)
- dividends paid out of dividend income which has suffered income tax at source of 20% and are paid

within a period of six years from the date of receiving such dividend income

- dividends derived directly or indirectly from profits arising from operating a Cyprus flag ship in the course of shipping activities or from ship management services.

## **Interest income**

Interest that is received as a result of the carrying on of a business activity, including interest closely connected to the ordinary activities of the business, is not considered interest for special defence contribution purposes.

A person whose total annual income, including interest, does not exceed €12.000 who receives interest which has been subject to defence contribution at 10%, has the right to a refund of the amount of defence contribution suffered in excess of 3%.

## **Deemed distribution**

A company resident in the Republic is deemed to have made a distribution of 70% of its profits after tax in the form of dividends at the end of the two years from the end of the tax year in which the profits relate and must account for 15% defence contribution thereon.

In arriving at the amount of the deemed distribution, any actual dividend which is distributed during the two year period from the end of the tax year in which the profits relate is deducted.

In cases where an actual dividend is paid after the two year period, any deemed distribution reduces the actual dividend on which the defence contribution is withheld.

For the purpose of calculating the amount of the deemed distribution, "profits" mean the accounting

profits arrived at using generally acceptable accounting principles, but after the deduction of any transfers to reserves as specified by any law. Any offset of group losses as well as any amounts, including any additional depreciation, which emanate or are the result of revaluation of movable and immovable property are ignored.

The deemed distribution provisions do not apply to profits which relate to non-resident shareholders.

In the case of a person not being resident in the Republic receiving dividends from a company which is resident in the Republic, emanating from profits which at any stage were subject to deemed distribution, the special contribution paid as a result of the deemed distribution which is attributable to such person is refundable.

### **Company dissolution**

The aggregate amount of profits in the five years prior to the company dissolution, which have not been distributed or be deemed to be distributed, will be considered as distributed on dissolution and will be subject to defence contribution at 15%.

These provisions do not apply in the case of dissolution under reorganisation, in accordance with certain pre-requisites set out in Regulations and where the shareholders are non-residents in the Republic.

### **Reduction of capital**

In the case of a reduction of capital of a company, any amounts due or paid to the shareholders up to the amount of the undistributed taxable income of any tax year calculated before the deduction of losses from prior years, will be considered as distributed dividends subject to special defence contribution at 15% (after deducting any amounts which have been deemed as distributable profits).

These provisions do not apply where the shareholders are non-residents in the Republic.

### **Tax credit for foreign tax paid**

Any tax suffered abroad on income which is subject to special defence contribution will be credited against any defence contribution payable on such income irrespective of the existence of a double taxation treaty.

## PROFITS FROM SHIPPING ACTIVITIES

The following are exempt from taxation in accordance with the provisions of the Merchant Shipping (Fees and Taxing Provisions) Law:

The income of a ship-owner of a Cyprus ship from the operation of such ship in any shipping activity between Cyprus and ports abroad or between ports abroad.

The income of a person from the provision of ship management services.

Dividends paid to the shareholders of a company if these are paid out of profits earned from the operation of a Cyprus ship in shipping activities or from the provision of ship management services.

Salaries and other benefits paid to the master, the officers and the crew of a Cyprus ship.

For the purpose of the above mentioned act the term "ship owner" includes a bareboat chartered while the term "operation of ship" includes chartering of any form.

Persons providing ship management services are liable to tax at rates equal to 25% of those applied for tonnage tax. Such persons may however, elect instead to pay tax at the rate of 4,25% on their taxable profits.

## CAPITAL GAINS TAX

Capital Gains Tax is imposed on gains from disposal of immovable property situated in the Republic including shares of companies not listed on a recognised Stock Exchange which own immovable property situated in the Republic, at the rate of 20%.

In computing the capital gain the value of the immovable property as at 1 January 1980 (or cost if the date of acquisition is later), the cost of any additions after 1 January 1980 or the date of acquisition if later, any expenditure incurred for the production of the gain and the indexation allowance, are deducted from the sale proceeds.

