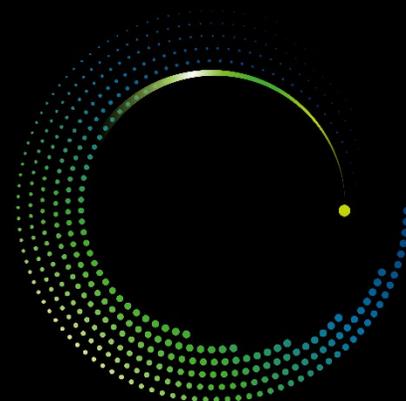


## International Tax Cyprus Highlights 2023

Updated January 2023



### Recent developments

For the latest tax developments relating to Cyprus, see [Deloitte tax@hand](#).

### Investment basics

**Currency:** Euro (EUR)

**Foreign exchange control:** There are no foreign exchange controls.

**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

Rates	
Corporate income tax rate	12.5%
Branch tax rate	12.5%
Capital gains tax rate	0%/20%

**Residence:** As from 31 December 2022, a company is resident in Cyprus if (i) its management and control is exercised in Cyprus or (ii) it is incorporated or registered in Cyprus, but its management and control is exercised outside Cyprus, provided the company is not a tax resident in any other jurisdiction.

**Basis:** Resident companies are taxed on worldwide income. Nonresident companies are taxed only on Cyprus-source income. Branches are taxed in the same way as tax resident 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 in the production of taxable income generally are tax deductible if supported by invoices or relevant receipts.

**Rate:** Companies and public corporate bodies are subject to corporation tax at 12.5%. Certain types of income are subject to the special contribution for defence (SCD) (see “Withholding tax” and “Other taxes on corporations and individuals,” below).

**Surtax:** There is no surtax.

**Alternative minimum tax:** There is no alternative minimum tax.

**Taxation of dividends:** Domestic and foreign dividend income received by a Cyprus resident company is exempt from corporation tax and generally also exempt from the SCD (subject to certain conditions in the case of foreign dividends).

Dividends received by a Cyprus company from investments in hybrid instruments that are treated as a tax-deductible expense in the jurisdiction of the payer are treated as trading profits subject to corporation tax but are exempt from the SCD.

**Capital gains:** Gains derived from the sale of shares are tax-exempt. Capital gains tax at a 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, directly or indirectly (subject to conditions), immovable property situated in Cyprus.

**Losses:** Tax losses may be carried forward for five years for set off against future taxable profits. The carryback of losses is not permitted. Losses also may be surrendered to other group companies (see "Consolidated returns" under "Compliance for corporations," below).

**Foreign tax relief:** A unilateral tax credit is granted for tax paid abroad, regardless of the existence of a tax treaty. The provisions of a relevant tax treaty will apply if they are more beneficial.

**Participation exemption:** See "Taxation of dividends" and "Capital gains," above.

**Holding company regime:** There is no special holding company regime, but dividend income and capital gains generally are exempt from tax (see "Taxation of dividends" and "Capital gains," above).

**Incentives:** An intellectual property (IP) regime in line with the recommendations under the OECD BEPS project is in force. The regime adopts the "nexus" approach and deems 80% of qualifying profits generated from qualifying IP assets to be a tax-deductible expense. Qualifying profits are calculated based on the level of research and development activities performed by the taxpayer to develop the qualifying assets. Qualifying assets include patents, copyrighted software programs, and other intangible assets that are non-obvious, useful, and novel (subject to conditions); trademarks and copyrights are not included.

An enhanced tax deduction of 120% applies to research and development expenses wholly and exclusively incurred for the production of income.

Resident companies and nonresident companies with a permanent establishment in Cyprus are entitled to a notional interest deduction of up to 80% of their taxable income on new equity. Qualifying new equity includes share capital and share premium issued and settled on or after 1 January 2015.

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

## Compliance for corporations

**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. The set-off 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 between resident companies and companies resident in another EU member state (subject to conditions).

