

## **TAX GUIDE 2012 - CYPRUS**

**DM GLOBUS AUDIT SERVICES LTD**  
Chartered Accountants

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## Foreword

This publication aims to provide a general description of the tax system in Cyprus. The information contained is based on the tax legislation and practice as at January 2012 and should be used only for general information purposes and cannot substitute professional advice.

Please do not hesitate to contact us at our office at the address shown at the back of this publication.

DM Globus Audit Services Ltd  
January 2012

## Personal Income Tax

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 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 calendar year.

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.

### Personal tax rates for individuals

Chargeable income	Tax rate	Accumulated tax
€	%	€
0 – 19.500	Nil	Nil
19.501 – 28.000	20	1.700
28.001 – 36.300	25	3.775
36.301 – 60.000	30	10.885
Over 60.000	35	

### Pensions from Overseas

Overseas pension is assessed to tax at the rate of 5%. An annual exemption of €3.420 is granted.

### Exemptions

Lump sum payment on retirement of pension, or a gratuity on death	100%
Capital sums from life insurance or approved provident funds.	100%
Income of any religious, charitable or educational institution of a	100%

public character.	
Income of any co-operative society in respect of transactions with its members.	100%
Income of any approved pension or provident fund.	100%
Income of any company formed exclusively for the purpose of promoting art, science or sport.	100%
<b>Income from interest. Interest accruing to any person from the ordinary carrying on of any business including any interest closely connected with the ordinary carrying on of the business, is not exempted but included in the calculation of profit</b>	<b>100%</b>
Dividends	100%
Remuneration from any office or employment exercised in Cyprus by an individual who was resident outside Cyprus before the commencement of his employment. This exemption applies for a period of three years commencing from 1 January following the year of commencement of employment	20% of income or €8.550 (lower of)
Remuneration from any office or employment exercised in Cyprus by an individual who was resident outside Cyprus before the commencement of his employment. This exemption applies for a period of 5 years for employments commencing as from 1 January 2012 if the annual remuneration exceeds €100.000.	50% of income
Profit from the sale of securities	100%
Profits from a permanent establishment situated outside Cyprus, unless the permanent establishment directly or indirectly engages more than 50% in activities which lead to investment income and the foreign tax burden is substantially lower than the tax burden in Cyprus	100%
Remuneration for the rendering outside Cyprus of salaried services for a total aggregate period in the year of assessment of more than 90 days to an employer not resident in Cyprus	100%

## Deductions for individuals

Rental income	20% of rental income
Interest paid in respect of rented buildings	100%
Subscriptions to unions or professional associations	100%
Donations to approved charitable institutions, supported by receipts	100%
Social insurance contributions, life insurance premiums (annual premiums restricted to 7% of the insured amount) and contributions to approved pension funds or medical funds	Up to 1/6 of taxable income before the deduction of these allowances
Special Contribution (1)	100%
In the case of cancellation of a life insurance policy within 6 years from the day of its issue, a percentage of the premiums, which were previously allowed, is taxable as follows:	
- Cancellation within 3 years	30%
- Cancellation from 4 to 6 years	20%
Expenditure made for maintenance of a building in respect of which there is in force a Preservation Order	Up to €1.200, €1.100 or €700 per square meter (depending on the building size)
Loss of current year and previous years	100%

Notes:

1. Special Contribution

The Special Contribution is payable according to monthly income:

<b>Gross monthly emoluments / pension</b>	<b>Government and semi-government employees and pensioners</b>	<b>Private sector employees, self-employed individuals and private sector pensioners*</b>
€		
0 – 1.500	Nil	Nil
1.501 – 2.500	1.5%	Nil
2.501 – 3.500	2.5%	2.5% (minimum €10)
3.501 – 4.500	3.0%	3.0%
Over 4.500	3.5%	3.5%

\*In the case of employed individuals the recipient of the remuneration is liable for half the Special Contribution and the employer for the other half.

## Corporation Tax

Cyprus resident companies are taxed on their income accrued or derived from all sources in Cyprus and abroad.

Non-Cyprus resident companies are taxed on income accrued or derived from a business activity which is carried out through a permanent establishment in Cyprus and on income arising from sources in Cyprus.

A company is considered as resident in Cyprus if it is managed and controlled in Cyprus.

The corporation tax rate for all companies is 10%.

### Exemptions

<b>Dividends</b>	<b>100%</b>
Profit from the sale of securities	100%
Profits from a permanent establishment abroad, under certain conditions	100%
Interest not arising from the ordinary activities or closely related to the ordinary activities of the company	100%

### Tax deductions

<b>Donations to approved charities</b>	<b>100%</b>
Employer's contributions to social insurance and approved funds on employees' salaries	100%
Expenditure 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 building size)
Entertainment expenses for business purposes	Lower of €17.086 or 1% of the gross income of the business



### Expenses not allowable

<b>Expenses of a private motor vehicle</b>	<b>100%</b>
Interest applicable 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	100% for 7 years
Professional tax	100%
Expenditure of a capital nature (see capital allowances)	100%

### Tax Losses

Tax loss incurred during a tax year, which cannot be set off against other income is carried forward subject to conditions and set off against future profits with no time restriction. This provision applies for all losses incurred from the tax year 1997 onwards.