The following expenses are not considered expenses wholly and exclusively for the production of the profit and therefore are not deductible:

- a) Immovable Property Tax
- b) Immovable Property Fees
- c) Sewerage Council Fees

### Exemptions

The following disposals of immovable property are exempt from capital gains tax:

- transfer on death
- gifts between spouses, parents and children and relatives up to third degree
- gift to a company whose shareholders are members of the donor's family and continue to be members of the family for a period of five years from the date of the gift
- gift by a family company to its shareholders, if the company had also acquired the property in question via donation. However if the shareholder disposes the property within 3 years then the shareholder will not be entitled to the deductions listed below.

- gifts to charitable organisation or the Republic
- exchange or disposal under the Agricultural Land (Consolidation) Laws
- exchange provided the gain is used for the acquisition of new property. The gain derived from the exchange reduces the cost of the new property and the tax is paid when the latter is disposed
- expropriations
- transfer of ownership or share transfers in the event of company reorganisations
- transfer of property of a missing person under administration
- transfer of ownership between spouses that their marriage has been dissolved by a court order or in case of transfer of ownership between the same persons for the purpose of settling their property according to the Settlement of Property Relationships between Spouses Law.

## **Deductions**

Individuals are entitled to deduct from the gains the following:

|  | €      |
|--|--------|
| Disposal of principal private residence<br>(subject to conditions) | 85.430 |
| Disposal of agricultural land by a farmer                          | 25.629 |
| Other disposals  | 17.086 |

The above are lifetime deductions.

## IMMOVABLE PROPERTY TAX

Immovable property tax is imposed on the market value of immovable property as at 1 January 1980 and is calculated on the immovable property owned by the taxpayer on 1 January of each year.

### Rates

| Value of property<br>€ | Rate<br>% | Tax<br>€ | Cumulative<br>Tax<br>€ |
|------------------------|-----------|----------|------------------------|
| 0 - 170.860            | 0         | 0        | 0                      |
| 170.861 - 427.150      | 0,25      | 641      | 641                    |
| 427.151 - 854.300      | 0,35      | 1.495    | 2.136                  |
| 854.301 and over       |           | 0,40     |                        |

### Exemptions

The following properties are exempt from immovable property tax:

- public cemeteries
- churches and other religious buildings
- public hospitals
- schools
- immovable property owned by the Republic, foreign embassies and consulates
- buildings under a preservation order subject to conditions
- buildings of charitable organisations
- agricultural land used for agriculture or animal husbandry by a farmer
- immovable property situated in inaccessible or depressed areas
- property of a missing person under administration.

## MAINTENANCE OF ACCOUNTING BOOKS AND RECORDS

From 1<sup>st</sup> January 2006, with effect from the tax year 2006 and onwards, every person (individual, company or partnership) deriving income from commercial or industrial business, profession or vocation, or any other occupation and from property (such as leasing or rental) must:

- a. issue invoices in relation to transactions and receipts, as specified by Regulations issued by the Council of Ministers and published in the Cyprus Gazette.
- b. maintain accounting books and records and prepare accounts in accordance with acceptable accounting standards, that are audited in accordance with acceptable auditing standards, by a person that is eligible to act as an auditor of a company in accordance with the Companies Law.

An individual is exempt from the obligation to maintain accounting books and records where the annual turnover does not exceed the amount of €70.000.

## DOUBLE TAX TREATIES

The following tables show the rates of withholding tax deducted from income, with countries that have signed a double taxation treaty with Cyprus.