**Filing and payment:** Electronic filing is mandatory for companies. The deadline for the electronic submission of the tax return is 31 March of the second year following the tax year of assessment. Companies must make two provisional payments of tax within the tax year on 31 July and 31 December. 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.

**Penalties:** Administrative penalties of EUR 100 or EUR 200 (depending on the circumstances) are imposed for the late filing of a tax return or the late submission of information requested by the tax authorities. Further, where the tax liability reported on the tax return is not paid by the statutory deadline or the date provided in an assessment issued by the Commissioner of Income Tax, a penalty of 5% of the tax payable is imposed. If a company fails to settle its tax obligations for the relevant tax year within two months after the payment deadline, an additional 5% penalty is imposed. Interest at 1.75% per annum is charged on late payments.

**Rulings:** Rulings are available from the Commissioner of Income Tax on matters of interpretation of the tax law. A fee of EUR 1,000 is payable (EUR 2,000 if the taxpayer requests an expedited response, i.e., within 21 business days from the date the request was submitted).

## Individual taxation

Rates		
Individual income tax rate	Taxable income (EUR)	Rate
	Up to 19,500	0%
	19,501–28,000	20%
	28,001–36,300	25%
	36,301–60,000	30%
	Over 60,000	35%
<b>Capital gains tax rate</b>		0%/20%

**Residence:** Individuals are resident in Cyprus for income tax purposes if they are present in Cyprus for a period or periods exceeding 183 days in aggregate in a tax year. Individuals also may become tax residents of Cyprus even if they do not spend more than 183 days in the country if they (i) do not spend more than 183 days in any other state within a tax year, (ii) are not a tax resident of any other state within the same tax year, (iii) remain in Cyprus for at least 60 days in the tax year, (iv) maintain a permanent home in Cyprus that is either owned or rented, and (v) carry on a business in Cyprus, or are employed in Cyprus, or hold an office in a Cyprus tax resident entity at any time during the tax year.

For SCD purposes, individuals are considered to be resident if they also are “domiciled” in Cyprus. Individuals are domiciled in Cyprus if they have a domicile of origin in Cyprus based on the provisions of the Wills and Succession Law (i.e., domicile of the father at the time of birth), except in specified cases. Individuals who are resident in Cyprus (as defined in accordance with the provisions of the Income Tax Law) for at least 17 out of the 20 years before the relevant tax year will be deemed to be domiciled in Cyprus, irrespective of their domicile of origin.

**Basis:** A resident individual is subject to income tax on worldwide income. A nonresident individual is taxed only on Cyprus-source income. Certain types of income are subject to SCD (see “Withholding tax” and “Other taxes on corporations and individuals,” below). A resident individual is required to pay general healthcare system (GHS) contributions on various types of income (capped at EUR 180,000 per year) at rates of 2.65% or 4%.

**Taxable income:** Individual income tax is imposed on income from an office or employment; business profits; discounts; pensions; charges or annuities; rents, royalties, remuneration, or other profits from property; and net consideration in respect of trade goodwill. Benefits-in-kind are included in taxable income. If a company director or individual shareholder (or spouse or relatives (up to the second degree)) receives a loan or financial assistance from the company, the individual will be deemed to have received a benefit-in-kind equal to 9% per annum of the loan/assistance.

**Rates:** The first EUR 19,500 of taxable income is tax-free, with progressive tax rates up to 35% imposed on the remaining amount, as shown in the table above.

**Capital gains:** Gains derived from the sale of shares are tax-exempt. Capital gains tax at a 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, directly or indirectly (subject to conditions), immovable property situated in Cyprus.

**Deductions and allowances:** The most important personal deductions are donations to approved charities; social insurance fund and GHS contributions (and similar contributions paid abroad); life insurance premiums; pension plan contributions; and medical fund contributions. Expenses incurred in the production of taxable income are tax deductible, provided they are supported by invoices or relevant receipts.

**Foreign tax relief:** A unilateral tax credit is granted for tax paid abroad, regardless of the existence of a tax treaty.