Set-off of group losses are allowable only with profits of the corresponding year of assessment. Both companies should be members of the same group for the whole year of assessment.

Two companies shall be deemed to be members of a group if:

- one company is holding at least 75% of the voting rights of the other company
- both of the companies are at least 75% held by another third company

In the case where an owner of a business, including a partnership, converts his business into a company, any accumulated losses of the owner may be carried forward to the company.

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

## Reorganisations

The reorganization provisions apply to resident companies and /or non-resident companies, whether public or not.

One or more companies on being dissolved without going into liquidation transfer all their assets and liabilities to an existing or new company without tax consequences.

Reorganisations include:

- Mergers
- Division of Companies
- Transfer of assets
- Exchange of shares
- Transfer of registered office

## Annual wear and tear allowances on fixed assets

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

	Annual wear & tear allowance %
<b>Fixed assets</b>	
<i>Plant and machinery</i>	
Plant and machinery	10
Furniture and fittings	10
Industrial carpets	10
Boreholes	10
Machinery and tools used in agricultural business	15
Sailing boats	4.5
<b>Buildings</b>	
Commercial buildings	3
Industrial, agricultural and hotel buildings	4
Flats	3
Metallic greenhouse structures	10
Wooden greenhouse structures	33 1/3
<b>Vehicles and Means of Transportation</b>	
Commercial motor vehicles	20
Motor cycles	20
Excavators, tractors, bulldozers, self-propelled and drums for petrol companies	25
Armoured Motor Vehicles (e.g. used by security services)	20
Specialised Machinery for the laying of Railroads (e.g. Locomotive engines, Ballast wagons, Container wagons and Container Sleeper Wagons)	20
New Airplanes	8
New Helicopters	8
Sailing vessels	4,5
Motor Yachts	6
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 lives
<b>Other</b>	
Televisions and videos	10
Computer hardware and operating systems	20
Application software	33 1/3
Expenditure on application software less than €1.709, is written off in the year of acquisition	
Wind Power Generators	10
Photovoltaic Systems	10
Tools in general	33 1/3
Videotapes property of video clubs	50

## Shipping companies

The Merchant Shipping Legislation fully approved by the EU provides for exemption from all direct taxes and taxation under tonnage tax of qualifying shipowners, charterers and shipmanagers, from the operation of qualifying EU/EEA (European Economic Area) ships (and foreign ships under conditions) in qualifying activities.

The legislation allows non EU/EEA vessels to enter the tonnage tax regime provided the fleet is composed by at least 60% EU/EEA vessels. If this requirement is not met, then non EU/EEA vessels can still qualify if certain criteria are met.

**The following are exempt from taxation in accordance with the provisions of the Merchant Shipping (Fees and Taxing Provisions) Law and are subject to tonnage tax:**

- The income of a qualifying ship-owner from the operation of a qualifying Cyprus, community and/or foreign (under conditions) ship, in a qualifying shipping activity
- The income of a qualifying charterer from the operation of a qualifying Cyprus, Community and/ or foreign (under conditions) ship, in a qualifying shipping activity
- The income of a qualifying ship operator from the provision of ship management services of the crew and/or technical administration services
- Dividends paid directly or indirectly from the profits mentioned above
- Salaries or other benefits paid to the masters, officers and the crew of a qualifying Cyprus ship in a qualifying shipping activity

### Insurance companies

Profits of insurance companies are liable to corporation tax similar to all other companies except in the case where the corporation tax payable on taxable profit of life insurance business is less than 1,5% of the gross premium. In this case the difference is paid as additional corporation tax.

### Intellectual property rights etc

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, is subject to withholding tax at a rate of 10%.

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.

## Special Contribution for Defence

All residents of the Republic are subject to defence contribution on the sources of income indicated below. Non residents are not subject to the defence contribution.

	Tax rates	
	Individuals %	Legal entities %
Dividend income from Cyprus resident companies	20	Nil
Dividend income from non-Cyprus resident companies	20	Nil
Interest income arising from the ordinary activities or closely related to the ordinary activities of the business	Nil	Nil
Other interest income	15	15
Rental income (reduced by 25%)	3	3

- Dividends declared by a Cyprus tax resident company to another Cyprus tax resident company after the lapse of four years from the end of the year in which the profits were generated are subject to 20% defence contribution. Dividends which emanate directly or indirectly out of such dividends on which special contribution for defence was previously suffered are exempt.
- Dividend income from abroad is exempt from defence fund contribution.

This exception does not apply if:

- the company paying the dividend engages directly or indirectly more than 50% in activities that lead to investment income, and
- the foreign tax burden is substantially lower than the tax burden in Cyprus

When the exemption does not apply, the dividend income is subject to special contribution for defence at the rate of 20%.

