



CYPRUS TAX FACTS 2015



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Foreword

BDO Ltd is the Cyprus firm of BDO International, the world's fifth largest accountancy network.

We specialise in helping businesses to grow: from start-ups to multinationals and everything in-between. In Cyprus we employ approximately 100 people in our offices in Nicosia and Limassol.

We have a strong local presence while offering the support and benefits of partnership in the BDO global network. BDO offers a unique combination of international strength and local excellence.

The BDO network comprises over 1.200 offices in 145 countries, with more than 55.000 partners and staff providing professional audit and assurance, accounting and global compliance services, tax, financial advisory and consulting services throughout the world. BDO's special skills lie in applying its local expertise and its understanding of the international context to provide an integrated global service. It is a vigorous organization committed to total client service.

Our distinctive regulation for client proximity is built on our commitment to our clients that what matters to you matters to us.

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BDO Taxation Services

We will work with you to:

- achieve commercial business decisions based on practical tax solutions
- maximize investor's after tax returns, while controlling tax risks in line with business risk strategy
- understand your business to provide tailored tax services to meet your taxation and business needs
- adopt a co-ordinated approach to international tax planning, using our BDO International network with taxation experts in over 110 countries.

Our core taxation areas comprise of:

- Business tax planning
 - establishing optimal business structures
 - acquisition planning
 - tax due diligence
 - vendor due diligence
- Compliance services
 - tax return preparation
 - provisional tax reminders
 - management of IRD audits
 - protection of your rights on assessment and investigation
 - development of best practice tax compliance systems in your business

- education of businesses on tax compliance
- quality control reviews
- tax health check reviews

- Indirect tax services
 - VAT on asset acquisition and asset disposal
 - time and place of supply for VAT
 - zero rated transactions
 - exempt supplies
 - interactions with Customs
 - VAT on cross-border transactions
 - Payroll Services

- International tax advice for business: Utilizing the expertise of our network we are able to assist our clients to understand the tax consequences of their international expansion and cross-border investments and to manage the foreign tax issues and obligations efficiently and effectively.

1 Personal Income Tax

Basis of taxation

All Cyprus tax residents are taxed on all income accrued or derived from all sources in Cyprus and abroad. Individuals who are not tax residents of Cyprus are taxed only on income accrued or derived from sources in Cyprus.

An individual is tax resident in Cyprus if he spends in Cyprus more than 183 days in any one year. Days in and out of Cyprus are calculated as follows:

- (a) the day of departure from Cyprus counts as a day of residence outside Cyprus
- (b) the day of arrival in Cyprus counts as a day of residence in Cyprus
- (c) arrival and departure from Cyprus in the same day counts as one day of residence in Cyprus
- (d) departure and arrival in Cyprus in the same day counts as one day of residence outside Cyprus

Personal tax rates

The following income tax rates apply to individuals:

Chargeable income	Tax rate	Tax	Accumulated tax
€	%	€	€
0-19.500	0	Nil	Nil
19.501-28.000	20	1.700	1.700
28.001-36.300	25	2.075	3.775
36.300-60.000	30	7.110	10.885
60.001 and above	35	-	

Special Tax Contribution

Special Tax Contribution is imposed on gross emoluments, pensions and income of individuals employed in the private sector. For employees the gross emoluments subject to this new contribution include salaries, overtime payments, bonuses and other benefits associated with their employment.

The calculation of Special Tax Contribution is based on the following rates:

Gross monthly emoluments from employment/pension €	Special contribution
Up to 1500	Nil
1501 - 2500	2,5% (with minimum amount paid of €10)
2501 – 3500	3%
3501 and above	3,5%

The following are exempt from the Special Tax Contribution:

- Retirement Bonus
- Remuneration of a foreigner who is employed by a foreign government or by an international organization
- Remuneration of crew working on Cyprus ships
- Allowances paid to employees covering business expenses on behalf of an employer
- Amounts received from Provident Funds

This Special Contribution is shared equally by the employer and the employee. The Contribution is deductible from the taxable income of the employee /employer that it relates to.

Widow pension

Widow pension is subject to income tax at the rate of 20% for amounts received in excess of €19.500

Foreign Pensions

Foreign pension is taxed separately at the rate of 5 percent and an annual exemption of €3.420 is granted. A person may elect in any year to have his/her pension included in his/her chargeable income so as to utilize personal allowances.

Exemptions

The following income is exempted from income tax:

Type of income	Exemption limit
• Interest	whole amount
• Dividends	whole amount

Exemption (cont'd)

Type of income	Exemption limit
<ul style="list-style-type: none">• Remuneration from any office or employment exercised in Cyprus by an individual who was not resident of Cyprus before the commencement of his employment, for a period of 3 years commencing from 1 January following the year of commencement of the employment (provided the employment takes place within 6 months)	20% of income subject to maximum of €8.550 annually
<ul style="list-style-type: none">• For high earning individuals moving to Cyprus a 50% deduction will apply for the first five years provided that the income from employment exceeds €100.000 per annum. This exemption applies for both Cypriots and non Cypriots. This is applicable only where the individual was not resident in Cyprus prior to its employment. This exemption cannot be used together with the exemption stated in the above point of 20% or €8.550	50% deduction

