

2007

Cyprus Tax Facts

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Contents

Income Tax	3
Special Contribution to the Defence Fund	13
Social Cohesion Fund	15
Social Insurance	16
Capital Gains Tax	18
Immovable Property Tax	20
Land Registry Office Fees	21
Stamp Duties	22
Special Levy on Stock Exchange Transactions	23
Value Added Tax	24
Ship Management Services	26
Double Taxation Agreements	28
Tax Calendar	30
Penalties	31

This publication is intended for general guidance only.

For any specific matter, reference should be made to professional advisors. The tax advisors of Ernst & Young will be pleased to discuss any issues that are of interest to you.



Chartered Accountants
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Charge of tax

Resident in Cyprus

In the case of a person who is tax resident in Cyprus tax is levied on all income accruing or arising from sources both within and outside Cyprus, in respect of:

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

Non-Resident in Cyprus

In the case of a person who is not tax resident in Cyprus, tax is levied on the income accruing or arising from sources in Cyprus only, in respect of:

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

Definitions

“Resident in Cyprus”, when applied to an individual, means an individual who stays in Cyprus for a period or periods exceeding in aggregate 183 days in the year of assessment and, when applied to a company, means a company whose management and control is exercised in Cyprus.

“Permanent establishment” means a fixed place of business through which the business of an enterprise is wholly or partly carried on, and includes a place of management, branch, office, factory, workshop, mine, oil or gas well, quarry or any other place of extraction of natural resources.

Income Tax

Exemptions

	Individuals	Other persons
Lump sum payment on retirement or commutation of pension, or a gratuity on death	100%	-
Capital sums from life insurance or approved provident funds	100%	-
Income from scholarship or other educational endowment	100%	-
Income of any religious, charitable or educational institution of a public character	-	100%
Income of any co-operative society in respect of transactions with its members	-	100%
Emoluments of foreign officers of an institution exercising educational, cultural or scientific function	100%	-
Emoluments of foreign diplomatic and consular representatives if not citizens of Cyprus	100%	-
Income of any local authority	-	100%
Income of any approved pension or provident fund or any insurance fund	-	100%
Income of any company formed exclusively for the purpose of promoting art, science or sport	-	100%
Pensions and special grants under special legislation	100%	-
Widow's pensions	100%	-

Exemptions

	Individuals	Other persons
Income from interest. Interest accruing to any person from the ordinary carrying on of any business including any interest closely connected with the ordinary carrying on of the business, is not exempted but included in the calculation of profit	100%	50%
Dividends	100%	100%
Remuneration from any office or employment exercised in Cyprus by an individual who was resident outside Cyprus before the commencement of his employment. This exemption applies for a period of three years commencing from 1 January following the year of commencement of employment	20% or £5,000 (lower of)	-
Profit from the sale of securities	100%	100%
Profits from a permanent establishment situated outside Cyprus, unless the permanent establishment directly or indirectly engages more than 50% in activities which lead to investment income and the foreign tax burden is substantially lower than the tax burden in Cyprus	100%	100%
Remuneration for the rendering outside Cyprus of salaried services for a total aggregate period in the year of assessment of more than 90 days to an employer not resident in Cyprus.	100%	-

Income Tax

Capital allowances

	Annual wear & tear allowance %
Industrial buildings	4
Agricultural buildings	4
Commercial buildings	3
Hotel buildings	4
Machinery, plant and furniture	10
Machinery and equipment of agricultural and animal husbandry business	15
Computer hardware and operating software	20
Application software	
- Upto £1.000	100
- Over £1.000	33 1/3
Tools	33 1/3
Tractors, excavators, trenches, cranes, bulldozers	25
Motor cars (except saloons) and motorcycles	20
New Cargo Ships	8
New Passenger Ships	6
Second hand cargo and passenger ships and additional capital expenditure	The cost is written off over the expected useful life of the ship based on the certificates issued by the Shipping Registry Organisation