- Interest income from Cyprus government savings bonds and development bonds and all interest earned by a provident fund is subject to special contribution for defence at the rate 3% (instead of 15%).
- In the case where the total income of an individual (including interest) does not exceed €12.000 in a tax year, then the rate is reduced to 3%.
- When the tenant is a Cyprus company, partnership, the state or local authority Special contribution for defence on rental income is withheld at

source and is payable at the end of the month following the month in which it was withheld.

- In cases where the tenant is not a Cyprus company, partnership the special contribution for the defence on rental income is payable by the landlord in 6 monthly intervals on 30 June and 31 December each year.
- Rental income is also subject to personal income tax / corporation tax.
- Foreign taxes paid can also be credited against the defence tax liability.

## Deemed dividend distribution

If a Cyprus resident company does not distribute a dividend within two years from the end of the tax year then:

- 70% of accounting profits (net of corporation tax, special defence contribution, capital gains tax and foreign taxes and after some adjustments) are deemed to have been distributed
- 20% special contribution for defence is imposed on deemed dividend distribution applicable to shareholders who are residents of Cyprus (3% on deemed dividend distribution of Collective Investment Schemes)
- Deemed distribution is reduced with payments of actual dividends which have already been paid during the relevant year or paid during the two following years from the profits of the relevant year

When an actual dividend is paid after the deemed dividend distribution, then special contribution for defence is imposed only on the dividend paid over and above the dividend that was previously deemed to have been distributed.

In case of two tier structures of Cyprus companies (parent with subsidiary) owned 100% by non resident shareholders, the tax authorities have clarified that defence contribution does not need to be paid by the subsidiary. In cases where the subsidiary is not ultimately held 100% by non-Cyprus tax resident shareholders defence contribution paid by the subsidiary on deemed distribution is refundable to any non resident shareholders upon receipt of an actual dividend.

### **Disposal of assets to shareholder at less than market value**

When a company disposes of an asset to an individual shareholder or a relative of his up to second degree or his spouse for a consideration less than its market value, the difference between the consideration and the market value will be deemed to have been distributed as a dividend to the shareholder. This provision, does not apply for assets originally gifted to the company by an individual shareholder or a relative of his up to second degree or his spouse.

### **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 special contribution for defence at the rate of 20% (3% for Collective Investment Schemes).

This provision does not apply in the case of dissolution under a Reorganisation.



### **Reduction of capital**

In the case of a reduction of capital of a company, any amounts paid or due to the shareholders over and above the paid up share capital will be considered as dividends distributed subject to special defence contribution at the rate of 20% after deducting any amounts which have been deemed as distributable profits.

The above provisions apply only in cases where the shareholders are Cyprus tax resident individuals.

The redemption of units or shares in a Collective Investment Scheme is not subject to the above provisions.

## Capital Gains Tax

Capital Gains Tax is imposed (when the disposal is not subject to income tax) at the rate of 20% 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, excluding shares listed on any recognised stock exchange.

### Exemptions

#### The following disposals of immovable property are not subject to Capital Gains Tax:

- Transfer by reason of death
- Gifts to relatives within the third degree of kindred
- Gift to a company of which the shareholders are and continue to be members of the donor's family for five years after such gift
- Gift by a company, of which all the shareholders are members of the same family, to any of its shareholders when the property gifted was also acquired by the company as a gift. The property must remain in the hands of the donee for a period of at least three years
- Gift to the Republic or to a local authority for educational or other charitable purposes or to approved charitable institutions
- Transfer as a result of reorganisations
- Exchange or sale in accordance with 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, e.g. the payment of tax is deferred until the disposal of the new property.

### Determination of capital gain

Liability is confined to gains accruing since 1 January 1980. The costs that are deducted from gross proceeds on the disposal of immovable property are its market value at 1 January 1980, or the costs of acquisition and improvements of the property, if made after 1 January 1980, as adjusted for inflation up to the date of disposal on the basis of the consumer price index in Cyprus.

Expenses that are related to the acquisition and disposal of immovable property are also deducted, subject to certain conditions e.g. transfer fees, legal expenses etc.

## Lifetime Exemptions

Individuals can deduct from the capital gain the following:

	€
Disposal of private residence (subject to conditions)	85.430
Disposal of agricultural land by a farmer	25.629
Ant other disposal	17.086

**An individual claiming a combination of the above exemptions is only allowed a maximum exemption of €85.430.**

## Value Added Tax

VAT is imposed on the supply of goods and provision services in Cyprus, as well as on the acquisition of goods from the European Union (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).

If output tax in a VAT period exceeds total input tax, a payment has to be made to the state. If input tax exceeds output tax, the excess input tax is carried forward as a credit and set off against future output VAT.

Immediate refund of excess input VAT can be obtained in the following cases:

- a period of three years has elapsed from the date the VAT became refundable
- input VAT which cannot be set off against output VAT until the last VAT period of the year which follows the year in which the VAT period in which the credit was created falls
- the input VAT relates to zero rated transactions
- the input VAT relates to the purchase of capital assets of the company
- the input VAT relates to transactions which are outside the scope of VAT but would have been subject to VAT had they been carried out within Cyprus
- the input VAT relates to exempt financial and insurance services provided to non EU resident clients (services for which the right to recover the related input VAT is granted)

For intra-community acquisition of goods (with the exception of goods subject to excise duty) 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 it self-charges VAT and at the same time claims it back, provided it relates to supplies for which the right to recover input VAT is granted, thereby creating no cost to the business.