Exemption (cont'd)

Type of income	Exemption limit
<ul style="list-style-type: none">Income or profit (net of all direct expenses) generated from the sale or exploitation of intellectual property owned by a Cypriot resident.	80% exemption
<ul style="list-style-type: none">Remuneration from salaried services rendered outside Cyprus for more than 90 days in a tax year to a non Cyprus resident employer or to a foreign permanent establishment of a Cyprus resident employer	whole amount
<ul style="list-style-type: none">Profits of a permanent establishment abroad under certain conditions	whole amount
<ul style="list-style-type: none">Capital sums accruing to individuals from any payments to approved funds (eg provident funds)	whole amount

Exemption (cont'd)

Type of income	Exemption limit
<ul style="list-style-type: none">Profits from the sale of securities*	whole amount
<ul style="list-style-type: none">Lump sum received by way of retiring gratuity, commutation of pension or compensation for death or injuries	whole amount

** Securities are defined as shares, bonds, debentures, founders' shares and other securities of companies or other legal persons, incorporated in Cyprus or abroad and options thereon. A circular was issued by the Tax Authorities in 2008 further clarifying what is included in the term "securities". According to the circular the term includes, short positions, futures, forwards and swaps where they are in respect of securities and depositary receipts (ADR,GDR). Index participations are considered securities only if they represent titles. Where it is not certain whether a specific financial instrument falls under any of the categories included in the circular, a request for a ruling may be submitted to the Commissioner of Tax Department.*

Tax deductions

The following are deducted from income:

Type of income	Exemption limit
<ul style="list-style-type: none">• Contributions to trade unions or professional bodies	whole amount
<ul style="list-style-type: none">• Loss of current year and previous years	whole amount
<ul style="list-style-type: none">• Rental income	20% of gross rental income
<ul style="list-style-type: none">• Interest expense on loan used for acquisition of property rented out	whole amount
<ul style="list-style-type: none">• Special Tax Contribution	whole amount
<ul style="list-style-type: none">• Donations to approved Cypriot charitable organizations (with receipts)	whole amount
<ul style="list-style-type: none">• Social Insurance, provident fund, medical fund, pension fund contributions and life insurance premiums (the allowable annual life insurance premium is restricted to 7% of the insurable amount)	Up to 1/6 of the chargeable income
<ul style="list-style-type: none">• Expenditure incurred for the maintenance of a building (under Preservation Order)	Depending on the size of building up to €1200 per m ²

2 Corporation Tax

Basis of taxation

All companies tax resident of Cyprus are taxed on all their income accrued or derived from all sources in Cyprus and abroad. A non Cyprus tax resident company is taxed on income accrued or derived from a business activity which is carried out through a permanent establishment in Cyprus and on certain income arising from sources in Cyprus.

A company is considered a resident of Cyprus if it is managed and controlled from Cyprus.

Corporation tax rates

	Tax rate %
Companies	12,5

Exemptions

The following sources of income are exempt from corporate taxation:

- Profit from the sale of securities
- Dividends
- Interest not arising from the ordinary activities or closely related to the ordinary activities of the company, mainly bank deposit interest, however, such interest income is subject to Special Defence Contribution
- Profits of a permanent establishment abroad, under certain conditions

Tax deductions

All expenses incurred wholly and exclusively in earning the income of the company including:

- Interest expense incurred for the acquisition of 100% of the share capital of a subsidiary company (direct or indirect) is treated as deductible for income tax purposes provided that the subsidiary company does not own any assets that are not used in the business
- 80% of any income or profit (net of all direct expenses) generated from the sale or exploitation of intellectual property owned by a Cypriot resident company.
- Donations to approved Cypriot charitable organizations (with receipts)
- Employer's contributions to social insurance and approved funds on employees' salaries
- Entertainment expenses subject to a maximum amount of 1% of the gross business income or €17.086, whichever is lower
- Expenditure incurred for the acquisition of shares in innovative businesses

But excluding:

- Expenses of private motor vehicles (saloon cars)
- Interest attributed to the cost of acquiring a private motor vehicle, irrespective of its use, and to the cost of acquiring any other asset not used in the business for a period of 7 years since its acquisition.

Losses carried forward

Companies are able to carry forward tax losses incurred in a year over the next five years from the end of the tax year in which they were incurred and such losses can be offset against any taxable income.

The current year loss of a company can be set off against the current year profit of another provided the companies are both Cyprus tax resident companies and members of a group for the whole of a tax year. In the case where a subsidiary company is incorporated by its parent company during a specific tax year, the subsidiary company will be considered as being a member of the group for the whole tax year and therefore will be able to claim group relief for that tax year.

Group is defined as:

- one company holding at least 75 percent of the shares of the other company
- at least 75 percent of the voting shares of the companies are held by another company

A partnership or a sole trader transferring business into a company can carry forward tax losses into the company for future utilization.

Losses from a permanent establishment abroad can be set off with profits of the company in Cyprus. Subsequent profits of the permanent establishment abroad are taxable up to the amount of losses previously allowed.