## Compliance for individuals

**Tax year:** The tax year is the calendar year.

**Filing status:** Each individual is assessed on a separate basis; joint assessment of couples is not permitted.

**Filing and payment:** Employers withhold tax on employment income under the Pay As You Earn (PAYE) system. Self-employed individuals pay tax through the provisional and self-assessment systems.

Tax returns must be submitted in electronic form or by other means approved by the Commissioner of Income Tax. The tax return must be filed by 30 July following the tax year for an employee; 30 September following the tax year for a self-employed individual who is not required to file audited accounts; and 31 March of the second year following the tax year for a self-employed person whose return is accompanied by audited accounts. Self-employed individuals with annual turnover of more than EUR 70,000 must prepare audited accounts.

**Penalties:** Administrative penalties of EUR 100 or EUR 200 (depending on the circumstances) are imposed for the late filing of a return or the late submission of information requested by the tax authorities. Further, where the tax liability reported on the tax return is not paid by the statutory deadline or the date provided in an assessment issued by the Commissioner of Income Tax, a penalty of 5% of the tax payable is imposed. If an individual fails to settle their tax obligations for the relevant tax year within two months after the payment deadline, an additional 5% penalty is imposed. Interest at 1.75% per annum is charged on late payments.

**Rulings:** Rulings are available from the Commissioner of Income Tax on matters of interpretation of the tax law. A fee of EUR 1,000 is payable (EUR 2,000 if the taxpayer requests an expedited response, i.e., within 21 business days from the date the request was submitted).

## Withholding tax

Rates		
Type of payment	Residents	Nonresidents

	Company	Individual	Company	Individual
<b>Dividends</b>	0%	17%	0%/17%	0%
<b>Interest</b>	3%/30%	3%/30%	0%/30%	0%
<b>Royalties</b>	0%	0%	0%/5%/10%	0%/5%/10%
<b>Fees for technical services</b>	0%	0%	10%	10%

**Dividends:** Dividends paid by a resident company to another resident company are not subject to income tax or, generally, to the SCD. However, the SCD is imposed at a rate of 17% withheld at source on dividends paid by a resident company to another resident company after four years from the end of the year in which the profits distributed as dividends were earned, where the ultimate shareholders are individuals who are resident and domiciled in Cyprus. Dividends paid to a resident and domiciled individual are subject to the SCD at 17% (applied as a withholding tax) unless the dividends are paid directly or indirectly from dividends on which the SCD already has been paid. Companies are required to withhold GHS contributions on dividend payments and on deemed dividends attributed to Cyprus tax resident individuals at the rate of 2.65%.

No withholding tax generally is imposed on dividends paid to a nonresident. However, withholding tax at a rate of 17% applies to dividends paid by a Cyprus tax resident company to companies that are resident in jurisdictions included in annex I of the EU list of noncooperative jurisdictions for tax purposes (commonly referred to as the “black list”) or incorporated/registered in a jurisdiction included in the annex I list and not tax resident in any other jurisdiction that is not included in the list where:

- The company receiving the dividend, either alone or jointly with associated companies (i) holds directly over 50% of the capital or voting rights of the payer company or (ii) is entitled to receive more than 50% of the profits of the payer company; and
- The associated companies also are resident in an annex I jurisdiction or incorporated/registered in a relevant jurisdiction and not tax resident in any other jurisdiction not included in the list.

Withholding tax does not apply to dividend payments on shares listed on a recognized stock exchange.

**Interest:** Interest paid to a resident company or individual generally is subject to the SCD at 30%, withheld at source. A reduced SCD rate of 3%, withheld at source, applies to interest paid on savings certificates and development bonds issued by the government of Cyprus, corporate bonds listed on a recognized stock exchange, and bonds listed on a recognized stock exchange that are issued by a local authority or state organization.

Companies are required to withhold GHS contributions on interest payments to Cyprus tax resident individuals at the rate of 2.65%.

No withholding tax generally is imposed on interest paid to a nonresident. However, withholding tax at a rate of 30% applies to interest paid by a Cyprus tax resident company to companies that are resident in annex I jurisdictions or incorporated/registered in a jurisdiction included in annex I and not tax resident in any other jurisdiction that is not included in the list. The withholding tax does not apply to interest payments on securities listed on a recognized stock exchange and interest payments made by individuals.

