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2022

CYPRUS TAX FACTS

OXFORD
TAX SOLUTIONS

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OXFORD
TAX SOLUTIONS

OXFORD BUSINESS CENTRE



CYPRUS TAX FACTS 2022

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Income Tax for Individuals

The income on which an individual will be taxed in Cyprus, is according to whether an individual is classified as a tax resident in the Republic of Cyprus or not.

A Cyprus tax resident is taxed on all of their chargeable income arising from all sources inside and outside of the Republic. While a non-Cyprus tax resident is taxed only on the income arising from inside the Republic.

Cyprus Tax Residency and how it is determined:

Below are two guideline rules that can be used, in order to distinguish and understand when an individual qualifies as a Cyprus tax resident for a specific year:

The 183 days rule:

If an individual resides in Cyprus for more than 183 days during a tax year, then this individual can qualify as a Cyprus tax resident for that tax year;

The 60 days rule:

On 1st January 2017 the above rule was amended, in order for individuals who meet the below conditions to also be considered a Cyprus Tax Resident, under the '60 day rule'. Conditions to qualify as a tax resident for a specific year under the 60 days rule:

1. An individual does not spend more than 183 days, either continuously or in total, of that tax year in another country and is not a tax resident in another country for that year;
2. An individual spends at least 60 days in Cyprus during that year;
3. An individual carries out a business and/or is working in Cyprus, and/or holds an office with a Cyprus tax resident company any time during that year;
4. The individual either owns or rents a permanent residence in Cyprus for that year;

How to calculate days spent in Cyprus:

- The day of departure is counted as a day outside of Cyprus;
- The day of arrival is counted as a day inside Cyprus;
- Arrival and departure from Cyprus on the same day is counted as a day in Cyprus;
- Departure and arrival in Cyprus on the same day is counted as a day outside of Cyprus;

In relation to Covid-19 and in accordance with a directive issued in 2021, Cyprus tax authorities will follow the OECD non-binding

guidance in relation to tax residency of individuals. The directive states that each individual case will be assessed with its own merits and the election to apply the directive lies in the hands of the taxpayer.

Personal income tax rates can be seen in the table below:

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

All individuals with a gross income that exceeds €19,500 have an obligation to file an annual income tax return.

Exemptions on personal income tax:

The below forms of income are exempt from personal income tax:

Type of Income

Exemption amount from income tax

Dividend income

100% exempt
(may be subject to Special Defence Contribution- See page: 17)

Interest income that did not arise from the ordinary course of business activities of an individual

100% exempt
(may be subject to Special Defence Contribution - See page: 17)

Remuneration on salaried services performed outside the Republic of Cyprus to a non-resident employer or a permanent establishment outside the Republic of a resident employer, for a period of more than 90 days

100% exempt

Any individual commencing work in Cyprus and earning more than €100,000 annually will be exempt from 50% of their taxable income for a period of 10 years. The calculation of the period of 10 years commences from the first year of employment. This exemption will not apply to any individual that was a Cyprus tax resident 3 out of 5 years preceding the year of commencement of employment. The Minister of Finance has expressed their intention to lower the threshold of €100,000 annual income down to €55,000 and also extend the period of exempt income from 10 years to 17 years. This is intended to commence in 2022.

50% exempt
for a period of
10 years

Remuneration from employment in Cyprus by an individual who was not a resident of Cyprus before. Exemption applies for a period of 5 years for employments that have commenced during or after 2012. The first tax year of exemption is the year following the year of commencement of employment and last eligible year is 2025. This exemption cannot be claimed in addition to the above mentioned 50% exception.

The lower of
20% of remuneration
and **€8,550**

Profits from sale of securities (See note 1)

100% exempt

Capital sums paid to individuals out of life insurance policies, provident fund and pension funds

100% exempt

Lump sums received by way of retiring gratuity, commutation of pension or compensation for death or injuries

100% exempt

Profits of a foreign permanent establishment
– under certain conditions

100% exempt

Gains arising from qualifying loan restructuring

100% exempt

Tax credit for foreign tax paid:

Any foreign tax that was paid on income that will be subject to income tax in Cyprus can be claimed against tax payable on this income, irrespective of the presence of a tax treaty. Tax credit can be obtained assuming appropriate evidence and receipts of payment are provided. The tax credit can reduce Cyprus tax to zero, however it cannot create a refund.

Deductions on personal income tax:

The below forms of expenses are allowed as deductions from personal income tax:

Type of Expense	Deductions
Expenses incurred wholly and exclusively for the production of income	100% deductible
Subscriptions to trade unions and professional bodies	100% deductible
Rental Expense	20% deductible
Interest as to the purchase of property for rental purposes	100% deductible

Notes

1. Profit from the sale of securities is exempt from tax in Cyprus. Securities are defined as: Ordinary shares, founder shares, preference shares, options on shares, debentures, bonds, short position on titles to include futures, forwards, swaps and participation in companies. Such income will however be subject to General Healthcare Scheme (GHCS) at a rate of 2.65%.

Interest relating to the acquisition of assets that would be used in the business	100% deductible
Donations made to approved charities	100% deductible
Donations made to political parties (subject to conditions)	Up to €50,000
Expenditure incurred for the maintenance of a building under preservation (subject to conditions)	Up to €1,200, €1,100 or €700 per m2 (varies according to size of building)
Social insurance, private medical fund (maximum up to 1.5% of remuneration), general health system medical fund, provident fund, pension fund and life insurance premium (max 7% of insured amount)	Total deduction of the expenses referred to in the left column must not exceed 1/5 of the chargeable income before the deduction of these allowances
Wear and tear allowances on assets that are used for business purposes	Deductions as per Wear & Tear table – (See page: 15)
Entertainment expenses for business purposes	Entertainment expenses up to 1% of total gross income or €17,086 (whichever amount is lower) is allowable as a deduction
Cost for purchase of shares in an innovative business (up to 30 June 2021)	Restricted to 50% of the taxable income (after deductions) of the tax year in which the expenses are incurred, or €150,000 per year (whichever is lower). Any restricted costs can be carried forward and utilised over the following five years
Interest expenses for purchase of shares in a wholly owned subsidiary acquired after 01/01/2012	Deductible as long as the subsidiary does not hold any assets that are not used in the business . If the subsidiary does hold assets that are not used for business purposes, then deduction is allowable up to percentage of assets that are used for the business

Non-Allowable deductions on personal income:

Type of Expense

Non - Deductions

Expenses not incurred wholly and exclusively for the production of income

100% Non - deductible

Private motor vehicle expenses

100% Non - deductible

Any expenses that are not followed with sufficient documentation

100% Non - deductible

Salaries relating to services offered within the tax year on which social insurance and other contributions have not been paid for

100% Non - deductible

Loan provided to shareholder or director:

Any loans, cash facility or withdrawal provided from a Cyprus company to its Cyprus resident individual director or shareholder (including their spouse or any relative up to second degree), must be recognised as a monthly benefit on which an interest of 9% p.a. will be imposed. This benefit is included in an individual's income and is subject to income tax.

Widows pension:

A Cyprus tax resident individual has two options when it comes to how their widow's pension will be taxed and this can be selected annually:

1. The first €19,500 of the pension will be tax free and any amount above this threshold will be taxed at a flat rate of 20%; or
2. The pension to be taxed under the normal tax bands

Overseas pension:

Overseas pension can also be taxed under a special mode of taxation. See options below:

1. Pensions are exempt from tax up to €3,420 and any amount above that threshold is taxed at a flat rate of 5%; or
2. Be taxed under the normal individual income tax rates

Remuneration of individuals employed in the funds industry:

The variable remuneration of employees that work in an Alternative investment Fund (AIF) Manager of a self-managed AIF or a management company for UCITS which is connect to carried interest, can either be taxed at 8% annually with a minimum tax liability of €10,000 per annum (subject to conditions) for a 10-year period, or be taxed under the normal tax bands;

Income from intellectual property rights:

Gross income from intellectual property rights, compensations etc. from sources within Cyprus, of a person who is not a tax resident and does not hold a permanent establishment in the Republic of Cyprus, is subject to withholding tax at a rate of 10% (unless tax treaty is lower);

Film royalties:

Gross income received by a non-resident for royalties from a film projection in the Republic of Cyprus is subject to withholding tax at a rate of 5% (unless tax treaty is lower);

In both cases listed above (income from intellectual property rights and film royalties), if the royalties received are from a connected company that is registered in an EU Member State, then such royalties are exempt from withholding tax. This exemption is subject to conditions.

Corporation Tax

A company falls under the definition of a Cyprus tax resident company if its control and management is in Cyprus. As of 31 December 2022, the Cyprus government has agreed that any company that is incorporated or registered in Cyprus will by default be treated as a Cyprus tax resident company, provided it is not a tax resident in any other jurisdiction.

A Cyprus tax resident company is taxed on its income accrued and derived from all sources both within and outside the Republic of Cyprus.

On the contrary, a non-Cyprus tax resident company will be taxed on its income accrued and derived only on its sources within the Republic of Cyprus.

