



Cyprus Tax Booklet



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CORPORATION TAX

Tax Basis

A company is tax resident of Cyprus if its management and control is exercised in Cyprus. Some of the most important factors used for deciding the place where the management and control of a company is exercised are the following:

- the place where the board meetings are held
- the place where the majority of the board of directors lives
- the place where the company has its central offices, from where the strategic decisions are taken
- the place from where the company's bank accounts are maintained

Cyprus Tax Residents

Companies tax residents of Cyprus are taxed on their whole income accrued or derived from all sources in Cyprus and abroad.

Non – Cyprus Tax Residents

Companies which are not tax residents of Cyprus are taxed on their income accrued or derived from business activities which are carried out through a permanent establishment in Cyprus and/or any other certain type of income arising from sources in Cyprus.

Corporation Tax Rate

The tax rate for companies is 12.5%.

Tax Exemptions

Type of income	Exemption limit
<ul style="list-style-type: none"> • Interest income 	100%

Provided that the interest income arises from activities other than the ordinary activities of the company or closely related to the ordinary activities of the company.

The interest income of Collective Investment Schemes is considered to be arising from the ordinary activities of the Scheme.

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| <ul style="list-style-type: none"> • Dividends
<i>(except those dividends that are deductible from the taxable income of the paying company)</i> • Profits from the sale of securities • Profits of a permanent establishment abroad, under certain circumstances • Exchange gains
<i>(except of exchange gains of companies trading in foreign currencies and related products)</i> | <p>100%</p> <p>100%</p> <p>100%</p> <p>100%</p> |
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Tax Deductions

All expenses incurred wholly and exclusively for the generation of the company's income are tax deductibles (Note 1) including:

Type of expenditure	Deduction limit
<ul style="list-style-type: none"> Interest related to the acquiring of assets used for business purposes 	100%
<ul style="list-style-type: none"> Expenses incurred for the maintenance of a building in respect of which there is a Preservation Order 	Up to €700, €1.100 or €1.200 per square meter (depending on the size of the building)
<ul style="list-style-type: none"> Donations to <u>approved</u> charities (with receipts) 	100%
<ul style="list-style-type: none"> Profit from the trading and/or sale of IP rights 	80%
<ul style="list-style-type: none"> Employer's contributions to social insurance and approved funds on employees' salaries <i>Note 1</i> 	100%
<ul style="list-style-type: none"> Expenditure incurred for the acquisition of shares in an innovative business (<i>abolished from 1 January 2017</i>) 	100%
<ul style="list-style-type: none"> Notional interest on any new equity introduced into the share capital of the company which is actually paid and used for the operations of the company <i>Note 2</i> 	Equal to the effective interest earned on the 10yr gov. bond of the country to which the new equity is invested plus 3%

Notes:

- Any wages and salaries relating to services offered within the tax year on which contributions to the Social Insurance Fund, Human Resource Development Fund, Social Cohesion Fund, Pension Fund and Provident Fund have not been paid in the year in which they were due will not be tax deductible for the calculation of taxable income.
In case the above contributions (including penalties and interest) are paid in full within two years after the last due date, such wages and salaries will be tax deductible in the tax year during which they were paid.
- The notional interest deduction cannot exceed the 80% of the taxable income of the company for the year before the deduction (subject to anti-avoidance provisions).

Non Deductible Expenses

The following expenses are non tax deductible:

Type of expenditure	Limit not deducted
<ul style="list-style-type: none"> Entertainment expenses for business purposes 	Excess of 1% of the company's gross income or €17.086 (<i>lower of the two</i>)
<ul style="list-style-type: none"> Expenses of a private motor vehicle 	100%
<ul style="list-style-type: none"> Professional tax 	100%
<ul style="list-style-type: none"> Interest related to the cost of acquiring a private motor vehicle irrespective of its use in the business and to the cost of acquiring (<i>for 7 years any other asset not used in the business*starting from the acquisition year</i>) <i>*From 1 January 2012, interest payable is deductible in cases where shares are acquired directly or indirectly in a wholly owned subsidiary provided the subsidiary does not own any assets which are not used for business purposes.</i> 	100%

Type of expenditure	Limit not deducted
<ul style="list-style-type: none"> Exchange losses <i>(except of exchange losses of companies trading in foreign currencies and related products)</i> 	100%
<ul style="list-style-type: none"> Wages and salaries of the year for which the relevant social insurance and other contributions have not been paid on the date they were due 	100%
<ul style="list-style-type: none"> Any other expenditure which is not supported by the appropriate evidence as required by the relevant Laws and Regulations 	100%

Losses carried forward

Any tax loss incurred during a tax year is carried forward over the next five years from the end of the tax year in which the loss was incurred and set off against future profits.