In cases the acquisition relates to a transaction for which the right to recover the input VAT is not granted, the trader must pay the VAT that corresponds to the acquisition.

As from 1 January 2010 significant changes came 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 (B2B)
- Changes in the country of taxation of services, supplied to consumers (B2C)

- 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
- Additional compliance obligation for electronic submission of the monthly VIES return for services subject to VAT in another EU Member State through the reverse charge provisions

In addition to the above, as from 1 January 2011 changes came into effect in the EU and Cypriot VAT legislation with regards to the country of taxation of cultural, artistic, sporting, scientific, educational, entertainment and similar services including services of organisers of such activities, supplied between businesses (B2B).

Up to 31 December 2010 the above services, were subject to VAT in the country where those activities were physically carried out.

As from 1 January 2011, only admission to such activities is subject to VAT in the country where the activities are physically carried out. Services, other than the admission to such events, are subject to VAT in the country where the recipient of the services has established his business.

### **VAT rates**

The legislation provides for the following four tax rates:

- Zero rate (0%)
- Reduced rate of five per cent (5%)
- Reduced rate of eight per cent (8%)
- Standard rate of fifteen per cent (15% up to 29 February 2012 and 17% as from 1 March 2012)

### **Exemptions**

Certain goods or services are exempt from VAT. They include:

- the letting of immovable property (the letting of immovable property with the right of purchase is not exempt);
- most banking and financial services and insurance services;
- most hospital, medical and dental care services;
- certain cultural educational and sports activities;
- supplies of real estate (except supply of new buildings before their first use) 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;
- management services provided to mutual funds

**Imposition of the reduced rate of 5% on the acquisition and/or construction of residences for use as the primary and permanent place of residence.**

The reduced rate of 5% applies to contracts that have been concluded from 1 October 2011 onwards provided they relate to the acquisition and/ or construction of residences to be used as the primary and permanent place of residence for the next 10 years.

For contracts concluded up to 30 September 2011 for the acquisition and/ or construction of residences for use as the primary and permanent place of residence, the eligible person must apply for a grant.

The reduced rate of 5% applies for the first 200 square meters of residences of total covered area of up to 275 square meters. In the case of families with more than 3 children the allowable total covered area increases by 15 square meters per additional child beyond the three children.

The reduced rate is imposed only after obtaining a certified confirmation from the VAT Commissioner.

The eligible person must submit an application on a special form, issued by the VAT Commissioner, which will state that the house will be used as the primary and permanent place of residence. The applicant must attach a number of documents supporting the ownership rights on the property and evidencing the fact that the property will be used as the primary and permanent place of residence.

The documents supporting the ownership of the property must be submitted together with the application. The documents supporting the fact that the residence will be used as the primary and permanent place of residence (copy of telephone, water supply or electricity bill or of municipal taxes) must be submitted within six months from the date on which the eligible person acquires possession of the residence.

A person who ceases to use the residence as his primary and permanent place of residence before the lapse of the 10 year period must notify the VAT Commissioner, within thirty days of ceasing to use the residence, and pay the difference resulting from the application of the reduced and the standard rate of VAT attributable to the remaining period of 10 years for which the property will not be used as the main and primary place of residence.

Persons who make a false statement to benefit from the reduced rate are required by law to pay the difference of the additional VAT due.

Furthermore, the legislation provides that such persons are guilty of a criminal offence and, upon conviction, are liable to a fine, not exceeding twice the amount of the VAT due, or imprisonment up to 3 years or may be subject to both sentences.

### **Grant for acquisition of first residence**

The grant is given to eligible persons for the construction, or purchase or transfer of a new residence which is used as the main and primary place of residence. The grant applies for contracts concluded up to 30 September 2011.

The application for the grant is submitted to the Ministry of Finance, in relation to residences for which an application has been submitted for the issue of a planning permission after the 1 May 2004. Persons entitled to this grant are individuals who are citizens of the Republic of Cyprus or of any other EU Member State, who reside permanently in the Republic of Cyprus and who have reached the age of 18 at the time of application. The grant is given for residences whose total covered area does not exceed 250 m<sup>2</sup>.

The level of the grant is limited to 130 m<sup>2</sup> (extended for families with four and more children) and depends on the type of the property and on whether the house was constructed or purchased. The relevant legislation provides that the level of the grant will be adjusted annually for the increase in the Retail Price Index.

### **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 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

### **Registration**

Registration is compulsory for businesses with (a) turnover subject to VAT in excess of €15.600 during the 12 preceding months or (b) expected turnover subject to VAT in excess of €15.600 within the next 30 days.

Businesses with turnover of less than €15.600 or with supplies that are outside the scope of VAT but for which the right to claim the amount of the related input VAT is granted, have the option to register on a voluntary basis.

