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**DEMETRIOU &  
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Business Advisers – Certified Accountants (CY)

# **Tax Facts & Figures 2020 – Cyprus**

**The tax system  
In Cyprus  
Overview  
2020**

## **TAX FACTS & FIGURES - 2020**

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## Demetriou & Associates Business Advisers Ltd

Established in 2017, by a team with more than 30 years of experience in the professional services industry, our commitment is on providing exceptional quality services to our clients, tailored to their needs in any region.

Our wide range of professional services includes:

- Audit & assurance services
- Tax services
- Accounting services
- Formation of companies in Cyprus and abroad
- Advisory services including fund raising, debt advisory, debt/equity restructurings & reorganization, etc.
- Other services included Insolvency Services, Fund Administration, etc.

## Income Tax – Individuals

### Individuals

In the case of individual who is tax resident of Cyprus, tax is levied on all income accruing or arising from sources both within and outside Cyprus.

In the case of individual who is not tax resident of Cyprus, tax levied only on the income accruing or arising from sources within Cyprus.

An individual is tax resident in Cyprus if he/she spends in Cyprus more than 183 days in any one calendar year.

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

- Do not reside in any other single state for a period exceeding 183 days in aggregate and
- Are not tax resident in any other state, and
- Reside in Cyprus for at least 60 days, and
- Have other defined Cyprus ties.

To satisfy this condition the individual must carry out any business in Cyprus and/or be employed in Cyprus and/or hold an office (director) of a Company tax resident in Cyprus at any time in the tax year, provided that such is not terminated during the tax year. Further the individual must maintain in the tax year a permanent residential property in Cyprus which is either owned or rented by him/her.

For the purpose of calculating the days of presence in the Republic:

- The day of arrival into the Republic is considered as a day in the Republic
- The day of departure from the Republic is considered as a day outside the Republic
- The arrival into the Republic and departure from the Republic on the same day is considered as a day in the Republic and
- The departure from the Republic and return to the Republic on the same day is considered as a day out of the Republic.

### Personal income tax rates

Taxable Income €	Tax Rate %	Tax €	Cumulative Tax €
0 – 19,500	0	0	0
19,501 – 28,000	20	1,700	1,700
28,001 – 36,300	25	2,075	3,775
36,301 – 60,000	30	7,110	10,885
Over 60,001	35		

**Exemptions**

The following source of income is exempted from Income Tax:

<b><u>Type of Income</u></b>	<b><u>Exemption</u></b>
• Dividend Income	Whole amount (note 1)
• Interest, except for interest arising from the ordinary Business activities or closely related to the ordinary Business activities of an individual	Whole amount (note 1)
• Profits of a foreign permanent establishment under Certain conditions (note 2)	Whole amount
• Lump sum received by way of retiring gratuity, Commutation of pension or compensation for deaths or injuries	Whole amount
• Capital sums accruing to individuals from any payments to approved funds (e.g provident funds)	Whole amount
• Profit from the sale of securities (note 3)	Whole amount
• Remuneration from salaried services rendered outside Cyprus from more than 90 days in a tax year to a non-Cyprus resident employer or to a foreign permanent establishment of a Cyprus resident Employer	Whole amount
• Remuneration from any employment exercised in the Republic by an individual who was resident outside the Republic before the commencement of the employment, provided that the annual remuneration of the employee exceeds €100,000. The exemption applies for a period of 10 years. For employment commencing during or after 2015, the exemption does not apply in case the employee was Cyprus tax resident in the preceding tax year or for at least 3 out of the last 5 years immediately prior to the tax year of commencement of employment.	50% of remuneration

- Remuneration from any employment exercised in Cyprus by an individual who was not a resident of Cyprus before the commencement of the employment. For employments commencing during or after 2012 the exemption applies. For a period of 5 years starting from the tax year following the year of commencement of the employment with the last eligible tax year being 2020. This exemption may not be claimed in addition to the immediately above mentioned 50% exemption of employment income. 20% of remuneration with a maximum amount of €8,550 annually

Notes:

1. Such Interest income or dividend income may be subject to Special Defence Contribution- refer to Special Defence Contribution Section
2. Profits from a permanent establishment situated abroad are exempt, unless the permanent establishment directly or indirectly engages more than 50% in activities which lead to investing income and the foreign tax burden is substantially lower than the Cyprus tax burden (6.25%)
3. The term “Securities” is defined as shares, bonds, debentures, founders’ shares and other securities of companies or other legal persons, incorporated in Cyprus or abroad and options.

**Deductible expenses**

All expenses incurred wholly and exclusively for the production of income are deductible during the calculation of taxable income, including:

- Expenses of rented property 20% of gross rent
- Subscriptions to trade unions or Professional bodies Whole amount
- Donations to approved charities (with receipts) Whole amount
- Interest in respect of the acquisition of Building for rental purposes Whole amount
- Interest relating to the acquisition of fixed Assets used in the business Whole amount
- Expenditure incurred for the maintenance of a building in respect of which there is in force A Preservation Order Up to €1,200, €1,100 or €700 per sq. meter (depending on the size of the building)
- Social Insurance, contributions to the National Health system, medical fund (max 1.5% of the gross income less dividends), pension and provident fund contributions (max 10% of the remuneration) and life insurance premiums (max 7% of the insured amount) Up to 1/5 of the net income
- Amount invested each tax year as from 1 January 2017 in approved innovative small and medium size enterprises either directly or indirectly Up to 50% of the taxable income as calculated prior to this deduction (subject to a maximum of €150,000 per year) (1)

**Non-deductible expenses**

The following expenses are not deductible in calculating taxable income:

- Expenses not incurred wholly and exclusively to produce taxable income Whole amount
- Immovable Property Tax Whole amount
- Private motor vehicle expenses Whole amount
- Business entertaining expenses Restricted to the lower of €17,086 or 1% of the gross income
- Interest payable or deemed to be payable in relation to the acquisition of a private motor vehicle, irrespective of whether it is used in the business or not, or other asset not used in the business. This restriction is lifted after 7 years from the date of purchase of the relevant asset. Whole amount

Interest expense incurred for the acquisition of shares in a wholly owned (direct or indirect) subsidiary will be deductible for income tax purposes provided that this subsidiary does not own (directly or indirectly) any assets which are not used in the business. If this subsidiary does

own (directly or indirectly) assets that are not used in the business, the interest expense that corresponds to the percentage of assets not used in the business will not be deductible. This applies to shares acquired from 1 January 2012.

- Wages and salaries relating to services offered within the tax year on which social insurance and other contributions have not been paid in the year which they were due. In case the above contributions (including any interest and penalties) are paid within 2 years following the due date, such wages and salaries will be tax deductible in the tax year in which they are paid. Whole amount

#### **Loan to company directors or individual shareholders**

Any amount received as a loan or financing assistance by a company's director or a company's individual shareholder or by his/her spouse or relative up to a second degree is considered as a monthly benefit equal to 9% p.a. calculated on the above amount. Such benefit will be included on his/her personal taxable income. The amount of tax on the monthly benefit should be withheld from the individual's monthly salary and paid to the Tax Department on a monthly basis under the PAYE system.

#### **Benefits**

Benefits provided to an employee or to a member of his/her family, either in cash or otherwise, are subject to income tax. Detailed guidance on the practical application of benefits in kind has been issued by the Tax Department, through an informative leaflet effective from 01 January 2019, which is available on the Tax Department's website.

#### **Tax credit or foreign tax paid**

Any foreign tax paid on income subject to income tax in Cyprus is credited against any Cyprus income tax payable on such income, irrespective of the existence of a tax treaty.

