

## CYPRUS TAX FACTS - 2010





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## BASIS OF TAXATION

All tax residents of Cyprus 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 only. An individual is tax resident in Cyprus if he spends more than 183 days in Cyprus in any one year.

### Resident in Cyprus

Cyprus tax is levied on all income accruing or arising from sources both within and outside Cyprus, in respect of:

- Profits or other benefits from any business.
- Profits or other benefits from any office or employment.
- Dividends, interest or discount.
- Rents, royalties or other profits arising from property.
- Any amount or consideration in respect of any trade goodwill reduced by any amount incurred for the purchase of such trade goodwill.

### Non-Resident in Cyprus

Cyprus tax is levied on the income accruing or arising from sources in Cyprus only, in respect of:

- Profits or other benefits from a permanent establishment situated in Cyprus.
- Profits or other benefits from any office or employment exercised in Cyprus.
- Pensions derived from past employment exercised in Cyprus.
- Rent from property situated in Cyprus.
- Any amount or consideration in respect of any trade goodwill reduced by any amount incurred for the purchase of such trade goodwill.
- The gross income derived by an individual from the exercise in Cyprus of any profession or vocation, the remuneration of public entertainers, and the gross receipts of any theatrical, musical or other group of public entertainers.

## BASIS PERIOD

The year of assessment is the calendar year. That is the period covering the twelve months from 1st of January to 31st of December.

## PERSONAL TAX RATES

CHARGEABLE INCOME (€)	TAX RATE (%)	AMOUNT (€)	ACC. AMOUNT (€)
0 — 19.500	0	0	0
19.501—28.000	20	1.700	1.700
28.001—36.300	25	2.075	3.775
Over 36.300	30		

## OVERSEAS PENSIONS

The income of any individual, who is resident in Cyprus, from pensions for services rendered outside Cyprus, which exceeds the amount of €3.417,20, shall be subject to tax at the rate of five cent (5%) in the euro. This income shall not be added to any other income and credit can be given for any foreign tax paid against the Cyprus Tax. The individual may elect to be assessed in respect of each year of assessment either in accordance with the provisions of this section or in accordance with the normal rules.

<b>EXEMPT INCOME - Type Of Income</b>	<b>Exemption Limit</b>
<b>Interest Income</b> Interest income accruing 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, as it is considered trading profit.	Whole
Widows pension granted under schemes approved by the Commissioner of Income Tax.	Whole
Income from Dividends.	Whole
Remuneration from any office or employment exercised in Cyprus by an individual who was not resident of Cyprus before the commencement of his employment, for a period of 3 years commencing from 1st January following the year of commencement of the employment.	20% of income or € 8.543 (The lower of)
The remuneration from 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 or to a permanent establishment outside Cyprus of an employer resident in Cyprus.	Whole
Profit from a permanent establishment situated outside Cyprus, under certain conditions.	Whole
Lump sum repayment from life insurance schemes or from approved provident funds.	Whole
Profit from the sale of securities, irrespective of whether the profit is of a capital or of a revenue nature.	Whole
Deposits with the Housing Finance Corporation. (Applicable to deposits made up to 30/4/2009 and schemes in existence on 30/04/2003).	40% of the yearly amount deposited. It cannot exceed 25% of a person's total income.
Cancellation of a life insurance contract after the lapse of 6 years from the date it was entered into.	Cancellation: <ul style="list-style-type: none"> <li>• &gt;6 years—whole</li> <li>• &lt;3 years—30%</li> <li>• 3-6 years—20%</li> </ul>

<b>TAX DEDUCTIONS - Type Of Income</b>	<b>Exemption Limit</b>
Contributions to trade unions and subscriptions to professional bodies.	Whole
Social Insurance, provident fund, medical fund, pension fund contributions and life insurance premiums (the allowable annual life insurance premium is restricted to 7% of the insured amount).	Up to 1/6 of the chargeable income, before the deduction of these payments.
Rental Income (The interest payable re the acquisition of a building and capital allowances on the cost of the building, are tax allowable expenses).	General deduction of 20% of gross rental income.
Donations in cash or in kind to charitable institutions in Cyprus approved by the Council of Ministers with receipts.	Whole
Current and previous years losses.	Whole
Expenditure for the maintenance of buildings under preservation order (subject to certain conditions).	Up to Euro700, 1.100 or 1.200, per square meter (depending on the size of the building).

## DEDUCTIONS NOT ALLOWED

For the purpose of ascertaining the chargeable income of any person no deduction shall be allowed in respect of:

- Domestic or private expenses including the cost of travelling between the place of residence and the place of work.
- Rent of any premises owned and used in connection with the carrying of a business.
- Any remuneration or interest on capital paid or credited to the person carrying on a business.
- Cost of goods taken out of the business for the use of the proprietor or any partner or the family of such proprietor or partner.
- Any disbursements or expenses not being money wholly and exclusively laid out or expended for the purpose of acquiring the income.
- Any capital withdrawn or any sum employed or intended to be employed as capital.
- Expenditure for any improvements, alterations or additions to business assets.
- Any sum recoverable under an insurance or contract of indemnity. Such sums include payments by an insurance company in case of theft or fire.
- Rent of, or cost of repairs to, any premises or part of premises not paid or incurred for the purposes of producing the income.
- Any amounts paid or payable in respect of tax.
- Any payments of a voluntary nature such as money paid to the spouse of a director or gifts made to employees, except payments made in regards to:
  - Life insurance premiums paid by an individual under an insurance policy.
  - Contributions to approved provident, pension and other funds established in Cyprus or outside Cyprus.

- Any expenses of business entertainment, including hospitality of any kind, made in connection with a business. If the total amount of business entertainment expenses in the year of assessment does not exceed one per cent (1%) of the gross income of the business up to a maximum of €17,086.01.
- Expenses in respect of a private motor vehicle.
- Any contributions to the social cohesion fund.
- Amount paid or payable in respect of professional tax, only for companies.
- Interest applicable or which is deemed to be applicable to the cost of purchase of a private motor vehicle, irrespective of whether it is used in the business or not, and to the cost of purchasing of any other asset not used in the business. Provided that this provision does not apply after the lapse of seven years from the date of purchase of the relevant asset.

## SOCIAL GRANTS

The following social grants are given:

- Grant of €2,563 per annum for every child receiving full time higher education in Cyprus (with certain restrictions) or full time university education outside Cyprus. Families with more than three children receive additional grant of €854.
- Grant of €3,417 per annum for blind persons.
- All families resident in Cyprus fulfilling the provisions of the Law, are entitled to a basic child grant;

Number of Children	Basic Annual Grant
One child	€411.30
Two children	€822.62
Three children	€822.61 / child
More than three children	€1357.31 / child

Additional child grant is provided to those families that had a gross family (applicant, spouse, children) income for the year 2007, between €18,367 and €36,735.





**BASIS OF TAXATION**

Corporation tax is imposed on every company which is a tax resident of Cyprus. A company is considered to be a tax resident of Cyprus whether incorporated in Cyprus or elsewhere, if it is managed and controlled in Cyprus.

Companies that are not tax resident in Cyprus are only taxed on certain Cyprus sourced income, mainly from business activities carried out from a permanent establishment in Cyprus.

**TAX RATES**

The current tax rate for Companies is 10%.

**BASIS PERIOD**

The year of assessment is the calendar year. However, the Commissioner of Income tax may allow a company to have a different year end. In this case the chargeable income of the financial year should be apportioned on a calendar year basis.

**EXEMPT INCOME**

<b>Type Of Income</b>	<b>Exemption Limit</b>
Interest Income. Interest for the purposes of this exemption does not include interest derived in the ordinary course of business or interest closely connected with the carrying on of a business. Such interest is taxed normally at the standard rate of 10%.	Whole
Income from Dividends.	Whole
Profit from the sale of securities, irrespective of whether the profit it is of a capital or of a revenue nature.	Whole
Profit from a permanent establishment situated outside Cyprus, unless BOTH of the conditions below apply to the permanent establishment, namely: <ul style="list-style-type: none"> <li>the permanent establishment directly or indirectly receives more than 50% of its income from activities that can be classified as income from investment; AND</li> <li>the foreign tax burden on the income of the permanent establishment is substantially lower than the tax burden in Cyprus (i.e. less than 5%).</li> </ul>	Whole

**TAX DEDUCTIONS**

For the purpose of ascertaining the chargeable income, all outgoings and expenses that were incurred wholly and exclusively by the company in the production of income, shall be deducted, including:

<b>Type Of Income</b>	<b>Exemption Limit</b>
Interest for the acquisition of fixed assets used in the business.	Whole
Ordinary annual contributions to Social Insurance and other approved funds.	Whole
Donations in cash or in kind to charitable institutions in Cyprus approved by the Council of Ministers with receipts.	Whole
Current and previous years losses.	Whole
Expenditure for the maintenance of buildings under preservation order (subject to certain conditions).	Up to Euro700, 1.100 or 1.200, per square meter (depending on the size of the building)

**TAX LOSSES**

When a loss is not wholly set-off against income from other sources in the same year, it can be carried forward and set-off against future profits of the company. The loss is automatically set-off against the first available profits of the company. There is no time limit for claiming loss relief. Losses can only be carried forward. No carry-back of losses is allowed. This provision is applicable for all losses incurred from the 1997 tax year and onwards.