Annual wear and tear allowances on fixed assets

The following allowances are given as a percentage on the cost of acquisition and are deducted from the chargeable income:

Fixed Assets	%
Plant and machinery	
• Plant and machinery	10
• Furniture and fittings	10
• Fork lifts, excavators, loading vehicles, tractors, bulldozers and oil barrels	25
• Machinery and tools used in agricultural business	15
• Computer hardware and operating systems	20
• Application software up to €1.709	100
above €1.709	1/3
• Commercial motor vehicles (vans, trucks)	20
• Motor cycles	20
• Armoured motor vehicles (e.g used for security services)	20
• Wind power Generators	10
• Photovoltaic Systems	10
• Television and videos	10

Buildings

• Commercial buildings	3
• Industrial, agricultural and hotel buildings	4
• Flats	3
• Metallic greenhouse structures	10
• Wooden greenhouse structures	33 1/3

Boats/aircrafts

• Sailing vessels	4,5
• Steamers, tugs and fishing boats	6
• Ship motor launches	12,5
• New cargo vessels	8
• New passenger vessels	6
• Used cargo/passenger vessels	Over their useful life
• Motor yachts	6
• New airplanes	8
• New helicopters	8

Tools

• Tools in general	33 1/3
• Video tapes property of video clubs	50

Special Type of Companies

Undertakings for Collective Investment in Transferable Securities (UCITs)

UCITs main objective is the collective investment of funds of their investors/unit holders and can have the legal forms of a Common Fund or a Variable Capital Investment Company.

UCITs have the following tax characteristics:

- Are liable to income tax irrespective of their legal status.
- Interest income received by UCITs is considered as active interest and as such taxed under Corporation Tax at the rate of 12,5% and exempt from SDC
- Profits on sale of securities and units in UCITs are exempt from taxation
- Deemed dividend distribution provisions are not applicable for non Cyprus tax resident investors (3% for Cyprus tax resident investors)
- Actual dividends paid are subject to SDC at the rate of 17% in respect of Cyprus tax resident investors only
- Any profits derived by Cyprus Tax resident Management Companies are subject to taxation under Corporation Tax at the rate of 12,5%

Alternative Investment Funds (AIFs)

AIFs can be of a limited number of investors type (75) or of an unlimited number of investors.

Their legal forms may be as follows:

Limited number of investors:

- Variable Capital Company
- Fixed Capital Company
- Limited Partnership

Unlimited number of investors:

- Variable Capital Company
- Fixed Capital Company
- Limited Partnership
- Common Fund

AIF's have the same tax characteristics as described above in UCITs

Ship Owning Companies

As per the Merchant Shipping Legislation, qualifying ship owners, ship managers and charterers of qualifying EU/EEA (European Economic Area) ships and foreign ships (under conditions) in qualifying activities are exempted from all direct taxes and are taxed only under tonnage tax.

Non EU/EEA vessels are allowed to enter the tonnage tax regime provided the fleet is composed by at least 60% EU/EEA vessels. Also an exemption is provided in relation to the salaries of officers and crew of a Cyprus ship.

The application of the tonnage tax system is compulsory for the owners of Cyprus flag ships and optional for owners of non Cyprus flag ships, ship managers and charterers. Those who choose to enter the Tonnage Tax regime must remain under this regime for at least 10 years.

Ship Owners

The tax exemption applies to:

- Profits derived from the use of the ships and from the disposal of qualifying ships
- Profit from the disposal of ship owning companies
- Dividends received from the above profits
- Interest income in relation to the working capital of the company
- To the bare boat charterer of a vessel flying the Cyprus flag under parallel registration

Ship managers

Ship managers must satisfy the following criteria in order to be considered as being qualified:

- To maintain a fully fledged office in Cyprus with personnel sufficient in number and qualification, 51% of whom should be EU/EEA citizens
- To manage at least 2/3 of the total tonnage of the qualifying ships in a given fiscal year from the territory of EU/EEA Member State

The tax exemption applies to:

- Profits from technical/crew management
- Dividends paid out of these profits
- Interest income in relation to the working capital of the company

The term ship management services means the services provided by a ship manager to an owner or bareboat charterer of a ship by virtue of a relevant written ship management agreement, relating to the crew management services and/or to the technical management services of the ship. A ship manager who provides commercial management services will not be considered as a qualifying ship manager for such services and will be liable to pay income tax on the corresponding part of its income.

Charterers

The tax exemption applies to:

- Profits derived from the operation of chartered ships
- Interest income relating to the working capital of the company
- Dividends received from the above profits

As per the provision of the law, in order for the exemption to apply, the option to register for Tonnage Tax should be exercised for all vessels and at least 25% of the net tonnage of the vessels or the bare boat chartered to be owned.

Withholding taxes on Income sourced from Cyprus

Dividends

No withholding taxes

Royalties

10 percent. This can be reduced depending upon the provisions of the relevant double tax treaty and where the EU Interest and Royalty Directives apply. Sourced from Cyprus means royalty income from intellectual property used in Cyprus to generate income.

Where a Cyprus company is granted the right to use a patent, trademark or innovation outside Cyprus there is no withholding tax on payments to the licensor and the Cypriot company is taxed at the corporate income tax rate on the profit margin that it realizes on the use of the right, subject to an 80% exemption.