Corporation tax rate – 12.5%

Exemptions from Corporation tax:

Type of Income

Exemption from Corporation

Dividend income

100% exempt – Such income may be subject to Special Contribution for Defence (See page: 17)

Any interest income that does not arise from the ordinary business activity of the company

100% exempt – Such income may be subject to Special Contribution for Defence (See page: 17)

Profits from the sale of securities
(See note 1 on page 6)

100% exempt

Profits of a permanent establishment held outside the Republic of Cyprus (Subject to conditions)	100% exempt
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Foreign exchange gains	100% exempt assuming gains are not from the trading of foreign currencies and other related derivatives
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Rent received from a preserved building (subject to conditions)	100% exempt
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Capital gain from the sale of intellectual property rights under the new IP regime	100% exempt
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Income from the production of films, series and all other audio-visual businesses (subject to conditions)	The lower of 35% of eligible expenditure and 50% of taxable income
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All expenses used wholly and exclusively for the production of income and for business purposes are deductible in the calculation of Corporation Tax.

Such deductions include:

Type of Expenses Deductions from Corporation tax

Interest imposed for the acquisition of assets that will be used for business purposes	100% deductible
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Interest expenses for purchase of shares in a wholly owned subsidiary acquired after 01/01/2012	100% deductible as long as the subsidiary does not hold any assets that are not used in the business. If the subsidiary does hold assets that are not used for business purposes , then deduction is allowable up to percentage of assets that are used for the business
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Notional Interest Deduction on new equity (See detailed analysis on page: 32)	Up to 80% of taxable profits derived from new equity
Donations to approved charities (with receipts)	100% deductible
Employer's contributions for social insurance, General Health System, approved funds	100% deductible
Employer's contributions for employees private medical fund	1% on employees' remuneration
Employer's contributions for employees pension and provident funds	10% on employees' remuneration
Expenditure incurred for the maintenance of a building under preservation (subject to conditions)	Up to €1,200, €1,100 or €700 per m2 (varies according to size of building)
Royalty income and any other qualifying income resulting from qualifying intangible assets in the new Cyprus Intellectual Property (IP) box – (See page: 26)	Up to 80% of the net profit using the modified nexus approach
Entertainment expenses for business purposes	Entertainment expenses up to 1% of total gross income or €17,086 (whichever amount is lower) is allowable as a deduction
Wear and Tear allowances on assets held by the company and used for business purposes as per rates provided	See page 15 for a detailed list of wear and tear rates

Below is a list of expenses that are not deductible when calculating corporation tax for a Cyprus company:

Type of Expense	Non-Deductible for Corporation
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All expenses that are not incurred exclusively for the production of income and for business purposes	100% non-deductible
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Any expenditure that is not supported with sufficient credentials	100% non-deductible
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Private motor vehicle expenses	100% non-deductible
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Interest payable on the purchase of a private motor vehicle, irrespective of whether this vehicle is used for business purposes or not	100% non-deductible for a period of 7 years from the purchase of the vehicle
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Interest payable on the purchase of an asset that is not used for business purposes	100% non-deductible for a period of 7 years from the purchase of the asset
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Any wages incurred during the year on which social insurance and other contributions were not paid on and are due	100% non-deductible
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Losses carried forward:

Tax losses incurred by a company during the year that cannot be off-set against any other income can be carried forward against future taxable profits for a period of 5 years.

Group losses:

Current year loss in one company can be utilised to set-off taxable income of another group company, assuming both companies are under the same group and are tax residents for the entire tax year. Two companies are considered to be part of a group if one of the two conditions below is met:

- One Cyprus tax resident company holds directly or indirectly at least 75% of voting rights in the one Cyprus tax resident company;
- Both Cyprus tax resident companies are at least 75% held either directly or indirectly by a third company;

A Cyprus tax company is entitled to the tax losses of a group company that is a tax resident in another EU country, assuming that the EU Company has exhausted all options available to utilise losses in their own country or in the country of any intermediary EU holding company.

Losses of a foreign permanent establishment:

Losses arising from a foreign permanent establishment during a tax year can be offset against the profits of its head office in the Republic of Cyprus. In the future event that the foreign permanent establishment has taxable profits, the profits will be taxed up to the amount of losses previously offset.

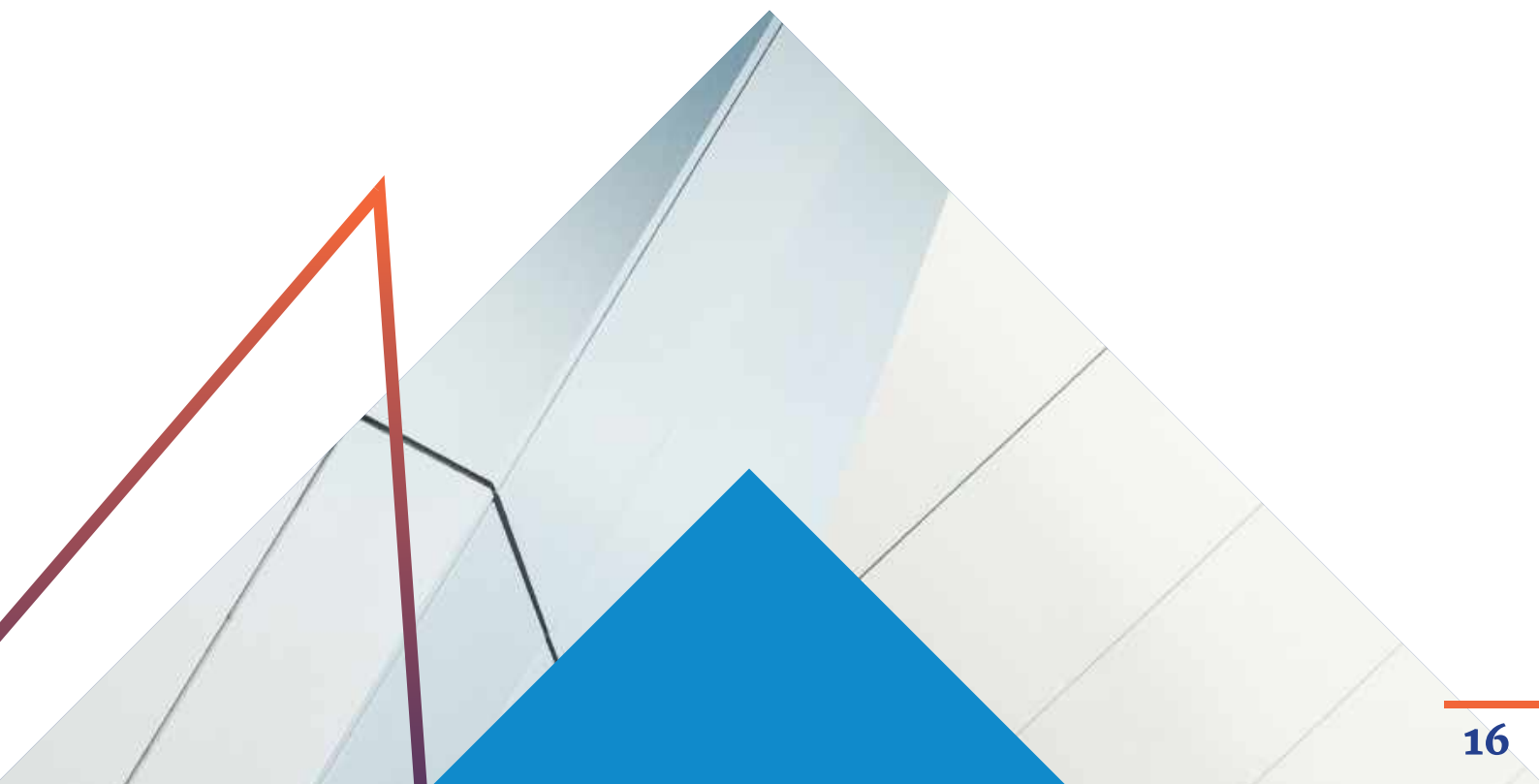
Capital Allowances Table:

Asset:	Capital Allowance %
BUILDINGS	
Hotel Buildings	4
Industrial Buildings	4
Agricultural Buildings	4
Commercial Buildings	3
Industrial and hotel buildings acquired between 2012-2018	7
Wooden greenhouse structures	33 1/3
Metallic greenhouse structures	10
PLANT AND MACHINERY	
Machinery, plant and furniture	10
Furniture and fittings	10
Computer Hardware and Software	20
Application software: Up to €1,709	100
Over €1,709	33 1/3
Motor Vehicles and motorcycles – except Saloons	20
Tractors, excavators, trenches, cranes, bulldozers	25
New cargo ships, new airplanes and new helicopters	8
Plant and Machinery used in agriculture	15
Televisions and videos	10
TOOLS	
All tools	33 1/3
INTANGIBLE ASSETS	
Intangible assets with certain exceptions	5 – 100
SHIPS	
Sailing vessels	4.5
New commercial vessels	8
New passenger vessels	6
Steamships, tug-boats, fishing ships	6
Motor yachts	6

Tax Aspects of the Green Reform:

As part of Cyprus's Recovery and Resilience plan, the below green taxes are estimated to be further discussed and introduced:

- Carbon tax for selective fuels used in economy;
- Introduction of a levy on water;
- Introduction of a household charge for landfill waste;



Special Contribution for Defence

Special contribution for defence (SDC) is imposed on:

- Cyprus tax resident companies
- Cyprus tax resident and domiciled individuals

Special contribution for defence is imposed on the below sources of income.

