

CORPORATE TAX IN CYPRUS

CORPORATE INCOME TAX

Tax residency

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

Where a company is tax resident in Cyprus, tax is imposed on income accruing or arising both from sources in and outside Cyprus.

Where a company is not tax resident in Cyprus, tax is imposed on income accruing or arising only from sources in Cyprus.

Rates

Companies	10%
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Exemptions

Interest income	The whole amount
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Interest income arising in the ordinary course of business including interest closely connected with the carrying on of the business, and interest earned by open-ended or close-ended collective investment schemes, is not considered interest but trading profit and is not exempt

Dividend income	The whole amount
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Profit from the disposal of securities, including the redemption of units or other ownership interests in an open-ended or closed-ended collective investment scheme	The whole amount
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Profits from a permanent establishment maintained outside the Republic (subject to certain conditions)	The whole amount
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Rent of preserved building (subject to certain conditions)	The whole amount
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INCOME TAX FILINGS AND PAYMENTS

The tax year in Cyprus is the calendar year. Annual tax returns are filed by 31 December following the tax year.

Individuals and companies, that prepare audited financial statements or persons that their tax return is submitted by a professional accountant, may be obliged to submit their tax return electronically in accordance with such means that may be approved by the Commissioner of Income Tax. In case of such electronic submission of tax returns, the deadline is extended by 3 months. (Effective from 1 July 2011)

Temporary tax returns are due by 1 August of the tax year and temporary tax is payable in 3 equal instalments during the tax year on 1 August, 30 September and 31 December. Any balance of tax remaining is payable by 1 August following the tax year.

SPECIAL CONTRIBUTION FOR DEFENCE

Rates

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

Dividends	15%
Interest income	10%
Interest received by an individual from Government Savings Certificates	3%
Interest received by an individual from Government Bonds	3%
Interest earned by an approved provident fund	3%
Interest earned by the Social Insurance Fund	3%
Rental income less 25%	3%

Dividends

Exemptions:

- dividends received by a company resident in the Republic from another company resident in the Republic;
- dividends received by a company resident in the Republic or a company not resident in the Republic which maintains a permanent establishment in the Republic from a company which is non-resident in the Republic. This exemption does not apply if:
 - i. the non-resident company paying the dividend engages directly or indirectly more than 50% in activities leading to investment income; and
 - ii. the foreign tax burden on the income of the dividend paying company 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.

Interest income

Interest that is received as a result of the carrying on of a business activity, including interest closely connected to the ordinary activities of the business, and interest earned by open-ended or closed-ended collective investment schemes, is not considered interest for defence contribution purposes.

Deemed distribution

A company resident in the Republic is deemed to have made a distribution of 70% of its profits after taxation¹ in the form of dividends at the end of the two years from the end of the tax year to which the profits relate and must account for 15% defence contribution thereon.

A person who is a tax resident of Cyprus, who is deemed to receive dividends from a collective investment scheme, whose formation and operation is regulated by the Open-ended Collective Investments in Transferable Securities and Related Matters Law or any other law which regulates the formation and operation in the Republic of other collective investment schemes, is subject to defence contribution of 3 % of the deemed dividend.

¹ The term “taxation” includes in addition to the corporate tax, the defence contribution, the capital gains tax and any tax paid abroad that has not been credited against income tax and/or defence contribution payable for the relevant year.



The amount of deemed dividend is reduced by the amount of actual dividend distributed during the two preceding years and during the tax year to which the profits relate.

In cases where an actual dividend is paid after the two year period, any deemed distribution reduces the actual dividend on which defence contribution is withheld.

For the purpose of calculating the amount of the deemed distribution, "profits" mean the accounting profits arrived at using generally acceptable accounting principles, but after the deduction of any transfers to reserves as specified by any law. Any offset of group losses as well as any amounts, including any additional depreciation, which emanate or are the result of revaluation of movable and immovable property are ignored.

In the case of a person not being resident in the Republic receiving dividends from a company which is resident in the Republic, emanating from profits which at any stage were subject to deemed distribution, the contribution paid as a result of the deemed distribution which is attributable to such person is refundable.

In the case where a company disposes an asset to its shareholder (individual) or to his or her relative of up to second degree relationship or his or her spouse, without consideration or for consideration which is below the market value of the asset disposed, it is deemed that the company has distributed dividends to its shareholder, equal to the difference between the market value of the asset and the amount of the consideration.

