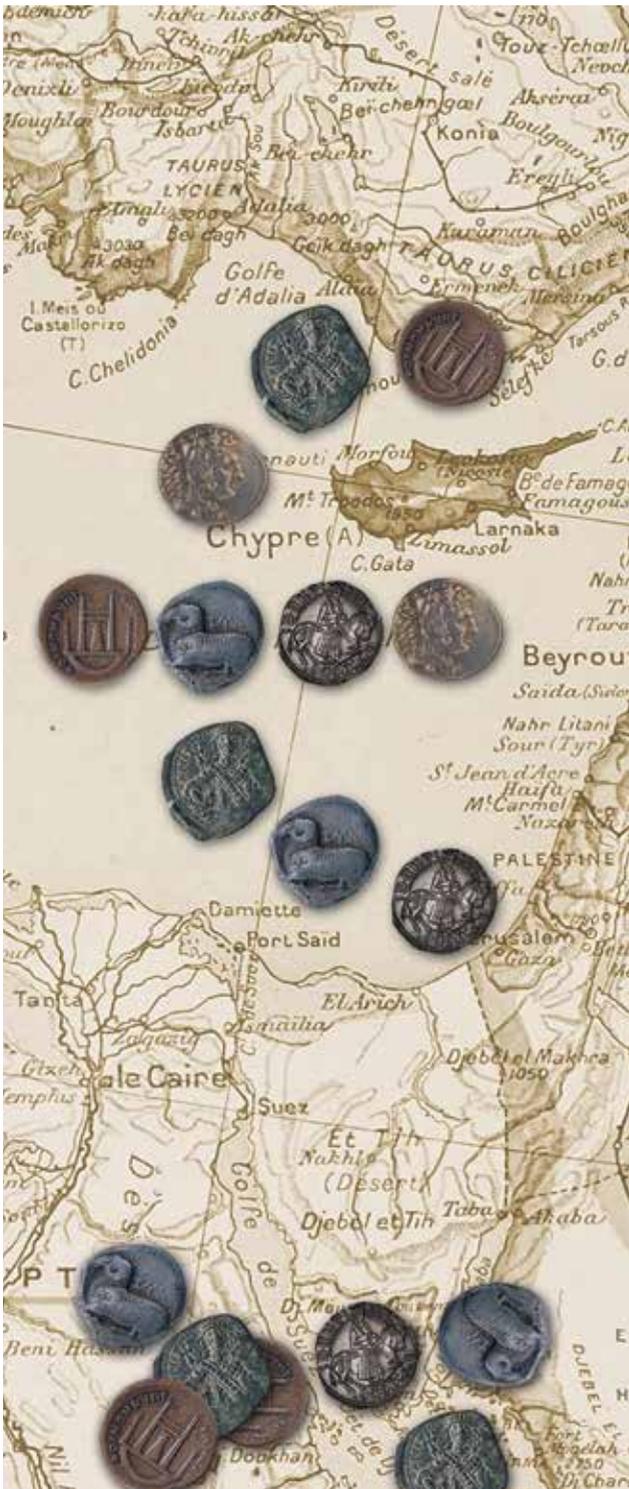


# Cyprus Tax Guide for Investors





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## CYPRUS: AN INTERNATIONAL BUSINESS & INVESTMENT CENTRE

Cyprus has a number of comparative advantages that have contributed towards the country becoming an important international business and investment centre:

- EU and European Monetary Union member state
- Business-friendly Tax and Legal System
- Strategic location
- Well developed socio-economic infrastructure
- Broad range of international financial and business services - legal, tax, accounting, investment and brokerage
- Advanced banking and financial services sector, fit to suit all financial needs
- An emerging and attractive domicile for the registration and management of Investment Funds
- An active Stock Exchange and robust Securities and Exchange Commission
- Market-oriented economy
- Highly educated, multilingual and qualified talent

- Steady/pleasant business environment accompanied with simple administrative procedures
- Low setup and operating costs
- Advanced telecommunications and transport network
- Renowned international shipping centre
- Envious high quality of life
- Stable political environment

Having considered the numerous challenges arising from increased competition, globalization and the recent global financial crisis, the Government of Cyprus is promoting numerous measures and initiatives to further establish the country's appeal as an investment destination. A number of measures related to "Better Regulation" are being implemented to facilitate the elimination of unnecessary red tape. Efforts are also being made to remove regulatory barriers for enterprises' establishment.