Type of Income

Special Contribution for defence

Dividend income from both Cyprus and non-Cyprus tax resident companies

17% - See exemptions below

Passive interest income

30%

Gross rental income reduced by 25%


3%

Interest received by an approved provident fund or by the social insurance fund

3%

Interest from savings certificates and development stocks issued by the government of Cyprus and interest on corporate bonds

3%



For Cyprus sourced interest and dividends, SDC is withheld at source and paid at the end of the month, following the month in which they were paid. For foreign sourced interest and dividends, defence is payable every 6 months, on 30 June and 31 December each year.

The following sources of income are exempt from Special Contribution for defence:

- Interest income arising from the ordinary activities of the business. Such interest is taxed under personal income tax and corporation tax;
- Interest income received from a collective investment scheme;
- Dividends received by a Cyprus resident company from another Cyprus resident company, subject to certain anti-avoidance provisions;
- Dividends received by a Cyprus resident company from a non-Cyprus resident company are exempt. Exemption does not apply if:
 - More than 50% of the business activities of the non-Cyprus resident company is investment income; and Foreign tax payable on the dividend income is significantly lower than the Cyprus tax burden. The tax authorities have issued a circular clarifying that significantly lower means an effective tax rate of less than 6.25% of profit distributed;

An individual who has a total annual income up to €12.000, including interest, who has received interest that is subject to SDC, has the right to request for a refund of the SDC paid in excess of 3%.

Domiciled Concept:

On the 16th of July 2015, the republic of Cyprus introduced the “Domicile” concept, through an amendment that was made to the already established SDC laws.

Definition of domicile:

According to the provisions of the Wills and Succession Law, domicile can be obtained in two different ways:

1. Domicile by Origin – domicile given at birth, normally from the father's side
2. Domicile by Choice – an individual acquires domicile by forming a permanent residence and has the intention to reside in Cyprus permanently

The amendment has made a distinction between domiciled tax resident individuals and non-domiciled tax resident individuals.

Domiciled tax resident individuals will continue to be taxed the normal SDC tax rates as stated on page 17 on dividend, interest and rental income. Non-domiciled tax resident individuals will be fully exempt from SDC.

In accordance with the SDC law, a Cyprus Domicile individual who has received its status by origin/birth, is considered a non-domiciled if any of the below are conditions are met:

- Individual has retained a domicile of choice outside of Cyprus, provided that they were not tax residents in Cyprus for any period of at least 20 continuous years prior to the tax year in assessment;
- An individual has not been a Cyprus Tax Resident for at least 20 continuous years prior to the release of the amended SDC law;

It must be noted that when assessing whether an individual for a specific year is a domicile Cyprus tax resident or not, we need to consider the number of years this individual has been a Cyprus tax resident. If an individual has been a Cyprus tax resident for at least 17 out of the last 20 years prior to the tax year under review, then irrespectively from the individual's origin, this individual will be taxed as a Cyprus domiciled individual for SDC purposes. SDC will be payable from the 18th year of an individual's reside in Cyprus.

Deemed Distribution

A Cyprus tax resident company is deemed to distribute 70% of its accounting profits in the form of dividends, within two years following the end of the tax year in which the accounting profits were generated in. Accounting profits are net of corporation tax, SDC, capital gains tax and other foreign taxes. Any actual payments of dividends made during the two year period are deducted from the amount of deemed dividends that need to be distributed.

SDC of 17% is paid on any deemed dividend distributions made, to the extent that the ultimate shareholders of the Cyprus tax company are Cyprus tax residents and domiciled individuals.

Disposals of assets to shareholders at less than market value

In the event where a Cyprus tax company disposes an asset to its Cyprus tax resident and domiciled shareholder or his/her relatives up to second degree or his/her spouse, at a value that is lower than the market value of the asset that was disposed, then the difference between the market value and the amount of consideration at which the asset was actually disposed at, is deemed to have been distributed to the shareholder from the company. In the case that the shareholder or his/her relative up to second degree or his/her spouse presents an asset in the form of a gift to the company, then the above provisions do not apply.

Reduction of Capital

In regards to reduction of a company's capital, any amount that was paid or due to the company's Cyprus tax resident and domiciled shareholder that is in excess of the initial paid-in equity, will be considered as dividend distributed and will be subject to Special Contribution of Defence for 17%.

Company Dissolution

The aggregated profits of the last five years' of a Cyprus Tax Company prior to its dissolution, which have not been distributed already, will be subject to SDC at a rate of 17% on dissolution. The difference between the market value and the original acquisition price of any assets that are allocated to the company's shareholders upon dissolution or liquidation, will be subject to deemed distribution provisions. If, during dissolution, the company does not have enough profits to repay its creditors, then no profits will be available to be distributed to its shareholders. This provision does not apply to the case of dissolution under a reorganisation.



Shipping Companies

Cyprus holds an EU approved Tonnage Tax System (TTS) that was introduced back in 2010 under Merchant Shipping Law. On 16th of December 2019 the EU Commission has approved the continuation of Cyprus' tonnage tax scheme for the next ten years, up to 31 December 2029.

The regime covers qualifying persons, performing qualifying activities in relation to qualifying ships. Qualifying persons can be any ship-owner, charterer and ship manager. Qualifying activity for ship-owners and charterers is defined as transport of goods or passengers between Cyprus ports and foreign ports/offshore facilities or between foreign ports or offshore installations. While for ship-managers a qualifying activity is defined as the provision of technical and/or crewing services to a qualifying ship. A qualifying ship is defined as a seagoing vessel that is certified with international or national principles and regulations and that is registered in the ship register of any member of the International Maritime Organisation (IMO) or the International Labour Organisation (ILO) which is recognised by Cyprus.

In most cases, companies can select to be taxed on the basis of their net tonnage instead of being taxed on their actual profits from their maritime activities. See tonnage tax rates below:

Units of Net Tonnage	Ship-owners & Charterers €TT per 100 units	Ship-managers €TT per 400 Units
0-1,000	36.50	36.50
1,001 – 10,000	31.03	31.03
10,001 – 25,000	20.08	20.08
25,001 – 40,000	12.78	12.78
> 40,000	7.30	7.30

The above tonnage tax rates are reduced by 30% to reward owners of Cyprus and Community flagged vessels which use environmentally friendly equipment. Cyprus TTS includes three main maritime activities; ship ownership, ship management and ship chartering activities. Beneficiaries can be ship owners, ship charterers or ship managers that own, charter or manage a qualifying vessel that is involved in a qualifying shipping activity.

An analysis of the three main maritime activities is seen below:

Cyprus Tonnage Tax System- Ship Ownership:

The TTS relates to any ship-owner of a qualifying vessel that carries out qualifying activities. This consists of the following:

- 1.** Cyprus Flag Vessels
- 2.** EU/EEA flag vessels that are owned by a Cyprus tax resident company and choose to be taxed under the TT regime (under conditions)
- 3.** Fleet of EU/EEA and non EU/EEA vessels that are owned by a Cyprus tax resident and choose to be taxed under the TT regime (under conditions)
- 4.** Owners of re-flagged ships

Owners of Cyprus flag vessels are automatically taxed under TTS and do not have the option to be taxed under Corporation tax. On the other hand, Cyprus tax resident ship owners of non-Cyprus flag vessels can select to be taxed under TTS regime following certain criteria.

If the ship-owner decides to follow through with the TT regime, the ship-owner must be a Cyprus tax resident and this option must continue for a minimum of 10 years.

Under TT regime, the qualifying ship owners are exempt from Income tax on the below:

- Profits from the use of a qualifying vessel
- Profits from the disposal of shares in a ship-owning company
- Profits from the disposal of the qualifying ship
- Dividends paid out of the above referred to profits at all distribution levels
- Interest income received on funds used as working capital, or on income from shipping operations

Cyprus Tonnage Tax System – Ship Chartering


All vessels (Cyprus/ EU/ EEA/ Fleet) chartered in qualifying shipping activity (bareboat, demise time, voyage charter) can choose to follow the TT regime, assuming that the charterer is a legal person Cyprus tax resident. As with the ship-owners, the TTS has to be followed for a minimum of 10 years.

The below types of income is tax exempt for Ship Charterers:

- Profits from the use of a qualifying vessel
- Dividends paid out of the above profits at all distributions levels
- Interest income related to the working capital/qualifying activity as well as any interest on capital that was used for investments

Cyprus Tonnage Tax System – Ship managers

A ship-manager is defined as a Cyprus tax resident legal person that offers technical/ crewing services on behalf of a qualifying vessel. The rates applicable to ship managers are 25% of the tonnage tax calculated on the net tonnage of the ship.



There are a few criteria that ship managers must match in order to have the option to be taxed under TTS. Criteria are listed below:

1. The ship manager must hold an independent office in Cyprus that employs a sufficient amount of workers, all with the appropriate experience and expertise
2. At a minimum, 51% of total onshore staff must be EU/EEA citizens
3. At a minimum 2/3 of total tonnage under management must be managed within the EU/EEA in any set fiscal year

If the TT regime is elected, then similarly with ship ownership / charterers there is a minimum of 10 year duration.