Tax losses arising as a result of claiming relief under the provisions of the IP Box regime are restricted to 20% for the purposes of carrying forward to future years and offsetting them against income of following years.

Set off of losses between Group Companies

The current year losses of a company are permitted to be netted off against the profits of another group company either situated in Cyprus or in any other EU member state provided the companies belong to the same Group for the whole tax year. However, losses of qualifying subsidiary companies situated in another EU country are only be permitted to be netted off against the profits of a Cyprus company apply provided the group subsidiary company has exhausted all the means available for using the available tax loss in its respective country of residence or in the country where its immediate holding company resides.

Losses surrendered to a Cyprus company by an EU company must be calculated based on the provisions of Cyprus Laws.

From year 2012 and onwards, in cases where a company has been set up by its parent company during the year, this company will be deemed to be member of the group for the whole year for group relief (at least 75% shareholding must exist). Group is defined as follows:

- One company holding at least 75% of the shares of the other company
- At least 75% of the voting shares of the companies are held by another company

A sole trader or a partnership transferring business into a company can carry forward tax losses into the company for future utilization for five years provided that the sole trader/partnership prepared audited financial statements for the years the losses were incurred.

Losses from a permanent establishment abroad

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

Tax paid abroad

Any tax paid abroad in respect of income taxed in Cyprus under corporation tax will be allowed as credit against the tax payable on such income irrespective of the existence of a Double Tax Treaty between the countries.

Special Types of Taxation

Insurance companies

Profits of insurance companies of the general and life business are taxed in the same way as all other companies. However, in the case of life business insurance companies where there is no tax payable or the tax payable on taxable profits is less than the 1,5% of the gross amount of the insurance premiums then the difference is paid as additional corporation tax.

Losses of the general sector can be set off against profits of the life insurance sector.

Losses of the life insurance sector can be set off against the profits from other sources.

Intellectual property rights income

The gross income arising from intellectual property rights, other exploitation rights, compensations or other similar income arising from sources within the Republic, of a person who is not resident in the Republic and does not arise from a permanent establishment in the Republic, is subject to withholding tax at a rate of 10% (unless a tax treaty provides for a lower tax rate).

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

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

Film royalties income

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

Profits of professionals, entertainers etc

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

Income from Oil & Gas related activities

The gross amount or other income derived from sources within the Republic by any person who is not resident in the Republic, which does not arise from a permanent establishment in the Republic, as consideration for services carried out in the Republic with respect to the extraction, exploration or exploitation of the continental shelf, subsoil or natural resources, as well as the installation and exploitation of pipelines and other installations on the ground, the seabed or above the surface of the sea, is subject to tax at the rate of 5%.

Intellectual Property Regime

Cyprus has adopted amendments to the current Cyprus Intellectual Property (IP) regime, to fully comply with the relevant OECD recommendations of the BEPS Action 5. The amendments apply retrospectively as from 1 July 2016.

The amendments adopted include transitional arrangements, thus allowing the provisions of the current IP legislation to continue to apply up to 30 June 2021.

A. THE OLD IP BOX REGIME

The old IP Box Regime was introduced in year 2012. According to the old legislation, the following conditions should apply for an IP holder to claim the benefits of the Law:

- The Cyprus company should be the owner of the qualifying IP
- The IP right should be a qualifying IP as this is defined by the Patents Law, Trademarks Law and the Intellectual Rights Law
- The qualifying asset should generate taxable income for the company

Provided the above conditions were met, the company was entitled to a notional expense for tax purposes equal to 80% of its net 'royalty income'. The remaining 20% was then subject to the normal corporate rate of 12,5% thus decreasing the effective tax rate to 2,5%.

Where a net loss is created, only 20% of such loss is eligible to be surrendered for group relief and/or carried forward.