Deductions for individuals

Expenses of rented property	20% of the rents
Interest paid in respect of rented buildings	100%
Subscriptions to unions or professional associations	100%
Donations to approved charitable institutions, supported by receipts	100%
Social insurance contributions, life insurance premiums and contributions to approved pension funds or medical funds	Up 1/6 of taxable income before the deduction of these allowances

The life insurance should be taken on the life of the taxpayer but not of his/her spouse. The allowance granted for insuring the life of the spouse is still valid for policies effected before 1 January 2003

The annual premiums are restricted to 7% of the insured amount

In the case of cancellation of a life insurance policy within 6 years from the day of its issue, a percentage of the premiums, which were previously allowed, is taxable as follows:

- Cancellation within 3 years 30%
- Cancellation from 4 to 6 years 20%

Income Tax

Deductions allowed for companies

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

- Repair of premises, plant, machinery and means of transport
- Ordinary annual contributions paid by an employer to approved funds
- Bad debts of any business
- Expenditure for scientific research
- Expenditure on patents or patent rights or royalties
- Donations or contributions made for educational, cultural or other charitable purposes without a limit
- Expenditure up to £350 for building area up to 100 sq m, up to £300 for building area of 101–1000 sq m, up to £200 for building area above 1000 sq m, made for maintenance, preservation or restoration of an ancient monument
- Interest in relation to the acquisition of business assets used in the business
- Contributions to a fund approved under regulations, for educational purposes and maintenance of an individual attending any university, college, school or other educational institution
- Expenses in relation to rents receivable
- Interest relating to a rented property.

Deductions not allowed

- Domestic or private expenses including the cost of travelling between the place of residence and the place of work
- Rent of premises owned and used by the person carrying on of a business
- Remuneration or interest on capital paid or credited by the person carrying on business
- Cost of goods taken out of the business for private use
- Disbursements or expenses not wholly or exclusively paid out for acquiring the income
- Any sum employed or intended to be employed as capital
- Expenditure for improvements, alterations or additions to immovable property
- Sums recoverable under an insurance or contract of indemnity
- Rent or cost of repairs of premises not incurred for the purposes of earning the income
- Taxes
- Payments of a voluntary nature
- Expenses of business entertainment, including hospitality of any kind, made in connection with a business and that exceeds 1% of the gross income of the business. In case that these expenses do not exceed 1% of gross income, then the allowable deduction is up to a maximum of £10,000
- Expenses of a private motor vehicle
- Interest applicable to the cost of purchase of a private motor vehicle or any other asset not used in the business. This provision does not apply after the lapse of seven years from the date of purchase of the relevant asset.

Income Tax

Tax Rates - Individuals

Taxable income £	Tax rate %	Amount of tax £	Accumulated tax £
0-10.000	0	0	0
10.000-15.000	20	1.000	1.000
15.000-20.000	25	1.250	2.250
Over 20.000	30		

Tax rates – Corporation tax 10%

Public corporated bodies 25%

Special tax rates

Foreign pensions of individuals:

- Upto £2.000	0%
- Over £2.000	5%

Income of a person from the rendering of ship management services, as these are specified in the Merchant Shipping Law (in the case of an individual, no personal allowances, credits or exemptions are allowed)	4,25%
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The gross amount of any royalty, premium, compensation or other income, derived from sources within Cyprus by any person not being resident, is subject to withholding tax	10%
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The gross amount of any rental in respect of the showing of cinematograph films in Cyprus, derived by any person who is not resident, is subject to withholding tax	5%
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The gross income derived by an individual not resident in Cyprus, from the exercise in Cyprus of any profession or vocation or of public entertainers including football clubs and other athletic missions, is subject to withholding tax	10%
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Income Tax

Tax Losses

Generally, loss from one source of income is set off against income from other sources in the same year. Any loss remaining after the set off is carried forward indefinitely.

Loss in respect of the year 1997 and after which was not set off against profits up to the year 2002 may be carried forward to the year 2003 and the following years.

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

Set-off of group losses are allowable only with profits of the corresponding year of assessment. Both companies should be members of the same group for the whole year of assessment.