## TAX HIGHLIGHTS

The Cyprus tax, legal and regulatory system provides excellent opportunities for the operation of international businesses. Cyprus' 12.5% corporate tax rate as well as the tax exempt status of gains from the sale of securities and dividends received from overseas, underpins its advantageous position in the EU. Such beneficial provisions, coupled with the affordable costs of the high-level professional services offered, render Cyprus an attractive investment destination for investors originating from around the world.

Cyprus has consistently emerged as a reputable and onshore location for international multinationals that have chosen the island as the primary location for their international business activities.

Cyprus' tax laws have been amended to incorporate all EU directives, including the Interest and Royalty directive, the Parent-Subsidiary directive, the directive on mergers and the directive on Administrative Cooperation.

- Competitive corporate tax rate of 12.5%, competitive individual tax rates, VAT rates
- A generous participation exemption regime
- Foreign capital gains are exempt
- No dividend, interest or royalty with holding tax on outgoing payments
- Any gains from trading in a wide range of securities is tax exempt
- A competitive new IP Tax Regime
- Foreign PE profits are tax exempt
- Foreign Exchange gains or losses are tax exempt

- An attractive individual tax regime for international professionals
- Tailor-made provisions for the fund industry
- Competitive Tonnage Tax for Shipping and an approved EU open registry
- Access to an extensive network of Double Tax Treaties and full access to EU Tax Directives

## 1. One of the lowest corporate tax rates in the EU

All trading profits of a Cyprus company are taxed at the flat rate of **12.5%**, following the deduction of related expenses wholly and exclusively incurred in the production of this income.

Foreign Exchange gains or losses will no longer affect the tax computation irrespective of the assets/liabilities creating these FX results or whether these are realised/unrealised.

Notional Interest Deduction (NID), subject to conditions, on "New Capital" contributed and paid to Cypriot companies from 2015 onwards, to help deleverage Cyprus companies, and boost investment and productivity, has been introduced.

The NID will be calculated based on the "New Capital" and a "Reference Interest Rate". The Reference Interest Rate will be based on the 10-year government bond yield of the Country in which the new equity is invested in, plus 3% (a minimum rate applies). The New Capital will be equity, contributed and paid in the company on or after January 1st, 2015, in the form of issued share capital and share premium (subject to conditions).

The NID granted in any tax year cannot exceed 80% of the taxable income of the company in that year. If the tax computation results in tax losses then the NID is restricted, and cannot create taxable losses to be carried forward.

## 2. A generous participation exemption regime

Foreign dividends received by a Cyprus company are not subject to income tax and may also be exempt from Special Defence Contribution, if the following conditions are met:

- The paying company must not engage more than 50%, directly or indirectly, in activities that lead to passive income (non-trading income) or,
- The foreign tax burden on the income of the company paying the dividend is not substantially lower than the tax burden in Cyprus (a tax rate of 6.25% or more in the country paying the dividend satisfies this condition).
- No participation or holding threshold is required and the Cyprus participation exemption regime can be described as one of the most generous amongst those available. This is witnessed by the fact that in virtually all the cases foreign dividends are exempt from any taxation in Cyprus as the above-mentioned criteria are easy to satisfy.