EU Interest and Royalty Directive

The EU interest and royalty directive came into effect on 1 January 2005. It provides that interest and royalty payments in one EU member state are exempt from any withholding taxes imposed on those payments in that state, provided that the beneficial owner of the interest is a company in another EU state.

For the directive to apply the companies must be associated. The interest or royalty must be on an arm's length basis. The

directive will not apply to what is considered to be in excess of an arm's length amount.

Film rental

The gross amount of any rental in respect of the showing of cinematograph films in Cyprus derived by any person who is not a tax resident, is subject to a 5 percent withholding tax.

Income from profession or vocation

The gross income derived by an individual not resident in Cyprus, from the exercise in Cyprus of a profession or vocation or of public entertainers including football clubs and other athletic clubs is subject to a 10 percent withholding tax.

Reorganizations

Transfers of assets and liabilities between companies can be effected without tax consequences within the framework of a reorganization.

Reorganizations include:

- mergers and demergers
- partial divisions
- transfer of registered office
- transfer of assets
- exchange of shares

3 Special Contribution for Defence

Special Contribution for Defence (SDC) is imposed on income earned by Cyprus tax residents. Non tax residents are exempt from SDC. It is charged at the rates shown in the table below:

	Individuals	Companies
• Dividend income from Cyprus resident companies	% 17	% Nil
• Dividend income from non-Cyprus resident companies	17	Nil (under conditions) (1)
• Interest income arising from the ordinary activities or closely related to the ordinary activities of the business	Nil	Nil
• Other interest	30(2)(3)	30(4)
• Rental income (reduced by 25%)	3	3

Notes:

- (1) Dividend income from abroad is exempt from SDC provided that:
 - (a) no more than 50 percent of the paying company's activities result directly or indirectly in investment income or
 - (b) the foreign tax burden is not significantly lower than the tax rate payable in Cyprus. The Tax Authorities have clarified that significantly lower, means a tax burden rate below 6,25 percentWhen the exemption does not apply, the dividend income is subject to SDC at the rate of 17 percent
- (2) Interest income from Cyprus government savings bonds and development bonds and all interest earned by a provident fund is subject to SDC at 3 percent (instead of 30 percent).
- (3) Where the total income of an individual including interest does not exceed €12.000 in a taxable year, then the rate is reduced from 30 percent to 3 percent.
- (4) Bank fixed deposit interest.

Due dates:

- SDC on rental income and on trading profits of semi-government organizations is payable in 6 monthly intervals on 30 June and 31 December each year
- SDC due on interest and dividends received gross is payable at the end of the month following the month in which they were received.
- As from 1 July 2011 companies and partnerships that pay rent in Cyprus should withhold SDC at source at the rate of 2.25% of the amount of the rent. The amount withheld must be paid to the Revenue by the end of the following month.

Deemed dividend distribution

The deemed dividend distribution rules are applicable only in respect of companies whose ultimate beneficial shareholders are Cyprus tax residents.

If a Cyprus resident company does not distribute at least 70% of its accounting profits as dividends within two years from the end of the tax year in which they incurred then:

- 70 percent of accounting profits (after specified adjustments for revaluations etc) are deemed to have been distributed
- 17 percent SDC is imposed on deemed dividend distribution applicable to shareholders who are residents of Cyprus, including higher level Cyprus parent companies. The rate is reduced to 3% on deemed dividend distributions of Collective Investment Schemes.

- Deemed distribution is reduced with payments of actual dividends which have already been paid during the two years from the profits of the relevant year

When an actual dividend is paid after the deemed dividend distribution, then SDC (if any) is imposed only on the additional dividend paid not previously subject to deemed dividend distribution.

When dividends have been paid by a Cyprus company to another Cyprus company in a multi layered holding structure, the SDC on the dividend payment must be settled within 4 years, preventing indefinite deferral.

Company dissolution

The cumulative profits of the last five years prior to the company's dissolution, which have not been distributed or deemed to have been distributed, will be considered as distributed on dissolution and will be subject to SDC at the rate of 17 percent. This provision does not apply in the case of dissolution under reorganization.

Reduction of capital

In the case of reduction of capital of a company, any amounts paid or due to the shareholders up to the amount of the undistributed taxable income of any tax year calculated before the deduction of losses from subsequent years, will be considered as dividends distributed subject to Special Contribution for Defence at 17 percent after deducting any

amounts which have been already deemed as distributed. These provisions do not apply where the shareholders are non-Cyprus residents.

Disposal of assets to shareholders at an amount less than its market value

In case where a company has disposed an asset to an individual shareholder (or to a second degree relative of him) for a consideration less than the current market value of the asset, then the difference between the two will be deemed to have been distributed as a dividend to the shareholder.

The above does not apply in cases where the asset has been originally gifted by the shareholder (or by the second degree relative) to the company.

Collective Investment Schemes

The rate on deemed dividend distribution for Collective Investment Schemes is 3 percent (the actual dividend distribution is subject to 17% in respect of Cyprus tax resident investors only – NIL in respect of foreign tax resident investors).

4 Social Insurance Contributions

	%
• Employer	7,8
• Employer	7,8

The maximum level of income on which social insurance contributions are paid on is as follows:

	€
• Weekly employees (weekly income)	1.046
• Monthly employees (annual income)	54.396

The contributions of self-employed persons are 14,6 percent of income, according to certain specified limits, depending on their profession and their length of service.