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

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

Losses incurred by any person from any business carried on outside Cyprus, can be set-off from the same person's income from other sources for the same year.

In the case where an owner of a business, including a partnership, converts his business into a company, any accumulated losses of the owner may be carried forward to the company.

Special Contribution to the Defence Fund

Special contribution to the defence fund is imposed on income accruing from sources in Cyprus received by any person resident in Cyprus.

Rates

	Individuals %	Other persons %
Interest (except interest accruing to any person from the ordinary carrying on of his business)	10	10
Dividends received or deemed to be received from a company resident in Cyprus	15	-
Dividends received from abroad	15	15 ⁽¹⁾
Interest from savings certificates and developments stocks issued by the Government	3	10
Interest accruing to provident fund	-	3
Profits of a Public Corporate Body	-	3
Rents (reduced by 25% instead of actual expenses)	3	3

⁽¹⁾In case that the dividends are received from a company, the shareholders of which hold directly at least 1% of the share capital, then the dividends are exempt from the payment of special contribution. This exception does not apply if:

- the company paying the dividend engages more than 50% in activities that lead to investment income, and
- the foreign tax burden on the income of the company paying the dividend is substantially lower than the tax burden of the company that receives the dividend.

Refund

An individual whose annual income, including interest, does not exceed the amount of £7.000, has the right to a refund of the tax withheld on interest in excess of the amount corresponding to 3%.

Allowance for foreign tax

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

Special Contribution to the Defence Fund

Deemed distribution

A company resident in Cyprus has to pay 15% special contribution to the defence fund based on a deemed distribution of 70% of the accounting profits after taxation and before set-off of losses brought forward from previous years, after taking into consideration any dividends paid within the two years and which relate to residents of Cyprus.



Social Cohesion Fund

An employer is liable to pay a social cohesion fund contribution of 2% on the amount of the emoluments of the employees employed by him (without any restriction as to the amount of the emoluments).

Social Insurance

Contribution rates

	%
Self employed individuals	11,6
Employee	6,3
Employer	6,3
Employer's contribution to the Redundancy Fund	1,2
Employer's contribution to the Industrial Training Fund	0,5
Social Cohesion Fund	2

Social Insurance

Maximum limit of emoluments

	per week £	per month £	per year £
Weekly employees	496		26.288
Monthly employees		2.149	25.788

Minimum limit of emoluments for self-employed

	per week £	per year £
Persons exercising a profession		
- for a period not more than 10 years	182	9.464
- for a period of more than 10 years	366	19.032
Wholesalers, estate agents, insurance agents, manufacturers and other entrepreneurs	366	19.032
Skilled workers	177	9.204
Builders and persons practising a profession relevant to the building industry	222	11.544
Farmers, stock-farmers, fishermen and similar occupations	123	6.396
Drivers of transportation media, operators of excavators and similar occupations	177	9.204
Travelling salesmen	123	6.396
Persons not under any other occupation	182	9.464

Capital Gains Tax

Charge of tax

Tax is imposed on profits from disposal of immovable property situated in Cyprus, or shares in companies, which have immovable property in Cyprus, and such shares are not listed in any stock market.

Tax rate and determination of profit

The tax is imposed on the net profit from disposal at the rate of 20%.

The net profit is calculated as the disposal proceeds less the greater of the cost or market value on 1 January 1980 adjusted for inflation. Inflation is calculated using the official Retail Price Index. The index on 1 January 1980 was 67,15.

Exemptions

- Transfer by reason of death.
- Gifts to relatives within the third degree of kindred.
- Gift to a company of which the shareholders are and continue to be members of the disposer's family for five years after such gift.
- Gift by a company, of which all the shareholders are members of the same family, to any of its shareholders when the property gifted was also acquired by the company as a gift. The property must remain in the hands of the donee for a period of at least three years.
- Gift to the Republic or to a local authority for educational or other charitable purposes or to approved charitable institutions.
- Exchange or sale in accordance with the Agricultural Land (Consolidation) Laws.
- Exchange of properties where the values of the immovable properties being exchanged are equal.
- Gain on disposal of shares, which are listed on any Stock Exchange.
- Gains from transfer of property or shares in case of reorganisation.