In case there is any change in the ownership of the shares of a company and a substantial change in the nature of the business of the company, within any three year period from the year of the loss, then the loss cannot be carried forward to the following years.

**GROUP LOSS RELIEF****Definition of a group:**

Two companies shall be deemed to be members of a group for loss relief purposes if:

- One is a 75% subsidiary of the other; OR
  - Each one separately is a 75% subsidiary of a third company.
- Any company member of the group may surrender its current year loss to any other member company of the group. The loss is set off against the total chargeable income of the claimant company for its corresponding year of assessment.
  - Both the company surrendering the loss, as well as the company claiming the loss, should be members of the same group for the whole year of assessment.
  - There is no requirement on the company surrendering the loss to relieve its loss against its own profits first.
  - Group relief applies between Cyprus Resident Companies and not with non-resident members of the group.

**Loss of a permanent establishment outside the Republic of Cyprus**

- Losses arising from a permanent establishment outside the Republic of Cyprus can be offset against profits arising in the Republic.
- However, when a profit arises from such a permanent establishment, an amount equal to the losses that have been utilised in the past against profits arising in the Republic will be included in the taxable income.

**Insurance companies**

- losses of the life business can be offset against profits of the general business.
- losses of the life business can be offset against profits from other sources.
- losses of the life business can be carried forward indefinitely.

**DEDUCTIONS NOT ALLOWED**

For the purpose of ascertaining the chargeable income of a company no deduction shall be allowed in respect of:

- Any expenses of business entertainment, including hospitality of any kind, made in connection with a business. if the total amount of business entertainment expenses in the year of assessment does not exceed one per cent (1%) of the gross income of the business up to a maximum of €17,086,01.
- Expenses in respect of a private motor vehicle.
- Any contributions to the social cohesion fund.
- Amount paid or payable in respect of professional tax.
- Amount paid or payable in respect of property tax.
- Interest applicable or which is deemed to be applicable to the cost of purchase of a private motor vehicle, irrespective of whether it is used in the business or not, and to the cost of purchasing of any other asset not used in the business. Provided that this provision does not apply after the lapse of seven years from the date of purchase of the relevant asset.

**COMPANY REORGANISATIONS**

Cyprus has adopted and has included in its legislation, with sections 26-30 of the Income Tax Law, the EU Merger Directive on the common system of taxation applicable to different types of mergers. Under certain conditions there are no adverse tax implications arising from general group restructurings.

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

Reorganisations include:

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

**SPECIAL METHODS OF TAXATION****Tax treatment of Royalties received**

Royalties received by a Cyprus resident company that is granting licenses to overseas licensees are taxed at the standard corporate income tax rate of 10% on the profit margin that the Cyprus resident company will realise on the use of the right.

**Tax treatment of Royalties paid - (Withholding Tax)  
Income derived from sources outside Cyprus**

Any resident company entering into any contract with any individual not resident in Cyprus or with any company not engaged in any business in Cyprus, in connection with the following transactions :

- Royalties, premiums, compensation etc - 0%
- Cinematographic, Film rentals etc - 0%
- Profits of professional men, artists etc—0%

and receives income derived from sources outside Cyprus, this amount shall not be deemed as income derived from sources within the Republic and thus no withholding tax on payments to overseas licensors should be charged.

**Tax treatment of Royalties paid - (Withholding tax)  
Income derived from sources inside Cyprus**

If the Cyprus company receives income which is derived from sources inside Cyprus, then it shall deduct tax at the rates shown below from any receipts made on or on behalf of, or from any payments made or to be made to, such individual or company and remit the same forthwith to the Commissioner of Income Taxes.

- Royalties, premiums, compensation etc - 10%
- Cinematographic, Film rentals etc - 5%
- Profits of professional men, artists etc — 10%

**Exemptions**

If the Beneficial owner of the income is an associate company. Provided that the beneficial owner of the income is an associated company of another Member state or a permanent establishment of such company situated in another Member state where such income is paid.

**Royalties Directive**

It is important to state here that this exemption as well as the exemption on Royalties is in full conformity with the Interest and Royalties Directive of the EU which Cyprus has adopted and has included in its legislation.

## **Relief from double taxation**

Cyprus Income Tax Law provides relief from double taxation in relation to tax imposed by the laws of another country. Relief is given for any foreign source tax as a credit against corporate income tax payable in Cyprus in respect of that income.

## **SPECIAL TYPES OF COMPANIES**

### **Shipping companies**

- No income tax is payable on the profits earned or dividends paid by a Cyprus shipping company which owns ships under the Cyprus flag and operates in international waters (including chartering), or on the salaries of officers and crew of such ships.
- The exemption also applies to the bare boat charterer of a vessel flying the Cyprus flag under parallel registration.
- Local or international ship management and crew management businesses have the option to be taxed either at the rate of 4.25% or at rates equal to 25% of the rates used to calculate tonnage tax of vessels under management which are registered outside Cyprus. If no election is made tonnage tax will be imposed. The election is made annually by 30 November of the previous year.

### **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% on gross premium. In this case the difference is paid as additional corporation tax.



**ANNUAL WEAR AND TEAR ALLOWANCES ON FIXED ASSETS**

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

FIXED ASSETS	%
<b>Plant &amp; Machinery</b>	
plant and machinery	10
furniture and fittings	10
televisions and videos	10
industrial carpets	10
boreholes	10
machinery and tools used in an agricultural business	15
computer hardware and operating systems	20
application software	33.3
expenditure on application software less than €1.709, is written off in the year of acquisition	
commercial motor vehicles	20
motor cycles	20
excavators, tractors, bulldozers	25
self-propelled loaders and drums for petrol companies	25
<b>Tools</b>	
Tools in general	33.3
Videotapes property of video clubs	50
<b>Buildings</b>	
Commercial buildings	3
Industrial, agricultural and hotel buildings	4
Flats	3
Metallic greenhouse structures	10
Wooden greenhouse structures	33.3
<b>Boats</b>	
Sailing vessels	4.5
Steam ships, tug-boats and fishing ships	6
Ship motor launches	12.5
New cargo ships	8
New passenger ships	6
Used cargo/passenger ships	Over their useful life

## BASIS OF TAXATION

Special contribution for defence is imposed on income earned by any person resident in Cyprus. Non tax residents of Cyprus are not subject to defence contribution.

## ALLOWANCE FOR FOREIGN TAX

In case that foreign tax was paid on income subject to special contribution, this can be given as an allowance against the special contribution payable on the income, irrespective of the existence of a double taxation treaty with the foreign country.

## LIQUIDATION OF A COMPANY

In case of liquidation of a Cyprus resident company, the total of the profits of the last five years before the liquidation, which have not been distributed or have not been deemed to have been distributed, shall be deemed on liquidation to be distributed and the shareholders shall be deemed to receive such dividends net of 15% defence contribution tax. (3% for Collective Investment Schemes). This provision does not apply in case of liquidation of a company for the purposes of reorganisation.

## TAX RATES

### SUMMARY TABLE

Type of Income	Individuals	Companies
	%	%
Dividend income from Cyprus resident companies.	15	Nil
Dividend income from non-Cyprus resident companies.	15	Nil
Interest derived from the normal carrying on of a business or interest closely connected with the normal carrying on of a business.	0	0
Other interest.	10	10
Interest earned by an approved provident fund.	3	3
Interest earned from savings certificates and development stocks issued by the Cyprus Government.	3	3
Rents Receivable - Reduced by a general deduction of 25%.	3	3
Profits earned by semi-government organizations.	-	3

#### Notes:

- (1) Dividend income from abroad in general is exempt from defence fund contribution. This exemption does not apply if:
- more than 50 percent of the paying company's activities result directly or indirectly in investment income, and
  - the foreign tax is significantly lower than the tax rate payable in Cyprus. (Cyprus tax authorities have clarified through a circular that significantly lower means a tax burden lower than 5%).

