



International tax

Cyprus Highlights 2012

Investment basics:

Currency – Euro (EUR)

Foreign exchange control – No

Accounting principles/financial statements – IAS/IFRS. Financial statements must be prepared annually.

Principal business entities – These are the public and private limited liability company, partnership and branch of a foreign corporation.

Corporate taxation:

Residence – A company is resident in Cyprus if its management and control is exercised in Cyprus. Registration in Cyprus is not decisive.

Basis – Resident companies are taxed on worldwide income. Foreign-source income derived by resident companies is subject to corporation tax in the same way as Cyprus-source income. Nonresident companies are taxed only on Cyprus-source income. Branches are taxed the same way as domestic companies.

Taxable income – Corporation tax is imposed on business profits; interest and discounts; rents, royalties, remuneration or other profits from property; and net consideration in respect of trade goodwill. Expenses incurred for the production of taxable income are tax deductible provided that they are supported by invoices or relevant receipts. Losses brought forward or surrendered by other group companies (group relief) may be set off against taxable profits.

Taxation of dividends – Dividends received from a company located in Cyprus or abroad are exempt from corporation tax. Dividends received by a Cyprus resident company from another Cyprus resident company are exempt from the Special Contribution for Defense (SCD) unless such dividends are paid from profits that are more than four years old. Dividends received from a nonresident company also are exempt from SCD. However, the exemption does not

apply if more than 50% of the payer company's activities, directly or indirectly, lead to investment income and the foreign tax burden on the income of the payer company is substantially lower (i.e. less than 5%) than the tax burden of the company in Cyprus. If not exempt, dividends are liable to SCD at a rate of 20% (15% for dividends declared before 30 August 2011 and 17% for dividends declared between 30 August and 31 December 2011).

Capital gains – Gains derived from the sale of shares are tax exempt. Capital gains tax at the rate of 20% is imposed on gains from the disposal of immovable property situated in Cyprus and on gains from the disposal of shares in an unlisted company that owns immovable property situated in Cyprus.

Losses – Tax losses may be carried forward and set off against taxable income of subsequent years without any time limit. The carryback of losses is not permitted.

Rate – Companies and public corporate bodies are subject to corporation tax at a rate of 10%. Certain types of income are subject to SCD at a rate of 20% (dividends), 15% (interest) and 3% (rents).

Surtax – No

Alternative minimum tax – No

Foreign tax credit – A unilateral tax credit is granted for tax paid abroad, regardless of the existence of a tax treaty. When a treaty applies, the treaty provisions apply if more beneficial.

Participation exemption – See under "Taxation of dividends" and "Capital gains."

Holding company regime – No special holding company regime exists. However, in most cases, dividend income and capital gains are tax exempt. See under "Taxation of dividends" and "Capital gains."

Incentives – Special taxation regimes exist for ship-owning, chartering and ship management companies that own, charter or manage a qualifying ship in a qualifying shipping activity.

Withholding tax:

Dividends – Dividends paid to a nonresident (company or individual) are not subject to withholding tax. Dividends paid to a resident company are not subject to withholding tax, but dividends paid to a resident individual are subject to SCD at the rate of 20% (applied as a withholding tax).

Interest – No withholding tax is imposed on interest paid to a nonresident. Interest paid to a resident is subject to SCD deducted at source at a rate of 15%.

Royalties – Royalties paid to a nonresident for the use of rights in Cyprus are subject to a withholding tax of 5% on film royalties, and 10% on all other royalties. These rates may be reduced under a tax treaty under the EU interest and royalties directive. Royalties paid to a nonresident for the use of rights outside Cyprus are exempt from withholding tax. There is no withholding tax on the payment of royalties by a resident company to another resident company.

Technical service fees – Technical fees paid to a nonresident are subject to a withholding tax of 10%. This rate may be reduced under a tax treaty. There is no withholding tax on the payment of technical fees by a resident company to another resident company.

Branch remittance tax – No

Other – Rent paid by a Cyprus tax-resident company or partnership, the government or any other local authority to a Cyprus tax resident is subject to SCD withheld at source at a rate of 3% on 75% of the gross rental income (as from 1 July 2011).