The taxpayer may choose to forego the whole or part of the deduction in each year of assessment.

B. THE NEW IP BOX REGIME

The new IP Box Regime will apply for qualifying IP assets which are developed after 1 July 2016. Provided such an asset qualifies as an IP asset, the company will be entitled to a notional expense for tax purposes equal to 80% of its 'qualifying profits'. The remaining 20% of profits will be subject to the normal corporate rate of 12,5% thus giving a maximum effective tax rate of 2,5%.

Amendments to the current Cyprus Intellectual Property (IP) regime in relation to 'qualifying' assets are as follows:

- i. Qualifying assets are restricted to
 - patents,
 - computer software,
 - other IP assets which are legally protected and fall under one of the following:
 - a. non-obvious, useful assets and from which the income of the taxpayer does not exceed, in a 5-year period, €7.500.000 per annum (€50.000.000 for taxpayers forming a Group). Such assets should be certified by an appropriate authority either in Cyprus or abroad
 - b. utility models.
- ii. Qualifying assets do not include trademarks, image rights, brands and other intellectual property rights used for the marketing of products or services.

iii. Qualifying profit

For a qualifying IP asset to benefit from a patent box regime, there should be sufficient substance and an essential relevance between the expenses, the IP assets and the related IP income. Under this approach, the application of the IP regime will be dependent on the level of Research and Development (R&D) carried out by the qualified taxpayer wholly and exclusively for the development of the qualifying IP whereas it excludes the R&D costs of outsourcing to related parties. On the contrary, R&D costs outsourced to non-related parties are considered as part of the 'qualifying expenditure'.

Based on the above considerations, the following formula will be used to determine the qualifying profits:

$$[(\text{Qualifying expenditure} + \text{Up-lift expenditure})/\text{Total expenditure}] * \text{Overall IP Income}$$

Where:

- a. Qualifying expenditure includes any direct costs relating to the development of the IP but does not include
 - any cost of acquisition of intangible assets,
 - interest paid or payable,
 - costs for the acquisition or development of immovable property
 - amounts paid or payable to related parties in relation to R&D.
- b. Up-lift expenditure provides for the lower of
 - 30% of 'qualifying expenditure', or
 - the total amount spent for the cost of acquisition and the R&D outsourced to related parties.
- c. Total expenditure includes the overall expenditure of the company related to the development of the IP either qualifying or not.
- d. Overall IP Income includes the gross IP income less the direct costs incurred for the generation of the income (including amortization of the intangible asset as well as any notional interest deduction on equity used to finance the development of the qualifying asset).

The capital cost of any qualifying intangible asset is tax deductible as a capital allowance.

Capital gains arising from the disposal of a qualifying asset are not included in the qualifying profits and are fully exempt from income tax.

Where the calculation of qualifying profits results in a loss, only 20% of this loss may be carried forward or group relieved.

The taxpayer may choose to forego the whole or part of the deduction in each year of assessment.

C. GRANDFATHERING PROVISIONS

The provisions of the old IP Box regime will continue to apply in relation to the following IP assets:

- i. Existing IP assets - IP assets qualifying under the current provisions of the Cyprus IP regime which were acquired before 2 January 2016;
- ii. IP assets acquired directly or indirectly from related parties, during the period from 2 January 2016 to 30 June 2016, if such assets would have been eligible to qualify under the provisions of the current IP regime; and

iii. IP assets acquired from a non-related party or developed during the period from 2 January 2016 to 30 June 2016.

The provisions of the old IP regime expired on 31 December 2016 for IP assets acquired either directly or indirectly from related parties, during the period from 2 January 2016 to 30 June 2016 if such assets do not meet the criteria of the grandfathering rules as described above.



SPECIAL CONTRIBUTION FOR DEFENCE

Special contribution for defence is charged on income earned by Cyprus tax residents only. Non residents are not subject to the defence contribution.

The rates of defence tax on income are as follows:

• Dividends	17%
• Interest income	30%
• Interest received by an individual from Government Savings Certificates	3%
• Interest received by an individual from Government Bonds	3%
• Interest earned by an approved Provident Fund	3%
• Rental income (reduced by 25%)	3%

Notes:

1. Dividends

Dividends paid by a company resident in Cyprus to another company resident in the Republic are exempted from Special Contribution for Defence. However, special defence contribution will be imposed on dividends paid by a company resident in the Republic, to another company, resident in the Republic, after four years from the end of the year in which the profits which were distributed as dividends were made.

