



# Cyprus taxation in brief

## Introduction

Cyprus has developed into a popular platform from where international investors and multinational companies hold and manage their trans-border investments.

This is mainly due to:

- The favourable Cyprus tax regime, offering the lowest overall taxation in the European Union;
- The broad tax exemption system for dividends from overseas subsidiaries;
- The general tax exemption for profits from the sale of securities;
- The absence of withholding tax over dividends paid by Cyprus companies to foreign shareholders;
- The excellent double tax treaty network Cyprus has with around 50 countries and
- The possibility for Cyprus companies to make use of the benefits of the European Union Parent-Subsidiary Directive and the EU-Interest and Royalty Directive that further enhanced Cyprus' attractiveness since its accession into the European Union (May 2004).

## Corporate Income Tax (CIT)

### Taxable persons

Incorporated public limited companies (Plc.), incorporated private limited companies (Ltd.) and other companies resident in Cyprus.

### Residence

A company is resident in Cyprus if the management and control of the company is exercised in Cyprus.

### Rate

The standard corporate income tax rate for companies is 10%.

### Taxable income

Resident companies are subject to income tax on their worldwide income.

Non-resident companies are subject to income tax in respect of certain types of Cypriot source income, e.g. income from Cypriot real estate and a Cypriot permanent establishment.

## **Deductibility of expenses**

In general, a deduction is allowed for expenses wholly and inclusively incurred by a taxpayer in the production of income. A few minor exceptions e.g. apply to certain entertainment expenses.

## **Interest income**

50% of the interest which is not derived from the ordinary carrying on of a business, and which is not closely connected to the carrying on of a business either, is exempt from income tax (see however: "Special Contribution for the Defence of the Republic").

Interest which is derived from the ordinary carrying on of a business or which is closely connected to the carrying on of a business is fully subject to income tax.

## **Royalty income**

The gross amount of royalties derived by a non-resident of Cyprus, who is not engaged in any business in Cyprus, is in principle subject to 10% income tax in Cyprus. However, in case the underlying rights are used outside Cyprus, the royalty payments are exempt from income tax.

## **Dividend income**

Dividends received by a company resident of Cyprus are exempt from income tax (see however: "Special Contribution for the Defence of the Republic").

## **Gains**

Profits derived from the sale of securities are income tax exempt of Cyprus. Securities include shares, debentures, bonds, founders' shares and other securities of companies or other legal persons, incorporated under a law in Cyprus or abroad, including options thereon.

Capital gains derived from the disposal of Cypriot immovable property are subject to 20% capital gains tax.

Capital gains from the disposal of non-listed shares in companies (indirectly) owning Cypriot immovable property, are also subject to 20% capital gains tax to the extent that such gain reflects the profit upon the sale of the underlying Cypriot property.

## **Permanent establishment**

Profits from a permanent establishment outside Cyprus are exempt from income tax provided that at least one of the following conditions is met:

- The permanent establishment does not engage directly or indirectly more than 50% in activities, which lead to investment income; or
- The foreign tax burden on the income of the permanent establishment is more than 5%.

A building site, construction or installation project or supervisory activities constitute a permanent establishment if they last more than 3 months.

## **Set-off of losses**

Carry back:	not allowed.
Carry forward:	losses can be carried forward for an indefinite period of time.
Set-off of group losses:	a resident company is under circumstances allowed to surrender its loss to an affiliated Cyprus company.

## **Anti-Avoidance**

### **Transfer Pricing**

Cypriot tax law contains a general provision according to which the conditions of transactions conducted by Cypriot companies with certain affiliated parties should be at arm's length.

### **Thin-Capitalization**

There are no “thin capitalization rules”, limiting deduction of interest to the extent that a Cyprus company’s debt/equity ratio would exceed a certain level.

### **Controlled Foreign Companies**

There are no special provisions for so-called “controlled foreign companies”, according to which Cyprus would include profits realized by (certain) low-taxed foreign subsidiaries, owned by Cyprus companies, in the taxable bases of the latter companies.

## **Special Contribution for the Defence of the Republic (defence tax)**

### **Taxable persons and income**

#### **Dividend income**

Dividends received or deemed to be received by any (private or corporate) resident of Cyprus are in principle subject to a 15% Special Contribution for the Defence of the Republic (defence tax) over the gross amount of the dividend.

However, dividends received by a resident company from another resident company are exempt from defence tax.

A resident company that receives dividends from a company that is not resident in Cyprus, in which it holds directly at least 1% of the share capital, shall also be exempt from defence tax, provided that at least one of the following conditions is met:

- The company paying the dividend does not directly or indirectly engage more than 50% in activities which lead to investment income; or
- The foreign tax burden on the income of the company paying the dividend is more than 5%.