The above will not apply in case the asset was received by the company by way of gift from its shareholder (individual) or from his or her relative of up to second degree relationship or from his or her spouse.

The deemed distribution provisions do not apply in relation to non-resident shareholders.

WITHHOLDING TAX AND DOUBLE TAX RELIEF

Tax credit for foreign tax paid

Any withholding tax suffered abroad on income which is subject to tax in Cyprus will be credited against Cypriot tax payable on such income irrespective of the existence of a double taxation treaty. Certain treaties also provide for double tax relief for underlying taxes suffered in the case of dividend income received by a Cyprus tax resident from a non-resident company.

Withholding tax on payments from Cyprus to non-residents

Payments of dividends and interest from Cyprus tax residents to non-residents are exempt from Cypriot withholding tax. Royalties paid for use of rights outside of Cyprus are also free of withholding tax in Cyprus. Where the rights are used inside Cyprus royalties are subject to 10% withholding tax (5% in the case of film and TV rights).

European Union Directives

Cyprus has adopted all EU Directives in relation to taxation including the Parent Subsidiary Directive, the Interest and Royalty Directive and the Mutual Assistance in the Collection of Taxes Directive.

DEDUCTIONS FOR INCOME TAX PURPOSES

Expenses incurred wholly and exclusively for the production of income are deductible for income tax purposes.

Non-deductible expense

The following are not deductible for income tax purposes:

Business entertainment expenses including hospitality expenses of any kind which are incurred for the business	Amounts in excess of 1% of the gross income or €17.086 (whichever is the lower)
Private motor vehicle expenses	The whole amount
Professional tax	The whole amount
Immovable property tax	The whole amount
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.	The whole amount

Expenditure which is not supported by invoices and relevant receipts or other supporting documentation as required by the relevant Regulations The whole amount

Contributions to the Social Cohesion Fund The whole amount

In addition expenses incurred in the generation of tax exempt income are not allowable for income tax purposes.

TAX LOSSES

Carry forward of losses

Losses are carried forward indefinitely subject to certain rules regarding change of ownership of a company.

Group relief

Losses for the current year only can be surrendered by a group company to another group company. Group relief will be given provided that both companies are members of the same group for the whole of a tax year.

Two companies are considered to be part of a group for group relief purposes if:

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

PROFITS FROM SHIPPING ACTIVITIES

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

- The income of a qualifying ship-owner from the operation of a qualifying Cyprus, community and/or foreign (under conditions) ship, in a qualifying shipping activity.
- The income of a qualifying charterer from the operation of a qualifying Cyprus, community and/or foreign (under conditions) ship, in a qualifying shipping activity.
- The income of a qualifying ship operator from the provision of ship management services of the crew and/or technical administration services.

- Dividends paid directly or indirectly from the profits mentioned above.
- Salaries and other benefits paid to the masters, officers and the crew of a qualifying Cyprus ship in a qualifying shipping activity.

For the purpose of the above-mentioned Law in the case of a Cyprus ship, the term "ship owner" includes also the bareboat chartered.

COMPANY REORGANISATIONS

In the event of a company reorganisation, unused losses brought forward will be transferred to the new company and the provisions dealing with the set off or transfer of losses will apply accordingly.

In addition transfers of assets during company reorganization (as defined in the tax law) can be performed tax-free.

THIN CAPITALISATION

Cyprus does not have any specific tax legislation with respect to thin capitalisation.

CFC RULES

There are no CFC rules in the Cyprus tax legislation.

TRANSFER PRICING

There are no specific transfer pricing rules in Cyprus. There is a general provision in the Cyprus tax law which states that all transactions between connected parties should be on an arm's length basis.

CAPITAL GAINS TAX

Capital Gains Tax is imposed on gains from disposal of immovable property situated in Cyprus including shares of companies not listed on a recognised Stock Exchange which own immovable property situated in Cyprus, at the rate of 20%.

STAMP DUTY

Stamp duty is payable on all agreements and documents which involve property situated in Cyprus as well as matters or issues which take place in Cyprus.

The rates of stamp duty are the following:

- on contracts with value of up to €170,860 the rate is 0.15%;
- on contracts with value of more than €170,860 the levy is €256.29 plus 0.2% on amounts over €170,860 with a maximum amount payable of €17,086.

If the agreement does not specify a fixed value then the stamp duty is €34.17.