- Dividends received by a company resident in Cyprus or a company not resident in Cyprus which maintains a permanent establishment in the Republic from a company which is non-resident in the Republic are exempted from Special Contribution for Defence provided that
 1. no more than 50% of the paying company's activities result directly or indirectly in investment income **and**
 2. the foreign tax is not significantly lower than the tax burden in Cyprus.

When the above exemptions do not apply, the dividend income is subject to Special Contribution for Defence at the rate of 17%.

- Dividends received by a Cypriot tax resident company which fall under the provisions of 'hybrid instruments' are not exempted from income tax, but instead are taxed as normal business income subject to corporation tax. In addition, it is noted that the EU Parent – Subsidiary Directive does not apply in cases where between the dividend paying company and the dividend receiving company there is/are an arrangement/s which is/are considered as not genuine to the extent that are not put in place for valid commercial reasons.
- Dividends derived directly or indirectly from profits arising from operating a ship under the Cyprus flag within the course of shipping activities or from ship management services are exempted from Special Contribution for Defence.
- Any dividends derived directly or indirectly from dividends on which Special Defence Contribution has already been paid are exempted from Special Defence Contribution.

2. Interest income

- Interest income arising as a result of the carrying on of a business trading activities, including interest closely connected to the ordinary activities of the business, is not considered interest for special defence contribution purposes. Instead is taxed with the normal corporation/income tax rates.
- Interest income received by a physical person whose total income (including interest) does not exceed € 12.000, has the right to a refund of the amount of defence tax withheld in excess of 3%.

Deemed dividend distribution

A company resident in the Republic is deemed to have made a distribution of dividends of 70% of its accounting profits after tax at the end of the two years following the tax year in which the profits relate. A special contribution for defence of 17% is imposed on such deemed dividend distribution applicable to shareholders who are tax residents and domiciled in Cyprus (3% on deemed dividend distribution of Collective Investment Schemes).

Deemed distribution is reduced with payments of actual dividends already paid during the two years from the profits of the relevant year. In cases where actual dividends are paid after the two year period, any deemed distribution reduces the actual dividend on which the defence contribution is withheld.

In the case of a non tax resident shareholder receiving dividend from a company tax resident in Cyprus deriving out of profits which were at any stage suffered with deemed distribution, any defence contribution paid thereon may be claimed back by the non resident shareholders upon receipt of actual dividends.

In the case of a company disposing of an asset to an individual shareholder or a relative of his up to second degree relationship or his spouse for a consideration less than its market value or at no consideration, the difference of the market value and the consideration value will be deemed to have been distributed as a dividend to the shareholder and defence tax will be payable thereon. The provision, does not apply for assets originally donated to the company by an individual shareholder or a relative of his up to second degree relationship or his spouse.

Company dissolution

In the case of a company dissolution, the aggregate amount of profits arising in the last five years prior to the dissolution, which have not been distributed or be deemed to be distributed, are considered as distributed on dissolution and are subject to defence contribution at the rate of 17% (3% for Collective Investment Schemes).

However, the above does not apply in the case of dissolutions under reorganization schemes as this are defined by certain regulations. Also, it does not apply where the shareholders of the company being dissolved are non-residents in Cyprus.

Reduction of capital

In the case of a reduction in the company's capital, any amount due or paid to the company's shareholders in excess of the amounts originally paid by the shareholders, is considered as distributable dividends and is

subject to special contribution for defence at the rate of 17% (after deducting any amounts which have been deemed as distributable profits and defence tax thereon has been paid).

Non-domiciled persons not liable to Defence Tax

From 16 July 2015 and onwards, individuals who are not considered to be 'domiciled' in Cyprus, are exempted from the payment of Special Contribution for Defence Tax on dividends, interest and rental income, even if they are considered as tax residents of Cyprus.