|                                | Received in Cyprus |                    |                    |
|--------------------------------|--------------------|--------------------|--------------------|
|                                | Dividends<br>%     | Interest<br>%      | Royalties<br>%     |
| Armenia <sup>(27)</sup>        | 0                  | 0                  | 0                  |
| Austria                        | 10                 | 0                  | 0                  |
| Belarus                        | 5 <sup>(4)</sup>   | 5                  | 5                  |
| Belgium                        | 10 <sup>(1)</sup>  | 10 <sup>(16)</sup> | 0                  |
| Bulgaria                       | 5 <sup>(19)</sup>  | 7 <sup>(25)</sup>  | 10 <sup>(20)</sup> |
| Canada                         | 15                 | 15 <sup>(7)</sup>  | 10 <sup>(11)</sup> |
| China                          | 10                 | 10                 | 10                 |
| Czech Republic <sup>(29)</sup> | 10                 | 10 <sup>(8)</sup>  | 5 <sup>(14)</sup>  |
| Denmark                        | 10 <sup>(1)</sup>  | 10 <sup>(9)</sup>  | 0                  |
| Egypt                          | 15                 | 15                 | 10                 |
| France                         | 10 <sup>(2)</sup>  | 10 <sup>(9)</sup>  | 0 <sup>(26)</sup>  |
| Germany                        | 10 <sup>(1)</sup>  | 10 <sup>(8)</sup>  | 0 <sup>(26)</sup>  |
| Greece                         | 25 <sup>(21)</sup> | 10                 | 0 <sup>(12)</sup>  |
| Hungary                        | 5 <sup>(1)</sup>   | 10 <sup>(8)</sup>  | 0                  |
| India                          | 10 <sup>(2)</sup>  | 10 <sup>(8)</sup>  | 15 <sup>(15)</sup> |
| Ireland                        | 0                  | 0                  | 0 <sup>(12)</sup>  |
| Italy                          | 15                 | 10                 | 0                  |
| Kuwait                         | 10                 | 10 <sup>(8)</sup>  | 5 <sup>(14)</sup>  |
| Kyrgyzstan <sup>(27)</sup>     | 0                  | 0                  | 0                  |
| Lebanon                        | 5                  | 5 <sup>(16)</sup>  | 0                  |
| Malta                          | 0 <sup>(22)</sup>  | 10 <sup>(8)</sup>  | 10                 |
| Mauritius                      | 0                  | 0                  | 0                  |
| Moldova                        | 5 <sup>(19)</sup>  | 5                  | 5                  |
| Montenegro <sup>(28)</sup>     | 10                 | 10                 | 10                 |
| Norway                         | 5 <sup>(3)</sup>   | 0                  | 0                  |
| Poland                         | 10                 | 10 <sup>(8)</sup>  | 5                  |
| Qatar <sup>(30)</sup>          | 0                  | 0                  | 5                  |
| Romania                        | 10                 | 10 <sup>(8)</sup>  | 5 <sup>(14)</sup>  |
| Russia                         | 5 <sup>(6)</sup>   | 0                  | 0                  |
| San Marino                     | 0                  | 0                  | 0                  |
| Serbia <sup>(28)</sup>         | 10                 | 10                 | 10                 |
| Seychelles                     | 0                  | 0                  | 5                  |
| Singapore                      | 0                  | 10 <sup>(23)</sup> | 10                 |
| Slovakia <sup>(29)</sup>       | 10                 | 10 <sup>(8)</sup>  | 5 <sup>(14)</sup>  |
| Slovenia <sup>(28)</sup>       | 10                 | 10                 | 10                 |
| South Africa                   | 0                  | 0                  | 0                  |
| Sweden                         | 5 <sup>(1)</sup>   | 10 <sup>(8)</sup>  | 0                  |
| Syria                          | 0 <sup>(1)</sup>   | 10 <sup>(8)</sup>  | 15 <sup>(13)</sup> |
| Tajikistan <sup>(27)</sup>     | 0                  | 0                  | 0                  |
| Thailand                       | 10                 | 10 <sup>(17)</sup> | 5 <sup>(18)</sup>  |
| Ukraine <sup>(27)</sup>        | 0                  | 0                  | 0                  |
| United Kingdom                 | 0 <sup>(24)</sup>  | 10                 | 0 <sup>(26)</sup>  |
| USA                            | 15 <sup>(5)</sup>  | 10 <sup>(10)</sup> | 0                  |
| Uzbekistan <sup>(27)</sup>     | 0                  | 0                  | 0                  |