#### **Foreign pensions**

Pensions received from abroad by Cyprus tax resident individuals are taxed in Cyprus at 5% on income exceeding €3,420.

The taxpayer can choose to be taxed either with the reduced rate of 5% or the normal tax rates.



### **Withholding tax**

- The gross amount of any rental in respect of cinematograph films in Cyprus derived by any person who is not resident, is subject to 5% withholding tax.
- The gross amount of any royalty, compensation, premium or other income, derived from sources within Cyprus by any person not being resident, is subject to 10% withholding tax.
- The gross income derived by an individual not Cyprus tax resident, from the exercise in Cyprus of any profession or vocation or of public entertainers including athletic missions and football clubs, is subject to 10% withholding tax.

## **INCOME TAX COMPANIES**

In the case of company, which is tax resident in Cyprus, tax is levied on all income accruing or arising from sources both within and outside the republic.

In the case of a company which is not a tax resident of Cyprus, tax is levied only on the income accruing or arising from sources within Cyprus.

### **Tax Residency**

A company is tax resident of Cyprus if it is managed and controlled from the republic.

### **Tax Rates**

The corporation tax rate for all companies is 12.5%

### **Exemptions**

The following are exempt from corporate tax:

- Interest Income, excluding interest income arising in the ordinary course of the business or closely connected with the ordinary carrying on of the business.
- Dividend Income (such dividend income may be subject to special defense contribution)  
The Income Tax exemption shall not apply to the extent that dividends are deductible from the taxable income of the non-resident dividend paying company .Dividends that do not qualify for the income tax exemption are not considered as dividends for SDC purposes.
- Gains arising from the disposal of Securities (i.e. shares, bonds, debentures, etc).
- Foreign Exchange Gains (FX) with the exemption of FX gains arising from trading in foreign currencies and related deliveries.
- Profits from a foreign permanent establishment, unless the permanent establishment directly or indirectly engages more than 50% in activities which lead to investing income and the foreign tax burden is substantially lower than the Cyprus tax burden (6.25%)
- Rent from preserved buildings (under certain condition)
- Gains arising from a Restructuring  
“Restructuring” means the direct or indirect sale and transfer of immovable property and transfer of rights under a sale contract deposited with the Department of Lands and Surveys, between one or more borrowers and/or debtors and/or guarantors regarding the same credit facility or grant

or debt and one or more creditors or non-related persons made from 31 December 2015 up to 31 December 2019, which aims to reduce or repay credit facilities or loans or debts granted to borrowers with one or more lenders.

### **Deductions Allowed**

For the purposes of ascertaining the taxable income, there shall be deducted all expenses incurred wholly and exclusively to produce taxable income given that supported by the relevant documentation, including:

- Donations to approved charitable organizations (with receipts)
- Employers contributions to approved funds
- Expenditure made for the maintenance of buildings under preservation order (Subject to restrictions based on sq. m)
- Tax amortization on any expenditure of a capital nature for the acquisition or development of IP (provision applies with effect from 1st July 2016). Allocated over the lifetime of the IP (maximum period 20 years).
- Whole expenditure incurred for the acquisition of shares in an innovative business (abolished as from 1 January 2017).
- Equity introduced to a company as from 1st January 2015 (new equity) in the form of paid-up share capital or share premium may be eligible for an annual national interest deduction (NID). The annual NID deduction is calculated as the new equity multiplied by the NID interest rate. The relevant interest rate is the yield on ten year government bonds (as at December 31 of the prior tax year) of the country where the funds are employed in the business of the company plus a 3% premium (subject to a minimum amount which is the yield on the 10 year Cyprus government bond as at the same date plus a 3% premium). A taxpayer may elect not to claim all or part of the available NID for a particular tax year. Certain anti-avoidance provisions apply. The NID deduction cannot exceed 80% of taxable profit derived from the assets financed by the new equity **(Amendments apply based the Official Gazette published on 16 June 2020)**
- Interest expense incurred for the direct or indirect acquisition of 100% of the share capital of a subsidiary company will be treated as deductible for income tax purposes provided that the 100% subsidiary company does not own any assets that are not used in the business. If the subsidiary owns assets not used in the business, the interest expense deduction is restricted to the amount which relates to assets used in the business. This applies for such acquisitions of subsidiaries from 1st January 2012.

### **Deductions not allowed**

The following expenses are not deductible in calculating taxable income:

- Cost of goods for private use
- Domestic or private expenses including the cost of travelling between the place of residence and the place of work
- Expenses not incurred fully and exclusively to produce taxable income
- Expenditure which is not supported by appropriate supporting documentation as required by the relevant Regulations
- Private motor vehicle expenses
- Taxes
- Expenses of business entertainment, including hospitality of any kind, made in connection with a business in excess of 1% of the gross income with a maximum allowable deduction of up to €17,086

- Interest payable or deemed to be payable in relation to the purchase of a private motor vehicle, irrespective of whether it is used in the business or not, or other asset not used in the business. This restriction is lifted after 7 years from the date of purchase of the relevant asset.
- Wages and salaries relating to services offered within the tax year on which social insurance and other contributions have not been paid in the year which they were due. In case the above contributions (including any interest and penalties) are paid within 2 years following the due date, such wages and salaries will be tax deductible in the tax year in which they are paid.

### **Tax credit on taxes paid abroad**

Foreign tax paid can be credited against the corporation tax liability, irrespective of any double tax treaty.

### **Tax Losses**

Loss from one source of income is set off against income from other sources in the same year. Any loss remaining after the set off, is carried forward over the next five years from the end of the tax year in which they incurred.

Current year tax losses may be surrendered by one Cyprus tax resident group company to another. A group company which is tax resident in another EU country may also surrender current year tax losses to a Cyprus tax resident company, provided such company firstly exhausts all possibilities available to utilize its tax losses in its country of residence or in the country of any intermediary EU holding company.

Group relief is available if both companies are members of the same group for the entire year.

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

- one is by 75% subsidiary of the other, or
- both are 75% subsidiaries of a third company

The interposition of a non-Cyprus tax resident company does not affect the eligibility for group relief as long as such company is tax resident in either an EU country or in a country with which Cyprus has either a tax treaty or an exchange of information treaty (Bilateral or Multilateral).

Where a company has been incorporated by its parent company during the tax year, this company will be deemed to be a member of this group for group relief purposes for that tax year.

Losses arising from a permanent establishment outside Cyprus can be offset against profits of the company arising in Cyprus. However, any subsequent taxable profits arising from such a permanent establishment are taxable up to the amount of losses previously offset.

A partnership or a sole trader transferring a business into company can carry forward tax losses into the company for future utilization.

### **Anti-Tax Avoidance Provisions**

**The following anti-tax avoidance provisions have been introduced in the Income Tax Law as a result of the adoption of the EU Council Directive 2016/1164 of 12 July 2016 laying down rules against tax avoidance practices that directly affect the functioning of the internal market.**

Application date: 01 January 2019

#### Interest limitation rule

Excess Borrowing Cost (EBC) that exceeds 30% of taxable earnings before interest, tax, deductions and additions in respect of fixed and intangible assets used in the business (EBITDA) is not deductible for the purposes of calculating the taxable income of a company. By derogation from the above rule the EBC is deducted up to the amount of €3.000.000 per fiscal year, per company or Cypriot group, as the case may be.

Other exceptions also apply.