For the purposes of the Law, an individual is considered as having his/her domicile in Cyprus if he/she is either:

a. An individual who has a domicile-of-origin in Cyprus, as defined in the Wills and Succession Law with the exception of:

i. an individual who has acquired and maintains a domicile-of-choice outside Cyprus based on the provisions of the Wills and Succession Law and such individual was not a tax resident of Cyprus per the Income Tax Law for any period of at least twenty (20) consecutive years prior to the tax year of assessment; or

ii. an individual who was not a resident of Cyprus per the provisions of the Income Tax Law for a period of at least twenty (20) consecutive years immediately before the amending provisions enter into force.

Or

b. Irrespective of the (a) as stated above, an individual who was a resident of Cyprus as per the provisions of the Income Tax Law for a period of at least seventeen (17) years out of the last twenty(20) years prior to the tax year of assessment.

Tax paid abroad

Any tax paid abroad in respect of income taxed in Cyprus under special contribution for defence tax will be allowed as credit against the defence tax payable on such income irrespective of the existence of a Double Tax Treaty between the countries.

INCOME TAX

Individuals

Tax Basis

An individual is tax resident of Cyprus if he/she remains in the Republic for a period exceeding 183 days in a tax year.

With effect from 1 January 2017, an individual may also be considered tax resident in Cyprus if he/she satisfies the “60 days rule”. The “60 days rule” applies to individuals who in the relevant tax year:

- do not spend more than a total of 183 days in any country; and
- are not tax residents of another country within the same tax year

and satisfy also the following three conditions:

- (a) they remain in Cyprus for at least 60 days during the tax year;
- (b) they carry on a business in Cyprus or are employed in Cyprus or hold an office in a Cyprus tax resident company at any time during the tax year; and
- (c) maintain a permanent residence in Cyprus (owned or rented).

All of the above conditions need to be satisfied in order for the individual to be considered as a Cyprus tax resident with the “60 days rule”.

If the employment/business or holding of an office is terminated during the tax year, the individual will cease to be considered a Cyprus tax resident for that tax year under the ‘60 days rule’, but may still be considered tax resident if the basic 183 day rule is satisfied.

Where an individual is considered a tax resident in the Republic, either with the ‘60 days rule’ or with the basic ‘183 days rule’, tax is imposed on his/her income accruing or arising from sources all over the world (both within and outside the Republic).

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

For the purposes of both the “183 days rule” and the “60 days rule”, days in and out of Cyprus are calculated as follows:

- the day of departure from Cyprus counts as a day of residence outside Cyprus
- the day of arrival in Cyprus counts as a day of residence in Cyprus
- arrival and departure from Cyprus in the same day counts as one day of residence in Cyprus
- departure and arrival in Cyprus in the same day counts as one day of residence outside Cyprus

The tax rates for individuals are the following:

Taxable income	Tax rate	Tax	Cumulative amount of tax
€	%	€	€
0 – 19.500	-	-	-
19.501 – 28.000	20	1.700	1.700
28.001 – 36.300	25	2.075	3.775
36.301 – 60.000	30	7.110	10.885
Over 60.000	35		

In the case of company director or an individual shareholder, or his/her spouse, or any relative up to second degree, receiving a loan or financial assistance (cash withdrawal) from the company, then that person is deemed to have obtained a monthly benefit in kind in equal to 9% p.a. on the above facility. This amount will be included in the individual's income subject to Income Tax in accordance with Income Tax Law.

Exemptions

The following are exempted from income tax:

- 20% of any remuneration from employment exercised in the Republic by an individual whose residence was outside the Republic before the commencement of the employment or €8.550 whichever the lower is. The exemption is applicable for employment commencing during or after 2012 for 5 years from the 1st of January of the year following the year of the commencement of the employment, with the last eligible tax year being the year 2020.
- 100% of any remuneration earned from the rendering of salaried services outside the Republic to a non-resident employer or to a permanent establishment outside the Republic of a resident employer for a total aggregate period in the year of more than 90 days.
- 50% of any income from employment commenced in Cyprus after 1 January 2012 for individuals whose annual income from employment exceeds €100.000 per annum. The exemption is given for 10 years. For employment commencing during or after the year 2015, the exemption is given provided that the individuals were not Cyprus tax residents for at least three out of the last five years prior to the commencement of their employment in Cyprus or they were not tax residents of Cyprus during the preceding tax year.
- 100% of profits from a permanent establishment abroad (under certain conditions).
- 100% of any dividend income.
- 100% of any profits arising from the sale of securities.
- 100% of any foreign exchange gains (except in cases the gains arise due to trading in foreign currencies and related derivatives).
- 100% of gains arising from loans restructuring.
- 100% of any interest income.
- 100% of any lump sum received by way of retiring gratuity or commutation.
- 100% of any lump sum repayment received from approved provident funds or from life insurance schemes.
- 100% of life insurance repayments or amounts received from approved provident funds.
- 100% of the rental income from preserved buildings (under certain conditions).