*\* Special contribution for defence is imposed on dividend income, "passive" interest income and "passive" rental income earned by Cyprus tax residents. Non-tax residents are exempt from special contribution for defence.*

## 3. Foreign capital gains are exempt

As Cyprus' tax legislation clearly applies the separation of Income and Capital, capital gains are not included in the ordinary trading profits of a business but instead are taxed separately under the Capital Gains Tax Law (CGT).

Capital gains tax is only imposed on the sale of immovable property situated in Cyprus as well as on the sale of shares in companies (other than quoted shares) in which the underlying asset is immovable

property situated in Cyprus. Capital gains tax is imposed at a flat rate of 20% after allowing for indexation.

What is critical for international businesses is that capital gains that arise from the disposal of immovable property held outside Cyprus, as well as shares in companies which may have as an underlying asset immovable property situated outside Cyprus and shares of non-Cyprus companies are completely exempt from capital gains tax.

Capital Gains Tax for properties (land and land with buildings) purchased by the end of 2016 are exempt, while a reduction of 50% on property transfer fees has been imposed, payable at the Land Registry upon transfer of a title deed in the name of the purchaser.

#### **4. No dividend, interest or royalty withholding tax on outgoing payments**

Cyprus imposes no withholding taxes on payments to non-tax resident persons (companies or individuals) in respect of dividends, interest and royalties used outside Cyprus, irrespective of whether the recipient of the payment resides in a treaty country or not.

This provides for excellent profit repatriation opportunities and when combined with the tailor-made financing structures implemented through the use of Cyprus companies and the novel IP regime, allows Cyprus to pose as an ideal holding jurisdiction, minimising withholding tax exposure for international businesses and multinational groups.

#### **5. Trading in Securities**

A unique feature of the Cyprus tax system relates to the Non-taxation of any gains or profits arising from the trading of an admittedly wide range of securities.

Any income arising from trading in securities is completely exempt from corporate tax. The term “Securities” includes but is not limited to: ordinary and preference shares, founder’s shares, options on titles, debentures, bonds, short positions on titles, futures/forwards on titles, swaps on titles, depositary receipts on titles, rights of claims on bonds and debentures, index participations (only if they represent titles), repurchase agreements or Repos on titles, participations in companies, units in open-end or closed-end collective investment schemes such as Mutual Funds, International Collective Investment Schemes (ICIS) and Undertakings for Collective Investments in Transferable Securities (UCITS).

#### **6. A competitive Intellectual Property (IP) tax regime**

Added to the above, the beneficial provisions of the new IP regime provide for an 80% notional deduction on IP related income and capital gains from the disposal of IP rights and competitive amortisation provisions.

The new regime provides very attractive opportunities for structuring the exploitation of IP rights through Cyprus. Taken in conjunction with the availability of an extensive network of double tax treaties, international businesses are able to arrange their IP operations in the most tax efficient manner.

#### **7. Foreign Permanent Establishment (PE) profits are tax exempt**

Subject to the criteria listed below, any profit of a foreign PE of a Cyprus company is exempt from corporate tax in Cyprus if:

- The PE does not engage more than 50%, directly or indirectly, in activities which lead to passive income, or

- The foreign tax burden imposed on the PE is not substantially lower than that in Cyprus.

This allows international businesses operating in a broad scope of sectors such as construction and trading to organise their operations under Cyprus companies by optimising their commercial and tax strategies.

### 8. An attractive individual tax regime for international professionals

Cyprus has developed an attractive individual tax regime with low income tax rates and appropriate concessions for international and mobile professionals.

An individual is considered resident in Cyprus for income tax purposes if they are present in Cyprus for a period exceeding 183 days in the tax year in question. If this condition is met, tax is imposed on income arising from sources within Cyprus and outside Cyprus.

Taxable Income (€)	Tax Rate %
0 - 19,500	0
19,501 – 28,000	20
28,001 – 36,300	25
36,301 – 60,000	30
60,000+	35

Effective from January 1st, 2012, 50% of the gross emoluments are allowed to be deducted from taxable income for individuals who were not tax residents of Cyprus prior to the commencement of their employment in Cyprus. This deduction applies when income exceeds €100,000 p.a. and is allowed for a period of five years, commencing from the date of employment.