#### Controlled Foreign Company (CFC) rule

The non-distributable income of a Controlled Foreign Company (CFC) or a of a foreign permanent establishment arising from non-genuine arrangements which are controlled by the controlling company resident in the Republic, is added to the taxable income of the controlling resident in the Republic, subject to certain exceptions.

Any foreign tax paid on the income of the CFC is credited against income tax payable in the Republic.

#### General Anti-Abuse rule (GAAR)

The GAAR provides that for the purposes of calculating the corporate tax liability, an arrangement or a series of arrangements which are non-genuine shall be ignored. Non-genuine arrangements are arrangements which are not put into place for valid commercial reasons that reflect economic reality.

Application date: 01 January 2020

#### Exit taxation \*

In certain cases, when a taxpayer moves assets (E.g. from head office to permanent establishment or vice versa) or its tax residence out of the Republic, the taxpayer shall be subject to tax on an amount equal to the market value of the transferred assets, as the time of exit, less their value for tax purposes.

#### Hybrid mismatches\*

Hybrid mismatches rules may apply to deny a deduction or tax an income in the Republic, to the extent hybrid mismatches result in double deduction or deduction without inclusion or no taxation without inclusion.

- These provisions have not been voted into law as of the date of issuing this publication and thus are not yet effective. They are expected to be voted and be effective from 01 January 2020.

**Annual Wear and Tear Allowances**

Annual wear and tear allowances are calculated as a percentage on the cost of acquisition of the asset used in the business and are deductible from taxable income.

<b>Plant and machinery</b>	Rate
Fork lifts, excavators, loading vehicles, bulldozers and oil barrels	25%
Motor vehicles of all types except for private saloon cars	20%
Personal computers (hardware) and operating software	20%
Application software	100%
-up to €1,709	33.33%
- above €1,709	
Plan and machinery used in agriculture*	15%
Water drillings, industrial carpets, video recorders, televisions*	10%
Any other plant and machinery*	10%
Furniture and fittings*	10%
*If acquired between 2012 – 2018 the rate is at 20%	
<b>Buildings</b>	
Metallic frame of greenhouses	10%
Wooden frame of greenhouses	33.33%
Industrial, agricultural and hotel buildings**	4%
Commercial buildings	3%
**Industrial and hotel buildings acquired between 2012 – 2018	7%
<b>Ships</b>	
Steamships, tug – boats and ships used in the fishing industry	6%
Sailing vessels	4.5%
Ship launching machinery	12.5%
Used ships	In accordance with special agreement
New commercial ships	8%
New passenger ships	6%
Used commercial and passenger ships and capital additions	Remaining useful economic life in accordance with the class certificate
<b>Tools</b>	
All tools in general	33.33%

<b>Specialized fixed assets</b>	
Armored cars (used by businesses which provide security services)	20%
Motor yachts	6%
Wind generators (the cost should include the cost of installation reduced by any amount of subsidy received)	10%
Photovoltaic systems (the cost should include the cost of installation reduced by any amount of subsidy received)	10%
New airplanes	8%
New helicopters	8%
Specialized machineries for rail roading (e.g Locomotive engines, Ballast wagon, container wagon and container sleeper wagon)	20%
<b>Intangible assets</b>	
Intangible assets	5% - 100%

## Profits from Intellectual Property (IP):

### **Old Intellectual Property regime**

Qualifying intangible assets (IP) are those defined in the Patent Rights Law, the Intellectual Property Law and the Trademarks Law.

Under the old IP regime, 80% of the net profit from the exploitation and/or disposal of IP is exempt from taxation.

The net profit is calculated after deducting from the income and/or profit that is generated from the exploitation and/ or disposal of such intangible assets, all direct expenses associated with the production of this income or profit, as well as a 20% annual capital allowance, applicable on the cost of acquisition and/or development of such an intangible asset.

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

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

The above provisions can apply until the 30th of June 2021, to intangible assets that qualified under the old IP regime before 2 January 2016, and to certain IP acquired during the period 2 January 2016 – 30 June 2016.

### New Intellectual Property regime

The new regime is effective from 1 July 2016.

Qualifying intangible assets are those developed or exploited or acquired by a person in the course of its business and that relates to IP, are a result of R&D expenditure and for which the person is the economic owner. The Regulations clarify that tradenames, including brands, trademarks, image rights and other IP rights used for the marketing of goods and services do not qualify.

An 80% deemed deduction applies to the profit from the exploitation of such qualifying intangible assets which is calculated based on a specific formula that follows the modified nexus approach.

Capital gains arising from the disposal of a qualifying asset are not included in the qualifying profits and are fully exempt from income tax. **However, a balancing statement should be prepared to determine whether a balancing addition or balancing allowance arises from the disposal of the intangible asset.**

In each year of assessment, the taxpayer may choose to forego the whole or part of the deduction. Where the calculation of qualifying profits results in a loss, only 20% of this loss may be carried forward or group relieved.

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

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

## Special Defense Contribution

### Defense Tax Rates

The persons that are subject to special defense contribution are:

1. Cyprus tax resident companies
2. Individuals that are tax resident and domiciled in Cyprus. An individual is domiciled in Cyprus for the purposes of special contribution for defense if he or she **has a** domicile of origin in Cyprus as per the Wills and Succession Law or if he or she has been tax resident in Cyprus **for** at least 17 out of the 20 tax years immediately prior to the tax year of assessment.

Special defense contribution is imposed on the following sources of income at the rates indicated below:

Source	Rates
Interest income (except interest accruing the income from the ordinary carrying on of business	30%
Interest received by individuals from savings certificates and developments stocks issue by the Government	3%
Interest accruing to provident funds	3%
Interest earned by the Social Insurance Fund	3%

Dividends <b>income</b>	17%
Rents received less 25%	3%

### Interest Income

Interest income arising from the ordinary activities of the business or closely related activities, is not subject to Special Defense Contribution but subject to income/corporation tax.

An individual whose annual income, including interest, does not exceed the amount of €12,000 has the right to a refund of the tax withheld on interest more than the amount corresponding to 3%.

### Dividends - Exemptions

- Dividends paid by a company resident in Cyprus to another company resident in Cyprus are exempt from Defense Contribution, excluding dividends paid indirectly after 4 years from the end of the year in which the profits distributed were generated.
- Dividends received directly or indirectly from dividends on which defense contribution has already been paid.
- Dividends paid by a company resident in Cyprus to a company non-resident in Cyprus are exempt from Defense Contribution.
- Dividends received by company resident in Cyprus or a company non-resident in Cyprus with a permanent establishment in Cyprus from a company resident abroad are exempt from Defense Contribution

The exemption does not apply if:

1. The company paying the dividend engages more than 50% to investing activities; and
2. The foreign tax burden on the income of the company paying the dividend is substantially lower than the tax burden of the Cyprus tax resident company or the non-resident company which has a permanent establishment in the Republic (6.25%)

### Deemed Distribution

A company resident in Cyprus, is deemed to distribute 70% of the accounting profits after taxation (in addition to the corporation tax includes Special Defense Contribution, Capital Gains Tax and any foreign tax that has not been credited during the relevant year), in the form of dividends, within the two years from the end of the year in which the profits relate and pay 17% Defense Contribution to the amount which relates to Cyprus tax residents and Cyprus domiciled individuals. The deemed distribution provisions do not apply to profits which relate directly or indirectly to non-resident or resident but non-domiciled shareholders. For the calculation of deemed dividend distribution, any losses brought forward group losses as well as **any amounts emanate from the revaluation of movable and immovable property, including any additional depreciation, are ignored.**

A Cyprus tax resident individual who is deemed to be receiving dividends from Undertakings for Collective Investments in Transferable Securities (UCITS) is subject to Defense Contribution of 3%.