Tax exemptions for ship managers cover the following:

- Profits from technical/crew management
- Dividends paid out of the above referred to income, at all levels of distribution
- Interest income in relation to working capital/qualifying activity, as long as such income was used for business purposes. Interest income on capital that was used for investments is not included

All qualifying ships that belong in a group must follow TTS together.

CYPRUS TAX FACTS 2022

The Intellectual Property (IP) Tax Regime in Cyprus

On 14 October 2016, the House of Representatives passed amendments to the Income Tax Law in order to align the current Cyprus IP tax legislation with the provisions of Action 5 of the OECD's Base Erosion and Profit Shifting (BEPS) project. The amendments apply retroactively, as from 1 July 2016.

Under the new regime, 80% of qualifying profits generated from qualifying assets will be deemed to be tax deductible.

“Qualifying intangible asset” is defined as an asset which was acquired, developed or exploited by a person in furtherance of their business, (excluding intellectual property associated with marketing) and which is the result of research and development activities.

Such assets are:

- a.** Patents as defined in the Patents Law
- b.** Computer Software
- c.** Other IP assets that are legally protected and fall under one of the following:
 - utility models, intellectual property assets which provide protection to plants and genetic material, orphan drug designations and extensions of protections for patents;
 - non obvious, useful, and novel, where the person which utilizes them in furtherance of a business does not generate annual gross revenues exceeding Euro 7,500,000 (in case of a group of companies not exceeding Euro 50,000,000), which are certified as such by an Appropriate Authority in Cyprus or abroad;

Qualifying intangible assets specifically exclude:

- a. Trademarks
- b. Business Names
- c. Brands
- d. Image Rights
- e. Other intellectual property rights used for the marketing of products and/or services

Qualifying profits are calculated based on the “nexus approach”. More specifically, the level of profits eligible for the 80% tax exemption will depend on the level of research and development expenditure carried out by the taxpayer to develop the qualifying asset. The qualifying profits are calculated based on the following fraction that captures this:

$$\text{QP: OI multiplied by } \frac{(\text{QE} + \text{UE})}{\text{OE}}$$

Whereby:

QP: Qualifying Profit

OI: Overall Income – Gross income derived from qualifying intangible assets less any direct costs incurred for generating the income. Direct costs are all costs incurred wholly and exclusively for the generation of gross incomes

QE: Qualifying Expenditure – Total of all research and development costs incurred directly related to the qualifying asset

UE: Uplift Expenditure - Is added to the qualifying expenditure, which will be equal to the lower of 30% of QE or the total costs of acquiring the qualifying assets plus the cost of outsourcing to related parties any research and development

OE: Overall Expenditure – Is defined as the sum of the qualifying expenditure and the total cost of acquiring the qualifying asset plus the cost of outsourcing to related parties of any research and development costs outsourced to related parties incurred in any tax year

80% of the overall profit derived from the qualifying intangible asset is treated as deductible expense in the tax computation of the company.

In the case of a resulting loss, only 20% of the loss can be surrendered to other group companies or be carried forward to subsequent years. Qualifying taxpayers that are eligible for the IP regime include Cyprus tax resident persons, permanent establishments (PEs) of non- resident person and foreign

Old IP Box regime:

The old IP box regime had been “grandfathered” for a period of 5 years and has expired on 30 June 2021.

Capital Gains Tax

Capital Gains Tax (CGT) in Cyprus is imposed at the flat rate of 20% on the following sources of income:

1. Gains from disposal of immovable property located in Cyprus;
2. Gains from disposal of shares of companies which own immovable property situated in the Republic and that are not listed on a recognised stock exchange;
3. Gains from disposal of shares of companies, which indirectly own immovable property located in the Republic and derive a minimum of 50% of their market value from this immovable property;

Exemptions:

There are a series of exemptions when it comes to CGT. The following disposals of immovable property are exempt from any CGT:

- Gifts between spouses, parents, children or other relatives up to third degree;
- A transfer by reason of death;
- Gift to charities, the Republic, local authority for educational purposes or to a political party;
- Expropriations;
- Transfers under a qualifying loan restricting;
- Disposal of units in an AIF or UCITs whose establishments follow Cypriot laws and are listed on a recognised stock exchange;

- Exchange of properties where the values of the immovable properties being exchanged are equal;
- Disposal of property under Compulsory Acquisition Law;
- Gifts by a family company to its shareholders, as long as the property was acquired by the company in the form of a gift. In this case, the property must be kept for a minimum of three years;
- Any disposal of shares of a company that is listed on a recognised stock exchange;
- Transfer of ownership or share transfers as a result of company reorganisations;
- Exchange or disposal under the Agricultural Land (Consolidation) Laws;

Life-time exemptions:

When determining whether a specific transaction is subject to Capital Gains Tax we must keep in mind that there are certain lifetime exemptions for individuals. Life-time exemptions will be deducted from the taxable capital gain.

Exemptions are listed below:

1. The first €17,086 taxable gain from the disposal of property situated in the Republic of Cyprus will be exempt;
2. The first €25,629 taxable gain from the disposal of agricultural land under the condition that the main occupation of the individual is agriculture will be exempt;
3. The first €85,430 taxable gain from the disposal of private residence used by the owner. This exemption is subject to conditions.

Exemptions can be based on a combination of the above; however they are subject to a lifetime maximum of €85,430.

Calculation of CGT:

When calculating income from disposal of immovable property, the below are deducted from the proceeds received from the sale:

1. The value of the immovable property as at 01/01/1980 or cost of acquisition if date is later, adjusted for inflation up to the date of disposal. The value adjusted for inflation is calculated using the official Retail Price Index;
2. Expenses directly related to the acquisition or disposal of the immovable property e.g. transfer fees, interest costs on related loans, estate agent commissions, legal expenses etc.;
3. Any additions made after 01/01/1980 or after the acquisition date, adjusted for inflation up to the date of disposal, on the basis of the consumer price index in Cyprus;

Penalties:

Penalties and interest apply on late payment of CGT.

An administrative penalty of an amount between €100 and €200 (case by case) will be imposed for late submissions of declarations or late submissions of supporting documents when requested by the Commissioner.

Deduction on New Equity (NID)


Deduction on New Equity (Article 9B), was introduced on the 16th of July 2015 with effective date the 1st of January 2015. According to this article, all Cyprus tax resident companies and Cyprus permanent establishments of non-tax resident companies are allowed a notional interest deduction (NID) if they introduce new equity to their companies for the production of taxable income. This deduction is granted annually, for as long as the equity is used in the company.

Formula used to calculated NID:

NID = New Equity * NID Reference Interest Rate

New Equity is defined as any one of the below:

- Any paid-up share capital (ordinary, preference, redeemable, convertible) and/or share premium added after the 1st of January 2015;
- Loans payable converted into issued share capital;
- Shareholders' credit balance converted into issued share capital;
- Non-refundable capital contribution converted into issued share capital;
- Any realized reserves that existed before 01/01/2015, that were converted into issued share capital, will be qualified as new equity. Subject to conditions;



New equity can be injected into the company either in cash or in kind. In the event that the new equity is in the form of an asset, the new equity must not be higher than the market value of the asset.

All the above forms of new equity must be used to generate taxable income.

NID reference interest rate is defined as the 10 year government bond yield, (as of 31 December of the previous tax year) of the country in which the new equity has been injected, increased by 5% premium. The Cyprus Tax Department annually publishes the 10-year government bond yields for a number of countries.

The following rules apply to the calculation of the above formula:

1. NID must not exceed 80% of the company's/Permanent Establishments taxable income that was generated from the new equity. This taxable income is calculated before the application of NID
2. NID should be calculated each year since variables such as reference rates and taxable income will be different each year
3. This interest deduction is notional; therefore no accounting entry is accounted for and there is no effect on the company's accounting profit or loss

CYPRUS TAX FACTS 2022

Value Added Tax

VAT in Cyprus is imposed on the supply of goods and services in Cyprus, as well as the acquisition of goods from other EU countries and the importation of goods to Cyprus from third countries. See below table of VAT rates:

VAT Rates:	Applies to:
Standard Rate - 19%	All goods and services in Cyprus that are not subject any of the other below rates
Reduced Rate - 9%	<ul style="list-style-type: none">● All restaurants and catering services● Accommodation provided by hotels and other similar establishments such as tourist lodgements● Transportation of passengers and their luggage by taxi● Provision of services and supplies to nursing homes, which are not an exempt transaction
Reduced Rate - 5%	<ul style="list-style-type: none">● Supplies of newspapers, magazines, books and similar items● Supplies of food including drinks (excluding alcoholic beverages and soft drinks)● Supply of catering services from schools● Supply of pharmaceutical products and vaccines that are used for health care and medical or veterinary use● Entry fees to amusement parks, circus, festivals, concerts, museums, sporting events, athletic centres● Supply of hairdressing services