The tax benefits available under the Cyprus income tax law for expatriates, includes a tax exemption of €8,550 or 20%, whichever is lower, of the gross emoluments of an individual who was not a tax resident of Cyprus prior to the commencement of his/her employment in Cyprus. This exemption applies for a period of three years, commencing in the tax year following the year of taking up employment in Cyprus (for example, where an expatriated employee commences employment in Cyprus for the first time during the year 2013, the exemption will apply from 2014 to 2016).

Exemption from taxation for personal investment income (dividends and interest) of non-domiciled individuals (non-doms) has been recently approved by the House of Representatives, while the personal tax exemption for high earners is now been granted for ten years instead of five.

Special Contribution for Defence on Income for non-domiciled individuals has also been abolished.

### 9. Tailor-made provisions for the fund industry

The above-mentioned combination of corporate and individual tax beneficial provisions finds a clear application in the funds industry. Cyprus is developing into a select destination for fund managers and fund management companies. Individual fund managers enjoy the low income tax rates and the readily available concessions, while fund management companies enjoy the low corporate income tax rates, exemptions and the absence of any withholding tax on dividends and interest to non-resident shareholders. Furthermore, they enjoy significantly lower operating costs without the quality of services delivered being compromised.



It should be noted that the revenues of fund management companies in Cyprus are generally exempt from VAT. Cyprus' VAT Legislation provides specific guidance with respect to the meaning of "funds and management of mutual funds" that would benefit from this VAT exemption. In this respect "fund management services" that are offered to mutual funds include the following main categories of services: investment management, administration, and promotion/marketing.

Cyprus tax laws have accommodated the tax needs of investment funds (both UCITS and alternatives) by offering a wide range of incentives for their set up and operation:

- Exemption from tax on any income arising from trading in securities and more specifically participations in companies, units in open-end or closed-end collective investment schemes such as Mutual Funds, International Collective Investment Schemes (ICIS)/Alternative Investment Funds (AIFs) and UCITS.
- Interest received by regulated

investment funds will be considered "active" interest income and taxed at only 12.5% corporation tax.

- No minimum participation or holding threshold for exemption on inbound dividends.
- Liquidation of investment funds not taxable if the unit holders are not Cyprus tax residents.

## **10. Competitive Tonnage Tax for Shipping and an approved EU open registry**

The European Commission has approved, under EU State Aid rules, a scheme proposed by the Cyprus Government that allows shipping companies to opt to be taxed on the net tonnage of the fleet they operate (Tonnage Tax System – TTS), rather than corporate tax, which they would otherwise have to pay. Under certain conditions the TTS applies also to tug boats, dredgers and cable layers.

Cyprus now has a competitive European Union approved "Open Registry" and the TTS allows for mixed activities subject to

tonnage tax, and to corporation tax.

The main benefits of the new TTS are:

- The Cyprus Registry is now an EU approved Open Registry.
- Lower taxation.
- For the first time ship chartering activities are included.

The new law increases the competitiveness of Cyprus and EU shipping and encourages new shipping companies to set up in Cyprus.

### 11. Access to an extensive network of Double Tax Treaties and EU Tax Directives

Cyprus has over the years developed an extensive network of Double Tax Treaties, facilitating international investment to and from Cyprus. Cyprus has managed to conclude and maintain over the years a number of treaties with exemplary beneficial provisions that when combined with the favourable aspects of Cyprus' tax system provide an invaluable tool for

international businesses.

Cyprus has over the last three decades, been used extensively for International Tax planning by multinational companies from all over the world including the United States, India, Canada and many European countries like Germany, the UK, Denmark and Sweden. It is an undisputed fact that most of the investment into Central/Eastern Europe including Russia and Ukraine, is routed through Cyprus because of the very advantageous tax treaty network and the local tax provisions.