Lifetime exemptions for individuals

	£
For sale of own residence	50.000
For sale of agricultural land by a farmer	15.000
For other sales	10.000

Immovable Property Tax

Charge of tax

Tax is imposed on the owner (individuals and legal persons) of immovable property in Cyprus as at 1 January of every year. It is calculated on the market value of immovable property on 1 January 1980 and is payable by 30 September in the year.

Rates

Value of property £	Rate ‰	Tax £	Accumulated tax £
1–100.000	0	0	0
100.001–250.000	2,5	375	375
250.001–500.000	3,5	875	1.250
Over 500.000	4		

Land Registry Office fees

Transfer fees

Value per plot £	Rate %	Fees £	Accumulated fees £
0–50.000	3	1.500	1.500
50.000–100.000	5	2.500	4.000
Over 100.000	8		

Mortgage fees

Loans			1%
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Stamp Duties

Receipts:

- for amounts of £2-£20 2 cents
- for amounts over £20 4 cents

Contracts:

- for amounts upto £100.000 £1,5 for every £1.000
- for amounts over £100.000 £2 for every £1.000
- unspecified amount £20

Registration of a limited liability company with authorised capital of:

- fixed fee £60
- plus £6 for every £1.000

Issue of shares by a limited company £10

Exemption

Transactions involved in a reorganisation of companies are exempt from stamp duty.

Special Levy on Stock Exchange Transactions

For the period between 1 January 2006 and 31 December 2007, all stock exchange transactions are subject to a special levy. The levy is paid by the seller to the CSE who is obliged to pay the levy to the State.

Individuals and legal persons 0,15%

Transactions exempted:

- issue and buy back of securities by the issuer
- transactions relating to non-convertible corporate bonds or debentures
- transactions relating to debentures, development stock and Government securities
- gifts of securities from parents to their children, between spouses or relatives upto the third degree of kindred
- transfer of securities by reason of death.

Value Added Tax

Rates

- 0% exports, supplies of food (unless the supply is in the course of catering), supplies of medicines and vaccines, commission from abroad for imports/exports to/from Cyprus, international air and sea transportation of persons, and goods and related services (except intra-community transport of goods), ship management services, goods that are to be placed in customs warehouses/bonded warehouses or free-zones and be subjected to the relevant customs regime or temporary importation/transit or transshipment regime goods that are intended to be incorporated into drilling, goods after importation but before customs clearance
- 5% supplies of animal feeding stuffs, supplies of fertilizers, supply of coffins, services supplied by undertakers, services of road cleaning, refuse collection and waste treatment (other than services provided by local administration), services of writers, composers and artists, supplies of water not bottled, supplies of liquified petroleum gas, newspapers, books, magazines and similar items, supplies of various goods for incapacitated persons, supplies of ice cream, chips and salted nuts, fares for urban and rural areas by bus
- 8% transportation of passengers and their luggage by taxi, restaurant services and other similar catering services for food, but excluding the supply of alcoholic beverages, accomodation provided by hotels and other similar establishments, including the provision of holiday accomodation, sea transportation of passengers within Cyprus and their luggage.
- 15% all supplies of goods or rendering of services, except those taxed at 0%, 5%, 8% or exempt.

Exemptions

- Rents
- Supplies of immovable property (except “new buildings”)
- Insurance and financial services
- Medical services
- Educational services

Registration

Registration for VAT is obligatory:

- at the end of any month, if the value of the taxable supplies (supplies taxed at the rates of 0% and/or 5% and/or 8% and/or 15%) in the period of one year then ending has exceeded £9.000, or
- at any time, if there are reasonable grounds for believing that the value of the taxable supplies in the period of 30 days then beginning will exceed £9.000.

Businesses with a turnover of less than £9.000 can be registered voluntarily.