Other taxes on corporations:

Capital duty – Capital duty is payable on authorized share capital and the issuance of shares at a rate of 0.6%.

Payroll tax – Under the PAYE system, the employer is required to withhold personal tax on employee salaries.

Real property tax – Tax is imposed annually on the market value of immovable property on 1 January 1980 at rates of 0% to 0.8%.

Social security – An employer must make social insurance contributions amounting to 8.5% of gross salary of an employee. The maximum amount of annual earnings on which the contributions are payable is EUR 52,104. An employer is also required to make a contribution of 2% to the social cohesion fund on all earnings of employees.

Stamp duty – Stamp duty is payable on a document if it relates to property situated in Cyprus or to an act to be performed or done in Cyprus. Stamp duty on commercial contracts is charged at rates that vary according to the contract amount. A ceiling of EUR 17,086 per document applies.

Transfer tax – The transfer of immovable property is subject to a transfer fee ranging from 3% to 8% calculated on the market value of the property as estimated by the Land Registry department.

Other – A basic levy of 0.03% of specified liabilities is payable by all credit institutions incorporated in Cyprus and by their foreign branches to establish a Financial Stability Fund.

Additionally, an annual company levy of EUR 350 is imposed on companies, capped at a total of EUR 20,000 for companies of a group. The levy does not apply to dormant companies, companies that do not own any assets or companies that own property in those areas of Cyprus not controlled by the Republic of Cyprus. The levy is payable by 30 June of each year and late payments give rise to penalties of 10% or 30%, depending on the length of delay.

Anti-avoidance rules:

Transfer pricing – The arm's length principle requires that transactions between related parties be carried out at market value and on normal commercial terms.

Thin capitalization – No

Controlled foreign companies – No

Other – A general anti-avoidance provision allows the Commissioner of Income Tax to disregard artificial/fictitious transactions and assess tax on the person concerned.

Disclosure requirements – No

Administration and compliance:

Tax year – The tax year is the calendar year. The accounts of a company may be closed on a date other than 31 December, in which

case, taxable profits are apportioned on a time basis to the relevant tax years.

Consolidated returns – Taxation on a consolidated basis is not permitted and each company must submit a separate return. A setoff of group losses is possible provided there is a 75% parent-subsidiary relationship, including subsidiaries under the 75% control of a common parent company. Group loss relief is available only between resident companies.

Filing requirements – The tax return for a tax year must be submitted by 31 December following the accounting year end. Electronic filing is mandatory (effective 1 July 2011) for companies (but the deadline is extended by three months for electronic filing). A company must pay provisional tax in 3 equal installments on 1 August, 30 September and 31 December, with any underpayment of tax due by 1 August of the following year. If the income declared for the payment of the provisional tax is lower than 75% of the income as finally determined, an additional amount equal to 10% of the difference between the final and provisional tax is payable.

Companies also have an obligation to register with the Inland Revenue Department within 60 days from their incorporation or registration date with the Companies Registrar (effective as from 1 July 2011).

Penalties – Administrative penalties of EUR 100 or EUR 200 (depending on the circumstances) are imposed for late filing of a return or submission of information requested by the tax authorities. Further, where the tax return is submitted by the statutory deadline but the tax liability as per the tax return is not paid by self-assessment, or the return is not submitted within the deadline and the tax liability under the tax return is not paid by self-assessment, an additional 5% tax on the tax payable is imposed. If a company fails to settle its tax obligations within the statutory deadline, an additional 5% penalty on the amount of the unsettled tax is imposed. Interest for late payment is charged at a rate of 5%.

Rulings – Rulings are available on matters of law interpretation.

Personal taxation:

Basis – A resident individual is subject to income tax on his/her worldwide income. A nonresident individual is taxed only on Cyprus-source income. Certain types of income are subject to SCD at a rate of 20% (dividends), 15% (interest) and 3% (rents).

Residence – An individual is resident in Cyprus if he/she stays in Cyprus for a period or periods exceeding in the aggregate 183 days in the tax year.

Filing status – Each individual is assessed on a separate basis. Joint assessment for couples is not possible.