**Paid from Cyprus\***

|                                | <b>Dividends</b>  | <b>Interest</b>    | <b>Royalties</b>   |
|--------------------------------|-------------------|--------------------|--------------------|
|                                | <b>%</b>          | <b>%</b>           | <b>%</b>           |
| Non-treaty countries           | 0                 | 0                  | 0 **               |
| Armenia <sup>(27)</sup>        | 0                 | 0                  | 0                  |
| Austria                        | 10                | 0                  | 0                  |
| Belarus                        | 5 <sup>(4)</sup>  | 5                  | 5                  |
| Belgium                        | 10 <sup>(1)</sup> | 10                 | 0                  |
| Bulgaria                       | 5 <sup>(19)</sup> | 7 <sup>(25)</sup>  | 10                 |
| Canada                         | 15                | 15 <sup>(7)</sup>  | 10 <sup>(11)</sup> |
| China                          | 10                | 10                 | 10                 |
| Czech Republic <sup>(29)</sup> | 10                | 10 <sup>(8)</sup>  | 5 <sup>(14)</sup>  |
| Denmark                        | 10 <sup>(1)</sup> | 10 <sup>(9)</sup>  | 0                  |
| Egypt                          | 15                | 15                 | 10                 |
| France                         | 10 <sup>(2)</sup> | 10 <sup>(9)</sup>  | 0 <sup>(26)</sup>  |
| Germany                        | 10 <sup>(1)</sup> | 10 <sup>(8)</sup>  | 0 <sup>(26)</sup>  |
| Greece                         | 25                | 10                 | 0 <sup>(12)</sup>  |
| Hungary                        | 0                 | 10 <sup>(8)</sup>  | 0                  |
| India                          | 10 <sup>(2)</sup> | 10 <sup>(8)</sup>  | 15 <sup>(15)</sup> |
| Ireland                        | 0                 | 0                  | 0 <sup>(12)</sup>  |
| Italy                          | 0                 | 10                 | 0                  |
| Kuwait                         | 10                | 10 <sup>(8)</sup>  | 5 <sup>(14)</sup>  |
| Kyrgyzstan <sup>(27)</sup>     | 0                 | 0                  | 0                  |
| Lebanon                        | 5                 | 5 <sup>(16)</sup>  | 0                  |
| Malta                          | 15                | 10 <sup>(8)</sup>  | 10                 |
| Mauritius                      | 0                 | 0                  | 0                  |
| Moldova                        | 5 <sup>(19)</sup> | 5                  | 5                  |
| Montenegro <sup>(28)</sup>     | 10                | 10                 | 10                 |
| Norway                         | 0                 | 0                  | 0                  |
| Poland                         | 10                | 10 <sup>(8)</sup>  | 5                  |
| Qatar <sup>(30)</sup>          | 0                 | 0                  | 5                  |
| Romania                        | 10                | 10 <sup>(8)</sup>  | 5 <sup>(14)</sup>  |
| Russia                         | 5 <sup>(6)</sup>  | 0                  | 0                  |
| San Marino                     | 0                 | 0                  | 0                  |
| Serbia <sup>(28)</sup>         | 10                | 10                 | 10                 |
| Seychelles                     | 0                 | 0                  | 5                  |
| Singapore                      | 0                 | 10 <sup>(23)</sup> | 10                 |
| Slovakia <sup>(29)</sup>       | 10                | 10 <sup>(8)</sup>  | 5 <sup>(14)</sup>  |
| Slovenia <sup>(28)</sup>       | 10                | 10                 | 10                 |
| South Africa                   | 0                 | 0                  | 0                  |
| Sweden                         | 5 <sup>(1)</sup>  | 10 <sup>(8)</sup>  | 0                  |
| Syria                          | 0 <sup>(1)</sup>  | 10 <sup>(8)</sup>  | 15 <sup>(13)</sup> |
| Tajikistan <sup>(27)</sup>     | 0                 | 0                  | 0                  |
| Thailand                       | 10                | 10 <sup>(17)</sup> | 5 <sup>(18)</sup>  |
| Ukraine <sup>(27)</sup>        | 0                 | 0                  | 0                  |
| United Kingdom                 | 0                 | 10                 | 0 <sup>(26)</sup>  |
| USA                            | 0                 | 10 <sup>(10)</sup> | 0                  |
| Uzbekistan <sup>(27)</sup>     | 0                 | 0                  | 0                  |