The amount of deemed dividend distribution is reduced by any actual dividend paid during the period of two years from the end of the year in which the profits relate.



In case where an actual dividend is paid after the deemed dividend distribution date, any deemed distribution reduces the actual dividend on which the defense contribution is withheld.

The deemed distribution provisions do not apply to profits arising either from a loan restructuring, subject to conditions, or from a reorganization.

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

When a company sells assets to its Cyprus tax resident and domiciled shareholder(individual) or a relative up to second degree or spouse, without consideration or for a consideration which is less than its market value, the difference between the consideration and the market value will be deemed to have been distributed as a dividend to the shareholder. This provision does not apply for assets originally gifted to the company by the shareholder (individual) or **from his/her relative of up to second degree of kindred or from his/her spouse.**

#### **Dissolution of the company**

Profits of the last five years before dissolution of the company, which were not distributed or deemed to be distributed, are deemed to be distributed during dissolution and subject to 17% Defense Contribution (3% for UCITS).

Companies that are under voluntary dissolution or liquidation are obliged to submit within one month from the date of approval of the resolution, a deemed dividend declaration and pay any special defence contribution in relation to the profits of the specific tax year and the two preceding years.

The deemed dividend distribution provisions do not apply on any accounting profits arising during the dissolution or liquidation if the assets of the company are not sufficient for the repayment of its creditors and no amount is available to be distributed to its shareholders.

Where assets are distributed to the company's shareholders upon the company's liquidation or dissolution, which have a market value that exceeds the cost of their acquisition by the company, the deemed distribution provisions will apply. The amount of the dividend that is deemed to be distributed to its shareholders will be equal to the difference between the market value of the assets and the cost of acquisition of the particular asset by the company.

The deemed dividend distribution of profits that become realized upon the company's dissolution or liquidation may not exceeded the amount of the net assets distributed to the shareholders.

These provisions do not apply in the case of dissolution under reorganization, in accordance with certain prerequisites set out in the relevant Regulations or where the shareholders are not resident or non-domiciled in the Republic.

#### **Reduction of Capital**

In the case of a company's capital reduction, any amounts paid or due to shareholder individuals in excess of the amount of the share capital that was actually paid by the shareholder will be treated as a deemed dividend subject to special defence contribution (provided that the ultimate shareholders are Cyprus tax resident and Cyprus domiciled individuals).

### Tax credit for foreign tax

Any foreign tax paid on income subject to special defense contribution will be credited against any special defense contribution payable on such income irrespective of the existence of a double tax treaty.

## Capital Gains Tax

Capital Gains Tax (CGT) is imposed on the net profit from disposal at the rate of 20% on:

- Gains from the disposal of immovable property situated in the Republic,
- Gains from the disposal of shares in private companies, which own immovable property in the Republic, and
- Gains from the disposal of shares of companies which indirectly own immovable property situated in the Republic and derive at least 50% of their market value from such immovable property.

### Calculation of profit

By computing the capital gain, the following are deducted from the sale proceeds:

- Certain expenditure incurred for the production of the gain (**e.g. transfer fees, approved real estate agent commission, interest expense**)
- The value of immovable property as at 1 January 1980 or cost if the date of acquisition is later, as adjusted for inflation
- The cost of any additions after 1 January 1980 or the date of acquisition if later, as adjusted for inflation

### Exemptions

The following disposals of immovable property are not subject to CGT.

- Transfers arising on death
- Gifts made from parent to children or between spouses or between up to a third-degree relative
- Gifts to a company whose shareholders are members of the donor's family and continue to be members of the family for a period of five years from the date of the gift
- Gifts by a family company to its shareholders, provided such property was originally acquired by the company by way of gift. The property must remain in the hands of the donee for a period of at least three years
- Gifts to charitable organizations and/or the Government
- Exchange or disposal of immovable property under the Agricultural Land (Consolidation) Laws
- Transfer of ownership or share transfers in the event of company reorganizations
- Expropriations
- Exchange of properties, to the extent that the gain made on the exchange has been used for the acquisition of new property. The gain that is not taxable is deducted from the cost of the new property **when the latter is disposed**
- Transfer under a qualifying loan "Restructuring" (subject to conditions)

### **Lifetime exemptions**

Individuals can deduct from the gains the following lifetime deductions:

	€
Sale of private residence (subj.to conditions)	85,430
Sale of agricultural land by a farmer	25,629
For other sales	17,086

### **Administrative penalties**

Administrative penalties of €100 or €200 depending on the specific case will be imposed for the late submission of declarations or late submission of supporting documentation requested by the Commissioner.

In the case of late payment of the tax due, an additional penalty 5% is imposed on the unpaid tax.

## Estate Duty

Estate duty has been abolished in relation to individuals who have died on or after 1 January 2000.

According with the Deceased Persons Estate Law of 2000, the executor / administrator required to submit a statement of Assets and Liabilities of the deceased within six months from the date of death.

## Immovable Property Tax

Immovable Property Tax has been abolished as from 1 January 2017.

## Transfer fees by the department of land and surveys

The fees charged to the acquirer for transfers of Immovable property as follows:

Market Value	Rate	Fees	Accumulated Fees
€	%	€	€
0-85,000	3	2,550	2,550
85,001-170,000	5	4,250	6,800
170,000-over	8		

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The above rates are reduced by 50% except in the case of transfers under Part VI and Part VIA of the Transfers and Mortgages of Immovable Property Law.

In the case of free transfers of property **between the following parties**, the transfer fees are calculated on the value of the property as at 1 January 2013 as follows:

- From parents to children -0%
- Between spouses-0.1%
- Between third degree relatives-0.1%

### Exemptions from transfer fees

The following transfers are exempt from transfer fees:

- Under a qualifying reorganization
- Under a qualifying Restructuring
- In the context of bankruptcy, liquidation, disposal of mortgaged immovable property by the lender, **where the sales proceeds do not exceed the amount of €350.000 per owner**
- Transfers that are subject to VAT.

## Tax Treaties

The following table and notes list the maximum withholding tax rates that may be deducted from income received by a Cyprus tax resident from a resident of a country that has signed a tax treaty with Cyprus.

Withholding tax rates based on the agreements for the avoidance of doubled taxation

Resident in Cyprus			
<b>Paid from:</b>	Dividends %	Interest %	Royalties %
Andorra	0	0	0
Armenia	0 (32)	5 (33)	5
Austria	10	0	0
Bahrain	0	0	0
Barbados	0	0	0
Belarus	5 (4)	5	5
Belgium	10 (1)	10 (16)	0
Bulgaria	5 (19)	7 (25)	10 (20)
Canada	15	15 (8)	10 (11)
China	10	10	10
Czech Republic	0 (30)	0	10
Denmark	0 (34)	0	0
<b>Egypt (46)</b>	<b>5 (47)</b>	<b>10</b>	<b>10</b>
Ethiopia	5	5	5
Estonia	0	0	0
Finland	5 (37)	0	0
France	10 (7)	10 (9)	0
Georgia	0	0	0
Germany	5 (2)	0	0
Greece	25	10	0 (12)
Guernsey	0	0	0
Hungary	5 (1)	10 (8)	0
Iceland	5 (39)	0	5
India	10	10 (8)	10
Iran	5 (19)	5	6
Ireland	0	0	0 (12)
Italy	15	10	0
Jersey	0	0	0
<b>Kazakhstan</b>	<b>5 (48)</b>	<b>0 (49)</b>	<b>10</b>
Kuwait	10	10 (8)	5 (14)