When the exemption does not apply, the dividend income is subject to special contribution for defence at the rate of 15 percent.

- (2) A person whose total annual income, including interest, does not exceed €11.960 who receives interest which has been subject to defence contribution at 10%, has the right to a refund of the amount of defence contribution suffered in excess of 3%.

Special contribution for defence on rental income and trading profits is payable in 6 monthly intervals on 30 June and 31 December each year.

In the case of interest and dividends received gross any defence due is payable at the end of the month following the month in which they were received.

## DEEMED DISTRIBUTION

If a Cyprus resident company does not make a distribution in the form of dividends within two years from the end of the tax year in which the profits relate then:

- For the purpose of calculating the amount of the deemed distribution, "profits" mean the accounting profits arrived at using generally acceptable accounting principles, but after the deduction of any transfers to reserves as specified by any law. Any offset of group losses is not taken into account, as well as any amounts with regards to any additional depreciation, which is the result of revaluation of movable and immovable property.
- 70% of accounting profits after tax are deemed to have been distributed.
- 15% special contribution for defence is imposed on deemed dividend distribution applicable to shareholders who are residents of Cyprus.
- The rate is reduced to 3% on deemed dividend distribution applicable to Collective Investment Schemes.
- The deemed distribution provisions do not apply to profits which relate to non-resident shareholders.
- Deemed distribution is reduced with payments of actual dividends which have already been paid during the two years from the profits of the relevant year.
- When an actual dividend is paid after the deemed dividend distribution, then special contribution for defence is imposed only on the additional dividend paid not previously subject to deemed dividend distribution.
- In case of two tier structures of Cyprus companies (parent with subsidiary) owned by non resident shareholders, special defence contribution paid by the subsidiary on deemed distribution may be claimed back by the non resident shareholder upon receipt of an actual dividend.

## REDUCTION OF CAPITAL

In the case of reduction of capital of a Cyprus company, any amounts paid or payable to the shareholders, up to the amount of undistributed chargeable income of any year arrived at before the deductions in respect of losses which are brought forward from previous years under the provisions of section 13 of the Income Tax Law, shall be deemed as distributed dividends and the shareholders shall be deemed to receive such dividends.

These dividends will be subject to special defence contribution at 15% (after deducting any amounts which have been deemed as distributable profits).

The above provisions do not apply where the shareholders are non-residents in Cyprus.





## CHARGE OF TAX

Capital gains tax applies to gains arising from the sale or disposition of immovable property situated in Cyprus and shares in companies not listed in a recognised stock exchange which have immovable property situated in Cyprus.

Such gains are not added to other income but are taxed separately at the rate of 20%.

## CHARGEABLE PERSONS

All individuals and companies, irrespective of their status of residence, just as long as they are disposing of immovable property, or shares in companies which have immovable property situated in Cyprus.

## CHARGEABLE PROPERTY

- The gains that are subject to capital gains tax are gains of any person (individual or company) accruing on a disposal of chargeable property, which are not gains falling within the provisions of the Income Tax Law.

- This means that if a company, that has as its trading activity the purchase and subsequent sale of immovable Capital Gains Tax properties, the disposition of a property by such company at a profit will be taxed under the income tax provisions, as the profit is of a trading nature and therefore such gain will not be subject to capital gains tax.

- The question of whether a disposal of a property is of a trading nature or not is resolved by applying the “badges of trade”; these are mainly criteria of trading that have been established over the years by case law.

### Definition: “Property”:

Immovable property which is situated in Cyprus, as well as shares of companies whose property includes immovable property which is situated in Cyprus.

### Definition “Immovable property”:

The term is not defined in this law but is defined in the Immovable property law of 24/80. In that law, among other things, immovable property means, land,

buildings, structures or fixtures affixed to the land or to any buildings as well as other erections, wells, water, springs etc .

## CHARGEABLE DISPOSALS

The word disposal is not expressly defined in this law and as a result, its common meaning is given. In general, there is a chargeable disposal whenever a capital sum is received by the seller and where the receipt can be related to the ownership of an asset, or to an interest in or right in or over an asset.

A chargeable disposal includes:

- A transfer of the title deeds of the property at the District Lands office. The consideration can be cash, gift, or exchange with another property.
- A lease constitutes chargeable property if is registered at the district lands office. A transfer of such a registered lease over 15 years constitutes chargeable disposal.
- There might be situations where an agreement is signed for the purchase of a property but the consideration is only paid at a later stage. The purchase agreement is deposited at the district lands office but the transfer of the title deeds will only be recorded upon payment by the purchaser, in full of the total consideration. However, for capital gains tax purposes the date of disposal is the date of the sale agreement and not the date of the transfer of the title deeds at the district lands office.
- The giving up of any rights, or, for not exercising them in respect of an asset.

## EXEMPT DISPOSALS

There are times when an actual disposal of assets is not treated as a disposal for capital gains purposes. For example, in connection with:

- A transfer by reason of death.
- A gift between spouses, parents and children and relatives up to third degree of kindred (brothers, sisters, grand-children, grand-parents, uncles, aunts, nephews and nieces, great grandparents and great grandchildren).
- An exchange in respect of properties which pass to each of the parties involved in the exchange of properties.
  - The Gain is not really exempted but it is only deferred until the future disposal of the property received. If the whole of the gain is reinvested in the property received there would be no tax payable.
  - The gain that is not taxable is deducted from the cost of the new property.
  - Any gain that is not reinvested in the property received is taxed immediately.
- A gift made to a limited company where the company’s shareholders are members of the donor’s family and the shareholders continue to be members of the donor’s family for five years after the day of the gift.
  - Family includes spouses, parents and children and relatives up to third degree of kindred.

- A gift made from a limited company to its shareholders, provided that all the shareholders are members of the same family and such property was originally acquired by the company by way of gift.
- If the donee disposes of the property within 3 years from the date of the gift, the lifetime exemption of €17.086,01 cannot be claimed.
- Gifts made to the Cyprus Government as well as any gifts made for educational, instructive or other charitable purposes to a local authority, or to any approved charitable institution in Cyprus.
- Exchange or disposal of immovable property under the Agricultural Land (Consolidation) Laws.
- Transfer of immovable property under a company reorganisation.
- Transfer of shares under a company reorganisation that represent the share capital of the receiving or acquiring company, to or by a shareholder of the transferring or acquiring company, in exchange for shares that represent the share capital of the latter company.

## EXEMPTIONS FOR INDIVIDUALS

The following lifetime exemptions are given:

- Principal private residence (Maximum allowance €85.430,07).
- Agricultural Land (Maximum €25.629,02). This exemption applies to individuals whose main occupation is agriculture.
- General Exemption (Maximum €17.086,01). Any person is entitled this lifetime exemption.

All the above exemptions are life-time exemptions and nobody is entitled to more than one exemption. An individual that is claiming more than one exemption is only allowed to claim whichever is the greater.

## DETERMINATION OF CAPITAL GAIN

In computing the capital gain, the tax 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.

Any expenses incurred that are related directly to the acquisition and disposal of the immovable property can be deducted in the calculation of the taxable gain.

The immovable property tax and fees as well as sewerage council fees are not considered tax allowable expenses.



**SOCIAL SECURITY CONTRIBUTIONS****Social Insurance**

<b>Contributions</b>	<b>%</b>
Employees	6.8
Employers	6.8

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

	<b>€</b>
Weekly Employees	973
Monthly Employees	4.216

**Other employer's contributions**

The employer makes the following other contributions (restricted to the maximum level as with the social insurance above):

<b>Contributions</b>	<b>%</b>
Social cohesion fund	2.0*
Redundancy fund	1.2
Industrial training fund	0.5
Holiday fund (if not exempt)	8.0

\* The amount contributed is calculated on the aggregate emoluments without any restriction or any upper limit.

The contributions of self employed individuals are calculated in accordance with the below summary table - (the limits applicable for 2010 were not available as at the date of printing):

OCCUPATIONAL CATEGORY	Weekly	Annually
<b>Lower limits for self-employed</b>	€	€
Persons exercising a profession		
for a period < than 10 years	340	17.680
for a period of > than 10 years	682	35.464
Wholesalers, estate agents and other enterprises.	682	35.464
Skilled workers.	330	17.160
Builders and persons practicing a profession relevant to the building industry.	414	21.528
Travelling salesmen, postmen, waste collectors, miners, sailors, salesmen, farmers, stockfarmers, fishermen and similar occupations.	229	11.908
Secretaries, typists, cashiers, assistants, media associates, drivers of transportation media, operators of excavators and similar occupations.	330	17.160
Designers, computer users, marine engineers, agents, musicians, magicians and persons not under any other occupational category.	340	17.680
Teachers/Lecturers etc		
for a period < than 10 years	330	17.160
for a period of > than 10 years	660	34.320
Cleaners, messengers, guards and shop owners.	312	16.224
Butchers, bakers, confectioners, packers of fruits, meat, milk, tobacco and similar occupations.	252	13.104

## IMMOVABLE PROPERTY TAX

Physical and legal persons owning Immovable property in Cyprus are liable to immovable property tax on the market value of the immovable property as at 1 January 1980 and applies to the immovable property owned by the taxpayer on 1 January of each year. This tax is payable on 30 September each year.