An obligation for registration also arises for businesses which make acquisition of goods from other EU Member States in excess of €10.251,61 during any calendar year. In addition as from 1 January 2010 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 provisions. Furthermore an obligation for VAT registration arises for businesses carrying out economic activities from the receipt of services from abroad for which an obligation to account for Cyprus VAT under the reverse charge provision exists subject to the registration threshold of €15.600 per any consecutive 12 month period. No registration threshold exists for the provision of intra-community supplies of services.

Exempted products and services, and disposals of items of capital nature are not taken into account for determining annual turnover for registration purposes. Registration is effected by completing the appropriate application form.

### VAT declaration - payment/refund of VAT

VAT returns must be submitted quarterly and the payment of the VAT must be made by the 10th day of the second month that follows the month in which the tax period ends.

VAT registered persons have the right to request for a different filing period. Approval of the VAT authorities is required. The VAT Commissioner also has the right to request from a taxable person to file his VAT returns for a different period.

Where in a quarter input tax is higher than output tax, the difference is refunded or is transferred to the next VAT quarters.

Thresholds and penalties	Amount in Euro
Registration threshold (taxable supplies in Cyprus)	15.600
Registration threshold for distance sales (sale of goods to persons not subject to VAT registration in Cyprus, by suppliers in another EU Member State)	35.000
Registration threshold for acquisition of goods in Cyprus from suppliers resident in another EU Member States	10.251,61
Registration threshold for intra-community supply of services	No threshold
Registration threshold for receipt of services from abroad for which the recipient must account for VAT under the reverse charge provisions	15.600
Penalty for late submission of VAT returns	51 for each return
Penalty for omission to keep proper books and records for a period of 7 years	341



Penalty for late submission of VIES return	50 for each return
Penalty for late submission of corrective VIES return	15 for each return
Omission to submit the VIES return constitutes a criminal offence with a maximum penalty of	850
Penalty for late registration with the VAT authorities	85 per month of delay

## Immovable Property Tax

Tax is imposed on the owner (physical and legal persons) of immovable property in Cyprus as at 1 January of each year on the market value of the immovable property as at 1 January 1980 and is payable by 30 September each year

### Tax Rates

Value of property €	Rate ‰	Accumulated tax €
Up to 120.000	-	-
120.000 - 170.000	4	200
170.001 – 300.000	5	850
300.001 – 500.000	6	2.050
500.001 – 800.000	7	4.150
Over 800.000	8	

### Exemptions

The following properties are exempt from immovable property tax:

- public cemeteries
- churches and other religious buildings
- public hospitals
- schools
- immovable property owned by the Republic, foreign embassies and consulates
- buildings under a preservation order subject to conditions
- buildings of charitable organisations
- agricultural land used for agriculture or animal husbandry by a farmer
- immovable property situated in inaccessible or depressed areas
- property of a missing person under administration.

## Trusts

A trust may be defined as the obligation of a person (i.e. the trustee) to whom property is transferred by the owner of the property and the creator of the trust (i.e. the settlor), to hold and manage such property for a defined period according to the wishes of the settlor, oral or written as these as expressed in a Deed of Trust or a Will, in favour of a specified person or persons or class of persons (i.e. the beneficiaries). A trust is not a separate legal entity.

### International Trusts

The Law defines an International Trust as being a trust in respect of which: (i) the settlor and the beneficiary(ies) (other than a Charity) are not permanent residents of Cyprus (ii) at all times there is at least one trustee resident in Cyprus and (iii) the trust property does not include immovable property in Cyprus.

According to applicable law, the trust property, the income thereof e.g. interest, dividends, rents and the proceeds thereof e.g. from sale, are not subject to income tax, capital gains tax, inheritance tax, special contribution for the defence or any other tax in Cyprus. These exemptions do not apply in case a beneficiary becomes a tax resident of Cyprus.

## Land Registry Office fees

### Transfer fees

These are paid on transfers of immovable property and are calculated on the market value of the property as estimated by the Land Registry department.

Value €	Rate %	Fee €	Accumulated fees €
Up to 85.430	3	2.563	2.563
85.431 - 170.860	5	2.563	2.563
Over 170.860	8		

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 property transferred from a company whose shareholders are spouses and/or their children, to one of the two spouses, or their children or to a relative up to third degree of relation the transfer fees are calculated on the value of the property as follows:

- if the transfer is to a spouse - 8%
- if the transfer is to a child - 4%
- if the transfer is to a relative - 8%

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

- from parents to children - 4%
- between spouses - 8%
- between third degree relatives - 8%
- to trustees €8,54

Value in these cases is the one written on the title deed which refers to values of the year 1920.

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

In the case of companies' reorganizations, transfers of immovable property are not subject to transfer fees or mortgage registration fees.