Deductions

The following are deducted from an individual's income:

- 100% of any interest related to the acquisition of fixed assets used in the business.
- 20% of any gross rental income as a compensation for any expenses incurred for the letting of buildings.
- 100% of the interest related to the acquisition of buildings for rental purposes.
- 100% of subscriptions paid to trade unions or professional bodies.
- 100% of donations to approved charitable organizations (accompanied with the receipts).
- 100% of capital allowances on fixed assets used for business purposes.

- 80% of the profit from the trading and/or sale of IP rights
- From 1 January 2017, any amount invested in the tax year in approved innovative small and medium sized enterprises either directly or indirectly. The deduction is restricted to the 50% of the taxable income as calculated prior to this deduction (subject to a maximum of €150.000 per year).
Any unused deduction can be carried forward and claimed in the following 5 years, subject to the cap of 50% of taxable income (and overall maximum of €150.000 per year).

Non-deductible expenses

The following expenses are not deductible from an individual's income:


- 100% of professional tax.
- 100% of interest payable* or deemed to be payable in relation to the acquisition of a private motor vehicle, irrespective of whether is used for business purposes or not. *This restriction applies for a period of 7 years from the date of purchase of the motor vehicle.*
- 100% of private motor vehicle expenses.
- Wages and salaries of the year for which the relevant social insurance and other contributions have not been paid on the date they were due.
- Any other expenditure which is not supported by the appropriate evidence as required by the relevant Laws and Regulations.
- Any amount of business entertainment expenses in excess of 1% of the gross income or €17.086, whichever is the lower.

**From 1 January 2012, interest payable is deductible in cases where shares are acquired directly or indirectly in a wholly owned subsidiary provided the subsidiary does not own any assets which are not used for business purposes.*

Personal allowances

The following allowances are deducted from an individual's taxable income:

- 100% of the social insurance contributions as well as contributions to approved Provident Fund schemes and pension funds, contributions to medical (maximum 1,5% of remuneration), or other approved funds provided that
 - the whole amount does not exceed the 1/6 of the taxable income before this allowance is deducted
- 100% of insurance premiums in respect of life insurances
 - the annual premiums are restricted to 7% of the insured amount

 in the event of cancellation of life insurance contracts within 6 years from the date it was entered into, part of the life insurance premiums already given as an allowance will be taxable as follows:

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

Special treatment of Taxation

- **Widow's pension**

The total amount of widow's pension is taxed at the rate of 20% on amounts exceeding €19,500. The taxpayers can however elect each year to be taxed this type of income either at the flat rate of 20% or in accordance with the personal income tax rates.

- **Pension income from services rendered abroad**

The total income from pensions received from abroad as a result of services rendered abroad, is taxed at the rate of 5% for amounts exceeding € 3,420 per annum. The taxpayers can however elect each year to be taxed this type of income either at the rate of 5% as stated above or in accordance with the personal income tax rates.

Losses carried forward

Any tax loss incurred during a tax year is carried forward over the next five years from the end of the tax year in which the loss was incurred and set off against future profits.

Individuals who can claim such losses are those who have an obligation to prepare audited financial statements, therefore they are considered to be the individuals with turnover in excess of €70,000.

Tax credit for foreign tax paid

Any tax paid abroad in respect of income taxed in Cyprus under income tax will be allowed as credit against the tax payable on such income in Cyprus irrespective of the existence of a Double Tax Treaty between the countries.

CAPITAL GAINS TAX

Capital gains tax is charged on profits arising from the disposal of immovable property situated in Cyprus, including the profit arising from the disposal of shares in companies not listed on a recognized Stock Exchange which own immovable property situated in the Republic.