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Kyrgyzstan (27)	0	0	0
Latvia	0 (42)	0 (42)	0 (43)
Lebanon	5	5 (16)	0
Lithuania	0 (40)	0	5
Luxembourg	0 (35)	0	0
Malta	0 (22)	10 (8)	10
Mauritius	0	0	0
Moldova	5 (19)	5	5
Montenegro (28)	10	10	10
<b>Netherlands (31)</b>	<b>15</b>	<b>0</b>	<b>0</b>
Norway	0 (3)	0	0
Poland	0 (36)	5 (8)	5
Portugal	10	10	10
Qatar	0	0	5
Romania	10	10 (8)	5 (14)
Russia	5 (6)	0	0
San Marino	0	0	0
Saudi Arabia	0 (44)	0	5 (45)
Serbia (28)	10	10	10
Seychelles	0	0	5
Singapore	0	10 (23)	10
Slovakia (29)	10	10 (8)	5 (14)
Slovenia	5	5 (33)	5
South Africa	10 (41)	0	0
Spain	0 (35)	0	0
Sweden	5 (1)	10 (8)	0
Switzerland	0 (38)	0	0
Syria	0 (1)	10 (8)	15 (13)
Tajikistan (27)	0	0	0
Thailand	10	15 (17)	5 (18)
Ukraine	5 (21)	5	5 (15)
United Arab Emirates	0	0	0
United Kingdom	0 (24)	0	0
USA	5 (5)	10 (10)	0
Uzbekistan (27)	0	0	0

Payments of dividends and interest by Cyprus tax residents to non-Cyprus tax residents are exempt from withholding tax in Cyprus according to the Cyprus tax legislation. Royalties granted for use outside of Cyprus are also free of withholding tax in Cyprus.

The following table and accompanying notes list the maximum withholding tax rates provided in the relevant tax treaties.

Resident in Cyprus			
<b>Paid to:</b>	Dividends %	Interest %	Royalties %
Non-treaty countries	0	0	0*
Andorra (31)	0	0	0
Armenia	0 (32)	5 (33)	5
Austria	10	0	0
Bahrain	0	0	0
Barbados	0	0	0
Belarus	5 (4)	5	5
Belgium	10 (1)	10 (16)	0
Bulgaria	5 (19)	7 (25)	10
Canada	15	15 (8)	10 (11)
China	10	10	10
Czech Republic	0 (30)	0	10
Denmark	0 (34)	0	0
<b>Egypt (46)</b>	<b>5(47)</b>	<b>10</b>	<b>10</b>
Ethiopia	5	5	5
Estonia	0	0	0
Finland	5 (37)	0	0
France	10 (7)	10 (9)	0
Georgia	0	0	0
Germany	5 (2)	0	0
Greece	25	10	0 (12)
Guernsey	0	0	0
Hungary	<b>5 (1)</b>	10 (8)	0
Iceland	5 (39)	0	5
India	10	10 (8)	10
Iran	5 (19)	5	6
Ireland	0	0	0 (12)

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Italy	0	10	0
Jersey	0	0	0
Kuwait	10	10 (8)	5 (14)
Kyrgyzstan (27)	0	0	0
Latvia	0 (42)	0 (42)	0 (43)
Lebanon	5	5 (16)	0
Lithuania	0 (40)	0	5
Luxembourg	0 (35)	0	0
Malta	15	10 (8)	10
Mauritius	0	0	0
Moldova	5 (19)	5	5
Montenegro (28)	10	10	10
<b>Netherlands (31)</b>	<b>15</b>	<b>0</b>	<b>0</b>
Norway	<b>0 (3)</b>	0	0
Poland	0 (36)	5 (8)	5
Portugal	10	10	10
Qatar	0	0	5
Romania	10	10 (8)	5 (14)
Russia	5 (6)	0	0
San Marino	0	0	0
Saudi Arabia	0 (44)	0	5 (45)
Serbia (28)	10	10	10
Seychelles	0	0	5
Singapore	0	10 (23)	10
Slovakia (29)	10	10 (8)	5 (14)
Slovenia	5	5 (33)	5
South Africa	10 (41)	0	0
Spain	<b>0 (35)</b>	0	0
Sweden	5 (1)	10 (8)	0
Switzerland	0 (38)	0	0
Syria	0 (1)	10 (8)	15 (13)
Tajikistan (27)	0	0	0
Thailand	10	15 (17)	5 (18)
Ukraine	5 (21)	5	5 (15)
United Arab Emirates	0	0	0
United Kingdom (26)	<b>0 (24)</b>	<b>0</b>	<b>0</b>
USA	0	10 (10)	0
Uzbekistan (27)	0	0	0

### Notes:

- \* 10% in the case of royalties granted for use within the Republic. 5% on film and TV rights.
- (1) 15% if received by a company controlling less than 25% of the voting power.
- (2) 5% if received by a company controlling more than or equal to 10% of the capital. 15% in all other cases.
- (3) NIL if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the company paying the dividend. 15% in all other cases.
- (4) 5% if the amount invested by the beneficial owner is over €200,000 irrespective of the % of voting power acquired. 10% is imposed if received by a holder of at least 25% of the share capital of the paying company. Otherwise the rate is 15%.
- (5) 5% if received by a company controlling at least 10% of the voting power. 15% in all other cases.
- (6) 10% if received by company, which has invested less than €100,000.
- (7) 10% if received by a company controlling more than or equal to 10% of the capital. 15% in all other cases.
- (8) NIL if paid to the Government of the other State.
- (9) 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.
- (10) NIL if paid to the Government of the other State, to a bank or a financial institution or in respect to debt obligations arising in connection with sale of property or the provision of services.
- (11) NIL on literary, dramatic, musical or artistic work with the exception of films used for television programs.
- (12) 5% on film royalties (except films shown on TV).
- (13) 10% on literary, musical, artistic work, films and TV royalties.

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- (14) NIL on literary, artistic or scientific work including films.
- (15) 5% on royalty payments in respect of any copyright of scientific work any patent, trade mark, secret formula, process or information concerning industrial, commercial or scientific experience. 10% in all other cases.
- (16) NIL if paid to the Government of the other State, a political subdivision or a local authority, the National Bank or any institution the capital of which is wholly owned by the State or a political subdivision or a local authority or in the form of interest income from bank deposits.
- (17) 10% on interest received by financial institutions, on interest paid in connection with industrial, commercial, scientific equipment or the sale or merchandise between two companies.
- (18) 10% on right to use industrial, commercial or scientific equipment or for information concerning industrial, commercial or scientific experience and 15% for patents, trademarks, designs, models, plans, secret formulas or processes.
- (19) 5% if the dividend is received by a company owning directly at least 25% of the capital of the company paying dividend. 10% in all other cases.
- (20) This rate does not apply, where 25% or more of the capital of the Cypriot resident is owned directly or indirectly by the Bulgarian resident paying the royalties and the Cyprus company pays less than the normal rate of tax.
- (21) 5% is applicable if the dividend is received by a company owning at least 20% of the capital of the dividend paying company **and** has invested in the acquisition of shares or other rights of the dividend paying company of at least €100,000. 15% in all other cases.
- (22) The treaty provides that the tax on the gross amount of the dividends shall not exceed that chargeable on the profits out of which the dividends are paid.
- (23) 7% if paid to a bank or similar financial institution. NIL if paid to the government.
- (24) 15% if dividends are paid out of income derived from immovable property by certain investment vehicles.
- (25) NIL if paid to or is guaranteed by the Government, statutory body, the Central Bank.
- (26) New treaty signed on 22 March 2018 that came into effect on 1 January 2019 with respect to withholding taxes.
- (27) The treaty between the Republic of Cyprus and the United Soviet Socialist Republic still applies.
- (28) The treaty between the Republic of Cyprus and the Socialist Federal Republic of Yugoslavia still applies.
- (29) The treaty between the Republic of Cyprus and the Czechoslovak Socialist Republic still applies.
- (30) NIL if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the company paying the dividends where such holding is being possessed for an uninterrupted period of not less than one year. 5% in all other cases.
- (31) The treaty has been signed but has not come into effect until the date of publication of this guide.
- (32) 5% if the beneficial owner has invested in the capital of the company less than the equivalent of €150,000 at the time of the investment.
- (33) NIL if paid to the Government or to a local authority, or to the Central Bank.
- (34) NIL if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the company paying the dividends, where such holding is being possessed for an uninterrupted period of no less than 12 months.  
  