#### **Interest income**

Interest which is not derived from the ordinary carrying on of a business and which is not closely connected to the carrying on of a business either is subject to 10% defence tax over the gross amount (for companies: in addition to 10% income tax over 50% of the net interest income, see above “Corporate income tax-Interest income”).

Interest that is derived from the ordinary carrying on of a business or closely connected to the ordinary carrying on of a business is exempt from defence tax (and is only subject to 10% income tax).

Interest derived from banking activities (and other specifically described activities) is considered to be derived from the ordinary carrying on of a business and therefore only subject to 10% income tax. The same applies to interest derived from group-financing activities, (and other specified activities) which is deemed to be closely connected to the ordinary carrying on of a business.

## **Withholding Taxes**

There is no withholding tax over dividend payments made to foreign shareholders.

There is no withholding tax over interest payments made to foreign creditors.

There is no royalty withholding tax provided that the right, for which the payment is made, is exercised outside Cyprus.

## Value Added Tax (VAT)

Cyprus has a VAT system based on the EU VAT Directive 77/1388/EEC. VAT is levied on the supply of goods and services made for consideration in Cyprus and the importation of goods into Cyprus. In computing the VAT liability, the input VAT on purchases of goods and services may in principle be deducted.

Fiscal unity (group registration) for VAT purposes is possible under certain conditions.

### Rates

Standard rate:	15%
Reduced rate:	5%
Nil rate:	0% (exported goods and services)

## Personal Income Tax

### Taxable persons

Taxable persons are individuals resident within Cyprus and non-resident individuals that have certain Cypriot source income, e.g. income from employment exercised in Cyprus.

### Residence

An individual is a resident of Cyprus if he stays in Cyprus for a period/periods exceeding in aggregate 183 days in the year of assessment.

### Rates (excl. social premiums):

• Up to €19,500 = nil
• From €19,501— up to € 28,000 = 20%
• From €28,001— up to €36,300 = 25%
• Over €36,300 = 30%

For income tax purposes, 20% of the remuneration of any office or employment exercised in Cyprus by an individual who was resident outside Cyprus before the commencement of his employment, or €8,543 whichever is the lower, is exempt from income tax. This exemption applies for 3 years from January 1st following the year in which employment commences in Cyprus.

### Taxable income

For residents, Cypriot income tax is levied over a number of worldwide sources, including:

- Profits or other benefits from any business,
- Profits or other benefits from office or employment,
- Interests,
- Pensions,
- Rents, royalties, remunerations and other profits arising from property, and
- Any amount in respect of any trade goodwill.

Certain income is exempt from income tax, most notably all dividends, certain interest income and all gains on the sale of securities.



However, (deemed) dividends are subject to a 15% Special Contribution for the Defence of the Republic (defence tax) over the gross amount. Among other income that is subject to defence tax are interest at a 10% rate (certain interest at 3% rate) over the gross amount and rental income at an effective rate of 2.25% over the gross rental income. Defence tax is neither deductible nor creditable for income tax purposes.

## Social Insurance Contributions and rates

Employees may be liable to a social insurance fund contribution equal to 6.3% of their insurable emoluments, which are capped at €3.836 per month. Employers may be liable to social security contributions to an amount equal to 10% of the insurable emoluments, of which 8% is capped at €3.836 per month and 2% is uncapped.

## Other Taxes

Immovable property tax:	progressive rate of up to 0.4%
Inheritance tax:	none
Gift tax:	none
Stamp duty:	0,6% over the authorised capital of a Cyprus company at incorporation or later increase thereof 0,15-0,2% over certain other transactions

## Filing periods returns and payments

### Corporate income tax

Returns must be filed not later than December 31 following the year of assessment. Temporary assessments are issued during the year of assessment and are payable in equal installments on August 1, September 30 and December 31 of the year of assessment. A final assessment is payable on August 1 following the year of filing the return.

### VAT

Return must be filed on a quarterly basis. Taxable persons who are usually entitled to a refund of VAT, can opt for a one-month filing period. VAT returns must be filed and payment of VAT must take place within 40 days after the end of the relevant VAT period.

### Personal income tax and social insurance contributions

For employment and pension income, Cyprus has a "Pay As You Earn" (PAYE) system, under which income tax and social security contributions are withheld weekly or monthly. The amount withheld has to be remitted and a return must be filed by the end of the month following the period of assessment.

An annual income tax return has to be completed and filed not later than April 30 following the year of income.

### Special Contribution for the Defence of the Republic

Payment of defence tax is due at or before the end of the month following the month in which withholding at source has been made over the income which is subject to the defence tax. An exception applies for defence tax due over rents, which is due at or before 30 June and 31 December of the year in which the rental income arises.

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