The Law has been recently amended so that capital gains tax will also be charged on the sale of shares of companies that indirectly hold immovable property in Cyprus. This will apply only in case the value of the immovable property represents more than 50% of the value of the assets of the company whose shares are sold.

The capital gains tax rate is 20%.

The capital gain arising on a disposal is calculated as the difference between the sale proceeds and the value of the immovable property as at 1 January 1980 (or cost if the date of acquisition is later), the cost of any additions after 1 January 1980 or the date of acquisition if later, any expenditure incurred for the production of the gain and the indexation allowance.

Expenses not considered as expenses incurred wholly and exclusively for the production of the profit are not deductible in the capital gain calculation. Such expenses are the following:

1. Immovable Property Tax
2. Immovable Property Fees
3. Sewerage Council Fees

Exemptions

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

- transfers arising on death
- gifts between parents and children, between spouses and between relatives up to third degree
- gifts by a family company to its shareholders provided that the company had also acquired the property by way of gift **and** given that the property will remain in the shareholders' ownership for at least 3 years
- gifts to a company whose shareholders are members of the donor's family and continue to be members for a period of 5 years from the date of the gift
- gifts to any approved charitable organizations or to the Republic
- exchange or disposal of immovable property under the Agricultural Land Laws
- exchange of property, provided that the profit is used for the acquisition of the new property. In this case the profit that is not taxable is used to reduce the cost of the new property acquired and the tax is paid when the latter is disposed
- expropriations
- transfer of assets/shares of non-listed companies, which own immovable property, in the case of company's reorganization
- transfer of property of a missing person under administration
- transfer of ownership as settlement by court decision i.e. between ex-spouses, in accordance with the Settlement of Property Relationships Law
- Any property acquired through a purchase, and not through an exchange or donation, at market value, from a non-related party during the period between 16 July 2015 and 31 December 2016.

However, the exemption does not include any property that will be acquired as a result of sale of property in settlement of a debt.

Deductions

Individuals are entitled to the following lifetime deductions in respect of capital gains tax:

	€
• Disposal of main residence (subject to conditions)	85.430
• Disposal of agricultural land by a farmer	25.629
• Other disposals	17.086

The above deductions are given only once to each individual. However, no individual can claim all three deductions but can only claim one of these deductions whichever is the higher.

IMMOVABLE PROPERTY TAX

Immovable property tax is abolished as from 1 January 2017.



TRANSFER FEES

Transfer fees are paid on transfers of immovable property and are calculated on the market value of the property as estimated by the Land Registry Department. The transfer fees rates are as follows:

Market Value	Percentage	Fees	Cumulative
€	%	€	€
0 - 85.000	3	2.550	2.550
85.000 - 170.000	5	4.250	6.800
170.000 and over	8		

Transfer fees are not payable in case of property on which Vat was charged and paid on sale. In any other case, transfer fees are decreased to 50% of the amounts stated above.

Transfer fees applying in special occasions:

- Transfer fees paid on the transfer of property to a family company are refunded in five years provided the company still owns the property and there have not been any changes to the company's shareholders.
- On the transfer of immovable property from a family company to its shareholders as well as on transfers by donation between spouses, spouses and children or relatives up to third degree relationship, transfer fees are calculated on the estimated value of property as at 1 January 2013 at the following rates:

Transfers from parents to children	0%
Transfers between spouses	0,1%
Transfers to relatives (up to third degree)	0,1%

'Value' in such cases refers to values as at 1 January 2013.

Exemptions from transfer fees

- Transfers of immovable property by a company to another company for the purpose of company reorganization.