	<ul style="list-style-type: none"> ● Renovation and repairs to private residences (subject to conditions) ● Composers and artists ● Acquisition and construction of residence (See pages: 24,25 for details)
Zero Rate – 0%	<ul style="list-style-type: none"> ● Ship management services ● Exportation of goods ● Supply, repair, maintenance and hiring of a vessels, used for navigation and carrying passengers ● Supply, repair, maintenance and hiring of aircrafts used by airlines to operate for rewards usually on international routes ● Transportation of passengers from Cyprus to an area outside Cyprus using a vessel or an aircraft ● Supply of services to meet the needs of vessels and aircrafts ● Delivery of in vitro diagnostic medical devices and vaccines used for Covid-19 until 31 December 2022 assuming these meet conditions and regulations defined in EU Laws
Exempt items	<ul style="list-style-type: none"> ● Supply of banking, financial and insurance services ● Postal services ● Rents – subject to conditions ● Supply of educational services – subject to conditions ● Medical related services ● Disposal of immovable property assuming application for building permission was submitted before 01 May 2004

Registration:

A company or an individual must register for VAT if they meet any of the below conditions:

- At the end of any month, value of taxable supplies in the last 12 months, has exceeded the threshold amount of €15,600 or at any given time, the taxable supplies are expected to exceed the threshold amount in the next 30 days;
- If a taxable person provides services of any value to another VAT registered person within the EU Member States;
- Is involved in the acquisition of goods from other EU Member States with a registration threshold amount of €10,250;
- Is established abroad and makes distance sales of goods to Cyprus which exceed the threshold of €10,000 and does not opt to make use of the simplified One Stop Shop Scheme;
- Is established in Cyprus and offers zero rated supplies of goods or services;
- Is established in Cyprus and offers cross border sales of goods and services to individuals established in other EU Member States with a value that exceeds the threshold of €10,000;

Any individual or company that is not established in Cyprus and engages or expects to engage in taxable activities in Cyprus in the course of their business, are obligated to register for VAT. No threshold exists for non-established individuals engaging in taxable activities.

An individual may decide to register for VAT even though its taxable income is below the registration threshold so that they can recover input tax paid on purchases made.

VAT Returns and refunds:

Any registered person must submit their VAT return and pay the amount of VAT due to the Commissioner before or on the 10th day from the end of the month that is following the end of each VAT period. VAT returns must be submitted each quarter electronically through Taxisnet.

Refunds for excess input VAT can be claimed with interest if the refund is delayed by a period of four months from the date of which the claim was made. As of 20 August 2020, VAT refund applications cannot be submitted if a period of 6 years has passed from the end of the relevant tax period. In addition to this, VAT refunds will be suspended if the income tax return is not submitted by the submission date of the VAT refund claim.

Intrastat registration:

A taxable person is liable to register for intrastat in 2022 if they meet one of the two below conditions:

1. Purchases goods in Cyprus from other EU Member States for an amount that exceeds €230,000 – Must submit monthly intrastat arrivals forms;
2. Ships goods from Cyprus to other EU Member States for an amount that exceeds €75,000 – Must submit monthly intrastat for dispatch forms;

Intrastat forms are submitted electronically to the Tax Department within 10 days from the end of the relevant month.

Vies Registration:

A taxable individual engaging in intracommunity supply of goods or services to taxable individuals in other EU Member States must register with VIES. VIES reports are submitted on a monthly basis electronically.

Penalties and interest

Late submission of VAT Return	€100 penalty per VAT return – as of August 2020
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Late registration with VAT department	€85 penalty for each month of delay
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Late payment of outstanding VAT	10% penalty plus interest
Late submission of Intrastat forms	€15 for each form
Late deregistration	€85 one-off
Late submission of VIES return for supplies	€50 for each statement. Omission to submit VIES return may lead to a criminal offence and a penalty of up to €850
Failure to comply with Reverse Charge provisions as per Articles 11, 11A – 11E and 12 -	€200 one-off penalty on each VAT return. Penalty is capped up to a limit of €4,000

Irrecoverable VAT Input:

Input VAT cannot be recovered in the following circumstances:

- Purchase or hire of a saloon vehicle;
- Hospitality expenses and entertainment;
- Purchases used for production of exempt supplies

VAT on Immovable Property:

VAT at a rate of 19% is imposed on the lease of immovable property to a taxable individual that is carrying out taxable activities. The taxable individual does have the option to apply for the non-imposition of VAT, assuming terms and conditions are met. The option is irrevocable;

VAT at a rate of 19% is imposed on the sale of non-developed building land that is intended for the construction of one or more structures in the course of carrying out a business activity;

In regards to the long-term leasing of immovable property, which essentially is shifted to the lessee the risks and rewards of ownership of the property, this is considered as a supply of goods and therefore is subject to VAT at a rate of 19% (conditions apply);

Reduced VAT rate of 5% on renovation and repairs of private residences:

A reduced VAT rate of 5% is eligible on the renovation and repairs of all residential homes, assuming the residents have been in the home for a period that exceed 3 years. As of 20 August 2020, reduced VAT rate is applicable on additions made to a private residential home as well, again assuming that three years have passed since first use as residence. In the case that the value of the materials (i.e. the physical products used such as tiles, cement, paints, bricks) used for the renovation are more than 50% of the total value of the amount charged (i.e. for products and labour), then the renovation cost will be split between standard VAT rate on the physical products and 5% on the labour.

Reduced VAT rate of 5% on acquisition/construction of residences:

The reduced rate of 5% applies on the acquisition or construction of a residence by an eligible person that will be used as the primary and permanent place of residence for the next 10 years. Eligible persons are defined as Cyprus residents, EU and Non-EU Member State residents, providing that the residence will be their primary one. A certified confirmation must be obtained from the Commissioner. The reduced rate of 5% will apply only on the first 200 square meters of the residence's buildable area. The application for confirmation must be submitted before acquisition of residence or in the case of construction, at any stage of construction. Along with the application, the eligible person must submit appropriate documentation and evidence proving ownership and that the property will be used for permanent stay;

An eligible individual that has already used their right to claim 5% reduced VAT rate on their permanent residence, is qualified to apply again on another residence before the 10 years have passed, assuming the below conditions are met:

1. The 10 year period of using the residence as permanent have not lapsed;
2. The individual has notified the Tax Commissioner;
3. The difference between the standard and reduced VAT rate applicable at the time of acquisition or construction of the permanent residence has been paid;

Temporary measures for Covid-19:

- Reduction of VAT rate from 9% down to 5% for hotel accommodations, passenger transport services and the provision of catering / restaurant services for the period 01 July 2020 – 10 January 2021.
- Imposition of 0% VAT rate on the delivery of vitro diagnostic medical devices and vaccines. This also included the supply of services that are in line with these goods. The zero rates will be applicable for the period 23 December 2020 – 31 December 2022

Brexit:

As of 1 January 2021 for VAT purposes, the United Kingdom is considered and treated as a third country; therefore third country rules will apply. This is following the end of the transitional period.

On 24 December 2020, United Kingdom and the EU reached to an arrangement under which it was agreed that for trade of goods between the United Kingdom and the EU, no import duties will be imposed. This exemption only applies to goods that meet the prescribed rules of origin. If products do not meet these rules, then they may still be subject to import duties.

New VAT rules on E-Commerce:

As of 1 July 2021, EU VAT e-commerce package came into effect extending the Mini One Stop Shop (MOSS) into a One Stop Shop (OSS). VAT rules on cross-border B2C e-commerce activities have changed throughout the EU;

One Stop Shop (OSS) allows online sellers to register in one EU member state for the declaration and payment of VAT on all their distance sales of goods and cross-border supply of services to their customers within the EU. Existing thresholds for distance sales of goods within the EU were abolished and a new EU-wide harmonised threshold of €10,000 is introduced;

A new scheme, the Import One Stop Shop (IOSS) electronic portal, was also introduced to assist distance sales of low value goods imported (below €150) from third countries to simplify the declaration and VAT payment and not be subject to excess duties;

The low value import exemption from VAT of goods up to €22 has been abolished. All goods imported in Cyprus are now subject to VAT;



CYPRUS TAX FACTS 2022

Cyprus Trusts

A trust can be defined as a settlement between the settlor and the trustee, in which the settlor transfers to the trustee assets, for the purpose of managing in the benefit of the beneficiaries. Parties included in a Trust:

- **The Settlor:** the creator of the trust and the contributor that initially holds the property;
- **The Trustee:** the party that is responsible for managing the trust always in the benefit of its beneficiaries;
- **The Beneficiaries:** the parties for which the trust has been set-up for, that will benefit from it and have the rights in respect to the trust property;
- **The Protector:** the individual that is appointed by the settlor to protect the trust assets and supervise the Trustee. Appointment of the protector is optional

Setting up a Cyprus International Trust can be used for the purposes of managing wealth and asset protection. A trust assists in holding property for minors, ensure that all family members meet their future needs and can also be set-up to provide pensions to employees acting as a form of incentive to the staff. A trust can have an indefinite life.

Discretionary trusts can offer a confidentiality protection for its beneficiaries.

Land Registry Fees

When transferring land or buildings in Cyprus, land registry fees are paid by the transferee to the Department of Land and Surveys. Fees are based on the market value of the property.