NIL if the beneficial owner is the other Contracting State or the Central Bank of that other State, or any national agency or any other agency (including a financial institution) owned or controlled by the Government of that other State.  
  
NIL if the beneficial owner is a pension fund or other similar institution providing pension schemes in which individuals may participate in order to secure retirement benefits, where such pension fund or other similar institution is established, recognized for tax purposes and controlled in accordance with the laws of that other State. 15% in all other cases.
- (35) NIL if the dividend is received by a company (other than a partnership) holding at least 10% of the capital of the dividend paying company. 5% in all other cases.

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- (36) NIL if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the company paying the dividends, where such holding is being possessed for an uninterrupted period of no less than 24 months. 5% in all other cases.
- (37) 5% if the dividend is received by a company (other than a partnership) which controls directly at least 10% of the voting power in the company paying the dividends. 15% in all other cases.
- (38) NIL if the beneficial owner is:
- (i) a company (other than a partnership) the capital of which is wholly or partly divided into shares and which holds directly at least 10% of the capital of the company paying the dividend for an uninterrupted period of at least one year, **or**
  - (ii) a pension fund or other similar institution recognised as such for tax purposes, or
  - (iii) the Government, a political subdivision, local authority or central bank of one of the two contracting states. 15% in all other cases.
- (39) 5% if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the company paying the dividends. 10% in all other cases.
- (40) NIL if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the company paying the dividends. 5% in all other cases.
- (41) 5% if the dividend is received by a company which holds at least 10% of the capital of the company paying the **dividends**. 10% in all other cases.
- (42) NIL if the beneficial owner is a company (other than a partnership). 10% in all other cases.
- (43) NIL if the beneficial owner is a company (other than a partnership). 5% in all other cases.
- (44) NIL if the beneficial owner is a company which holds directly or indirectly at least 25% of the capital of the company paying the dividends. 5% in all other cases.
- (45) 5% on royalties for the use of, or the right to use, industrial, commercial or scientific equipment. 8% in all other cases.
- (46) **New treaty signed on 8 October 2019 that has not come into effect as of the date of publication of this guide.**
- (47) **5% if the beneficial owner is a company (other than a partnership) which holds directly at least 20% of the capital of the company paying the dividends throughout a period of 365 days, that includes the day of payment of the dividend. 10% in all other cases.**
- (48) **5% if the beneficial owner is a company which holds directly at least 10% of the capital of the company paying the dividends. 15% in all other cases.**
- (49) **NIL if the beneficial owner is the Government of the other Contracting State, a political subdivision, a central or local authority, the Central Bank or any other financial institution wholly owned by the Government of the other Contracting State. 10% in all other cases.**

## Social Insurance

### Contributions to the Social Insurance and other funds

Contributions to the Social insurance and other relevant funds are calculated on the employee's gross emoluments at the following rates:

	Employer	Employee	Self Employed
	%	%	%
Social Insurance Fund	8.3	8.3	15.6
Social cohesion fund	2.0		
Redundancy fund	1.2		
Industrial training fund	0.5		



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Holiday fund (if not exempt) 8.0

The rate of Social insurance contributions is applied to a maximum level of emoluments (Excluding the rate applicable to contributions to the Social Cohesion Fund). The maximum level of emoluments for **2020** are as follow:

	Per week €	Per month €	Per year €
Weekly employees	<b>1,055</b>	-	<b>54,860</b>
Monthly employees	-	<b>4,572</b>	<b>54,864</b>

Self-employed persons contributions are 15.6% of their income. The amount of the contributions is subject to a lower and a maximum limit, depending on the profession or trade of the Self-employed Person. These limits are set on an annual basis.

Occupational Category	Lower Weekly Limit €	Upper Weekly Limit €
1. Medical Doctors, Pharmacists, Health professionals		
a. persons with up to 10 years practice	<b>387</b>	1,055
b. persons with more than 10 years practice	<b>783</b>	1,055
2. Accountants, Economists, Lawyers and other Liberal professions		
a. persons with up to 10 years practice	383.64	383.64
b. persons with more than 10 years practice	775.99	1,055
3. Managers (Businessmen), Estate Agents, Wholesalers	<b>783</b>	1,055
4. Teaching Professionals (University, Secondary education, Primary and pre-primary education, Teaching Associates, Special education teaching professionals)-		
a. persons with up to 10 years practice	<b>378</b>	1,055
b. persons with more than 10 years practice	<b>756</b>	1,055
5. Builders and related occupations	<b>475</b>	1,055
6. Farmers, Dairy and Livestock producers, Poultry producers, Fishermen and related occupations	<b>264</b>	1,055
7. Drivers, Excavator operators and related occupations	374.92	1,055
8. Technicians, Mass Media Associates, Stationary-Plant (not related to building		

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occupations) and Metal, Rubber, Plastic, Wood and related product assemblers	374.92	1,055
9. Clerks, Typists, Cashiers, Secretaries	<b>378</b>	1,055
10. Artisans not falling under any other occupational category	374.92	1,055
11. Shopkeepers	357.48	1,055
12. Butchers, Bakers, Pastry-cooks, Meat, Milk, Fruit, Tobacco product makers/ preservers and related occupations	<b>290</b>	1,055
13. Street vendors, Mail carriers, Garbage collectors, Miners and quarry workers, Deck, Underwater workers, Riggers and cable splicers, Sweepers, Service providers and Salesmen	261.57	1,055
14. Cleaners, Messengers, Watchpersons, Dry Cleaning Owners	<b>361</b>	1,055
15. Draughtspersons, Computer equipment operators, Ships' engineers, Agents and related occupations Musicians, Magicians	<b>387</b>	1,055
16. Persons not falling under any other occupational category	383.64	1,055

### Payment deadline for employers

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

### Payment deadline for self-employed individuals

Months that the contribution related	Date
January-March	10 <sup>th</sup> of May
April-June	10 <sup>th</sup> of August
July-September	10 <sup>th</sup> of November
October-December	10 <sup>th</sup> of February

### Additional fee for late payment of contributions

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

### Contributions to the National Health System

As from 1 March 2019, the contributions are calculated and paid as a percentage on the gross emoluments/pensions as follows:

Contributions	01/03/2019- 29/02/2020	01/03/2020- onwards
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	%	%
Employees/retirees/income earners/ <b>persons holding an office</b>	1.70	2.65
Employers	1.85	2.90
Self-employed	2.55	4.00
The state	1.65	4.70

- Gross emoluments are limited to €180,000 per annum

## Stamp Duty

The table below gives the amount or rate of duty payable on certain documents. Transactions which fall within the scope of reorganisations **or loan restructuring** are exempt from stamp duty. Also, documents relating to assets situated outside Cyprus or business affairs that take place outside Cyprus are exempt from stamp duty.