TAX CALENDAR FOR YEAR 2018		
	COMPANIES	INDIVIDUALS
End of each month	<ul style="list-style-type: none"> Payment of tax withheld from the employees' salaries during the previous month (PAYE) 	
	<ul style="list-style-type: none"> Payment of defence contribution withheld from dividends and interest paid during the previous month 	
	<ul style="list-style-type: none"> Payment of defence tax withheld from rental expense paid to third parties during the previous month 	
March 31	<ul style="list-style-type: none"> Submission of Income Tax Return for year 2016 (T.D.4) 	<ul style="list-style-type: none"> Submission of Income Tax Return for the year 2016 of individuals preparing audited financial statements (T.D.1)
April 30	<ul style="list-style-type: none"> Payment of premium tax for life insurance companies – first instalment for 2018. 	
June 30		<ul style="list-style-type: none"> Payment of final tax for year 2017 through self-assessment, for employees. Payment of final tax for year 2017 through self-assessment, for self-employed persons not preparing audited financial statements (T.D.158 SE)
	<ul style="list-style-type: none"> Payment of defence tax on rents received from physical persons for the first six months of year 2018 (T.D. 601) Payment of defence tax on interest/dividends received from abroad for the first six months of year 2018 not deducted at source (T.D. 601) 	<ul style="list-style-type: none"> Payment of defence tax on rents received from physical persons for the first six months of year 2018 (T.D. 601) Payment of defence tax on interest/dividends received from abroad for the first six months of year 2018 not deducted at source (T.D. 601)
July 31	<ul style="list-style-type: none"> Submission of Employer's' Return (T.D.7) together with details of all employees for year 2017 	<ul style="list-style-type: none"> Submission of Employer's' Return (T.D.7) together with details of all employees for year 2017 Submission of Employees' Income Tax Returns for year 2017 (T.D.1) ***
	<ul style="list-style-type: none"> Submission of provisional tax return and payment of the first installment of provisional tax for year 2018 (T.D.6) 	<ul style="list-style-type: none"> Submission of provisional tax return and payment of the first installment of provisional tax for year 2018 (T.D.5)
August 1	<ul style="list-style-type: none"> Payment of final tax for year 2017 through self-assessment (T.D.158) 	<ul style="list-style-type: none"> Payment of final tax for year 2017 through self-assessment of individuals preparing audited financial statements (T.D.158 SE)
August 31	<ul style="list-style-type: none"> Payment of premium tax for life insurance companies – second instalment for 2018. 	
September 30		<ul style="list-style-type: none"> Submission of Self-Employed Persons' Income Tax Returns for year 2017 (T.D.1 SE) provided they do not prepare audited financial statements (gross income < €70,000) ***
December 31	<ul style="list-style-type: none"> Revision of Provisional Tax Assessment for year 2018, if necessary (T.D..6) 	<ul style="list-style-type: none"> Revision of Provisional Tax Assessment for year 2018, if necessary (T.D.5)
	<ul style="list-style-type: none"> Payment of the second installment of provisional tax for year 2018 (T.D.6) 	<ul style="list-style-type: none"> Payment of the second installment of provisional tax for year 2018 (T.D.5)
	<ul style="list-style-type: none"> Payment of premium tax for life insurance companies - third and last instalment for 2018. 	
	<ul style="list-style-type: none"> Payment of defence tax on rents received from physical persons for the last six months of year 2018 (I.R. 601) Payment of defence tax on interest/dividends received from abroad for the last six months of year 2018 not deducted at source (T.D. 601) 	<ul style="list-style-type: none"> Payment of defence tax on rents received from physical persons for the last six months of year 2018 (T.D. 601) Payment of defence tax on interest/dividends received from abroad for the last six months of year 2018 not deducted at source (T.D. 601)
	<ul style="list-style-type: none"> Payment of defence tax on deemed dividends out of the profits of year 2016 (T.D.623) 	

*** Relating to tax year 2017 and onwards, the income tax returns of physical persons are submitted to the Tax Department only electronically via the 'Taxisnet' system.

Notes:

1. Penalties and interest on overdue taxes

Failure to pay the due or withheld taxes in accordance with the tax deadlines as set by the Tax Department will result in interest charges. In addition to the interest, penalties are also charged on overdue taxes equaling to the 5% of the tax due. An additional monetary charge of 5% will be also imposed on the tax due if the omission continues more than 2 months from the payment deadline.

2. Public interest rates

The interest rates in respect of overdue taxes and refunds have been set as follows:

	%
For years up to 2006	9
2007-2009	8
2010	5,35
2011-2012	5
2013	4,75
2014	4,50
2015-2016	4
2017-2018	3,50

3. Period of keeping books and records

Relevant books and records should be kept for six years from the end of the tax year to which they relate to.



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Our team consists of multidiscipline professionals, accountants, tax advisors, lawyers, corporate officers, Marketing and HR consultants, ex bankers with long experience in their fields, ready to offer you customized and professionally competent services.

Languages spoken: English, Greek, Russian, Romanian

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