Value of property	Rate	Cumulative
€	%	€
0 — 170.860	0	0
170.861—427.150	0.25	641
427.151—854.300	0.35	2.136
854.301 and over	0.40	

## Exemptions

- Public cemeteries, churches and other religious buildings.
- Public hospitals, schools, property owned by the Republic, foreign embassies and consulates, common use and public places.
- Property under Turkish occupation.
- Buildings under a preservation order.
- Buildings of charitable organisations.
- Agricultural land used in farming or stock breeding, by farmer or stock breeder residing in the area.



## IMMOVABLE PROPERTY—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.

Market Value	Rate	Cumulative
€	%	€
0 — 85.430	3	2.563
85.431—170.860	5	6.835
over 170.861	8	

In the case of property transferred to a family company, transfer fees are refundable after five years if the company still owns the property 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 appearing on the title deed (refers to values of the year 1920):

- Transfer to a spouse - 8%
- Transfer to a child - 4%
- Transfer to a relative - 8%

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

## STAMP DUTY

Stamp duty in Cyprus is dealt by the Stamp Duty Law 1963 as amended. Section 4 of the law, states that every document listed in the first schedule to the law needs to be stamped, if it concerns property that is situated in the Republic, or if it concerns matters or things that are going to be executed or will be carried out in the Republic, irrespective of the place where these have been drafted or prepared.

Stamp Duty	%
Type of document	Duty
Letters of guarantee	€3.42
Letters of credit	€1.71
Receipts for amounts from €3.42 - €34.17	€0.0342
Receipts for amounts over €34.17	€0.0684
Customs documents	€17.09/€34.17
Bills of lading	€3.42
Bills of exchange (payable at sight on first demand or within 3 days from demand or sight)	€0.8543
Charter hire document	€17.09
General power of attorney	€5.13
Special power of attorney	€1.71
Contracts	Duty
For amounts up to €170.860,14	0,15%
For amounts over €170.860,14 (Maximum fee €17.086,01)	0,2% plus €256,29
For amounts without fixed amount	€34.17

It is important to be stated that any contracts relating to assets situated outside Cyprus or business affairs that take place outside Cyprus are exempt from stamp duty.

## Exemption

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

## MORTGAGE FEES

On loans—1%

No fees are imposed on the transfer of a mortgage by one company to another company as a result of a reorganization.

## CAPITAL DUTY

	Duty
Authorised share capital	€102,52 plus 0,6% on the authorised share capital
Increase in the authorised share capital	0,6% on the additional share capital





## SHIP MANAGEMENT SERVICES

Provision of ship management services means the services relating to the crewing of a Cyprus or foreign ship and /or to the technical or commercial management of such ship, by virtue of a ship management agreement concluded with the owner or the bareboat charterer of a ship, by a person having an office in the Republic staffed with sufficient in number and qualifications personnel (Ship management Company).

### TYPES OF SHIP MANAGEMENT SERVICES:

1. **“management services relating to the supply of crew”.** (Crewing) means services relating to the supply of either the whole or part of the crew, as stated in the safe manning certificate of the ship.
2. **“technical management”** means the monitoring of the hull, the engines and the equipment of the ship in order to maintain the standards acceptable by her Flag State according to the relevant Laws and Regulations in force.
3. **“commercial management” means:**
  - The provision of chartering services, which includes seeking and negotiating employment of the ship and the conclusion of charter parties or other contracts relating to the employment of the ship, in accordance with the instructions of the ship-owner.
  - the payment to ship-owners of all hire and freight revenues and any other moneys, to which the ship-owners are entitled and arise out of the employment of the ship, and
  - the provision of voyage estimates, accounts, the calculation of hire, freights and demurrage, and/or dispatch moneys due from or due to the charterers of the ship.

## TAXATION OF SHIP MANAGEMENT COMPANIES

Ship management companies have the option, to be taxed either according to the corporate rate of 4.25% or to a special tax, which is levied on the basis of the tonnage of ships, for which ship management services have been rendered.

This special tax is applicable if the ship management company elects to be taxed under the provisions of the Merchant Shipping (Fees and Taxing Provisions) Law, and for the period ending 31 December 2020, any income arising from the provision of ship management services is subject to a tax rate equal to 25% of the tonnage tax rates of the vessels under management of the amount calculated as prescribed in the Second Schedule of the Merchant Shipping (Fees and Taxing Provisions) Laws 1992-2004.

This tax is applicable to any ship managed by a Cypriot ship manager (Cyprus flag or foreign flag vessel), and is calculated based on the annual tonnage tax these vessels would have to pay if they were registered in the Cyprus Register of Ships.

This option may be exercised by ship management companies with a written notice addressed to the Department of Merchant Shipping with a copy to the Commissioner of Income Tax. For a specific fiscal year, the notice must be filed at least 30 days prior to 1 January of the relevant fiscal year, and may remain in force until its withdrawal by the same procedure.

## SHIP OWNING COMPANIES

- No income tax is payable on the profits earned by a ship-owner of a Cyprus ship from the operation of such ship in any shipping activity between Cyprus and ports abroad or between ports abroad.
- No income tax is payable on dividends paid to the shareholders of a company if these are paid out of profits earned from the operation of a Cyprus ship in shipping activities.
- No income tax is payable on the salaries and other benefits paid to the master, the officers and the crew of a Cyprus ship.

For the purpose of the above mentioned the term “ship owner” includes a bareboat chartered while the term “operation of ship” includes chartering of any form.

## GENERAL INFORMATION ABOUT VAT

- VAT is charged on every taxable supply of goods or services, that is on every supply of goods or services made within the Republic of Cyprus, by a taxable person in the course or furtherance of any business carried on by him, other than a supply exempted in accordance with the provisions of the Law.
- Additionally, VAT is charged on the importation of goods into the Republic.
- VAT is an indirect form of taxation intended to burden consumption expenditure. It is an indirect tax because the trader/taxable person acts as an agent of the VAT Service, collecting VAT from customers consumers on its behalf and returning the tax to the Republic.
- VAT is imposed on supplies and collected at every stage of the production, transportation and distribution of goods and services.

## TAXABLE PERSON

The tax that is chargeable on any supply of goods or services is a liability of the person making the supply. A taxable person is every person, natural or legal, resident in the Republic or abroad, who carries on a business and has registered as such in the VAT Register or he is liable to be registered according to the provisions of the VAT legislation.

The term “business” has a very broad sense and means any economic activity carried out in an independent way regardless of the purpose or results of such activity. The term “business” includes any trade, profession or vocation.

Employees or other natural persons who are bound to any employer by a contract of employment or by other legal relation, which creates relationship of employer and employee, are not considered to be carrying out an economic activity and therefore they are not considered as taxable persons.

In addition the VAT legislation provides that Governmental Authorities, Local Authorities and Public Authorities are not deemed to be taxable persons for the supplies of goods or services made by them in carrying out their mission. There are, however, certain supplies explicitly defined in the legislation, for which the aforementioned persons are considered taxable persons.

The supplies of goods or services made by a person who is not considered as taxable, are not VAT chargeable. On the other hand when this person buys goods or services, he is charged with VAT as if he was the final consumer.

## SUPPLIES OF GOODS AND SERVICES

VAT is charged on every taxable supply of goods or services, that is on every supply of goods or services made within the Republic, by a taxable person in the course or furtherance of any business carried on by him.

As a general rule a supply of goods or services is considered to be taxable if made for consideration. Nevertheless, the Law provides that specific supplies are considered to be taxable even if made for no consideration.

The supply of any goods is treated as made in the Republic if the goods are in the Republic. The supply of any services is treated as made in the Republic if the person supplying them is in the Republic. As an exception, the legislation provides that the supply of certain services should be treated as taxable even if made by a person who is in another country and received by a person who registered in the Republic.

## PLACE AND TIME OF SUPPLIES OF GOODS AND SERVICES

- The supply of any goods is treated as made in the Republic if the goods are in the Republic. The supply of any services is treated as made in the Republic if the person supplying them is in the Republic.