Land registry fees are payable at the following rates:

Market Value of Property €	Rate %	Land registry fees €	Cumulative fees €
0 – 85,000	3	2,550	2,550
85,001 – 170,000	5	4,250	6,800
Over 170,000	8	-	-

Land transfer fees are reduced to 50% for purchases of property that is not subject to VAT;

Exemptions from transfer fees:

- Transfer is made under a qualifying reorganisation or loan restructuring;
- Transfers that are subject to VAT;
- Under the event of bankruptcy, liquidation, disposal of mortgaged immovable property by the lender where the sale proceeds do not exceed the amount of €350.000 per owner;

For mortgages, registration fees are 1% of the current market value;

In the cases of free transfers of property, transfer fees are calculated on the value of the property as listed below. Value refers to values as of 01 January 2013.

- From parent to children – NIL

- Between spouses and third degree relatives – 0.01%
- To trustees - €50

Contribution to the Central Agency for the equal distribution of Burdens

A contribution of 0.4% of the sale proceeds is required to be paid from a seller that transfers immovable property located in the Republic of Cyprus. A similar contribution is also payable when transferring shares in a company that holds immovable property in Cyprus, assuming the buyer acquires control of the company.

The contribution of 0.4% is calculated using the latest valuation of the immovable property that was carried out by the Department of Lands and Surveys.

Immovable property tax:

As of 2017, immovable property tax has been abolished.

Stamp Duties:

See below a detailed table in regards to the rates of duty payable according to type of document that is executed in Cyprus:

Type of document	Rate / %
Receipts for sums over €4	7 Cents
Letters of credit	€2
Letters of guarantee	€4
Bills of exchange	€1
General power of attorney	€6
Special power of attorney	€2
Certified copies of agreements and documents	€2
Issue of tax residency from Tax Department	€80
Contracts without fixed amount	€35

Contracts with a fixed amount:

• The first €5,000	0%
• Between €5,001- €170,000	0.15%
• Above €171,000	0.2% (Maximum duty €20,000)

Documents relating to approved company reorganisations and or loan restructurings are exempt from Stamp Duty. Also, documents that relate to assets or business affairs that are situated outside the Republic of Cyprus are exempt from Stamp Duty.



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Social Insurance and Other Contributions

Social insurance and other contributions to approved funds are imposed on gross emoluments on the below rates. Social insurance rates seen below apply as from 01 January 2019 and for the next five years.

Social Insurance contribution rates:	%
Self-employed individuals	15.6
Employee	8.3
Employer	8.3

Other contribution rates for employers	%
Redundancy fund	1.2
Industrial fund	0.5
Social cohesion fund	2
Holiday fund (If not exempt)	8

The above rates, excluding social cohesion fund that has no restrictions, are applicable on employee's gross emoluments subject to the following maximum limits for the year 2022:

	Per week €	Per month €	Per annum €
Weekly employees	1,117	-	58,084
Monthly employees	-	4,840	58,080

Contributions due by the employer must be paid by the end of the month following the month in which the contributions correspond to. Charges will be imposed for late payments.

Limits for self-employed individuals:

	Lower weekly limit €	Upper Weekly Limit €
Weekly employees	-	57,408
Monthly employees	4,784	57,408

General Health System (GHS):

As of the 1st of March 2019, Cyprus introduced a general health system aiming to provide healthcare to Cyprus residents. See below table for the current contributions:

Contributors:	Rates as of 01/03/2020
Employees on their emoluments	2.65%
Employers on their employees emoluments	2.90%
Self-employed individuals on own income	4.00%
Pensioners	2.65%
Emoluments on individuals who hold office	2.65%
Individuals rental, dividend, interest and other income	2.65%
Republic of Cyprus consolidated fund	4.70%

***Note:** Reduced rates have been applied for the months of April 2020 to June 2020 due to Covid-19.

For employees, employers, self-employed and pensioners, emoluments on which GHS contributions are paid on, are capped to a maximum of €180,000 per year. Each employer is responsible for the payment of both, their own and their employee's contributions, through Social Insurance Services.

An employer of self-employed individual that fails to pay contributions within the appropriate time frame is subject to additional charges in the range of 3% - 27% (depending on the delay period) on the amount of contributions due.





CYPRUS TAX FACTS 2022

Annual Government Levy:

Annual government levy is paid by all Cyprus resident companies at an annual fee of €350.

- Annual levy is payable on 30 June each year;
- If companies are part of a group, then annual government levy is capped at €20,000 for the total group of companies;
- Annual government levy is paid from the year of incorporation of a company;
- Non-payment of annual government levy within a year the date on which it is due, may lead to a deregistration of the company by the Cyprus Registrar of Companies;
- A penalty of 10% will be imposed if payment is made within 2 months of the due date. An additional penalty of 30% will be imposed in payment delays between 2 and 5 months of the due date;

Professional licence fee:

On 13 October 2020, the Executive Committee of the Union of Cyprus Municipalities introduced the adoption of a uniform policy for annual professional licence fees that will be imposed on legal entities that carry out businesses within each municipality limits. Fees are split according to under which of the below categories the legal entity is classified in:

Category of legal entity	Annual Professional Licence Fee
Active legal entities that are part of a group of companies	€150
Active legal entities that are not part of a group of companies	€250
Dormant legal entities	Not Applicable

A dormant legal entity must submit specific requested information to their relevant municipality to be exempt from professional licence fee.

Exemptions on professional licence fees are provided to any legal entities that are under compulsory or voluntarily liquidation or under strike-off procedure.

Transfer Pricing

On the 30th June 2017, the Cyprus Tax Department issued a circular relating to the obligation that taxpayers have, to document particular financing transactions over a transfer pricing study. It is a revised tax treatment of intra-group back to back financing arrangements that was applicable until 30 June 2017. All transactions involving related companies in which a Cyprus tax resident companies are part of are obligated to ensure that transactions have been done according to arm's length principle and are in line with OECD transfer pricing guidelines.


A transfer pricing study is a document that is prepared by an expert, which will be provided to the Cyprus tax authorities as a form of evidence, confirming that transaction that took place is based on the Arm's Length Principle. A deviation of the minimum after tax return of 2% on asset is not permitted unless supported with an appropriate transfer pricing study.

Anti-Tax Avoidance Provisions:

On the 25th of April 2019, following provisions of the EU Anti-Tax Avoidance Directive of July 2016, the Cyprus law introduced measures against tax avoidance methods that negatively affect the internal markets functioning. These measures are known as Anti-Tax Avoidance Directives – ATAD. See below the four directives that were established:

1. Interest Limitation Rule:

This directive was introduced with an intention to prevent group companies from providing finance from their subsidiaries in low jurisdiction countries to companies that are based in high jurisdiction countries. As per this rule, any exceeding borrowing



costs (EBC) will be deducted in the tax year in which incurred, only up to 30% of the taxable earnings before interest, tax, depreciation and additions (EBITDA). EBC is defined as net interest expense. Losses brought forward are not taken into account when calculating taxable earnings.

When a company is part of a Cyprus group, then the interest limitation rules will apply on the group as a whole, including permanent establishments in Cyprus. While if a company is not a member of a Cyprus group, then the rules will apply on the company itself.

Law states that any exceeding borrowing costs that exceed €3,000,000 per tax year are not subject to limitation.

There are exceptions in regards to the interest limitation rule. Exemptions are listed below:

- Standalone companies (companies with no associates, not members of a group, no permanent establishments);
- Financial Undertakings (banks, investment funds, pension funds etc.);
- Loans that were used to fund long-term public infrastructure projects
- To companies with exceeding borrowing costs below €3,000,000

2. Controlled Foreign Company (CFC) rule:

Income from subsidiaries or a permanent establishment, that are normally not subject or are exempt from Cyprus tax, may be taxed in Cyprus if conditions of the CFC rule are met. If conditions are met and income arises from non-genuine arrangements, then such income from low-taxed controlled foreign company is transferred to its controlled parent company. Any tax that has been paid in another country on the income from the controlled foreign company or from the permanent establishment will be credited against the tax payable in Cyprus.



3. General Anti-Abuse rule:

This rule has been imposed to ensure that when calculating tax liabilities of a company, an arrangement or a series of arrangements that have been performed that are non-genuine should be ignored. Non-genuine arrangements are defined as any arrangement that takes place that has no economic or commercial purpose.

4. Exit Taxation:

When a Cyprus tax resident company or a non-Cyprus tax resident company that holds a permanent establishment in Cyprus moves assets either from their head office to a permanent establishment in another Member State or a third country or vice versa, or moves its tax residence to another Member State or a third country, then this company will in certain cases be subject to exit taxation. If this is the case, then the company will be taxed on the market value of the transferred assets at exit time, less their value for tax purposes. In certain circumstances the taxpayer has the option to defer exit tax payment and pay it in instalments over a 5 year period.

5. Hybrid Mismatches:

Purpose of this rule is to ensure that deductions and credits only take place in one jurisdiction and there are no situations in which deductions of a payment are made in one jurisdiction without this income being taxed in the other jurisdiction.

Mandatory Disclosure Rules – (DAC6/MDR)

On 18 March 2021, provisions of the EU Council Directive 2018/822, “DAC6”, were altered into domestic legislation. Cyprus law in regards to DAC6 is generally in line with the Directive with minor differences. Main focus is to ensure transparency under direct tax while at the same time battling tax avoidance and tax evasion in the EU.