**Royalties:** No withholding tax is imposed on royalties paid to resident individuals or companies. Royalties paid to a nonresident company or individual 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 an applicable tax treaty, or the EU interest and royalties directive.

Royalties paid to a nonresident for the use of rights outside Cyprus are exempt from withholding tax. Withholding tax at a rate of 10% generally applies to royalties paid by a Cyprus tax resident company to companies that are resident in annex I jurisdictions or incorporated/registered in a relevant jurisdiction and not tax resident in any other jurisdiction that is not included in the list. The withholding tax does not apply to royalty payments made by individuals.

**Fees for technical services:** No withholding tax is imposed on the payment of fees for technical services to resident individuals or companies. Fees for technical services paid to a nonresident company or individual are subject to a 10% withholding tax, unless the rate is reduced under an applicable tax treaty.

**Branch remittance tax:** Cyprus does not impose a branch remittance tax.

**Other:** Rent paid by a Cyprus resident company or partnership, the government, or any other local authority to a Cyprus tax resident is subject to the SCD at the rate of 3% on 75% of the gross rental income, withheld at source, in addition to any income tax due. Companies are required to withhold GHS contributions at the rate of 2.65% on rental payments to both resident and nonresident individuals in respect of immovable property situated in Cyprus, and on rental payments to resident individuals in respect of immovable property situated outside Cyprus.

## Anti-avoidance rules

**Transfer pricing:** Transactions between related parties must be carried out on an arm's length basis, i.e., at market value and on normal commercial terms. Taxpayers must prepare transfer pricing documentation to support any related party transactions (subject to exceeding an annual threshold of EUR 750,000).

**Interest deduction limitations:** EU Anti-Tax Avoidance Directive (ATAD) interest restriction provisions apply.

**Controlled foreign companies:** ATAD controlled foreign company provisions apply.

**Hybrids:** Anti-hybrid rules in accordance with the ATAD apply, including provisions for reverse hybrids. Dividends received by a Cyprus company from investments in hybrid instruments that are treated as a tax-deductible expense in the jurisdiction of the payer are treated as trading profits subject to income tax (i.e., they are not considered dividends exempt from corporation tax and/or the SCD).

**Economic substance requirements:** There are no economic substance requirements.

**Disclosure requirements:** Cyprus has adopted country-by-country (CbC) reporting in line with OECD BEPS action 12 and the EU directive on the mandatory automatic exchange of tax information. A Cyprus resident parent company of a multinational group must file an annual CbC report with the Commissioner of Income Tax where the consolidated turnover of the group exceeds EUR 750 million. A Cyprus resident member (constituent entity) of a multinational group headquartered outside Cyprus also may be required to submit a CbC report in Cyprus under the secondary filing mechanism.

The CbC report, which covers each jurisdiction in which the multinational group conducts business activities, must include information on revenue, profit (loss) before income tax, income tax paid, the number of employees, and tangible assets other than cash or cash equivalents. There also are certain notification obligations with respect to informing the Cyprus tax authorities of the identity of the ultimate parent entity and the reporting entity.

Cyprus has implemented the EU directive on the mandatory automatic exchange of tax information in relation to reportable cross-border arrangements (DAC 6). DAC 6 requires EU intermediaries and taxpayers to submit information to the tax authorities with which they have an EU nexus, in respect of cross-border arrangements that meet at least one of

the “hallmarks”- certain characteristics or features that present an indication of a potential risk of tax avoidance. A 30-day rolling window applies for the submission of information on reportable cross-border arrangements.

**Exit tax:** Exit tax rules in accordance with the ATAD apply. Under these rules, a taxpayer is subject to tax on an amount equal to the market value of the transferred assets at the time of exit less their value for tax purposes, according to domestic tax provisions.