A supply of goods is treated as taking place at the time of the removal of the goods or at the time when the goods are made available to the person to whom they are supplied.

- A supply of services is treated as taking place at the time when the services are performed. As an exception to the above, if an invoice is issued or a payment is received before or an invoice is issued within 14 days after the removal of the goods and the performance of services, the supply of goods or services is treated as taking place at the time the invoice is issued or the payment is received.

## REGISTRATION — LIABILITY TO REGISTER

### Taxable Supplies

According to the VAT legislation, every person making taxable supplies is liable to be registered in the following cases:

1. At the end of any month, if the value of his taxable supplies in the period of one year then ending has exceeded €15.600.
2. At any time, if there are reasonable grounds for believing that the value of his taxable supplies in the period of thirty days then beginning will exceed €15.600.

A person who by virtue of (1) above, is liable to be registered, is obliged to notify the VAT Commissioner of his liability by submitting an "Application for Registration in the VAT Register" (Form VAT 101) to the local VAT Office, within thirty days of the end of the relevant month and his registration is effective as from the end of the month following the relevant month or from such earlier date as may be agreed between the person and the VAT Officer.

If a person is liable to be registered by virtue of (2) above, he is obliged to notify the VAT Commissioner of his liability, before the end of thirty-day period to which the liability arises and the registration is effective as from the beginning of this period. Failing to comply, the person is liable to a levy of €85 for every month or part of month of the delay or refusal or omission. It is clarified that the liability of a taxable person to be registered exists whether or not he has submitted an application for registration. The VAT Commissioner is authorized by the Law to register a taxable person retrospectively, that is from the date that person was, according to the Law, liable to registration.

It is noted that persons making zero-rated supplies are also liable to be registered. 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. No registration threshold exists for either intra-Community supply of services or from receipt of services from abroad.

## ENTITLEMENT TO REGISTER

A person not liable to be registered is entitled to be registered in the following cases:

### (i) Voluntary registration

If a person makes taxable supplies the value of which does not exceed the thresholds that would make him liable to be registered, then he is entitled to apply for voluntary registration by submitting an "Application for Registration in the VAT Register" (Form VAT 101).

### (ii) Intending traders

If a person engages in a business and intends to make taxable supplies of goods or services, he is entitled to apply to be registered as intending trader by submitting an "Application for Registration in the VAT Register" (Form VAT 101). The registration is effective from the date of the application or any other previous date as may be agreed between the VAT officer and the taxable person. Additionally, farmers are entitled to voluntary registration, regardless of the value of the supplies they make in the period of one year, which consist of agricultural products of their own produce or agricultural services.

### (iii) Acquisitions

Any person making acquisitions in Cyprus is liable to be registered:

- at the end of any month, the total value of that person's acquisitions from all other member States in the year beginning from 1 January has exceeded the registration threshold of €10.251,61, or;
- at any time that there are reasonable grounds to believe that the value of the acquisitions that person would be making in the following 30 days alone will be over the registration threshold of €10.251,61;

A person making acquisitions according to the previous paragraph is liable to notify his/her obligation to be registered on Form VAT 106. Failure to comply, renders the person liable to a levy of €85 for every month of the delay or refusal or omission.

Where the acquisitions of any person does not exceed the threshold of €10.251,61, then that person may register for making acquisitions in Cyprus voluntarily.

### (iv) Distance Sales

Any person making distance sales (sales from a person established in another



member State), is liable to register for VAT purposes in Cyprus and account for VAT in Cyprus, if in the period starting from the 1st January of the year, the value of distance sales exceeds €35.000.

This person is liable to notify liability to register on Form VAT 105. Failure to comply, renders the person liable to a levy of €85 for every month of the delay or refusal or omission. There is also the right for voluntary registration when the threshold is not reached.

## VAT RATES

The legislation provides for the following four tax rates:

- Zero rate (0%).
- Reduced rate of five per cent (5%) from 1 July 2000.
- Reduced rate of eight per cent (8%) from 1 August 2005.
- Standard rate fifteen per cent (15%) from 1 January 2003.

### Zero rate 0%

The zero rated goods and services include the following:

- Exports of goods to non EU countries.
- Intra-Community supplies of goods.
- Processing carried out on goods in Cyprus on behalf of a customer abroad provided that the goods will be exported outside the EU when the processing finishes.
- Transportation of passengers to or from another country to the extent the transportation takes place in the Republic.
- Transportation of goods from a place in the EU to a place outside the EU, to the extent that the transportation takes place in the Republic;
- Supply, importation and rental of qualifying aircrafts and qualifying ships.
- Alterations, repairs to and maintenance of qualifying aircrafts and qualifying ships;
- Most foodstuffs (except those taxed at 5% or 15%).
- Supplies of medicaments falling within codes CN30.03 and CN30.04;
- Supplies of vaccines for medical and veterinary use falling within code CN30.02.

## Reduced rate 5%

The reduced rate of 5% applies amongst others to:

- Funeral services and the supply of coffins.
- Road sweeping, refuse collection and recycling.
- Services of writers, composers, artists and interpreters of works of art as well as their rights.
- Supply of fertilizers.
- Supply of animal feeding stuffs.
- Supply of seeds.
- Supply of live animals of a kind generally used for human consumption.
- Supply of books, magazines and newspapers.
- Supply of gas.
- Supply of non-bottled water.
- Supply of transport of passengers and their accompanying luggage on a rural or city bus (for a fee) within Cyprus.
- The letting of camping sites and caravan parks (as from 1 January 2006).
- Supply of various goods for the use of handicapped persons.
- Supply of ice-cream, yogurt ice-cream and similar products as well as certain salted or spicy products made from cereal, salted or spicy products made from potato and dry roasted or spicy nuts which are used for human consumption.
- Supply of food in the form of catering services from school canteens (applicable from 25 July 2008 - previously 8%).
- The following services when provided for the purposes of renovation or repair of houses for which a period of three years has elapsed since their first use and which are used as the primary and permanent place of residence:
  - construction services and
  - services of plumbers, electricians, carpenters and oil painters. In case the cost of materials exceeds 50% of the total value, then the VAT to

be charged is the standard rate of 15% on the value of the materials and the reduced rate of 5% on the value of the service.

- Supply of hair salon services.
- Confectionery items, chocolate and biscuits which are partly or wholly covered with chocolate.
- Supply of bottled water, manufactured beverages, juice drinks, (except those taxed at the standard VAT rate).
- Ingredients which are used in the preparation of foodstuffs.
- Food supplements and foodstuffs substitutes previously taxed at 15%; syrups, flavoured or/ and coloured.
- Supplies of medicines and vaccines which were previously taxed at 15%.
- Products used for contraception.
- Products used for women's sanitary protection.
- Medical equipment when intended for the exclusive personal use of disabled persons.
- Children's car seats.
- Admission to shows, circuses, fairs, amusement parks, concerts, museums, zoos, cinemas, exhibitions and similar cultural events and facilities.
- Admission to sport events and licenses for the use of sporting facilities.
- Services of repair of medical equipment.
- Medical services, dental services and services of thermal treatment which were previously not exempt from VAT (medical examinations or surgeries of cosmetic nature are not included).
- Importation of items of archaeological value (antiques of an age exceeding 100 years) falling within code CN 9706 00 00 (as from 30 May 2008).

## Reduced rate 8%

The reduced rate of 8% applies amongst others to:

- Transportation of passengers and their accompanying luggage by taxi (urban, suburban and rural) as well as by certain buses (tourist, excursion and suburban) within Cyprus.
- Restaurant services and the supply of food in the course of catering (not school canteens) except the supply of alcoholic beverages, wine and beer which are subject to the standard VAT rate of 15%.
- Hotel accommodation and accommodation services in similar tourist places.
- Transportation of passengers and their accompanying luggage by sea within Cyprus.

## V.A.T. RATES

Since the establishment of V.A.T. legislation on the 1/7/1992 the changes for V.A.T. rates are shown in the table that follows:

Dates / Periods	Standard	Reduced 1	Reduced 2
1/7/1992—30/9/1993	5%		
1/10/1993—30/6/2000	8%		
1/7/2000—30/6/2002	10%	5%	
1/1/2002—31/12/2002	13%	5%	
1/1/2003—31/7/2005	15%	5%	
1/8/2005—today	15%	5%	8%

## VAT EXEMPTIONS

No VAT is charged on supplies of goods or services which are exempted under the VAT legislation.

- 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.