CAPITAL DUTY

Capital duty of 0.6% is payable in Cyprus upon incorporation and any increase in the authorised share capital of a Cypriot company. The rates are as follows:

Registration of a limited company by shares or guarantee, with share capital	€102.52 plus 0.6% on nominal capital
Registration of a company without share capital	€ 170.86
Increase in the company's share capital	0.6% on the nominal value of the increase

Share premium is not subject to capital duty.

VAT

Value Added Tax is imposed on the provision 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.

Rates

Standard rate	15%
Reduced rate	8%
Reduced rate	5%
Zero rate	0%

Every company is obliged to register 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 European Union with nil registration threshold
- (d) offers distant sales with registration threshold of €35.000
- (e) is involved in the acquisition of goods from other EU member states and relates to persons who offer exempt supplies of goods and services or are non profitable organisations with registration threshold of €10.250
- (f) offers zero rated supplies of goods or services
- (g) acquires a company on a going concern basis.

DOUBLE TAX TREATIES

The following tables show the rates of withholding tax deducted from income, with countries that have signed a double taxation treaty with Cyprus.

	RECEIVED IN CYPRUS			PAID FROM CYPRUS*
	DIVIDENDS	INTEREST	ROYALTIES	ROYALTIES**
	%	%	%	%
ARMENIA ⁽²⁷⁾	0	0	0	0
AUSTRIA	10	0	0	0
BELARUS	5 ⁽⁴⁾	5	5	5
BELGIUM	10 ⁽¹⁾	10 ⁽¹⁶⁾	0	0
BULGARIA	5 ⁽¹⁹⁾	7 ⁽²⁵⁾	10 ⁽²⁰⁾	10
CANADA	15	15 ⁽⁷⁾	10 ⁽¹¹⁾	10 ⁽¹¹⁾
CHINA	10	10	10	10
CZECH REPUBLIC	0 ⁽³⁰⁾	0	10	10
DENMARK ⁽³¹⁾	10 ⁽¹⁾	10 ⁽⁹⁾	0	0
EGYPT	15	15	10	10
FRANCE	10 ⁽²⁾	10 ⁽⁹⁾	0 ⁽²⁶⁾	0 ⁽²⁶⁾
GERMANY	10 ⁽¹⁾	10 ⁽⁸⁾	0 ⁽²⁶⁾	0 ⁽²⁶⁾
GREECE	25 ⁽²¹⁾	10	0 ⁽¹²⁾	0 ⁽¹²⁾
HUNGARY	5 ⁽¹⁾	10 ⁽⁸⁾	0	0
INDIA	10 ⁽²⁾	10 ⁽⁸⁾	15 ⁽¹⁵⁾	15 ⁽¹⁵⁾
IRELAND	0	0	0 ⁽¹²⁾	0 ⁽¹²⁾
ITALY	15	10	0	0
KUWAIT ⁽³¹⁾	10	10 ⁽⁸⁾	5 ⁽¹⁴⁾	5 ⁽¹⁴⁾
KYRGYZSTAN ⁽²⁷⁾	0	0	0	0
LEBANON	5	5 ⁽¹⁶⁾	0	0
MALTA	0 ⁽²²⁾	10 ⁽⁸⁾	10	10
MAURITIUS	0	0	0	0
MOLDOVA	5 ⁽¹⁹⁾	5	5	5
MONTENEGRO ⁽²⁸⁾	10	10	10	10
NORWAY	5 ⁽³⁾	0	0	0
POLAND	10	10 ⁽⁸⁾	5	5
QATAR	0	0	5	5
ROMANIA	10	10 ⁽⁸⁾	5 ⁽¹⁴⁾	5 ⁽¹⁴⁾
RUSSIA	5 ⁽⁶⁾	0	0	0
SAN MARINO	0	0	0	0
SERBIA ⁽²⁸⁾	10	10	10	10
SEYCHELLES	0	0	5	5
SINGAPORE	0	10 ⁽²³⁾	10	10
SLOVAKIA ⁽²⁹⁾	10	10 ⁽⁸⁾	5 ⁽¹⁴⁾	5 ⁽¹⁴⁾
SLOVENIA ^{(28) (31)}	10	10	10	10
SOUTH AFRICA	0	0	0	0
SWEDEN	5 ⁽¹⁾	10 ⁽⁸⁾	0	0
SYRIA	0 ⁽¹⁾	10 ⁽⁸⁾	15 ⁽¹³⁾	15 ⁽¹³⁾
TAJIKISTAN ⁽²⁷⁾	0	0	0	0
THAILAND	10	15 ⁽¹⁷⁾	5 ⁽¹⁸⁾	5 ⁽¹⁸⁾
UKRAINE ⁽²⁷⁾	0	0	0	0
UNITED KINGDOM	0 ⁽²⁴⁾	10	0 ⁽²⁶⁾	0 ⁽²⁶⁾
USA	15 ⁽⁵⁾	10 ⁽¹⁰⁾	0	0
UZBEKISTAN ⁽²⁷⁾	0	0	0	0