On 29 October 2021 the Cypriot Ministry of Finance issued guidelines in the form of a Ministerial Decree with clarifications and examples for application of the main law provisions.

Key Features of the Directive:

Under the Directive, intermediaries have the primary obligation to report arrangements to the tax authorities in the country in which they are resident. The latter will then automatically share the information with the Tax Authorities of all other member states on a quarterly basis. The Directive gives Member States the option to exempt intermediaries from the obligation to report where the reporting obligation would breach legal professional privilege (LPP). If there are no intermediaries who can report, the obligation will shift to the taxpayers.

What is a Reportable Cross- Border Arrangement (RCBA):

A RCBA refers to an arrangement or a series of arrangements concerning either more than one member state, or a member state and a third country.

Intermediaries:

Under DAC6, “intermediaries” are subject to reporting. An intermediary is any person who:

- designs, markets, organizes or makes available for implementation or manages the implementation of RCBA
- provides, directly or by means of other persons, aid, assistance or advice with respect to designing, marketing, organizing, making available for implementation or managing the implementation of RCBA

Such persons may include tax advisors, accountants, auditors, banks, lawyers, administrative services providers, or any other professionals who undertake any of the above acts. The law provides exceptions to intermediaries and taxpayers for reporting if there is sufficient evidence that the other intermediary/relevant taxpayer already reported the same information. Exemption from reporting is also provided for intermediaries covered under legal professional privilege and in the case where the reportable cross-border was arranged in-house.

Reportable Arrangements:

Under the Directive, an arrangement is reportable if the arrangement or a series of arrangements meet the definition of a cross-border arrangement or the arrangement meets at least one of the hallmarks A-E of the Directive. The hallmarks can be distinguished into two different categories; hallmarks which are subject to the main benefit test (MBT), and those which by themselves trigger a reporting obligation without being subject to the MBT.

Hallmarks and Main benefit test (MBT):

In accordance with DAC6, under the Bill, the MBT will be satisfied if it can be established that “the main benefit or one of the main benefits which a person may reasonably expect to derive from an arrangement, is obtaining a tax advantage.”

Hallmarks are categorised from A to E as follows:

- **Hallmark category “A”:** arrangements whose tax benefits are subject to confidentiality arrangements, that give rise to performance fees or mass marketed schemes;
- **Hallmark category “B”:** arrangements such as the contrived acquisition of loss-making companies, the conversion of income into capital or other forms of income, or so-called circular transactions;
- **Hallmark category “C”:** arrangements that give rise to tax deductions without a corresponding amount of taxable income, to certain double reliefs or deductions, or other mismatches;
- **Hallmark category “D”:** arrangements that have the effect of undermining the CRS or the rules on identification of beneficial ownership;
- **Hallmark category “E”:** arrangements concerning transfer pricing

Reporting deadlines:

- Administration fines are not imposed for DAC6 information that is submitted before the 31 January 2022 in the following cases:
 - RCBA's that have been made between 25 June 2018 - 30 June 2020 (within the transitional period) and that had to be submitted by 28 February 2021;
 - RCBA's, that had been made available for implementation or were ready for implementation or the first step of implementation had been made, between 1 July 2020 - 31 December 2021, that had to be submitted within 30 days;
 - RCBA's for which secondary intermediaries provided assistance between 1 July 2020 – 31 December 2021 and had to submit information within 30 days beginning on the day after assistance;
 - Periodic reports for marketable arrangement;

Penalties:

Breach

Penalty (one-off fine per arrangement)

Failure to report a RCBA

€10,000-€20,000

Delay in reporting a RCBA

Up to 90 calendar days:

€1,000-€5,000

More than 90 calendar days:

€5,000-€20,000

Submission of incomplete or misleading information for a RCBA

€1,000 - €10,000

Failure to submit information and documents for an arrangement within 14 days from date of obtaining relevant notice by the CTD's

€1,000 - €10,000

Failure to pay administrative fines imposed or continuation of the breach

Increase of imposed fine up to **€20,000**

CYPRUS TAX FACTS 2022

Tax Calendar 2022

Date	Obligation	Form
31 January	Submission of deemed distribution declaration of profits for 2019 DAC6 Reporting deadline for reportable cross border arrangements (RCBAs) with triggering events between 25/06/2018-31/12/2021	TD623
31 March	Electronic submission income tax for tax year 2020 for companies and individuals preparing financial statements	TD4, TD1
30 April	First instalment of 2022 for payment of premium tax for life insurance companies	TD199
31 May	Electronic submission of total 2021 payroll by employers	TD7
30 June	Payment of Special Defence Contribution and GHS for the first 6 months of 2022 on rents (if not withheld at source by tenant) and dividends/interest from sources outside of Cyprus Payment of annual government fee of €350 to Registrar of Companies	TD601
31 July	Electronic submission and payment of first instalment of 2022 provisional income tax Electronic submission of 2021 personal income tax returns by individuals and payment of tax	TD5, TD6 TD1

1 August	Payment of 2021 income tax through self-assessment by companies and individuals that submit audited accounts	TD158
31 August	Second instalment of 2022 for payment of premium tax for life insurance companies	TD199
31 December	Submission of revised Temporary tax assessment for 2022, if necessary, and payment of second instalment	TD5, TD6
	Payment of Special Defence Contribution and GHS for the second half of the year on rental income (if not withheld at source by tenant) and dividend/ interest income from sources outside of Cyprus	TD601
	Third and final instalment of 2022 for payment of premium tax for life insurance companies	TD199

Penalties on the above deadlines:

- A penalty of 10% is payable on the difference between the actual tax due on final assessment and tax declared on temporary tax forms submitted, if the temporary tax is less than 75% of taxable income on final assessment;
- €100 or €200 penalty is imposed (depending on the case) for the late submission of tax return;
- 5% tax on the amount due is imposed if tax is not settled within 30 days of the payment date. An additional 5% is imposed if tax remains unpaid two months after the payment date;
- €100 penalty for late registration with tax authorities. A company must register and obtain a TIC within 60 days of incorporation;

Public interest rate: Interest rate on late payment of taxes on a completed month basis that has been set through a Decree for the year 2022 is **1.75%**.

CYPRUS TAX FACTS 2022

Cyprus Double Tax Treaties

The following is a summary of the withholding tax rates provided by the treaties for the avoidance of double taxation entered into by Cyprus:

Paid from Cyprus

Received in Cyprus

Countries	% Dividends	% Interest	% Royalties	% Dividends	% Interest	% Royalties
Andorra	0	0	0	0	0	0
Armenia (45)	0 (1)	5 (2)	5	0 (1)	5 (2)	5
Austria (45)	10	0	0	10	0	0
Azerbaijan (46)	0	0	0	0	0	0
Bahrain (45)	0	0	0	0	0	0
Barbados (3), (45)	0	0	0	0	0	0
Belarus	5 (4)	5	5	5 (4)	5	5
Belgium (45)	10 (5)	10 (6)	0	10 (5)	10 (6)	0
Bosnia (47)(45)	10	10	10	10	10	10
Bulgaria (45)	5 (7)	7 (8)	10	5 (7)	7 (8)	10
Canada (45)	15	15 (9)	10 (10)	15	15 (9)	10 (10)
China (45)	10	10	10	10	10	10
Czech Republic (45)	0 (11)	0	10	0 (11)	0	10
Denmark (45)	0 (12)	0	0	0 (12)	0	0
Egypt	5 (13)	10	10	5 (13)	10	10
Ethiopia	5	5	5	5	5	5
Estonia (45)	0	0	0	0	0	0
Finland (45)	5 (14)	0	0	5 (14)	0	0
France (45)	10 (15)	10 (16)	0	10 (15)	10 (16)	0
Georgia (45)	0	0	0	0	0	0

Germany	5 (17)	0	0	5 (17)	0	0
Greece (45)	25	10	0 (18)	25	10	0 (18)
Guernsey (45)	0	0	0	0	0	0
Hungary (45)	5 (5)	10 (9)	0	5 (5)	10 (9)	0
Iceland (45)	5 (19)	0	5	5 (19)	0	5
India (45)	10	10 (9)	10	10	10 (9)	10
Iran	5 (7)	5	6	5 (7)	5	6
Ireland (45)	0	0	0 (18)	0	0	0 (18)
Italy (45)	15	10	0	0	10	0
Jersey (45)	0	0	0	0	0	0
Jordan (49)	5 (19)	5 (48)	7	5 (19)	5 (48)	7
Kazakhstan	5 (20)	0 (21)	10	5 (20)	0 (21)	10
Kuwait (45)	0	0 (9)	5	0	0	5 (22)
Kyrgyzstan (46)	0	0	0	0	0	0
Latvia (45)	0 (23)	0 (23)	0 (24)	0 (23)	0 (23)	0 (24)
Lebanon	5	5 (6)	0	5	5 (6)	0
Lithuania (45)	0 (25)	0	5	0 (25)	0	5
Luxembourg	0 (26)	0	0	0 (26)	0	0
Malta (45)	0	10 (9)	10	15	10 (9)	10
Mauritius (45)	0	0	0	0	0	0
Moldova	5 (7)	5	5	5 (7)	5	5
Montenegro (50)	10	10	10	10	10	10
Moldova	5 (7)	5	5	5 (7)	5	5
Netherlands (49)	0	0	0	0	0	0
Norway (45)	0 (27)	0	0	0 (27)	0	0
Poland (45)	0 (28)	5 (9)	5	0 (28)	5 (9)	5
Portugal (45)	10	10	10	10	10	10
Qatar (45)	0	0	5	0	0	5
Romania (45)	10	10 (9)	5 (29)	10	10 (9)	5 (29)
Russia (30), (45)	15 (31)	15 (32)	0	15 (31)	15 (32)	0
San Marino (45)	0	0	0	0	0	0
Saudi Arabia (45)	0 (33)	0	5 (34)	0 (33)	0	5 (34)
Serbia (45) (50)	10	10	10	10	10	10
Seychelles (45)	0	0	5	0	0	5
Singapore (45)	0 (35)	10	10	0 (35)	10	10