Other employer's contributions

The employer makes the following other contributions based on employee's emoluments (which, except for the contribution to the social cohesion fund, are restricted to the maximum amount of € 54.396 as stated above):

	%
• Social Cohesion fund	2
• Redundancy fund	1,2
• Industrial Training fund	0,5
• Holiday fund (if is not exempt)	8

5 Estate Duty

Estate Duty was abolished in 2000. The executor/administrator of the estate of the deceased is required by the Deceased Persons Estate Law to submit to the Tax Authorities a statement of assets and liabilities of the deceased within six months from the date of death.

6 Capital Gains Tax

Basis

Capital Gains Tax (CGT) is imposed at the rate of 20 percent on gains from the disposal of immovable property situated in Cyprus including gains from the disposal of shares in companies which own such immovable property in Cyprus and not listed in any recognized Stock Exchange.

Determination of capital gain

The capital gain is calculated after deducting from the selling price the initial acquisition cost or the market value as at 1 January 1980 whichever is the higher, inflated by the retail price index in Cyprus. Expenses related to acquisition and disposal are deductible for tax purposes.

Exemptions

The following disposals of immovable property are not subject to CGT:

- transfers arising on death
- gifts made from parent to child or between husband and wife or between up to third degree relatives

- gifts to a company where the company's shareholders are members of the donor's family and the shareholders continue to be members of the family for five years after the day of the transfer
- gifts by a family company to its shareholders, provided such property was originally acquired by the company by way of donation. The property must be kept by the donee for at least three years.
- gifts to charities and the Government
- transfer as a result of reorganizations
- exchange or disposal of immovable property under the Agricultural Land (Consolidation) Laws
- expropriations
- exchange of properties, provided that the whole of the gain made on the exchange has been used to acquire the other property. The gain that is not taxable is deducted from the cost of the new property, i.e. the payment of tax is deferred until the disposal of the new property.

Deductions

The following deductions exist for individuals:

	€
• sale of own residence (under certain conditions)	85.430
• sale of agricultural land by a farmer	25.629
• other sales	17.086

The above exemptions are granted only once for each taxpayer and not for each sale. An individual claiming a combination of the above is allowed a maximum of €85.430.

7 Immovable Property Tax

Immovable Property Tax is imposed on the market value of the property as at 1 January 1980 and applies to the immovable property situated in Cyprus and owned by the taxpayer on 1 January of each year. The immovable property tax is payable by the 30th of September of each year. If the tax is paid by the end of August (1 month before the deadline) then a 10% discount on the payable amount is granted.

Currently the immovable property tax rates are as follows:

Value of property €	Rate ‰	Tax €	Accumulated Tax €
Up to 40.000 *	6	240	240
40.001 -120.000	8	640	880
120.001 - 170.000	9	450	1.330
170.001- 300.000	11	1.430	2.760
300.001 – 500.000	13	2.600	5.360
500.001 – 800.000	15	4.500	9.860
800.001 – 3.000.000	17	37.400	47.260
Over 3.000.000	19		

** Properties with value up to €12.500 are exempt from immovable property tax but if the value of the property exceeds €12.500 then no exemption applies*

8 Transfer Fees

Transfer fees are levied by the Department of Land and Surveys for transfers of immovable property situated in Cyprus.

The following rates apply:

Property value €	Rate %	Accumulated fee €
Up to 85.000	3	2.550
85.001-170.000	5	6.800
Over 170.000	8	

The land transfer fees are payable by the purchaser of the property.

Sale or purchase contracts concluded between 2/12/2011 and 31/12/2016 and which are subject to VAT will be exempt from the above transfer fees and those contracts which are not subject to VAT will be eligible for a 50% exemption from the transfer fees.

In the case of property transferred to a family company, transfer fees are refundable after five years if the property remains with the company and the shareholders remain the same.

In the case of company reorganisations, transfers of immovable property are not subject to transfer fees or mortgage registration fees.

In case of property transferred from a family company to one of the two spouses or their children or to a relative up to third degree, the transfer fees are calculated on the value of the property on the title deed, as follows:

	%
• transfer to a spouse	8
• transfer to a child	4
• transfer to a relative up to third degree	8

The following rates are applicable in the case of free transfers:

	%
• parents to children	0.2
• between spouses	0.4
• between relatives up to third degree	0.4

The value in the above cases is the value written on the title deed which refers to values as at 1/1/1980.

Mortgage registration fees are 1 percent of the current market value.

9 Stamp Duty

The table below gives the amount of duty payable on certain documents. Any contracts relating to assets situated outside Cyprus or business matters that take place outside Cyprus are exempt from stamp duty. Transactions during reorganizations are also exempt.