## Notes

- \* Payments of dividends and interest to non residents are exempt from withholding tax in Cyprus according to the Cyprus Legislation. Royalties granted for use outside of Cyprus are also free of withholding tax in Cyprus.
  - \*\* 10% in the case of royalties granted for use within the Republic. 5% on film and TV rights.
1. 15% if received by a company controlling less than 25% of the voting power.
  2. 15% if received by a company controlling less than 10% of the voting power.
  3. NIL if paid to a company controlling at least 50% of the voting power.
  4. This rate applies if the amount invested by the beneficial owner is over €200.000 irrespective of the % of voting power acquired. 10% is imposed if received by a holder of at least 25% of the share capital of the paying company. Otherwise the rate is 15%.
  5. 5% if received by a company controlling at least 10% of the voting power.
  6. 10% if received by company, which has invested less than \$100.000.
  7. NIL if paid to the Government or for export guarantee.
  8. NIL if paid to the Government of the other State or to a financial institution.
  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 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 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, dramatic, musical, artistic work, films and TV royalties.
14. NIL on literary, artistic or scientific work including films.
15. 10% on payment of technical fees, management fees and consultancy fees.
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 from financial institutions, on interest paid in connection with industrial, commercial, scientific equipment or the sale or merchandise between two companies.
18. 10% on 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. This rate is applicable if received by a company owning directly at least 25% of the capital. In all other cases the withholding tax is 10%.

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. The treaty provides for 25%, but the domestic rate of NIL applies since it is lower than the treaty rate.
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. The treaty provides for 15% withholding tax but the local taxation provides for 0% withholding tax.
25. NIL if paid to or is guaranteed by the government, statutory body, the Central Bank.
26. 5% on film royalties, including films used for television programs.
27. The treaty between the Republic of Cyprus and the United Soviet Socialist Republic still applies.
28. The treaty between the Republic of Cyprus and the Socialist Federal Republic of Yugoslavia still applies.
29. The treaty between the Republic of Cyprus and the Czechoslovak Socialist Republic still applies.
30. The treaty between the Republic of Cyprus and Qatar has yet to be ratified.

## TAX DIARY

|                   |   |
|-------------------|---|
| End of each month | PAYE deducted from employees' salaries for the previous month   |
|                   | Defence contribution deducted from dividends and interest paid for the previous month   |
| 31 January        | Submission of the deemed dividend distribution declaration for the tax year 2006  |
| 30 April          | Submission of personal tax returns for 2008 by individuals whose gross income exceeds €19.500                                       |
|                   | Submission of employers' return and employees' details for 2008   |
|                   | Payment of provisional tax by insurance companies (life business) for the first four months of 2009                                 |
| 30 June           | Submission of personal tax return for 2008 by individuals who do not prepare audited accounts if their gross income exceeds €19.500 |
|                   | Payment of tax balance for 2008 through self assessment by individuals who do not prepare audited accounts                          |
|                   | Payment of special contribution for defence for the first half of 2009  |
| 1 August          | Submission of provisional tax assessment for 2009 and payment of the first instalment   |

|              |   |
|--------------|---|
|              | Payment of 2008 tax balance through self assessment by individuals and companies preparing audited accounts |
| 31 August    | Payment of provisional tax by insurance companies (life business) for the second four months of 2009        |
| 30 September | Payment of the second instalment of 2009 provisional tax  |
|              | Payment of immovable property tax for 2009  |
| 31 December  | Submission of 2008 tax returns for individuals and companies preparing audited accounts                     |
|              | Payment of the third instalment of 2009 provisional tax   |
|              | Payment of special contribution for defence for the second half of 2009                                     |
|              | Payment of provisional tax by insurance companies (life business) for the last four months of 2009          |

Non compliance with the above deadlines results in penalties and interest depending on the deadline not complied with.

Note:

The rate is determined by the Minister of Finance through a decree and it is applicable for the whole year. The rate for 2009 was set at 8%.

# VALUE ADDED TAX

## Imposition of tax

Value Added Tax is imposed on the acquisition of goods from other Member States of the European Union, on the provision of goods and services in Cyprus as well as on the importation of goods into Cyprus.

## Rates

|               |     |
|---------------|-----|
| Standard rate | 15% |
| Reduced rate  | 8%  |
| Reduced rate  | 5%  |
| Zero rate     | 0%  |

### *Standard rate*

The standard rate applies to any provision of goods and services in Cyprus not subject to the zero rate, the reduced rate or is exempt.

### *Reduced rate 8%*

The reduced rate of 8% applies to:

- All restaurant services and any similar catering services (excluding the supply of alcoholic drinks, beer and wine).
- Accommodation in hotels, tourist lodgements and any other similar lodgements including the provision of holiday lodgements.
- Transportation of passengers and their accompanying luggage within the Republic using urban, intercity and rural taxis and by tourist and intercity buses.
- Movement of passengers in inland waters and their accompanying luggage.