To facilitate international business, Cyprus has signed almost 60 double taxation agreements while negotiations for a lot more new agreements are currently taking place and are expected to be concluded in due time.

## CYPRUS DOUBLE TAX TREATY NETWORK

- Armenia
- Austria
- Azerbaijan
- Bahrain
- Belarus
- Belgium
- Bosnia
- Bulgaria
- Canada
- China
- Czech Republic
- Denmark
- Egypt
- Estonia
- Finland
- France
- Georgia
- Germany
- Greece
- Hungary
- Iceland
- India
- Iran
- Ireland
- Italy
- Kuwait
- Kyrgyzstan
- Lebanon
- Lithuania
- Malta
- Mauritius
- Moldova
- Montenegro
- Norway
- Poland
- Portugal
- Qatar
- Romania
- Russia
- South Africa
- San Marino
- Serbia
- Seychelles
- Singapore
- Slovenia
- Slovakia
- Spain
- Syria
- Sweden
- Swiss Confederation
- Thailand
- Tajikistan
- Ukraine
- United Arab Emirates
- United Kingdom
- United States of America
- Uzbekistan
- The States of Guernsey



## OTHER RELATED USEFUL INFORMATION

### **Steps for business registration in Cyprus:**

The first step is to send an application to the Registrar of Companies and Official Receiver for approval of the company name. The business' relevant documents are then sent to the Registrar as well. Business registration documents, such as Articles of Association can be submitted following verification from a member of the Cyprus Bar Association, i.e. a registered Lawyer/Advocate. Items such as Articles of Association may be submitted in any European language alongside with a sworn statement confirming that it is an accurate translation of the Greek original. Following these steps, the company can be fully registered (in Cyprus).

### **Other registrations required by Law for any business operating in Cyprus:**

#### **Social insurance registration**

Any company employing one or more persons must be registered under the Cyprus National Insurance Scheme. Applications for Social Insurance registration must be submitted to National Insurance District Offices or Citizen Service Centres in the district in which the business is established within one month of a new employee's recruitment. Payments to the Social Insurance System are carried out at the end of the month following proof of labour.

### **Tax registration**

Any company or person operating in Cyprus must register with the Taxpayers Register of the Inland Revenue Department of Cyprus as soon as possible. Law requires such registration to occur within 30 days of a business' inclusion. This can take place through the submission of relevant forms to the Income Tax District Offices. The company will subsequently receive the relevant Cyprus Tax Identification Number (T.I.N.).