## TAX RETURNS, TAX PAYMENT AND CREDIT

Every taxable person is liable to submit Tax Declarations (Form VAT 4) and pay the tax that may be due, usually every three months. Tax declarations relate to certain tax periods that are made known to the taxable person at the stage of his registration. The VAT Service dispatches tax declarations to the last known address of a registered person. The liability to submit tax declarations exists regardless of the relevant form being received or not by the taxable person. Thus, if he has not received it on time, he should contact the VAT Office of his district and ask for the form to be reissued.

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.

## BOOKS AND RECORDS

What books and records must be kept and for how long?

- Every taxable person must keep books and records and preserve them for at least seven (7) years after the completion of the entries or deeds written therein, unless the VAT Commissioner, by relevant notification to the person concerned, fixes otherwise.
- Every taxable person has to keep books and records of all the taxable supplies of goods or services he makes or receives for the purpose of his business and for intra community transactions he makes.
- Books and records must be kept up-to-date, with adequate information and in a manner that enables taxable persons to use them to calculate the payable or claimable amount of tax and fill in tax declarations.
- Books and records must also be kept in a manner that VAT officers can easily examine them in order to verify VAT declarations but this manner should not be contrary to business practices.
- In addition VAT legislation provides for special arrangements concerning keeping books and records in connection with the special regimes i.e. Retail Schemes, Profit Margin Schemes etc.
- Taxable persons must keep and preserve the required books and records at the premises of the business.

## VAT INVOICE

When is a VAT invoice issued;

- As a general rule, every registered taxable person, who makes taxable supplies of goods or services to other taxable persons in Cyprus.
- makes a supply of goods or services, other than an exempt supply, to a person in another member state.
- receives a payment on account from a person in another member state for a supply that he has made or intends to make. is required to provide them with VAT invoices.

This obligation does not apply if the supply involved is:

- zero-rated
- made for no consideration
- made by a taxable person that uses the Profit Margin Scheme

Registered retailers may issue the "retail invoice", if the customer is a taxable person and asks for a tax invoice, provided that the consideration is below €85,43.

## GRANT FOR ACQUISITION OF FIRST RESIDENCE

- The grant is given to entitled persons for the construction or purchase of a new house or the transfer of ownership of a building which is used as the main permanent residence.
- The application for the grant is submitted to the Ministry of Finance, in relation to houses for which an application has been submitted for the issue of a planning permission after the 1 May 2004, by any physical person citizen of the Republic of Cyprus or of any other EU member state who resides permanently in the Republic of Cyprus and has reached the age of 18 at the time of application.
- The grant is given for houses whose total area does not exceed 250 m<sup>2</sup> and is restricted to 130 m<sup>2</sup> (extended for families with four and more children).

The amounts of the grant valid from 1 January 2008 are as shown below:

- One bedroom apartment €19.249,28.
- Two bedroom apartment €19.249,28.
- Three bedroom apartment €17.729,63.
- Semi detached house €15.196,87.
- Detached house €20.262,38.
- Construction of house €10.131,31.

## 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.

## VIES

### ZERO-RATING OF INTRA-COMMUNITY SUPPLIES

Prior to 1st May 2004 (accession of Cyprus in the EU) all exports of goods to destinations outside Cyprus, qualified for the zero rate of VAT. This continues to be the case for exports to countries outside the EU. However, under the EU VAT arrangements, as from that date a Cypriot trader registered for VAT may zero-rate the supply of goods to a customer in another Member State (MS) provided that he keeps adequate evidence that the customer is registered for VAT in the other MS.

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

- Changes in the country of taxation of services provided between businesses established in two different EU Member States (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 (MS).

As a result of the above changes, additional compliance obligations arise as from 1 January 2010 for Cyprus resident businesses supplying services to businesses established in another EU MS for which the recipient is liable to account for VAT under the reverse charge provisions. Such businesses will be required to complete and submit a VIES declaration for services which are taxed by the recipient under the reverse charge provisions. The new declaration will need to be submitted on a monthly basis. In addition as from 1 January 2010 the VIES declaration for intra-Community supplies of goods must also be submitted on a monthly basis [instead of a quarterly basis]. Submission of the VIES return will only be possible electronically.

## PURPOSE OF THE VIES SYSTEM

VIES (VAT Information Exchange System) contributes to the effectiveness of this new VAT regime and provides a mechanism for preventing and deterring of the abuse of the VAT zero-rating provisions on intra-community trade of goods and services between MS.

An integral part of the system is a requirement that each MS must store and process specific information which it collects from its traders about their supplies to other MS.

Moreover, the relevant legislation provides that the submitted Recapitulative Statement should not be incomplete or contain inaccuracies, such as wrong VAT numbers of the customers in other MS. If a submitted Recapitulative Statement is incomplete or contains inaccuracies, the taxpayer should submit a corrective statement within two months following the calendar quarter to which the Recapitulative Statement relates.

Therefore, taxpayers are urged to check the validity of the VAT number given to them by their customers in other MS either by contacting the VIMA Section of the VAT Service or via the relevant web page of the EU at the following address:

[http://ec.europa.eu/taxation\\_customs/vies/vieshome.do?selectedLanguage=EN](http://ec.europa.eu/taxation_customs/vies/vieshome.do?selectedLanguage=EN)

## INTRASTAT

### PURPOSE OF THE INTRASTAT SYSTEM

In January 1993, frontier controls on the movement of goods between EU member states were abolished and importers and exporters in EU trade no longer were required to complete customs documentation. Therefore, in order to fill the gap that was created concerning the collection of statistics information, the EU introduced a system known as INTRASTAT.

The system was designed to ensure that statistics of internal EU trade could be collected in a way which would maintain the quality of the statistics and the timeliness of their collection.

The system places obligation on traders to submit periodic declarations of their trade. The INTRASTAT returns are submitted to the VAT Service each month and concern arrivals from, as well as dispatches to other member states.

### OBLIGATIONS OF TRADERS UNDER INTRASTAT

As from May 1st 2004, each VAT-registered person who supplies goods to or/ and receives goods from other member states (the value of which is exceeding the statistical threshold), is obliged to submit the INTRASTAT return for arrivals as well as dispatches to the VAT Service each month.



According to the EU regulation, the Cyprus government defines each year thresholds expressed in annual values of intra-Community trade, below which parties are exempted from providing any INTRASTAT information. The thresholds are defined separately for arrivals and dispatches and they may change each year.

The return must be submitted to the VAT service until the tenth day immediately following the end of the month to which the return relates. If a person fails to comply, this person is liable to a penalty of eight euro (€8) for each working day of non-compliance, the maximum being thirty working days. Non-compliance that continues after the thirty working days constitutes a criminal offence and a convicted person may incur an additional fine of up to two thousand five hundred and sixty two euro (€2.562).

Also, according to the amendment of the Law N. 38(I)/2004, if a person submits the INTRASTAT return and this report contains substantial omission and/ or inaccuracy and does not inform the VAT Commissioner within sixty days of the end of the relative period, this person is liable to a penalty of fifty one euro (€51).

## AGENTS

A trader may appoint an agent to make and submit the INTRASTAT return on his behalf. Under the national legislation, if an agent is appointed, the agent must be a forwarder as defined by the article 74 of the Customs Code Law 2004. It is particularly noted that the nomination of the agent does not, in any way, diminish or alter the legal obligations of the trader concerned. Any pursuit action initiated by the VAT Service will be concentrated on the trader concerned, not the agent.



## CYPRUS DOUBLE TAX TREATIES

### PAID FROM CYPRUS

#### DIVIDENDS

Outward dividends paid by a Cypriot Company to non-tax residents of Cyprus, do not suffer any withholding tax in Cyprus.

#### INTEREST

Interest payments by a Cypriot Company to non-tax residents of Cyprus, are made gross, without any tax deducted.

#### ROYALTIES

No withholding tax is levied on royalties as long as the right is used outside Cyprus.