### *Reduced rate 5%*

The reduced rate of 5% applies to:

- The supply of fertilizers
- The supply of insecticides
- The supply of raticides
- The supply of fungicides
- The supply of foodstuff for animal
- The supply of seeds
- The supply of live animals used for the preparation of food
- The supply of non-bottled water
- Books, newspapers and magazines
- Sundry goods used by disabled persons
- Gas irrespective of packaging

- Ice-creams, ice-yoghourts, water-ice and similar products
- Salted or spicy products made with cereal or potatoes
- Salted or roasted or spicy nuts
- Funeral services
- Transportation of passengers and their accompanying luggage with urban and rural buses
- The letting of camping sites and caravan parks
- Bottled water, ready-made drinks, juices (excluding soft drinks, alcoholic drinks, beer and wine)
- The supply of vaccines for medical and veterinary (with certain exemptions)
- Entry fees to theaters, circus, festivals, luna parks, concerts, museums, zoos, cinemas, exhibitions and similar cultural events and related places
- Entry fees at sports events and fees for using athletic centres
- Hairdressing services
- Repair and maintenance of private households after three years of first residence
- Supplies in the course of catering by school canteens

#### *Zero rate*

Zero rated supplies include the provision of food supplies, medicines, exports etc.

#### *Exemptions*

Exempt supplies include:

- Rental of immovable property
- Financial services
- Hospital and medical services
- Postal services
- Insurance services
- Disposal of immovable property where the application for building permission has been submitted prior to 1 May 2004.

### **Who is obliged to register**

Every individual or company is obliged to register:

- (a) at the end of any month, if the value of taxable supplies recorded in the last 12 months exceeds €15.600 or
- (b) at any point in time the value of taxable supplies are expected to exceed €15.600 in the next 30 days.

### **Right of registration**

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

## VAT returns and payment of VAT

Any registered person must submit to the VAT Commissioner a VAT return within 40 days from the end of any tax period and pay the VAT due.

## Administration of intra-community trading

Merchandisers who undertake intra-community trading, i.e. purchases and sales from/to European Union member States need to complete the following forms:

### *Intra-Community Acquisitions*

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

### *Intra-Community Supplies*

1. Intrastat - Departures
2. Recapitulative schedule for supplies
3. Inclusion in the VAT return (on a totals basis with 0%).

## When and where are they submitted?

INTRASTAT forms are submitted to the VAT authority no later than the 10th day which follows the end of the month stated on the INTRASTAT form. The VIES form is submitted to the VAT authorities within 40 days from the end of each calendar quarter.

## Penalties and interest

|   |   |
|---|---|
| Late registration                                       | €85 for every month of delay  |
| Late submission of return                               | €51 one-off   |
| Late payment of VAT                                     | 10% of amount due plus 8% interest                                  |
| Late de-registration                                    | €85 one-off   |
| Late submission of Intrastat form                       | €8 for every working day of delay with a maximum of 30 working days |
| Late submission of Recapitulative schedule for supplies | €51 for every month of delay with a maximum of 3 months             |

# SOCIAL SECURITY CONTRIBUTIONS

## Contributions

|                      | <b>Employer</b><br>% | <b>Employee</b><br>% | <b>Self<br/>employed</b><br>% |
|----------------------|----------------------|----------------------|-------------------------------|
| Social Insurance     | 6,3                  | 6,3                  | 11,6                          |
| Redundancy Fund      | 1,2                  | -                    | -                             |
| Industrial Training  | 0,5                  | -                    | -                             |
| Social Cohesion Fund | 2,0*                 |                      |                               |

*Note: As at the date of printing there is a draft legislation that, if voted, will increase the above contributions to Social Insurance from 6,3% to 6,8% and from 11,6% to 12,6%*

## Upper limits for employees

|                   | <b>per week<br/>from 1/1/2009</b><br>€ | <b>per month</b><br>€ | <b>per annum</b><br>€ |
|-------------------|--|-----------------------|-----------------------|
| Weekly employees  | 924                                    | -                     | 48.048                |
| Monthly employees | -                                      | 4.004                 | 48.048                |