### **Transfer fees for the period 2/12/2011 - 1/6/2012**

For the above period the following apply:

- 1 Exemption from transfer fees if the transfer relates to a transaction that is subject to VAT
- 2 In case a transaction is not subject to VAT, the legislation provides for an exemption of 50% of the transfer fees. This applies to transactions where transfer fees apply or are due and the transfer relates to plots of land, buildings or interests in land or indivisible interests that are sold for the first time from the date of issue of the relevant building permit and the relevant contract is prepared and submitted for the first time to the local District Land Registry prior to 2 June 2012.

## Social insurance

Contributions to Social Insurance by employee are 6.8% and by employer are 6.8%.

Social insurance contributions are restricted to a maximum amount that is increased annually.

The maximum amount that applies for 2012 is €53.304 (weekly €1.025/ monthly €4.442).

### Other employer's contributions

The employer makes the following other contributions based on employee's emoluments:

	%
Social cohesion fund	2.0
Redundancy fund	1.2*
Industrial training fund	0.5*
Holiday fund (if is not exempt)	8.0*

#### \* Restricted to the maximum level as with the social insurance contributions

The contributions of self-employed persons are 12,6% of income. The amount of the contributions is subject to a lower and a maximum limit, depending on the profession or trade of the Self-Employed Person. The limits applicable for 2012 were not available as at the date of printing.

### Deadline for payment of the contributions by the employers

The contributions that the employer is obliged to pay in accordance with the Law, should be paid not later than the end of the calendar month following the month that the contributions relate.

### Additional fee for late payment of contributions

Every employer or a self employed who fails to pay the contributions within the time limit determined in the relevant regulations, is obliged to pay an additional fee in the range of 3% and 27% depending on the period of delay, on the amount of contributions due for payment.

## Stamp duty

Transactions which fall within the scope of **reorganizations** are exempt from stamp duty.

Also, any contracts relating to assets situated outside Cyprus or business affairs that take place outside Cyprus are exempt from stamp duty.

### Nature of documents

<b>Receipts – for sums of €3.42 - €34.17</b>	<b>€3.42</b>
Receipts – for sums of over €34.17	€6.84
Cheques	€5.13
Letters of credit	€1.71
Letters of guarantee	€3.42
Bills of exchange (payable within three days, on demand or at sight)	€85.43
Contracts <ul style="list-style-type: none"> <li>▪ The first €170.860</li> <li>▪ Over €170.860</li> <li>▪ Without fixed sum</li> </ul>	1.5‰ 2‰ at a max. of €17.086 €34.17
Customs declaration documents	€17.10 - €34.17
Bills of lading	€3.42
Charterparty	€17.09
Powers of attorney <ul style="list-style-type: none"> <li>▪ General</li> <li>▪ limited</li> </ul>	€5.13 €1.71
Certified copies of contracts and documents	€1.71
Issue of tax residence certificate by Inland Revenue Department	€80.00

## Capital duty

### Upon incorporation of the company

Authorised share capital	€102,52 plus 0,6% on the authorised share capital
Issued share capital	There is no capital duty payable if the shares are issued at their nominal value. There is a €17,09 flat duty if the shares are issued at a premium

### Upon subsequent increases

Authorised share capital	0,6% on the additional share capital
Issued share capital	€17,09 flat duty on every issue, whether the shares are issued at nominal value or at a premium



## Double Taxation Treaties

### Paid from Cyprus (1)

	Dividends	Interest	Royalties
	%	%	%
Non-treaty countries	0	0	0(2)
Armenia	0(31)	5	5
Austria	10	0	0
Belarus	5(18)	5	5
Belgium	10(8)	10(6, 19)	0
Bulgaria	5(23)	7(6)	10
Canada	15	15(4)	10(5)
China, P.R.	10	10	10
Czech Republic	0(29)	0	0(30)
Denmark	0(6, 33)	0	0
Egypt	15	15	10
France	10(9)	10(10)	0(3)
Germany	10(8)	10(6)	0(3)
Greece	25	10	0(12)
Hungary	0	10(6)	0
India	10(9)	10(10)	10(16)
Ireland, Rep. Of	0	0	0(12)
Italy	0	10	0
Kuwait	10	10(6)	5(7)
Kyrgyzstan(20)	0	0	0
Lebanon	5	5	0
Malta	15	10	10
Mauritius	0	0	0
Moldova	5(27)	5	5
Montenegro(26)	10	10	10
Norway	0	0	0
Poland	10	10(6)	5
Qatar	0	0	0(28)
Romania	10	10(6)	5(7)
Russia	5(17)	0	0
San Marino	0	0	0
Serbia(26)	10	10	10
Seychelles	0	0	5

### Paid from Cyprus

	Dividends	Interest	Royalties
	%	%	%
Singapore	0	10(6, 25)	10
Slovakia Republic	10	10(6)	5(7)
Slovenia	5(32)	5	5
South Africa	0	0	0
Sweden	5(8)	10(6)	0
Syria	0(8)	10	10
Tadzhikistan(20)	0	0	0
Thailand	10	15(21)	5(22)
Ukraine(20)	0	0	0
United Arab Emirates	0	0	0
United Kingdom	0	10	0(3)
United States	0	10(10)	0