	RECEIVED IN CYPRUS	DIVIDENDS	ROYALTIES	INTEREST
<b>NON-TREATY COUNTRIES</b>	0	0	0	0
<b>TREATY COUNTRIES</b>				
Armenia	0	0	0	0
Austria	10	0	0	0
Belarus	5 <sup>(4)</sup>	5	5	5
Belgium	10 <sup>(1)</sup>	10 <sup>(14)</sup>	0	0
Bulgaria	5 <sup>(17)</sup>	7 <sup>(22)</sup>	10 <sup>(18)</sup>	10 <sup>(18)</sup>
Canada	15	15 <sup>(6)</sup>	10 <sup>(10)</sup>	10 <sup>(10)</sup>
China	10	10	10	10
Czech Republic <sup>(26)</sup>	10	10 <sup>(7)</sup>	5 <sup>(12)</sup>	5 <sup>(12)</sup>
Denmark <sup>(28)</sup>	10 <sup>(1)</sup>	10 <sup>(8)</sup>	0	0
Egypt	15	15	10	10
France	10 <sup>(2)</sup>	10 <sup>(8)</sup>	0 <sup>(23)</sup>	0 <sup>(23)</sup>
Germany	10 <sup>(1)</sup>	10 <sup>(7)</sup>	0 <sup>(23)</sup>	0 <sup>(23)</sup>
Greece	25 <sup>(19)</sup>	10	0 <sup>(11)</sup>	0 <sup>(11)</sup>
Hungary	5 <sup>(1)</sup>	10 <sup>(7)</sup>	0	0
India	10 <sup>(2)</sup>	10 <sup>(7)</sup>	15 <sup>(13)</sup>	15 <sup>(13)</sup>
Ireland	0	0	0 <sup>(11)</sup>	0 <sup>(11)</sup>
Italy	15	10	0	0
Kuwait	10	10 <sup>(7)</sup>	5 <sup>(12)</sup>	5 <sup>(12)</sup>
Kyrgyzstan <sup>(24)</sup>	0	0	0	0
Lebanon	5	5 <sup>(14)</sup>	0	0
Malta	15	10 <sup>(7)</sup>	10	10
Mauritius	0	0	0	0
Moldova	5 <sup>(17)</sup>	5	5	5

RECEIVED IN CYPRUS    DIVIDENDS    ROYALTIES    INTEREST

Montenegro <sup>(25)</sup>	10	10	10
Norway	0 <sup>(3)</sup>	0	0
Poland	10	10 <sup>(7)</sup>	5
Qatar	0	0	5
Romania	10	10 <sup>(7)</sup>	5 <sup>(12)</sup>
Russia	5 <sup>(5)</sup>	0	0
San Marino	0	0	0
Serbia	10	10	10
Seychelles	0	0	5
Singapore	0	10 <sup>(20)</sup>	10
Slovakia <sup>(26)</sup>	10	10 <sup>(7)</sup>	5 <sup>(12)</sup>
Slovenia <sup>(27)</sup>	5	10	5
South Africa	0	0	0
Sweden	5 <sup>(1)</sup>	10 <sup>(7)</sup>	0
Syria	0 <sup>(1)</sup>	10 <sup>(7)</sup>	10
Tajikistan <sup>(24)</sup>	0	0	0
Thailand	10	10 <sup>(15)</sup>	5 <sup>(16)</sup>
Ukraine <sup>(24)</sup>	0	0	0
United Kingdom	15 <sup>(21)</sup>	10	0 <sup>(23)</sup>
United States	5 <sup>(2)</sup>	10 <sup>(9)</sup>	0
Uzbekistan <sup>(24)</sup>	0	0	0

NOTES:

- 15% if received by a company controlling less than 25% of the voting power.
- 15% if received by a company controlling less than 10% of the voting power.
- 5% if paid to a company controlling less than 50% of the voting power.
- This rate applies if the amount invested is over Euro200.000 irrespective of the % of voting power acquired. 10% rate is imposed if received by a company holding at least 25% of the share capital of the paying company. In all other cases the rate is 15%.
- 10% if received by company, which has invested less than US\$100.000. A protocol was signed on 7 October 2010. Formal ratification is expected to happen before the end of 2010 so that the Protocol could come into effect on 1 January 2011.
- NIL if paid to the Government or for export guarantee.
- NIL if paid to the Government of the other State or to a financial institution.
- NIL if paid to the Government of the other State or in connection with the sale on credit of any industrial, commercial or scientific equipment or any merchandise by one enterprise to another or in relation to any form of loan granted by a bank or is guaranteed from government or other governmental organisation.
- NIL if paid to the Government of the other State, to a bank or a financial institution.
- NIL on literary, dramatic, musical or artistic work with the exception of films used for TV programs.
- 5% on film royalties (except films shown on TV).
- This rate 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.
- 10% for payments regarding, technical fees, management fees and consultancy fees.
- NIL if paid to the Government of the other State. There is no withholding tax for interest on deposits with banking institutions.
- 10% on interest received from financial institutions, or when it relates to sale on credit of industrial, commercial, scientific equipment or merchandise.
- A 10% on rights regarding industrial, commercial or scientific equipment. A 15% rate applies for patents, trademarks, designs, models, plans, secret formulas or processes.
- A 10% rate applies if received by a company, which owns less than 25% of the capital.
- This rate does not apply, where 25% or more of the capital of the Cypriot resident company is owned directly or indirectly by the Bulgarian resident company paying the royalties and the Cyprus company pays less than the normal rate of tax.
- The treaty provides for 25%, but the Greek Government applies a rate of NIL since it is lower than the treaty rate and it is provided by local legislation.
- 7% if paid to a bank or similar financial institution. NIL if paid to the government of the other state.
- This rate applies to Cyprus resident individuals and to Cyprus resident companies controlling less than 10% of the voting rights of a UK resident company.
- NIL if paid to the government of the other state or is guaranteed by the government.
- 5% on film royalties, including films used for TV programs.
- The treaty between the Republic of Cyprus and the United Soviet Socialist Republic still applies.
- The treaty between the Republic of Cyprus and the Socialist Federal Republic of Yugoslavia still applies.
- The treaty between the Republic of Cyprus and the Czechoslovak Socialist Republic still applies.
- A new treaty was signed on 12 October 2010. The treaty is expected to come into effect on 1/1/2011. The rates entered in the table are the new rates. Previous withholding tax rates on dividends and interest was 10%.
- A new treaty has been signed on 8/10/2010. On the date the new Agreement enters into force, the provisions of the existing Convention between the Government of the Republic of Cyprus and the Government of the Kingdom of Denmark will expire.

## TAX DUE DATES

### 30 January

Final deadline for the avoidance of penalty of 5% for the payment of corporation tax based on the tax return of the penultimate year, if not paid on 1 August of previous year.

### 31 January

Submission of declaration of deemed dividend distribution (IR 623) for the year ended 31 December two years ago.

### 30 April

Submission of Income tax return by individuals. (Form IR-1). Submission by employers of the total payroll of the previous year. (Form IR-7).

### 30 June

- Submission of previous year personal returns of individuals not preparing audited financial statements – see notes (1), (2) below. (Form IR-1).
- Payment of special contribution for defence for the first six months of the year.

### 1 August

- Submission of provisional tax declaration and payment of first installment of provisional tax for the year. (Form IR-6).
- Payment of previous year's final corporation tax under the self-assessment method. (Form IR-158).
- Payment of previous year's income tax based on the assessment raised by the Commissioner of Income Tax.
- Payment of previous year's income tax under the self assessment method by individuals preparing audited financial statements. (Turnover exceeds Euro70.000).

### 31 August

Payment of premium tax for life insurance companies - second installment for the year.

### 30 September

- Payment of provisional tax – second installment for the year.
- Payment of immovable property tax for the year.

### 31 December

- Submission of previous year audited financial statements and tax returns. (Form IR-4).
- Payment of provisional tax – third and last installment for the year.
- Payment of second installment of special contribution for defence for the last six months of the year. (Form IR-601).
- Payment of premium tax for life insurance companies- third and last installment for the year.

### End of following month

- Payment of tax deducted from employees salary (PAYE).
- Submission of VIES forms.

### By the 10th of the second month after the end of the VAT period

- Submission of VAT return and payment of VAT due (VAT-4).