Receipts (if not exempt) – for sums of over €4	7 cents
Letters of credit	€2
Letters of guarantee	€4
Bills of exchange (payable within three days)	€1
Contracts with a fixed amount	
- the first €5,000	0
- between €5,001 to €170,000	1.5‰
- above €170,000	2‰*
Contracts without fixed sum	€35
Customs declaration documents (depend on document type)	€18-€35
Bills of landing	€4
Charterhire document	€18
Powers of attorney	
- General	€6
- Limited	€2
Certified copies of contracts and documents	€2

\*Capped at a maximum of €20,000

### Exemptions

Documents relating to transactions that take place in relation to a company reorganization or Restructuring are exempt from stamp duty

### Company Annual Levy:

All registered companies in the Cyprus company register must pay an annual levy of €350. The amount payable in case of group companies is capped at €20,000.

- The annual levy is payable from the year of incorporation.
- The annual levy is payable to the Registrar of Companies by 30 June of each year.
- Late payment of the levy will give rise to the following penalties:
  - o in case of up to a 2-month delay - a 10% penalty;

- in case of a delay between 2 and 5 months - a 30% penalty.
- Non-payment of the levy may result in deregistration (strike-off) of a company by the Cyprus Registrar of Companies (which will not allow the company to submit documents or request certificates from the Registrar of Companies).
- If a company is re-instated within a two-year period from its strike-off a fixed penalty of €500 (in addition to the outstanding amount of the levy) is imposed. The fixed fee will be increased to €750 where a company is re-instated after the two-year period.

## Value Added Tax

### **VAT RATES**

Value Added Tax is imposed on the supply of all goods and services in Cyprus, on the acquisition of goods from other Member States and on the importation of goods from third countries.

The legislation provides for the following four tax rates:

Zero rate	0%
Reduced rate	5%
Reduced rate	9%
Standard rate as from (13 January 2014)	19%

### **Standard rate applies to:**

The supplies of all goods and services in Cyprus which are not subject to the zero rate, the reduced rate or are not exempt.

### **Zero rate applies to:**

- The exportation of goods
- Supply, modification, repair, maintenance, chartering and hiring of sea-going vessels, which are used for navigation on the high seas and carrying passengers for reward or used for the purpose of commercial, industrial or other activities
- Supply, modification, repair, maintenance, chartering and hiring of aircrafts, used by airlines operating for reward mainly on international routes
- Transportation of passengers from the Republic to a place outside the Republic and vice versa using a seagoing vessel or aircraft
- Supplies of gold to the Central Bank of the Republic etc.

### **Reduced rate 5% applies to:**

- The supply of foodstuff

- The supply of prepared or unprepared foodstuff and/or beverages (excluding alcoholic drinks, beer, wine and soft drinks) or both, irrespective of whether the goods are delivered from the supplier to the customer or taken away by the customer
- The supply of pharmaceutical products and vaccines that are used for health care, prevention of illnesses and as treatment for medical or veterinary purposes
- The supply of live animals used for the preparation of food
- Books, newspapers and magazines
- Entry fees to theaters, circus, festivals, luna parks, concerts, museums etc
- Entry fees at sports events and fees for using athletic centres
- Hairdressing services
- Renovation and repair of private households after three years of first residence
- Supply of catering services from school canteens
- Acquisition or construction of residence (Subject to conditions)

**Reduced rate 9% applies to:**

- All restaurant and catering services (including the supply of alcoholic drinks, beer, wine and soft drinks)
- Accommodation in hotels, tourist lodgements and any other similar lodgements including the provision of holiday lodgements
- Transportation of passengers and their accompanying luggage within the Republic using urban, intercity and rural taxis and tourist and intercity buses
- Movement of passengers in inland waters and their accompanying luggage
- Provision of services and supply of goods by nursing homes, which are not exempt transactions.

**Exemptions:**

The following are out of the scope of VAT:

- Rent of immovable property for residential purposes
- Financial services (with some exemptions)
- Medical and hospital services
- Insurance services
- Postal services
- Educational services
- Disposal of immovable property where the application for building permission has been submitted prior to 1 May 2004

**Registration:**

An individual or legal person is liable to register for VAT purposes if:

- a. at the end of any month, the value of taxable supplies recorded in the last 12 months exceeds €15,600; or
- b. at any point in time the value of taxable supplies **are** expected to exceed €15,600 in the next 30 days;

- c. provides services to a VAT registered person within the European Union with nil registration threshold;
- d. is involved in the acquisition of goods from other EU member states (relates to persons who offer exempt supplies of goods and services or are non-profitable organisations) with registration threshold of €10,250;
- e. offers zero rated supplies of goods or services;
- f. acquires a company on a going concern basis;
- g. a foreign taxable person makes distance sales with registration threshold of €35,000.

**Voluntary registration:**

Individual or legal persons with a turnover of less than € 15,600 can be registered voluntarily. A person who has a business establishment in Cyprus or the usual place of residence is in Cyprus and make supplies outside Cyprus but would be taxable if made within Cyprus, has the right to voluntary registration.

**VAT returns and payment / refund of VAT:**

Each person which is registered for VAT has the obligation to submit a quarterly VAT return and pay the tax within 40 days from the end of the VAT period.

From 2 May 2017 all taxable persons have to submit their quarterly VAT returns online, through Taxisnet.

To claim VAT refund, the form 4B need to be completed and submitted through Taxisnet.

Every taxable person who makes a claim for VAT refund will be entitled to repayment of the VAT amount with interest, in the event that the repayment is delayed for a period exceeding four months from the date of the submission of the claim.

From 2018, VAT refunds will be made via bank transfer.

Payment of the VAT due can be made through the till of any commercial bank, by bank transfer to the Central Bank, as well as via the «Internet Banking» platform of selected banking institutions.

**Intra – community transactions:**

Businesses performing transactions with companies within the EU deal with such operations as intra-community supplies and intra-community acquisitions. Intra-community supplies are VAT exempt with deduction right, provided that certain conditions are fulfilled, whereas intra-community acquisitions are subject to VAT under the reverse charge mechanism. Persons performing intra-community transactions have the obligation to submit the following return to the VAT authorities:

- INTRASTAT – Acquisitions of goods(exceed threshold)
- INTRASTAT – Supplies of goods(exceed threshold)
- VIES (Triangulation trade, supplies of goods or services)

INTRASTAT forms should be submitted not later than 10<sup>th</sup> day following the end of the month in which the INTRASTAT form relates.

VIES form is submitted only electronically within 15 days from the end of the related month in electronic form.

**Penalties and interest**

Late Registration	€85 for every month of delay
Late Submission of return	€51 for each return
Late payment of VAT	10% of amount due plus interest
Late de-registration	€85 one-off
Late submission of Intrastat form	€15 for each return
Late submission of VIES	€50 for each return

**Imposition of 19% VAT on the letting of immovable property for business purposes**

As from 13 November 2017, VAT at 19% is imposed on the leasing and/or letting of immovable property to a taxable person for the purposes of carrying on taxable activities, commencing on/or after 13 November 2017.

The leasing of building used as residences remains an exempt transaction for VAT purposes.

The lessor has the right to notify the Tax Commissioner by submitting a relevant form, to opt for the non-imposition of VAT to the lessee of the immovable property, subject to the terms and conditions specified in the relevant Notification of the Tax Commissioner. The initial decision of the lessor, to opt for the non-imposition of VAT of the immovable property is irrevocable.