## Received in Cyprus

	Dividends	Interest	Royalties
	%	%	%
Armenia	0(31)	5	5
Austria	10	0	0
Belarus	5(18)	5	5
Belgium	10(8)	10(6, 19)	0
Bulgaria	5(23)	7(6, 24)	10(24)
Canada	15	15(4)	10(5)
China, P.R.	10	10	10
Czech Republic	0(29)	0	0(30)
Denmark	0(6, 34)	0	0
Egypt	15	15	10
France	10(9)	10(10)	0(3)
Germany	10(8)	10(6)	0(3)
Greece	25(11)	10	0(12)
Hungary	5(8)	10(6)	0
India	10(9)	10(10)	15(15)
Ireland, Rep. of	0	0	0(12)
Italy	15	10	0
Kuwait	10	10(6)	5(7)
Kyrgyzstan(20)	0	0	0
Lebanon	5	5	0
Malta	0	10	10
Mauritius	0	0	0
Moldova	5(27)	5	5
Montenegro(26)	10	10	10
Norway	0(13)	0	0
Poland	10	10(6)	5
Qatar	0	0	0(28)
Romania	10	10(6)	5(7)
Russia	5(17)	0	0
San Marino	0	0	0
Singapore	0	10(6, 25)	10
Slovak Republic	10	10(6)	5(7)
Slovenia	5(32)	5	5
South Africa	0	0	0
Serbia(26)	10	10	10
Seychelles	0	0	5

## Received in Cyprus

	Dividends	Interest	Royalties
	%	%	%
Sweden	5(8)	10(6)	0
Syria	0(8)	10(4)	10
Tadzhikistan(20)	0	0	0
Thailand	10	15(21)	5(22)
Ukraine(20)	0	0	0
United Arab Emirates	0	0	0
United Kingdom	15(14)	10	0(3)
United States	5(9)	10(10)	0

## Notes

1. Payments of dividends and interest to non residents are exempt from withholding tax in Cyprus according to the Cyprus Legislation
2. Royalties granted for use outside of Cyprus are also free of withholding tax in Cyprus. 10% in the case of royalties granted for use within the Republic
3. 5% on film and TV rights
4. Nil if paid to a government or for export guarantee
5. Nil on literary, dramatic, musical, or artistic work
6. Nil if paid to the government of the other state
7. Applies for patents, trademarks, designs or models, plans, secret formulas, or processes, or any industrial, commercial, or scientific equipment, or for information concerning industrial, commercial, or scientific experience
8. 15% if received by a company controlling less than 25% of the voting power
9. 15% if received by a person controlling less than 10% of the voting power
10. Nil if paid to a government, bank, or financial institution
11. The treaty provides for WHT on dividends but Greece does not impose any withholding tax in accordance with its own legislation
12. 5% on film royalties

13. 5% if received by a person controlling less than 50% of the voting power
14. Applies to individual shareholders regardless of their percentage of shareholding. Companies controlling less than 10% of the voting shares are also entitled to this rate
15. 10% for payments of a technical, managerial, or consulting nature
16. The rate of the treaty rate is 15%, therefore restricted to Cyprus legislation rate
17. 10% if a dividend is paid by a company in which the beneficial owner has invested less than US\$100.000
18. If investment is less than EUR 200,000, dividends are subject to 15% WHT which is reduced to 10% if the recipient company controls 25% or more of the paying company
19. No WHT for interest on deposits with banking institutions
20. Kyrgyzstan, Tajikistan, and Ukraine apply the USSR/Cyprus treaty
21. 10% on interest received by a financial institution or when it relates to sale on credit of any industrial, commercial, or scientific equipment or of merchandise
22. Applies for any copyright of literary, dramatic, musical, artistic, or scientific work. A 10% rate applies for industrial, commercial, or scientific equipment. A 15% rate applies for patents, trademarks, designs or models, plans, secret formulas, or processes
23. Applies to companies holding directly at least 25% of the share capital of the company paying the dividend. In all other cases the WHT is 10%
24. It does not apply if the payment is made to a Cyprus international business entity by a resident of Bulgaria owning directly or indirectly at least 25% of the share capital of the Cyprus entity
25. 7% if paid to a bank or financial institution
26. Serbia, and Montenegro apply the Yugoslavia/Cyprus treaty
27. Applies if received by a company (excluding partnerships) that holds directly 25% of the shares. A rate of 10% applies in all other cases

28. Applies to any consideration for the use of, or the right to use, any copyright of literary, artistic or scientific work (including cinematograph films and films, tapes or discs for radio or television broadcasting), computer software, any patent, trademark, design or model, plan, secret formula or process, or for information concerning industrial, commercial, or scientific experience
29. Applies if received by a company (excluding partnership which holds directly at least 10% of the shares for an uninterrupted period of no less than one year. 5% applies in all other cases
30. 10% for patent, trademark, design or model, plan, secret formula or process, computer software or industrial, commercial, or scientific equipment, or for information concerning industrial, commercial, or scientific experience
31. 5% if a dividend is paid by a company in which the beneficial owner has invested less than EUR 150.000
32. The provisions of the Parent-Subsidiary EU directive are applicable
33. A rate of 15% if received by a company controlling less than 10% of the share capital of the paying company or the duration of any holding is less than one uninterrupted year