**General anti-avoidance rule:** The ATAD general anti-avoidance rule (GAAR) applies. The Cyprus tax authorities can apply the GAAR to counteract tax advantages arising from tax arrangements that are abusive. A GAAR provision that predates the ATAD GAAR allows the Commissioner of Income Tax to disregard artificial/fictitious transactions and assess tax on the person concerned.

## Value added tax

Rates	
Standard rate	19%
Reduced rate	0%/5%/9%

**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 19%, and there are reduced rates of 0%, 5%, and 9%. Certain supplies are zero-rated or exempt.

**Registration:** The registration threshold for VAT purposes is EUR 15,600 (EUR 10,251 for intra-Community acquisitions of goods). A VAT registration obligation also is triggered when providing taxable supplies to EU VAT registered persons (irrespective of the amount). Additionally, all taxable persons making taxable supplies of goods or services to nontaxable persons must issue and deliver “legal receipts.” Penalties apply for failure to comply.

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

## Other taxes on corporations and individuals

Unless otherwise stated, the taxes in this section apply both to companies and individuals and are imposed at the national level.

**Social security:** An employer must make social insurance contributions equal to 10% of an employee’s gross salary, (subject to a maximum annual salary cap of EUR 60,060 for 2023). An employer also is required to contribute 2% of all earnings of its employees to the social cohesion fund.

An employee is required to make social insurance contributions at 8.3% of salary (subject to a maximum annual salary cap of EUR 60,060 for 2023). Self-employed individuals contribute at 15.6%. The contribution for self-employed individuals is calculated on notional income, which varies according to the trade or profession.

**Payroll tax:** Under the PAYE system, employers are required to withhold personal income tax on the salary of their employees.

**Capital duty:** Capital duty of EUR 105 is payable by companies on the nominal value of authorized share capital on incorporation and EUR 40 for any subsequent increase of the authorized share capital.

**Real property tax:** Cyprus does not impose a tax on real property (but see “Transfer tax,” below).

**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. A temporary initial 50% reduction in the transfer fees has been extended indefinitely, and a 100% exemption applies if the transfer of the immovable property is subject to VAT.

A levy of 0.4% is paid by the seller on the sale of the following:

- The sale of immovable property located in areas controlled by Cyprus, for which a general value has been determined by the Department of Land and Surveys; and
- Shares in a company, which is not listed on a recognized stock exchange, and which directly or indirectly owns immovable property for which a general value has been determined by the Department of Land and Surveys.

**Stamp duty:** Stamp duty is payable on a document if it relates to property situated in Cyprus, or to an act to be performed in Cyprus. Stamp duty on commercial contracts is charged at rates that vary according to the contract amount. A ceiling of EUR 20,000 per document applies.

**Net wealth/worth tax:** Cyprus does not impose a net wealth tax or a net worth tax.

**Inheritance/estate tax:** Cyprus does not impose an inheritance tax or an estate tax.

**Other:** The SCD is imposed on income derived by Cyprus resident companies and individuals resident and domiciled in Cyprus, and is levied on rent (3%, in addition to any income tax due), dividends (17%), and interest (3% or 30%). Some exemptions apply (see “Taxation of dividends,” above).

A basic levy of 0.15% (paid in four installments of 0.0375%) on specified deposits is payable by all credit institutions incorporated in Cyprus and by their foreign branches.

An annual company levy of EUR 350 is imposed on companies, capped at a total of EUR 20,000 for companies in a group. The levy is payable by 30 June of each year; penalties apply for late payment.

**Tax treaties:** Cyprus has concluded over 60 tax treaties. The Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (MLI) entered into force for Cyprus on 1 May 2020. For further information on Cyprus’ tax treaty network, visit [Deloitte International Tax Source](#).

**Tax authorities:** Cyprus Tax Department

Contact us:

**Alecos Papalexandrou**

Email: [apapalexandrou@deloitte.com](mailto:apapalexandrou@deloitte.com)

**Christakis Economou**

Email: [ceconomou@deloitte.com](mailto:ceconomou@deloitte.com)

**Stella Louka**

Email: [stlouka@deloitte.com](mailto:stlouka@deloitte.com)

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