Voluntary Registration

A person who has a business establishment in Cyprus or his usual place of residence is in Cyprus and he makes supplies outside Cyprus but would be taxable supplies if made within Cyprus, is entitled to voluntary registration.

Non recoverable VAT

- expenditure for entertainment of persons other than staff
- purchase of private saloon cars up to nine seats.

Ship Management Services

Tax rates

- Income derived from the rendering of ship management services is subject to tax at the rate of 4,25%.
- The rendering of ship management services to ships allows a company the option to:
 - (a) be taxed on its profits at the rate of 4,25%, or
 - (b) pay 25% of the gross tonnage tax of the ship. The tonnage tax is not levied in respect of ships under Cypriot flag, for which a tonnage tax has already been paid.
- The term 'ship management services' includes recruitment of crew as well as services relating to technical and financial management of the ship, under certain conditions.

Special contribution to the Defence Fund

Dividends derived directly or indirectly from profits from the exploitation of a ship under the Cypriot flag or from the rendering of ship management services are not subject to special contribution to the defence fund.

Double Taxation Agreements

	Received in Cyprus		
	Dividends	Interest	Royalties
	%	%	%
Austria	10	0	0
Belarus	10/15	5	5
Belgium	10/15	10	0
Bulgaria	5/10	7	10
Canada	15	0/15	0/10
China	10	10	10
Czech Republic	10	0/10	0/5
Denmark	10/15	0/10	0
Egypt	15	15	10
France	10/15	0/10	0/5
Germany	10/15	0/10	0/5
Greece	25	10	0/5
Hungary	5/15	0/10	0
India	10/15	10	15
Ireland	0	0	0/5
Italy	15	10	0
Kuwait	10	0/10	0/5
Lebanon	5	5	0
Malta	0	0/10	10
Mauritius	0	0	0
Norway	0/5	0	0
Poland	10	0/10	5
Romania	10	0/10	0/5
Russia	5/10	0	0
Singapore	0	7/10	10
South Africa	0	0	0
Soviet Union	0	0	0
Sweden	5/15	0/10	0
Syria	0/15	0/10	10/15
Thailand	10	10/15	5/10/15
United Kingdom	15	10	0/5
United States of America	5/15	0/10	0
Yugoslavia	10	10	10

Double Taxation Agreements

Paid from Cyprus
Royalties *

	%
Austria	0
Belarus	5
Belgium	0
Bulgaria	10
Canada	0/10
China	10
Czech Republic	0/5
Denmark	0
Egypt	10
France	0/5
Germany	0/5
Greece	0/5
India	10
Ireland	0/5
Italy	0
Hungary	0
Kuwait	0/5
Lebanon	0
Malta	10
Mauritius	0
Norway	0
Poland	5
Romania	0/5
Russia	0
Singapore	10
South Africa	0
Soviet Union	0
Sweden	0
Syria	10
Thailand	5/10
United Kingdom	0/5
United States of America	0
Yugoslavia	10
Countries without agreement	5/10

No tax is withheld for payment of dividends and interest to non-residents in Cyprus.

* No tax is withheld when the royalty is paid for use outside Cyprus.