*\* The amount of contribution to Social Cohesion Fund is calculated on the total emoluments with no upper limit*

## Lower limits for self-employed

| <b>Occupational Category</b>  | <b>Weekly</b><br>€ | <b>Annually</b><br>€ |
|---|--------------------|----------------------|
| 1. Medical Doctors, Pharmacists,<br>Health professionals                |                    |                      |
| a. persons with up to<br>10 years practice                              | 340                | 17.680               |
| b. persons with more than<br>10 years practice                          | 682                | 35.464               |
| 2. Accountants, Economists,<br>Lawyers and other<br>Liberal professions |                    |                      |

|  |     |        |
|--|-----|--------|
| a. persons with up to<br>10 years practice   | 340 | 17.680 |
| b. persons with more than<br>10 years practice   | 682 | 35.464 |
| 3. Managers (Businessmen),<br>Estate Agents, Wholesalers   | 682 | 35.464 |
| 4. Teaching Professionals<br>(University, Secondary education,<br>Primary and pre-primary<br>education, Teaching Associates,<br>Special education teaching<br>professionals)     |     |        |
| a. persons with up to<br>10 years practice   | 330 | 17.160 |
| b. persons with more than<br>10 years practice   | 660 | 34.320 |
| 5. Builders and related<br>occupations   | 414 | 21.528 |
| 6. Farmers, Dairy and Livestock<br>producers, Poultry producers,<br>Fishermen and related<br>occupations   | 229 | 11.908 |
| 7. Drivers, Excavator operators<br>and related occupations   | 330 | 17.160 |
| 8. Technicians, Mass Media<br>Associates, Stationary-Plant<br>(not related to building<br>occupations) and Metal,<br>Rubber, Plastic, Wood<br>and related products<br>assemblers | 330 | 17.160 |
| 9. Clerks, Typists, Cashiers,<br>Secretaries   | 330 | 17.160 |
| 10. Artisans not falling<br>under any other<br>occupational category   | 330 | 17.160 |

|   |     |        |
|---|-----|--------|
| 11. Shopkeepers   | 312 | 16.224 |
| 12. Butchers, Bakers, Pastry-cooks,<br>Meat, Milk, Fruit,<br>Tobacco product<br>makers / preservers and<br>related occupations  | 252 | 13.104 |
| 13. Street vendors,<br>Mail carriers, Garbage<br>collectors, Miners and<br>quarry workers, Deck,<br>Underwater workers,<br>Riggers and cable splicers,<br>Sweepers, Service providers<br>and Salesmen | 229 | 11.908 |
| 14. Cleaners, Messengers,<br>Watchpersons, Dry<br>Cleaning Owners   | 312 | 16.224 |
| 15. Draughtspersons,<br>Computer equipment<br>operators, Ships' engineers,<br>Agents and related occupations<br>Musicians, Magicians  | 340 | 17.680 |
| 16. Persons not falling,<br>under any other<br>occupational category  | 340 | 17.680 |

## TIME OF PAYMENT

The employer's contributions are payable by the end of the calendar month following the month that the contributions relate.

## ADDITIONAL FEE

In case the employer fails to pay the contributions within the time limit an additional fee will be imposed in the range of 3% and 27%, depending on the period of delay, on the amount of social insurance and social cohesion due for payment.

## TRANSFER FEES FOR IMMOVABLE PROPERTY

### Transfer fees

These are paid on transfers of immovable property and are calculated on the market value of the property as estimated by the Land Registry department.

| Market Value<br>€ | Percentage<br>% | Fees<br>€ | Cumulative<br>Fees<br>€ |
|-------------------|-----------------|-----------|-------------------------|
| 0 - 85.430        | 3               | 2.563     | 2.563                   |
| 85.431 - 170.860  | 5               | 4.272     | 6.835                   |
| 170.861 and over  | 8               |           |                         |

Transfer fees paid on the transfer of property to a family company are refunded in five years provided the company still owns the property and there have not been any changes to its shareholders.

On the transfer of immovable property from a family company to its shareholders as well as on transfers by donation between spouses, spouses and children or relatives up to third degree of kindred, transfer fees are calculated on the estimated value of property appearing on the title deed at the following rates:

|                      |    |
|----------------------|----|
| Transfer to spouse   | 8% |
| Transfer to children | 4% |
| Transfer to relative | 8% |

Transfers of immovable property by a company to another company for the purpose of a company re-organisation are exempt from transfer fees.