Notes

* Payments of dividends and interest to non residents are exempt from withholding tax in Cyprus according to the Cyprus Legislation.

**Royalty payments for use of a right outside of Cyprus are also free of Cypriot withholding tax.

1. 15% if received by a company controlling less than 25% of the voting power.
2. 15% if received by a company controlling less than 10% of the voting power.
3. NIL if paid to a company controlling at least 50% of the voting power.
4. This rate applies 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.
6. 10% if received by company, which has invested less than \$100.000 (The Protocol to the existing treaty, which at the moment of preparing this update has yet to become effective, provides for a change in the amount invested from \$100.000 to €100.000).
7. NIL if paid to the Government or for export guarantee.
8. NIL if paid to the Government of the other State or to a financial institution.
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, dramatic, musical, artistic work, films and TV royalties.
14. NIL on literary, artistic or scientific work including films.

15. 10% on payment of technical fees, management fees and consultancy fees.
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. This rate is applicable if received by a company owning directly at least 25% of the capital. In all other cases the withholding tax is 10%.
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. The treaty provides for 25%, but the domestic rate of NIL applies since it is lower than the treaty rate.
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. The treaty provides for 15% withholding tax but the local taxation provides for 0% withholding tax.
25. NIL if paid to or is guaranteed by the government, statutory body, the Central Bank.
26. 5% on film royalties, including films used for television programs.
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 no less than one year. 5% in all other cases.
31. A new treaty has been signed which provides for changes in the above rates but which has not been ratified or published in the Government Gazette at the time of preparing this update.



Contacts

For more information you may contact any of our tax partners:

Pieris M. Markou

E-mail: pmarkou@deloitte.com

Antonis Taliotis

E-mail: ataliotis@deloitte.com

Paul Mallis

E-mail: pmallis@deloitte.com

Christos Papamarkides

E-mail: cpapamarkides@deloitte.com

Alecos Papalexandrou

E-mail: apapalexandrou@deloitte.com

Partners & Members of the Board of Directors

Christis M. Christoforou (*Chief Executive Officer*), Eleftherios N. Philippou, Nicos S. Kyriakides, Nicos D. Papakyriacou, Athos Chrysanthou, Costas Georghadjis, Antonis Taliotis, Panos Papadopoulos, Pieris M. Markou, Nicos Charalambous, Nicos Spanoudis, Maria Paschalis, Paul Mallis, Alexis Agathocleous, Panicos Papamichael, Christos Papamarkides, George Martides, Kerry Whyte, Andreas Georgiou, Christos Neocleous, Demetris Papapericleous, Andreas Andreou, Theophanis Theophanous, Alecos Papalexandrou, Michael Christoforou (*Chairman Emeritus*).

Our Offices in Cyprus

Nicosia

24 Spyrou Kyprianou Avenue
CY-1075 Nicosia, Cyprus
P.O.Box 21675
CY-1512 Nicosia, Cyprus
Tel.: + 357 22360300
Fax: + 357 22360400
E-mail: infonicosia@deloitte.com

Limassol

Maximos Plaza, Block 1, 3rd floor
213, Arch. Makariou III Avenue
CY-3030 Limassol, Cyprus
P.O. Box 58466
CY-3734 Limassol, Cyprus
Tel.: + 357 25868686
Fax: + 357 25868600
E-mail: infolimassol@deloitte.com

Larnaca

Patroclus Tower, 4th floor
41-43, Spyrou Kyprianou Avenue
CY-6051 Larnaca, Cyprus
P.O.Box 40772
CY-6307 Larnaca, Cyprus
Tel.: +357 24819494
Fax: +357 24661222
E-mail: infolarnaca@deloitte.com

<http://www.deloitte.com/cy>

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