Taxable income – Personal income tax is imposed on business profits, income from an office or employment, discounts, pensions, charges or annuities, rents, royalties, remuneration or other profits from property and net consideration in respect of trade goodwill. Expenses incurred for the production of taxable income are tax deductible provided that they are supported by invoices or relevant receipts.

Benefits in kind also are included in taxable income. From 1 January 2012, if a company director or individual shareholder or such individual's spouse or relatives (up to the second degree) receive a loan or financial assistance from the company, then the person is deemed to have a benefit in kind equal to 9% per annum of the above facility.

Capital gains – See under "Corporate taxation."

Deductions and allowances – The most important personal deductions are: donations to approved charities; social insurance fund contributions (and similar contributions paid abroad); life insurance premiums; pension plan contributions; and medical fund contributions.

Rates – The first EUR 19,500 is tax free with progressive tax rates imposed up to 35% on remaining amounts.

Other taxes on individuals:

Capital duty – No

Stamp duty – Stamp duty is payable on a document if it relates to property situated in Cyprus or to an act to be performed or done in Cyprus. Stamp duty on commercial contracts is charged at rates that vary according to the contract amount. A ceiling of EUR 17,086 per document applies.

Capital acquisitions tax – No

Real property tax – Tax is imposed annually on the market value of immovable property on 1 January 1980, at rates of 0% to 0.8%.

Inheritance/estate tax – No

Net wealth/net worth tax – No

Social security – An employee is required to make social insurance contributions at a rate of 6.8% of his/her salary (up to EUR 52,104). Self-employed individuals contribute at

12.6%. The contribution is calculated on notional income, which varies according to the trade or profession.

Other – A special contribution is imposed from 1 September 2011 to 31 August 2013 at the level of the salary or pension at rates of 0% to 3.5% for government and semi-government employees as well as government pensioners. For private sector employees and pensioners, as well as the self-employed, a special contribution is imposed from 1 January 2012 to 31 December 2013 at the level of salary or pension at rates of 0% to 3.5%, shared equally by the employer and the employee.

Administration and compliance:

Tax year – Calendar year

Filing and payment – The employer withholds tax on employment income under the PAYE system for remittance to the tax authorities. A self-employed individual pays tax through the provisional and self-assessment systems. The tax returns must be filed by: 30 April following the tax year for an employee; 30 June for a self-employed person who is not required to file audited accounts; and 31 December for a self-employed person whose return is accompanied by audited accounts. (Effective from 1 July 2011, self-employed individuals with annual turnover of more than EUR

70,000 must submit their tax return electronically, but the deadline for electronic submission of tax return is extended by three months.)

Penalties – Administrative penalties of EUR 100 or EUR 200 (depending on the circumstances) are imposed for late filing of a return or submission of information requested by the tax authorities. Further, where the tax return is submitted by the statutory deadline but the tax liability as per the tax return is not paid by self-assessment, or the return is not submitted within the deadline and the tax liability under the tax return is not paid by self-assessment, an additional 5% tax on the tax payable is imposed. If an individual fails to settle his/her tax obligations within the statutory deadline, an additional 5% penalty on the amount of the unsettled tax is imposed. Interest for late payment is charged at a rate of 5%.

Value added tax:

Taxable transactions – VAT is levied on the sale of goods, the provision of services and the import of goods from outside the EU.

Rates – The standard rate is 17% (increased from 15% as from 1 March 2012), with reduced rates of 5% and 8%.

Registration – The registration threshold for VAT purposes is EUR 15,600 (EUR 10,251 for intra-community acquisitions of goods).

Additionally, all taxable persons making taxable supplies of goods or services to non-taxable persons are obliged to issue and deliver "legal receipts." Any person failing to comply with this regulation is subject to a penalty equal to 20% of the value of the transaction for which the legal receipt relates to.

Filing and payment – The deadline for submission of the quarterly VAT return and VAT payment is the 10th of the second month following the relevant period.

Source of tax law: Income Tax Law, Special Defense Contribution Law, Capital Gains Tax Law, VAT Law, Commissioners' circulars, court cases

Tax treaties: Cyprus has concluded 48 tax treaties.

Tax authorities: Department of Inland Revenue

International organizations: EU

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