### Mortgage fees

|          |    |
|----------|----|
| On loans | 1% |
|----------|----|

No fees are imposed on the transfer of mortgage by a company to another company as a result of a re-organisation.

## STAMP DUTY

| <b>Type of document</b>  | <b>Duty</b>                                      |
|--|--|
| Letters of guarantee   | €3,42  |
| Letter of credit   | €1,71  |
| Receipts for amounts from €3,42-€34,17   | €0,03  |
| Receipts for amounts over €34,17   | €0,07  |
| Customs documents  | €17,09/€34,17                                    |
| Bills of lading  | €3,42  |
| Bills of exchange<br>(payable at sight on first demand<br>or within 3 days from demand or sight) | €0,85  |
| Charterhire document   | €17,09   |
| General power of attorney  | €5,13  |
| Special power of attorney  | €1,71  |
| Certified copies of contracts and documents  | €1,71  |
| Will   | €17,09   |
| Estate administration document   | €8,54  |
| Contracts  |  |
| For amounts up to €170.860   | 0,15%  |
| For amounts over €170.860  | 0,2%<br>plus €256,29<br>(maximum fee<br>€17.086) |
| Without fixed amount   | €34,17   |

### **Company reorganisation**

Transactions that take place in relation to a company reorganisation are exempt from stamp duty.

## COMPANIES REGISTRAR RIGHTS AND FEES

|  |   |
|--|---|
| Registration of a limited company by shares or guarantee, with share capital   | €102,52<br>plus 0.6% on nominal capital   |
| Registration of a company without share capital  | €170,86                                   |
| Registration of an increase in the company's share capital   | 0.6% on the additional amount of increase |
| Registration of issue of shares where the value of the shares issued is payable in cash or in kind                     | €17,09                                    |
| Change of name of company  | €34,17                                    |
| Reduction of capital   | €68,34                                    |
| Application for registration of a general or a limited partnership   | €102,52                                   |
| Application for registration of a business name  | €68,34                                    |
| Filing with the Registrar of the following document:   |   |
| Annual Report  | €17,09                                    |
| Annual Report which is overdue   | €34,18                                    |
| Notification of a registered mortgage on immovable property in the Republic of Cyprus irrespective of the sum of money | €17,09                                    |
| Registration of a charge apart from a mortgage on immovable property within the Republic of Cyprus:                    |   |

|   |         |
|---|---------|
| - On the form of notification of the charge                     | €34,17  |
| - On the charge document securing maximum amount:               |         |
| - For a sum of money up to €17.086                              | €85,43  |
| - For a sum of money exceeding €17.086 but not over €34.172     | €170,86 |
| - For a sum of money exceeding €34.172 but not over €85.430     | €290,46 |
| - For a sum of money exceeding €85.430 but not over €170.860    | €427,15 |
| - For a sum of money over €170.860 where no amount is mentioned | €512,58 |

## STOCK EXCHANGE TRANSACTION FEES

A special fee is imposed in relation to transactions that take place in the Cyprus Stock Exchange or are announced to the Cyprus Stock Exchange at the following rates:

Individuals and legal entities 0,15%

The fee is suffered by the seller or the person who announces the transaction.

### Exempt transactions

The following transactions are exempt:

- share issue and share redemption by the issuer
- transactions in non-convertible company bonds
- transactions in non-convertible company promissory notes
- transactions in bonds, development bonds and government bills of exchange
- gifts of securities by parent to child, either single or married, between spouses or relatives up to third degree.

## TAXATION OF COLLECTIVE AND HORSE RACING BETS

Every recipient of collective bets as well as the Horse Racing Authority pay bet taxes to the Republic in relation to the bets that they undertake.

The amount of tax, in every accounting period, amounts to 10% on the net receipts from bets in the corresponding period.

Net receipts from bets means the balance of the total amounts paid or payable, in the corresponding accounting period, in relation to the bets undertaken, after the deduction of the total winnings paid out.

Each calendar month represents an accounting period.

In the event of non payment of the tax due an additional tax of 10% is imposed on the amount due.

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(*Member of the Board of Directors*)

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## NOTES

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