Slovakia (45) (47)	10	10 (9)	5 (29)	10	10 (9)	5 (29)
Slovenia (45)	5	5 (8)	5	5	5 (8)	5
South Africa (45)	10 (36)	0	0	10 (36)	0	0
Spain (45)	0 (26)	0	0	0 (26)	0	0
Sweden (45)	5 (5)	10 (9)	0	5 (5)	10 (9)	0
Switzerland	0 (37)	0	0	0 (37)	0	0
Syria	0 (5)	10 (9)	15 (38)	0 (5)	10 (9)	15 (38)
Tajikistan (46)	0	0	0	0	0	0
Thailand	10	15 (39)	5 (40)	10	15 (39)	5 (40)
Ukraine (45)	5 (41)	5	5 (42)	5 (41)	5	5 (42)
United Arab Emirates (45)	0	0	0	0	0	0
United Kingdom	0 (43)	0	0	0 (43)	0	0
USA	5 (17)	10 (44)	0	0 (17)	10 (44)	0
Uzbekistan (46)	0	0	0	0	0	0

According to Cyprus tax legislation, payments of interest, royalties and dividends granted for use outside of Cyprus, by Cyprus tax residents to non-Cyprus tax residents, are exempt from withholding tax in Cyprus.

As from 31/12/2022 the above stated payments will be subject to withholding tax in Cyprus at standard rates if they are made to any of the below:

1. Tax residents in jurisdictions that are included in the EU list of non-cooperative jurisdictions ("EU Blacklist");
2. Registered in a jurisdiction that is included in the EU Blacklist and are not tax resident in any other jurisdiction that is not part of the EU Blacklist.

Notes

1. 5% if the beneficial owner has invested less than €150,000 in the capital of the company;
2. 0% if paid to a local authority, Central Bank or Government;
3. Effective as of 01 January 2018;

- 4.** 5% applies if investment is above €200,000. 10% applies if dividends are received by shareholder that holds at least 25% of the share capital. 15% in all other cases;
- 5.** 15% if received by company that holds less than 25% of voting rights;
- 6.** 0% if paid to the government of the other state, the National bank, a local authority. 0% if interest income from deposits in financial institutions;
- 7.** 10% if received by a company holding less than 25% of the share capital of the company issuing the dividend. 5% if dividend is received by a company holding 25% or more of the share capital of the dividend paying company;
- 8.** 0% if paid to Central Bank or Government;
- 9.** 0% if paid to the government of the other state;
- 10.** 0% on musical, theatrical or any other artistic work;
- 11.** 0% applies if received by a company that holds 10% directly of the capital of the dividend paying company for a period of more than 1 year. 5% applies in other cases;
- 12.** 0% applies if received by a company (not a partnership) that holds at least 10% of share capital of the dividend paying company for a period more than 1 year. 0% if paid to the government of any of the two States. 0% if paid to a pension fund or a similar institution. 15% in all other cases;
- 13.** 5% applies if beneficial owner is a company (not a partnership) which holds 20% of share capital of the company paying the dividends directly for a period of one year. This period must include the date of payment. 10% applies in all other cases;
- 14.** 5% applies if recipient is a company that holds at least 10% voting rights in the dividend paying company. In all other cases, 15% applies;
- 15.** 10% if received by a company that holds more than or equal to 10% of the share capital. In all other cases, 15% applies;
- 16.** 0% applies if paid to the Government, a financial institution or a bank of the contracting State;
- 17.** 5% applies if received by a company that holds more than or equal to 10% of share capital. In all other cases, 15% applies;
- 18.** 5% applies only to film rights (except films shown on TV)
- 19.** 5% applies if recipient company (other than a partnership) owns at least 10% of the capital of dividend paying company. In all other cases, 10% applies;
- 20.** 5% applies if shareholder is company which holds at least 10% of share capital of company distributing the dividends. In all other case, 15% applies;

- 21.** 0% applies if beneficial owner is the Government of the other State, local authority, the Central Bank or any other financial institution held by the Government. In all other case, 10% applies;
- 22.** 0% applies on artistic, literary, scientific work including films;
- 23.** 0% applies if beneficial owner is a company (not a partnership). In all other cases, 10% applies;
- 24.** 0% applies if beneficial owner is a company (not a partnership). In all other cases, 5% applies;
- 25.** 0% applies if beneficial owner is a company (not a partnership) that holds at least 10% of the share capital directly of the dividend paying company. In all other cases, 5% applies;
- 26.** 0% applies if dividend is received by a company (not a partnership) that holds at least 10% of the capital of the dividend paying company. In all other cases, 5% applies;
- 27.** 0% applies if beneficial owner is a company (not a partnership) that holds at least 10% of share capital directly of the dividend paying company. In all other cases, 15% applies;
- 28.** 0% applies if beneficial owner is a company (not a partnership) that holds at least 10% of the share capital directly of the dividend paying company for at least 2 years. In all other cases, 5% applies;
- 29.** 0% applies on artistic, literary or scientific research including films;
- 30.** A protocol was signed on the 08th of September 2020 amending the existing tax treaty between Cyprus and Russia effective 01st of January 2021;
- 31.** 5% applies if the beneficial owner of the dividend is the Central Bank, a regulated financial institution, an insurance company, a pension fund, the government or a local authority, or any company whose shares are listed on a registered stock exchange (subject to conditions). 15% in all other cases;
- 32.** 0% applies on interest payments if the beneficial owner is an insurance undertaking, a pension fund, the central bank, other banking institution, the government or a local authority. Also 0% withholding tax applies on interest earned on corporate bonds, government bonds and Eurobonds;
- 33.** 0% applies if the beneficial owner is a company that holds at least 25% (either directly or indirectly) of the share capital of the dividend paying company. In all other cases, 5% applies;
- 34.** 5% applies on royalties for use of industrial, commercial or scientific equipment. 8% applies in all other cases;
- 35.** 7% applies if paid a financial institution or a bank. 0% applies if paid to the government;

- 36.** 5% applies if dividend is received by a company that holds at least 10% of the share capital of the dividend paying company. In all other cases, 10% applies;
- 37.** 0% applies if the beneficial owner is either, a company (not a partnership) that holds directly at least 10% of the share capital of the dividend paying company for a period of at least 1 year, a pension fund or a similar institution, the government or a local authority. In all other cases, 15% applies;
- 38.** 10% on musical, artistic, literary work, films and TV royalties;
- 39.** 10% on interest received from any financial institution and on interest paid for commercial, industrial and scientific equipment;
- 40.** 10% on right to use commercial, industrial and scientific equipment and 15% for patents, trademarks, models, plans etc.;
- 41.** 5% applies if received by a company that holds at least 20% of the share capital of the dividend paying company and has invested in the company at least €100,000. In all other cases, 15% applies;
- 42.** 5% applies on royalty payments when it comes to any copyright or work with patents, trademarks etc. For all other cases, 10% applies;
- 43.** 15% applies on dividends from income that has derived from immovable property by certain investment vehicles;
- 44.** 0% applies if paid to the Government of the other State, to a financial institution or to a bank or in respect to debt obligations arising in connection with sale of property or the provision of services;
- 45.** On 01 May 2020, Cyprus entered into force a Covered Tax Agreement for the purpose of Multilateral Instrument. Cyprus has approved minimum standards of BEPS Action 6 (Purpose Covered Tax Agreement), Action 7 (Prevention of Treaty Abuse) and Action 14 (Making Dispute Resolution Mechanisms More Effective). Treaties are automatically amended to take account of these provisions.
- 46.** The treaty between the Republic of Cyprus and United Soviet Socialist Republic still applies;
- 47.** The treaty between the Republic of Cyprus and Czechoslovak Socialist Republic still applies;
- 48.** NIL if interest is derived and beneficially owned by the government, political subdivision, local authority or the National Bank of the other contracting State;
- 49.** The treaty has been signed but has not yet entered into force yet;
- 50.** The treaty between the Republic of Cyprus and the Socialist Federal Republic of Yugoslavia still applies;



ABOUT US

The Oxford Management Team

The Oxford team draws together many years of practical experience in the area of International Tax Planning and “offshore business”.

This ensures the highest standard of quality in services and professionalism.

The head of this dynamic multilingual team is Mr. Athos Fouttis, an International Tax Consultant, author of articles in international publications and regular speaker at international tax and offshore seminars.

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Accountants, Auditors, Tax Consultants

OXFORD BUSINESS CENTRE