### **VAT registration**

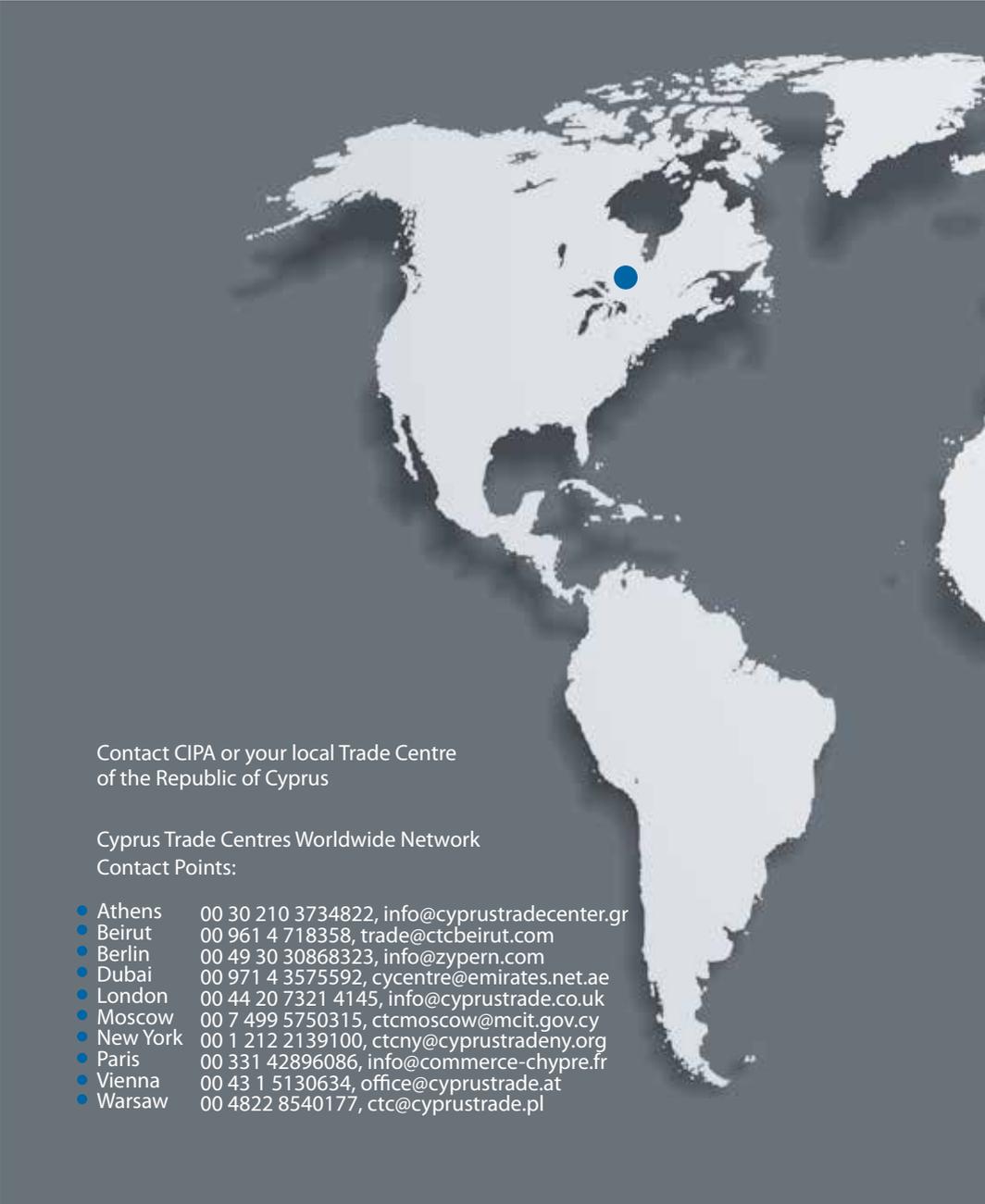
With regards to VAT, anyone that is: supplying goods, providing services, involved in intra-community acquisitions or distance selling in Cyprus must enrol for the VAT Register by submitting the relevant application to the appropriate VAT District Office for the business.

### **Business Insurance**

Every company that employs personnel in Cyprus is compelled by the Cyprus Law to maintain Employer's Liability Insurance. Depending on the activities of the business, special purposes insurances may also be required to cohere to Cypriot Law. These Insurances may include: Professional Negligence Insurance, Contractors All Risk Insurance, Public Liability Insurance, Medical Insurance, Marina Insurance (for ship-owning companies) etc.

### **Other Tax Incentives**

- Introduction of anti-avoidance provisions for postponement of deemed dividend distribution arising from artificial structures
- Extension of the Accelerated Annual Capital Allowances for fixed asset expenditure to tax years 2015 and 2016.
- Expansion of the definition of 'Republic of Cyprus' in the Income Tax legislation to include all activities carried out within its Exclusive Economic Zone (EEZ)
- Abolition of local authorities' exemption from taxability of rental income



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Disclaimer: The information available in this guide intends to only provide a general introduction to tax regulations in Cyprus and every reasonable effort is being made to ensure its accuracy and timely amendment. In no circumstances shall CIPA be legally bound as a result of any information contained in this guide.



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