Nature of document	
Receipt - for sums over €4	7 cents
Cheque	5 cents
Letter of credit	€2
Letter of guarantee	€4
Bill of exchange (payable within 3 days on demand or at sight)	€1
Contracts with a fixed amount	
• the first €5.000	Nil
• €5.001 - €170.000	1.5‰
• over €170.000	2‰
Maximum stamp duty payable on a contract is €20.000	
Contracts without a fix sum	€35
Customer declaration document	€18 - €35
Bill of lading	€4
Charter party	€18
Power of attorney - general	€6
- limited	€2

(cont'd)

Certified copy of contracts and documents	€2
Registrar of Companies fees	€105 plus 0.6 %
Incorporation of a limited liability company - Capital Duty	on authorised share capital
Increase in the share capital of a private company	0,6 % on the additional amount of the increase
Issued share capital	flat duty of €20
Filing of Annual Return	€20

10 Value Added Tax

VAT is imposed on the provision of goods and services in Cyprus, as well as on the acquisition of goods from the EU and the importation of goods into Cyprus.

Taxable persons charge VAT on their taxable supplies (output tax) and are charged with VAT on goods or services which they receive (input tax).

For intra community acquisitions of goods (except goods subject to excise duty or new means of transport) the trader does not pay VAT on receipt of the goods in Cyprus but instead accounts for VAT using the acquisition accounting method. This involves a simple accounting entry in the books of the business whereby he self charges VAT and at the same time claims it back if it relates to taxable supplies thereby creating no cost to the business.

Where the acquisition relates to an exempt transaction, the trader must pay the VAT that corresponds to the acquisition.

As from 1 January 2010 significant changes come into effect in the EU and Cyprus VAT legislation in the following areas:

- Changes in the country of taxation of services provided between businesses established in two different EU Member States
- Changes in the country of taxation of services, supplied to consumers
- Changes in the time of supply of services for which VAT is due by the recipient
- Procedure for refund of VAT paid in another Member State.

As a result of the above changes, additional compliance obligations have arisen as from 1 January 2010 for Cyprus resident businesses supplying services to businesses established in other EU Member States for which the recipient is liable to account for VAT under the reverse charge provisions. Such businesses are required to complete and submit electronic VIES declarations on a monthly basis, for services which are taxed by the recipient under the reverse charge provisions. In addition as from 1 January 2010 the VIES declaration for intra-Community supplies of goods must also be submitted on a monthly basis (instead of a quarterly basis).

VAT rates

The legislation provides for the following tax rates:

- zero rate
- reduced rate - 5%
- reduced rate – 9%
- standard rate -19%

Zero rate

- Exports to non EU countries
- Supply, modification, repair, maintenance, chartering and hiring of sea going vessels which are used for navigation on the open sea and which are carrying passengers for reward or used for the purpose of commercial, industrial and other activities.

- Supply, modification, repair, maintenance, chartering and hiring of aircrafts used by airlines operating for reward mainly or international routes
- Supply of services to meet the direct needs of sea going vessels and aircrafts
- Transportation of passengers from Cyprus to a place outside Cyprus and vice versa using a sea going vessel or aircraft
- Supplies of Gold to the Central Bank of Cyprus
- Commissions received from abroad for import and export of goods

Reduced rate

- Hotel accommodation (9%)
- Restaurants and catering services (9%)
- Transportation of passengers and their accompanying luggage within Cyprus using urban, intercity and rural taxis and tourist and Intercity buses (9%)
- Movement of passengers in inland waters and their accompanying luggage (9%)
- Supply of fertilisers, animal feeding products and seeds (5%)
- Supply of live animals for human consumption (5%)
- Books, magazines and newspapers (5%)
- Non-bottles water (5%)
- Liquid gas (5%)

- Supply of Foodstuffs (5%)
- The supply of pharmaceutical products and vaccines that are used for healthcare purposes (5%)
- Various goods for the use of handicapped persons (5%)
- Ice cream and similar products (5%)
- Funeral service and supply of coffins (5%)
- Road sweeping, garbage collection and recycling (5%)
- Services of authors, composers and artists (5%)

Exemptions

The following services are exempt from VAT:

- Rental of Immovable property
- Hospital and most medical services
- Most insurance, banking and financial services
- Educational services
- Management services provided to mutual funds
- Supplies of real estate, excluding new buildings before their first use but including supplies of land and of second-hand buildings
- Postal services provided by the national postal authority
- Lottery tickets and betting coupons for football and horse racing

Registration

Registration is compulsory for businesses with turnover in excess of €15.600 in a year or with an expected turnover in excess of €15.600 in a period of thirty days following. Businesses with less than this turnover have the option to register only if they so elect.

An obligation for registration also arises for businesses which make acquisitions of goods from other EU member states in excess of €10.250 during any calendar year and for businesses that offer distant sales in excess of €35.000.

Exempt goods and services and transactions of capital nature are not taken into consideration when determining the annual turnover for registration purposes.

Also an obligation for VAT registration arises for businesses engaged in the supply of intra-Community services for which the recipient must account for VAT under the reverse charge rules (NIL registration threshold).

In addition, an obligation for VAT registration arises for businesses carrying out economic activities where they receive any services from abroad for which an obligation to account for Cyprus VAT under the reverse charge provision exists (threshold of €15.600 exists).