Tax Calendar

Date	Obligation	Form	Penalties
April 30	Submission of Income Tax Return by individuals	I.R.1	1,4,6
	Submission of Employer's Return	I.R.7	
June 30	Submission of Income Tax Return by individuals who do not submit audited accounts but are obligated to issue invoices, receipts, etc.	I.R.1	1,4,6
	Payment of tax balance for the previous year by individuals who do not submit audited accounts but are obligated to issue invoices, receipts, etc.		4
	Payment of Contribution to the Defence Fund on rental income received during the first half of the current year	I.R.601	2
August 1	Submission of the Temporary Tax Assessment for the current year	I.R.6	3
	Payment of the first installment of tax based on the Temporary Tax Assessment		3
	Payment of the tax balance for the previous year	I.R.158	4
September 30	Payment of the second installment of tax based on the Temporary Tax Assessment		3
	Payment of Immovable Property Tax		9
December 31	Submission of Company Income Tax Return	I.R.4	1,4,6
	Submission of Tax Return, accounts and additional information by individuals who submit audited accounts	I.R.1	1,4,6
	Submission of revised Temporary Tax Assessment for the current year, if considered necessary	I.R.6	3
	Payment of the third installment of tax based on the Temporary Tax Assessment		3
	Payment of Contribution to the Defence Fund on income received during the second half of the current year	I.R.601	2
By the end of the next month	Payment of tax deducted from employees emoluments	I.R.61	5
	Payment of Contribution to the Defence Fund withheld from dividends and interest	I.R.601	2
	Payment of Social Insurance deducted from employees emoluments		10
By the 10th of the second month after the end of the VAT period	Submission of VAT Return and payment of VAT due	VAT 4	7,8
	Submission of VIES	VIES 1	11
By the 10th of the next month after the end of the period	Submission of Intrastat	INTRASTAT 1.1	12
		INTRASTAT	1.2

Penalties

- 1** Upon conviction for failure to submit a return, a person shall be liable to a fine not exceeding £10 per day for as long as failure continues, or to imprisonment for a term not exceeding 12 months, or both.
Any person who without any excuse omits any object of the tax from the return shall be liable, on conviction to a fine up to £2,000 plus the tax due plus an amount equal to two times the difference between the amount of tax properly imposed and the amount of tax that would have been imposed had the assessment been based on the return.
- 2** Interest at the rate of 9% per annum is imposed from the first day after the end of the six-month period. (Interest is calculated daily).
- 3** If any instalment of the temporary tax assessment is not paid by the due date, interest at the rate of 9% per annum is imposed.
If no temporary tax assessment was submitted and an assessment is issued by the Inland Revenue, interest at 9% per annum is payable on the overdue instalment plus an additional penalty of 5% on the whole amount of the temporary tax.
In addition, a penalty is imposed equal to 10% of the difference between the tax due per the final assessment and the tax per the temporary assessment if the temporary taxable income is less than 75% of the taxable income per the final assessment. (Interest is calculated for complete months).
- 4** If the tax is not paid by the due date, interest is imposed at the rate of 9% per annum (Interest is calculated for complete months).
Any outstanding tax due is liable to an additional penalty of 5% in the case where the tax return is not submitted within 30 days after the deadline and payment of the tax due is not made.
No penalty is imposed where the tax return is submitted timely, the tax due based on the Tax Return is timely paid and the Inland Revenue makes an assessment after the lapse of three years from the date of submission as prescribed by the law.
- 5** Late payment results in the imposition of interest at 9% per annum from the due date and an additional penalty of 1% per month for as long as the delay continues. (Interest is calculated for complete months).
- 6** Late submission results in the imposition of penalty equal to £30.
- 7** Late submission of the return results in the imposition of a penalty of £30 per VAT return.
- 8** Late payment of outstanding VAT results in the imposition of a penalty of 10% of the outstanding amount and interest at 9% per annum on the outstanding amount and the penalty. (Interest is calculated for complete months).
- 9** Interest is imposed at the rate of 9% per annum from the due date.
- 10** Late payment results in the imposition of a penalty of 3% for each month of delay as long as the delay continues. The total amount of the penalty cannot exceed 15% of the amount due.
- 11** Late submission of VIES results in the imposition of a penalty of £30 for each late month up to 3 months. If the form is not submitted within 3 months then fine up to £1500 may be imposed.
- 12** Late submission of INTRASTAT results in the imposition of a penalty of £5 for each late working day up to 30 working days. If the form is not submitted within 30 working days then fine up to £1500 may be imposed.



Chartered Accountants
Tax and Management Consultants

Head Office

Nicosia Tower Centre
36 Byron Avenue
1096 Nicosia
P O Box 21656
1511 Nicosia
Tel: 22209999
Fax: 22209998

Limassol

Nicolaou Pentadromos Centre
Office 908, Block A
3025 Limassol
P O Box 50123
3601 Limassol
Tel: 25209999
Fax: 25209998

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