## TAX DIARY

Date	Obligation	Form
<b>End of each month</b>	<ul style="list-style-type: none"> <li>▪ Payment of tax deducted from employees salary (PAYE) in the preceding month</li> </ul>	I.R. 61
	<ul style="list-style-type: none"> <li>▪ Payment of special defence contribution withheld on payments of dividends, interests or rents made to Cyprus tax residents in the preceding month</li> </ul>	I.R. 601
	<ul style="list-style-type: none"> <li>▪ Payment of tax withheld in the preceding month on payments to non-Cyprus residents</li> </ul>	
	<ul style="list-style-type: none"> <li>▪ Payment of Social insurance deducted from employees emoluments</li> </ul>	
<b>31 January</b>	<ul style="list-style-type: none"> <li>▪ Submission of declaration of deemed dividend distribution for the year ended 31 December 2009</li> </ul>	I.R. 623
<b>31 March</b>	<ul style="list-style-type: none"> <li>▪ Electronic submission of 2010 company's income tax return</li> </ul>	I.R. 4
<b>30 April</b>	<ul style="list-style-type: none"> <li>▪ Submission of 2011 income Tax Return by individuals (1) (2) (3)</li> </ul>	I.R.1
	<ul style="list-style-type: none"> <li>▪ Payment of premium tax for life insurance companies – first instalment</li> </ul>	
<b>30 June</b>	<ul style="list-style-type: none"> <li>▪ Submission of 2011 Income Tax Return by individuals who do not submit audited accounts but are obligated to issue invoices, receipts, etc.(1 ) (2) (3)</li> </ul>	I.R.1
	<ul style="list-style-type: none"> <li>▪ Payment of Contribution to the Defence Fund on income received during the first half of 2012 on rents and on dividends or interest from sources outside Cyprus</li> </ul>	I.R. 601
<b>31 July</b>	<ul style="list-style-type: none"> <li>▪ Electronic submission of 2011 employer's return</li> </ul>	I.R. 7

<b>1 August</b>	<ul style="list-style-type: none"> <li>▪ Submission of Temporary Tax Assessment for 2012 and payment of the first instalment</li> <li>▪ Payment of the tax balance for the previous year for companies</li> </ul>	I.R.6 I.R. 158
<b>31 August</b>	<ul style="list-style-type: none"> <li>▪ Payment of premium tax for life insurance companies – second installment</li> </ul>	
<b>30 September</b>	<ul style="list-style-type: none"> <li>▪ Payment of the second instalment of tax based on the Temporary Tax Assessment</li> <li>▪ Payment of Immovable Property Tax</li> </ul>	
<b>31 December</b>	<ul style="list-style-type: none"> <li>▪ Submission of Company Income Tax Return for individuals preparing audited financial statements (1) (2) (3)</li> <li>▪ Submission of revised Temporary Tax Assessment for the current year, if considered necessary</li> <li>▪ Payment of third instalment of 2012 based on the Temporary Tax Assessment</li> <li>▪ Payment of Contribution to the Defence fund on income received during the second half of 2012 on rents and or dividends or interest from sources outside Cyprus</li> </ul>	I.R.1 I.R. 6 I.R.6 I.R. 601
<b>By the 10<sup>th</sup> of the second month after the end of the VAT period</b>	<ul style="list-style-type: none"> <li>▪ Submission of VAT Return and payment of VAT due</li> </ul>	VAT 4
<b>By the 15<sup>th</sup> of each month</b>	<ul style="list-style-type: none"> <li>▪ Submission of VIES form for the previous month</li> </ul>	VIES 1
<b>By the 10<sup>th</sup> of the next month after the end of the period</b>	<ul style="list-style-type: none"> <li>▪ Submission of Intrastat</li> </ul>	INTRASTAT 1.1 INTRASTAT 1.2



## Notes

- (1) An individual is obliged to submit an income tax return when the gross annual income exceeds € 19,500. Late submission results in the imposition of a penalty equal to €100.
- (2) A self- employed individual is obliged to submit audited financial statement if his/her annual turnover exceeds €70.000.
- (3) If the tax is not paid by the due date, interest is imposed at the rate of 5%\* per annum.(Interest is calculated on complete months). Any outstanding tax due is liable to an additional penalty of 5% in the case where the tax return is not submitted within 30 days after the deadline and payment of the tax due is not made. Late Submission results in the imposition of penalty equal to €100.

## Interests

The official interest rates, as set by the Finance Minister, is 5% per annum for all amounts due after 1 January 2011, 5.35% for the year 2010, 8% for the years 2007-2009 and 9% before 31 December 2006.

## Administrative penalties

Administrative penalties amounting to €100 or €200 depending on the specific case, will be imposed for late submission of declarations or late submission of supporting documentation requested by the Commissioner. In the case of late payment of the tax due, an additional penalty at the rate of 5% will be imposed on the unpaid tax.