Thresholds for VAT Registration – Summary

	€
• Provision of taxable supplies in Cyprus	15.600
• Acquisition of goods in Cyprus from other EU Member states suppliers	10.252
• Distance selling	35.000
• Supply of intra-community services	Nil
• Receipt of services from abroad – under reverse charge rules	15.600

Reduced rate of 5% on the acquisition or construction of residences for use as the primary and permanent place of residence

A reduced VAT rate of 5% applies to all contracts which were concluded as from 1/10/2011 onwards and which relate to the acquisition or construction of all type of residences which are to be used as the primary and permanent place of residence for the next 10 years by the applicant. For all contracts which were concluded up to 30/9/2011 the eligible person must apply for a grant (explained in next section).

The rate of 5% applies for the first 200 square meters of the residence which must have a maximum covered area of up to 275 square meters. In cases where the residence is for a family with more than 3 children the allowable total covered area increases by 15 square meters per additional child beyond the three children.

Note that the 5% reduced rate can only be imposed after obtaining the relevant certified confirmation from the VAT Office. The eligible person must submit a fully completed and documented application to the VAT Office prior to the actual delivery of the residence to him.

As from June 2012, eligible persons include also residents of non EU countries, provided that the residence will be used as their primary and permanent place of residence in Cyprus.

Grant for acquisition of first residence

The grant is given to eligible persons who will construct, purchase or transfer a new residence (total covered area should not exceed 250 square meters) which will be used as the primary place of their residence. This grant applies for contracts which were concluded up to 30/9/2011. The application for the grant can be filed only in cases where an application has been submitted for the issue of a planning permission after 1/5/2004. Entitled persons for the grant are persons who are citizens of Cyprus or citizens of other EU Member State countries who reside permanently in Cyprus and are at least 18 years old.

Difference between zero rate and exempt supplies

The difference between zero rate and exempt supplies is that businesses that make exempt supplies are not entitled to recover the input VAT charged on their purchases, expenses or imports.

Irrecoverable input VAT

As an exception to the general rule, input VAT cannot be recovered in a number of cases which include the following:

- acquisitions used for making exempt supplies
- purchase, import or hire of saloon cars
- entertainment and hospitality expenses (except those relating to employees and directors)
- housing expenses of directors

VAT declaration – Payment/return of VAT

VAT returns are prepared on a quarterly basis and must be submitted by the 10th day of the second month that follows the month in which the tax period ends. Any payable VAT arising for the quarter must be paid prior to the submission of the return.

Where in a quarter input tax is higher than output tax, and therefore a repayment is due, the difference is refundable or is transferred to the next VAT quarter.

Penalties

	€
• Late submission of VAT Return	51 each
• Late submission of VIES Return	50 each
• Omission to submit VIES Return for a period over three months*	850
• Late submission of corrective VIES Return	15 each
• Late submission of Intrastat Return	15 each
• Late registration with VAT authorities	85 per month of delay
• Omission to keep books and records for 6 years	341

* *Criminal offence with maximum penalty*

11 Double Tax Treaties

Withholding taxes- paid to Cyprus (inbound payments to Cyprus)

	Dividends %	Interest %	Royalties %
Armenia	0/5	5	5
Austria	10	0	0
Azerbaijan*	0	0	0
Belarus	5/10/15	5	5
Belgium	10/15	0/10	0
Bosnia ***	10	10	10
Bulgaria	5/10	0/7	10

(cont'd)

	Dividends %	Interest %	Royalties %
Canada	15	0/15	0/10
China	10	10	10
Czech Republic	0/5	0	0/10
Denmark	0/15	0	0
Egypt	15	15	10
Estonia	0	0	0
Finland	5/15	0	0
France	10/15	0/10	0/5
Germany	5/15	0	0
Greece	25	10	0/5
Guernsey**	0	0	0
Hungary	5/15	0/10	0
Iceland **	5/10	0	0/5
India	10/15	0/10	0/15
Ireland	0	0	0/5
Italy	15	10	0
Kuwait	0	0	5
Kyrgyzstan *	0	0	0
Lebanon	5	5	0
Lithuania	0/5	0	5
Malta	0	0/10	10
Mauritius	0	0	0
Moldova	5/10	5	5
Montenegro ***	10	10	10
Norway	0/15	0	0
Poland	0/5	0/5	5
Portugal	10	10	10
Qatar	0	0	5
Romania	10	0/10	0/5
Russia	5/10	0	0
San Marino	0	0	0
Serbia ***	10	10	10
Seychelles	0	0	5
Singapore	0	0/7/10	10
Slovakia	10	0/10	0/5

(cont'd)

	Dividends %	Interest %	Royalties %
Slovenia	5	5	5
South Africa	0	0	0
Spain	0/5	0	0
Sweden	5/15	0/10	0
Switzerland **	0/15	0	0
Syria	0/15	0/10	10/15
Tadzhikistan *	0	0	0
Thailand	10	10/15	5/10/15
Ukraine	5/15	2	5/10
United Arab Emirates	0	0	0
United Kingdom	0/15	10	0/5
United States	5/15	0/10	0
Uzbekistan *	0	0	0

The above table provides a summary of the withholding taxes applicable for payments to Cyprus companies from double tax treaty countries.

**The treaty between Cyprus and USSR continues to apply*

*** Pending for ratification*

**** Serbia, Montenegro and Bosnia apply the Yugoslavia/Cyprus treaty*

Dividends

No withholding taxes exist for dividend payments which are made to non tax residents of Cyprus.