**Long-term lease of immovable property**

As from 1 January 2019 the long-term leasing of immovable property which essentially gives the lessee the right to sell the property as owner or the right to sell the property is considered as a supply of good and not as a supply of service which is subject to VAT at 5% or 19% (depending on the case of the purchaser).

The imposition of VAT does not cover cases where the right of the immovable property is transferred after its first occupation and is therefore not subject to VAT.

Transitional provisions apply for all cases which were completed or agreed before 1 January 2019 and each case must be examined separately.

**Imposition of 19% VAT on non-developed building land**

As from 2 January 2018, VAT at 19% is imposed on the transfer of non-developed building land. Specifically VAT is imposed on the transfer of ownership, transfer of indivisible land portion, transfer of ownership under a sale agreement or an agreement which specifically provides that the ownership will be transferred on a future date or by virtue of a leasing agreement with the right to buy non-developed building land which is intended for the construction of one or more structures in the course of carrying out a business activity.

Non-developed building land includes all non-developed land plots that are intended for the construction of one or more structures. In the above definition are included non-developed building

land that is either covered or nor from the water supply and cover land plots of all sorts as listed below:

- Land plots under development
- Finished land plots
- Land plots with a final approval certificate or,
- Land plots with land title
- Other types of land plots are also included in the list of non -developed building

**Imposition of the reduced rate of 5% on the ac renovation and repair of private residential homes**

The reduced rate of 5% on the renovation and repair of private residential home applies to all the residential homes (and not only to the main and permanent place of residence applies as of 31/12/2015). The renovation and repair consist of plumbing, electrical, carpentry, painting, building and construction work. In cases that the value of the materials exceeds the total value of the supply by more than fifty per cent (50%), the value of the materials is subject to the standard rate of VAT.

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

As from 8 June 2012, the reduced rate of 5% applies to the acquisition and/or construction of residences to be used by eligible persons (residents of the Republic or/and other EU member states or other non-EU member states) as the primary and permanent place of residence, only after obtaining a certified confirmation from the Commissioner.

The statutory declaration may be filed at any stage at the time of construction of the residence or in case of supply prior to the eligible person obtaining possession.

As from 18 November 2016, the reduced rate of 5% applies for the first 200 square meters of the residence's buildable area as determined by the building coefficient (and not on the first 200 square meters of a residence which does not exceed 275 square meters as was the case up until 17 November 2016).

In case of families with more than 3 children the allowable total covered area increases respectively.

**Under the new provisions of the law which apply as of 18 November 2016, a person who has exercised the right to purchase a residence with a reduced rate of VAT is eligible to exercise this right again for the purposes of the purchase of another residence before 10 years have elapsed, only if:**

- **That person has ceased to use the residence as the primary and permanent place of residence before the period of 10 years has elapsed;**
- **Has notified the Tax Commissioner accordingly; and**
- **Has paid the difference in the VAT between the reduced VAT rate and standard VAT rate as were applicable during the time of delivery or construction of the residence.**

## Interest and Penalties:

The official interest rate, as set by the Finance Minister, for all amounts due as from **1 January 2020** is **1.75% (2% for 2019, 3.5% for 2017-2018, 4% for 2015-2016, 4.5% for 2014, 4.75% for 2013, 5% for**



years 2011-2012, 5.35% for the year 2010, 8% for the years 2007-2009 and 9% up to 31 December 2006).

### Administrative Penalties

An administrative penalty of €100 or €200 (depending on the specific case), is imposed for the late submission of a tax return or late submission of supporting documentation requested by the Commissioner.

In the case of late payment of the tax due, a penalty of 5% is imposed on the unpaid tax. An additional penalty of 5% is imposed if the tax remains unpaid 2 months after the payment deadline.

- \* In case of late payment of the 1<sup>st</sup> instalment of provisional tax, there is no penalty of 5%.
- \* In case of late payment of the 2<sup>nd</sup> instalment of provisional tax, a penalty of 5% is imposed on the unpaid tax.
- \* Interest penalty for Special Defense Contribution withheld on rents, dividends and interest begins to accrue at the end of the month which follows the month to which it relates, calculated on a daily basis. An additional flat 5% penalty is imposed on the tax due.

## Tax Calendar

Date	Obligation	Tax Form
End of each month	Payment of PAYE deducted from employees' salaries for the previous month Payment of special contribution for defence withheld on dividends, interest or rent*	TD61 TD601
31 January	*Where the tenant is a Cyprus company, partnership, the Government or a local authority there is an obligation to withhold special contribution for the defence on the amount of the rent paid <b>Submission of the deemed dividend distribution declaration for the profits of tax year 2017</b>	TD623
31 March	Electronic submission of the income tax return for individuals and companies preparing audited financial statements for the tax year <b>2018</b>	TD1, TD4
30 June	Payment of tax balance for the tax year <b>2019</b> through self-assessment by individuals who do not prepare audited financial statements Payment of special contribution for defence for the first six months of <b>2020</b> on rents if such tax is not withheld at source by the tenant and on dividends or interest from sources outside Cyprus	TD158 TD601
31 July	Electronic submission of the <b>2019 employer's</b> return	TD7

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	Electronic submission of the <b>2019</b> personal tax return by salaried individuals whose gross income exceeds €19,500 for the tax year <b>2019</b>	TD1
	Submission of the <b>2020</b> provisional tax return and payment of the first provisional tax instalment	TD5, TD6
1 August	Payment of the <b>2019</b> tax balance through self-assessment by individuals and companies preparing audited financial statements	TD158
30 September	<b>Electronic submission of the 2019 personal tax return by self-employed individuals who do not prepare audited financial statements if their gross income exceeds €19.500</b>	TD1
31 December	Submission of the <b>2020</b> revised provisional tax return (if applicable) and payment of the second provisional tax instalment	TD5, TD6
	Payment of special contribution for defence for the last six months of <b>2020</b> on rents if such tax is not withheld at source by tenant and on dividends or interest from sources outside Cyprus	TD601

## Demetriou & Associates Business Advisers Ltd – Management Team

Demetris Demetriou (Managing Director) [d.demetriou@dbacy.com](mailto:d.demetriou@dbacy.com)

Iacovos Raoukkas (Head of Tax) [i.raoukkas@dbacy.com](mailto:i.raoukkas@dbacy.com)

Elias Demetriou (Head of Assurance) [e.demetriou@dbacy.com](mailto:e.demetriou@dbacy.com)

Christina Theodorou (Manager – Assurance) [c.theodorou@dbacy.com](mailto:c.theodorou@dbacy.com)

Emily Hadjipetrou (Manager – Assurance) [e.hadjipetrou@dbacy.com](mailto:e.hadjipetrou@dbacy.com)

Demetra Antoniou (Tax Manager) [d.antoniou@dbacy.com](mailto:d.antoniou@dbacy.com)

### DFK INTERNATIONAL

Roland Graf (President)

Martin Sharp (Executive Director) [m.sharp@dfk.com](mailto:m.sharp@dfk.com)

[www.dfk.com](http://www.dfk.com)

Our Office & Your Contacts in Cyprus

**Address:**

**1 Salaminos Avenue,  
1045, Nicosia Cyprus  
P.O. Box 26800, 1647 Nicosia, Cyprus**

**Telephone: +357-22799900**

**Fax: +357-22799899**

**Email: [office@dbacy.com](mailto:office@dbacy.com)**