## TAX PENALTIES

1. Upon conviction for failure to submit a return, a person shall be liable to a fine not exceeding €17 per day for as long as failure continues, or to imprisonment for a term not exceeding 12 months, or both. Any person who without any excuse omits any object of the tax from the return shall be liable, on conviction to a fine up to €3.417 plus the tax due plus an amount equal to two times the difference between the amount of tax properly imposed and the amount of tax that would have been imposed had the assessment been based on the return.
2. Interest at the rate of 8%\* per annum is imposed from the first day after the end of the six-month period. (Interest is calculated daily).
3. If any installment of the temporary tax assessment is not paid by the due date, interest at the rate of 8%\* per annum is imposed. If no temporary tax assessment was submitted and an assessment is issued by the Inland Revenue, interest at 8%\* per annum is payable on the overdue installment plus an additional penalty of 5% on the whole amount of the temporary tax. In addition, a penalty is imposed equal to 10% of the difference between the tax due per the final assessment and the tax per the temporary assessment if the temporary taxable income is less than 75% of the taxable income per the final assessment. (Interest is calculated for complete months).
4. If the tax is not paid by the due date, interest is imposed at the rate of 8%\* per annum. (Interest is calculated for 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. No penalty is imposed where the tax return is submitted timely, the tax due based on the Tax Return is timely paid and the Inland Revenue makes an assessment after the lapse of three years from the date of submission as prescribed by the law.
5. Late payment results in the imposition of interest at 8%\* per annum from the due date and an additional penalty of 1% per month for as long as the delay continues. (Interest is calculated for complete months).
6. Late submission results in the imposition of a penalty equal to €51.
7. Late submission of the return results in the imposition of a penalty of €51 per VAT return.
8. Late payment of outstanding VAT results in the imposition of a penalty of 10% of the outstanding amount and interest at 8%\* per annum of the outstanding amount and the penalty. (Interest is calculated for complete months).
9. Interest is imposed at the rate of 8%\* per annum from the due date.
10. Late payment results in the imposition of a penalty of 3% for each month of delay as long as the delay continues. The total amount of the penalty cannot exceed 15% of the amount due.
11. Late submission of VIES results in the imposition of a penalty of €51 for each late month up to 3 months. If the form is not submitted within 3 months then fine up to €2.562 may be imposed.
12. Late submission of INTRASTAT results in the imposition of a penalty of €8 for each late working day up to 30 working days. If the form is not submitted within 30 working days then fine up to €2.562 may be imposed.

At Centaur Trust the focus of all our attention is on servicing the requirements of an international client base.

We specialise in the provision of corporate and fiduciary services, management consultancy, tax and vat compliance, in conjunction with the formation and management of international business companies in Cyprus.

We also provide our services related to a select number of jurisdictions of the world (offshore and onshore – such as UK, Switzerland, Netherlands, BVI and others).

Our focus is on the effective implementation of international tax structures related to the use of Cyprus companies as stand alone vehicles or as part of international tax structures. We work closely with all major legal, tax and accounting firms worldwide and, based on our Total Quality Management philosophy, we translate high quality advice into high quality solutions.

### **COMPANY FORMATION**

Having been successfully commissioned to provide a corporate structure, we are able to incorporate companies in most of the major jurisdictions around the world. Through our own offices and our extensive network of associates, we are able to provide ready made companies, as well as incorporating new companies using our clients' choice of names. As a result of our heavy investment in staff training and information technology, we are able to complete the whole incorporation process in a very short time, subject to the provision of all the necessary client related documentation. Bank accounts can be opened by us with a wide range of banks with which we co-operate, using any currency which our clients require.

### **MANAGEMENT AND ADMINISTRATION OF COMPANIES**

We are usually appointed by our clients to manage and administer their companies on an annual basis. Our management services include, but are not restricted to:

#### **Provision of professional directors**

Where a client requires a high level of confidentiality, or where relief under tax treaties is required, we are able to provide professional directors. In cases where we are appointing the directors of a company we always take the best interests of the company into consideration, thus only appointing a company or person who we think is fit to hold office or be employed in the administration of the Company's affairs. When appointing a board of directors we ensure that the individual members are persons of high calibre, such as Chartered and Certified accountants, lawyers, or persons with a relevant background in relation to the company's proposed activities.

#### **Provision of shareholder services**

As part of protecting our clients' interests and providing a high degree of confidentiality, we are able to offer nominee shareholder services. As such, this service is provided subject to the above safeguards and duties to act in the client company's best interests. In addition to this, our clients are provided with documentary evidence with regards to the beneficial ownership of their company, clearly establishing the fact that we only hold shares in our clients' companies in trust for their benefit.

One of our fundamental principles is the preservation of client confidentiality. At Centaur Trust this is much more than a belief and is built into our whole culture and system of operation. Our clients' personal information will not be divulged under any circumstances, unless required to do so by the Courts of the country where a company is incorporated, as part of an investigation into certain specific criminal activities.

#### **Provision of secretarial services**

In cases where Centaur Trust has been requested to provide a secretary to the company, we shall ensure that the company's statutory books and records are properly maintained in accordance with the laws of the jurisdiction in which the company is incorporated and we shall also make sure that all statutory forms, resolutions, returns, required by the Registrar of Companies are properly prepared and are filed promptly.

#### **Provision of registered and representative office**

As required by law, we are able to provide our client companies with a registered office in the jurisdiction where the companies are incorporated. Furthermore, in cases where a client requires further substance to this address, we are able to provide fully furnished business rooms with all modern technical equipment available.



## ACCOUNTING

We use computerised accounting software for recording and preparing accounting records and financial statements of the highest standard and quality levels. Most of our staff are qualified UK Chartered and Certified Accountants with relevant professional experience and can take care of all accounting requirements laid down by local legislation.

## TAX ADVISORY & COMPLIANCE

We are able to undertake the day-to-day administration and tax compliance work for all corporate tax matters for our clients. In addition, through our network of specialised international tax lawyers and accountants, we may provide international tax planning and advice at the highest level.

We also co-operate with the recognised top four accounting firms if our clients require tax counsel from one of these firms, or if they require a tax opinion under the umbrella of a big four name.

## VAT

The VAT aspects of transactions between companies within the European Union (EU) and other transactions involving different EU countries are becoming more complex. At Centaur Trust our experts will assist and offer you the specialised VAT advice and guidance that you would require.

## AUDIT

In all jurisdictions where audit is a legal requirement we are able through our network of associated firms to undertake the audit in accordance with International Accounting and Auditing Standards. We also co-operate with the recognised top four accounting firms if our clients require the audit to be carried out under the umbrella of a big four name.

## CORPORATE LEGAL

At Centaur Trust we are able to undertake all corporate legal consultancy work that our clients may require. We assist our clients to keep the corporate legal

framework in good legal standing on a going concern basis.

Legal consultancy can be provided through our network of internationally approved and qualified lawyers. Through the years we have established relationship with the biggest corporate law firms around the world, who can assist our clients and find solutions to all their international legal needs.

Examples of frequently used legal services by our clients are:

- Corporate reorganisation and reconstruction
- Shareholder agreements, takeovers, mergers and acquisitions
- Protecting Intellectual Property
- Ship registration and administration

## BANKING

Centaur Trust offers a broad range of Banking services. Our clients, by having a single point of contact, can satisfy all their banking requirements efficiently and in a timely manner. Through the years our people have gained considerable specialised experience and we have managed also to establish professional relationships with the most reputable banks in Cyprus and in Europe.

As we are not required to open the bank account of a company in the jurisdiction where the company has been incorporated, it is our normal practice to choose a bank that best suits each client's requirements.

With all the banks we work with as introducers, our relationship with the banks is such that, under normal circumstances, it is not necessary for our clients to visit the bank, in order to open an account. All aspects of the application and due diligence process are taken care of by ourselves.

## ESCROW SERVICES

At Centaur Trust we offer escrow services, helping clients successfully mitigate their risk for critical transactions. Our dedicated escrow team offers reliable and dependable service to ensure that transactions close quickly, accurately and securely. Centaur Trust suite of escrow services is built on experience and customized to cover the needs that arise in your business including, but not limited to escrow structures for acquisitions and sale of shares, raising of capital, property deals etc.

### What is an Escrow?

When entering into a trading transaction with previously unknown parties, both the purchaser as well as the seller of goods bear some risks. The seller wants protection for non-payment by the buyer, and the buyer wants protection for non-performance by the seller.





Centaur Trust Escrow can prepare or assist in the drafting of an escrow agreement, and will also establish a dedicated escrow account for use until the transaction is completed. The Escrow (account) is a blocked bank account held with a neutral and financially trusted third party. Centaur Trust Escrow use dedicated client accounts. The use of a client account ensures that the monies are protected and cannot be used for any purpose other than the intended transaction. The buyer can use this escrow account to deposit money while waiting to see whether the seller will perform in accordance with the terms of the purchase contract. The professional advisers of both the buyer and the seller are aware of the benefits of an escrow agreement.

They also have the expertise and experience to negotiate the release conditions of the amount in escrow. Centaur Trust Escrow will release the money from the escrow account after the release conditions, described in the escrow agreement, have been met.

Due to the specialised nature of these services we have established a dedicated web-site that provides extensive coverage for our services and how Centaur Trust Escrow can assist in finding custom made solutions.

Dedicated web-site:

[www.centaurtrust-escrow.com](http://www.centaurtrust-escrow.com)

PUBLICATION DATE: NOVEMBER 2010

PHOTO ARCHIVES: CTO®



#### CONTACT US

Should you wish to receive further details on any of the services we offer, or would like to receive any of our free publications, please do not hesitate to contact us at our following contact details:

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