Interest

No withholding taxes exist for interest payments which are made to non tax residents of Cyprus

Royalties

No withholding taxes are levied on royalties as long as the right is used outside Cyprus. If the right is used in Cyprus, the rates appearing in the table in the previous page apply.

12 Tax Due Dates and other Information

End of following month

- Payment of tax deducted from employees salary (PAYE)
- Payment of Social Insurance deducted from employees salary
- Payment of Special Tax Contribution on gross salaries (equally shared by employee and employer)
- Payment of special contribution for defence on dividends and interest received in the preceding month
- Payment of Tax withheld on payments to non-Cyprus residents (i.e. artists, performers)
- Payment of Special Contribution for defence withheld on payments of rents in Cyprus

Within 60 days

- Obtaining a Tax Identification Code: Following the registration or incorporation of a company with the Registrar of Companies, the company is obliged to submit an application for registration with the Inland Revenue Department. Similar rules apply in the case of companies incorporated outside Cyprus that become tax resident of Cyprus.

31 January

- Submission of declarations of deemed dividend distribution (auditor and director's declaration or IR623 forms) and payment of relevant SDC.

31 March

- Submission of 2013 tax return (IR4) for companies via the electronic Taxisnet system

30 April

- Submission of the previous year personal income tax returns (IR1) of individuals (not electronically) - see note (1)
- Payment of premium tax for life insurance companies - first installment

30 June

- Submission of previous year's personal tax returns of self-employed individuals not preparing audited financial statements – see notes (1) and (2) below
- Payment of personal tax under self assessment method
- Payment of special contribution for defence for the first six months of the year
- Payment of the annual levy of €350 to the Registrar of Companies

31 July

- Submission by employers of the Employer's Return of the previous year (Form IR7) electronically via Taxisnet System
- Submission of the previous year personal income tax returns (IR1) of individuals (electronically via Taxisnet system) - see note (1)
- Submission of provisional tax declaration and payment of first installment (out of two) of provisional tax for the year

1 August

- Payment of previous year's final corporation tax under the self-assessment method
- Payment of previous year's income tax under the self assessment method by self-employed individuals preparing audited financial statements – see note (2)

31 August

- Payment of premium tax for life insurance companies - second installment

30 September

- Payment of immovable property tax for the year

31 December

- Payment of provisional tax – second and last installment
- Payment of special contribution for defence for the last six months of the year
- Payment of premium tax for life insurance companies- third and last installment
- Submission of annual return to the Registrar of Companies

Notes

(1) Physical persons submit returns only when their gross income exceeds €19.500

(2) A physical person is obliged to submit audited financial statements if his/her annual turnover exceeds the amount of €70.000

Interest and penalties

The official rate, as set by the Finance Minister is 4 percent per annum for all amounts outstanding after 1 January 2015. The interest rate for amounts outstanding before 1 January 2015 is 4,5%, before 1 January 2014 is 4,75%, before 1 January 2013 is 5 percent, before 1 January 2011 is 5,35 percent, for amounts outstanding before 1 January 2010 is 8 percent and for amounts outstanding before 1 January 2007 is 9 percent. In addition to the above stated interests, penalties apply for late payment of taxes and late submission of Income tax returns.

Electronic submission of Company's Tax Returns

Company's income tax returns (IR4 forms) for the tax years 2007 onwards must be submitted to the Tax Authorities electronically through the Taxisnet System. As a result all Cyprus companies who are obliged to submit yearly income tax returns must be registered to the Electronic Taxisnet system in order to be able to submit their tax returns electronically. This registration is obligatory.

Maintaining Accounting Books and Records

Each person (individual, company or partnership) which has income from:

- any profits or other benefits from any business, or
- dividends, interest or discounts or

- any profits or other benefits from any office or employment, intellectual property rights, patent rights, remuneration or other profits arising from ownership or
- any amount or consideration in respect of any trade goodwill

has the obligation in every tax year to:

a) Issue receipts and invoices in relation to its transactions. Invoices must be issued within 30 days from the date of the transaction.

b) Maintain accounting books and records and prepare accounts in accordance with acceptable accounting standards and which books are audited using the official auditing standards by a person that is eligible to act as an auditor in accordance with the Cyprus Companies Law.

Furthermore, a person is obliged to update its books and records within four months from the date that the transaction took place. In the case where books and records are not updated within the relevant deadline, a penalty of €100 per quarter will be imposed.

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

Books and records must be kept for a period of at least six years (previously seven years). In case a business maintains stocks, a stock count must be carried out at year end.

13 Companies Law

All companies incorporated in Cyprus are required to pay a fixed annual levy of €350 to the Registrar of Companies as from year 2011 onwards. The maximum levy for groups is set at €20.000.

The levy must be paid by 30th of June of each year.

In case where the levy is not paid within the prescribed period the following penalties will apply:

- 10% penalty if the levy is not paid within 2 months
- 30% penalty if the levy is not paid within 5 months
- If the levy is not paid within 5 months the Registrar of Companies will remove the company from its registry. The return of the company to the registry can be effected within two years with the payment of a levy of €500 per annum and thereafter with the payment of a levy of €750 per annum

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This tax publication incorporates Tax Laws current as at 31 January 2015 and which may be subsequently amended.

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