

Cyprus: An efficient tax planning jurisdiction

Key facts and figures

Cyprus An island located in the Eastern Mediterranean, at the cross roads of three continents – Europe, Asia and Africa. Its strategic location has proven to be a key factor towards its development to a high-quality, internationally renowned business centre, providing an efficient and attractive gateway for inward and outward investments.

Its well established infrastructure, English legal system and common law foundations duly integrated with EU laws and regulations, well-educated work force, advantageous tax regime make Cyprus a most favourable, if not ideal, business location.

Notwithstanding the favourable business environment, Cyprus also offers a well-balanced and enjoyable way of life, with a most comfortable quality of life, low cost of living, nice Mediterranean climate, low crime rate, hospitable people, art and culture.

The robust telecommunications system, two international airports (Larnaca, Paphos) and two ports (Limassol, Larnaca) support the argument of ease of doing business through the island, thereby further enhancing its positioning as an international business center.

Relations with the EU EU Member State and member of the Eurozone

Residence	Individuals	Companies
	An individual is resident in Cyprus for tax purposes if he/she stays in Cyprus for a (cumulative) period in excess of 183 day in a tax year.	A company is perceived as a resident of Cyprus for tax purposes if its management and control is exercised in Cyprus.
	Note: specific formulas are applied for calculation purposes	Note: a company need not be a Cyprus registered company

Taxable persons Cyprus tax resident persons (individuals or companies) are subject to tax on their worldwide income.

Non-Cyprus resident persons are taxed on Cyprus-source income.

Tax rates	Individuals	Companies
	Personal income tax: <ul style="list-style-type: none"> Tax-free up to €19,500 Progressive rates up to 	Corporate income tax: 12.5%

35% on the remaining amount **Special Defence Contribution:**

- Dividends 20%
- Interest 30%
- Rents 3%

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Withholding tax rates

Dividends

No withholding tax on dividend payments to non-resident persons or resident companies.

Dividend payments to Cyprus-resident individuals suffer Special Defence Contribution by way of withholding tax at the rate of 20%.

Interest

No withholding tax on interest payments to non-resident persons.

Residents suffer Special Defence Contribution at the rate of 30% (this is imposed on passive interest, i.e. bank deposit interest).



Royalties

No withholding tax on royalties paid to non-residents for the use of rights outside Cyprus.

A 10% withholding tax is imposed on royalties paid to non-residents for the use of rights within Cyprus, reduced to 5% on film royalties.

The above rates can be reduced under a tax treaty or the EU Interest & Royalties Directive where applicable.

Royalties paid between Cyprus resident companies are not subject to withholding tax.

Technical fees

A 10% withholding tax applies on technical fees paid to non-residents.

This can be reduced under a tax treaty where applicable.

Technical fees paid between Cyprus resident companies are not subject to withholding tax.

Branch profits

No Cyprus withholding tax on the remittance of branch profits to the head office.

Rent

Rents paid by Cyprus resident companies or

partnerships to Cyprus residents suffer Special Defence Contribution at the rate of 3% on 75% of the gross rental income, which is withheld at source.

Double Tax Treaties

Armenia	Denmark	Kuwait	Qatar	Sweden
Austria	Egypt	Kyrgyzstan	Romania	Syria
Azerbaijan	France	Lebanon	Russia	Tajikistan
Belarus	Finland	Luxembourg	San Marino	Thailand
Belgium	Germany	Malta	Serbia	Turkmenistan
Bosnia & Herzegovina	Greece	Mauritius	Seychelles	UAE
Bulgaria	Hungary	Moldova	Singapore	UK
Canada	India	Montenegro	Slovakia	Ukraine
China	Ireland	Norway	Slovenia	US
Czech Republic	Italy	Poland	South Africa	Uzbekistan

Note:

- (a) Former treaty signed between Cyprus and USSR applies.
- (b) New treaty signed on January 17, 2011, but not yet in force.
- (c) Treaty initialled on October 19, 2007, but not yet in force.
- (d) New treaty signed on February 27, 2011, but not yet in force.

Dividend income Dividend income is expressly exempt from income tax.

Dividends paid to Cyprus-resident individuals are subject to Special Defence Contribution by way of withholding tax as above.

Dividends received from resident or non-resident subsidiary companies are subject to a full participation exemption provided that the subsidiary is **either** taxed at a rate not significantly lower than the Cyprus tax rate (i.e. not less than half of the Cyprus tax rate) **or** derives more than 50% of its total income from active source and trading activities, irrespective of holding period or participation percentage.

Interest income Interest income deriving from the ordinary or close to the ordinary course of business of a company (including interest income from group financing activities) is subject to Corporate Income Tax currently set at 12.5%.

Passive interest income (i.e. bank deposit interest) is subject to Special Defence Contribution by way of withholding tax as above.

Royalty income Royalty income is taxed at the current corporate income tax rate of 12.5%, however, A deemed/notional expense of 80% of the profit arising from the use and from any gain from the sale of qualifying intellectual property is allowed, while the balance forms part of the taxable profits of a Cyprus company and is taxed at the applicable corporate income tax rate currently set at 12.5%.

Capital Gains Gains from the sale of shares and other qualifying titles are exempt from Corporate Income Tax.

Such gains are also exempt from Capital Gains Tax provided that they are not deriving from the direct sale of property-rich companies, where the immovable property is situated in Cyprus.

Capital Gains Tax is imposed only on the gains from the sale of immovable property situated in Cyprus or on the gains from the sale of shares in companies the main asset of which is Cyprus situated immovable property.

Tax losses Tax losses may be set-off against income from other sources in the same year. Up to 31 December 2012, unused losses could be carried forward to subsequent years until their utilisation without restrictions being applicable. As from 1 January 2013 they can be carried forward for 5 years.

No carry-back is available.

Group relief Tax consolidation is available for companies in 75% group, provided that both companies are Cyprus tax residents during the entire year. This is extended to subsidiary companies incorporated any time during a tax year.

Registration and capital duties Company registration duties, imposed on the registration of limited liability companies by shares or guarantee, with share capital are set at €105, plus a capital duty (subscription tax) of 0.6% on the amount of nominal capital.

Capital duty of 0.6% is also imposed on the nominal value of any subsequent increase of share capital.

No capital duty is imposed on share premium.

Transfer fees Transfers of shares are not subject to transfer fees. Administrative fees apply on the filing of the form on the issue and allotment of shares.

The transfer of Cyprus situated land and buildings is subject to transfer fees on progressive rates as follows:

Property value (€)	Transfer fees payable (%)
up to 85,430	3%
85,431 – 170,860	5%
Over 170,860	8%

Stamp duty Stamp Duty is payable on any document relating to property situated in Cyprus or matters or things to be executed or done in Cyprus, irrespective of the place of its execution.

As from 1st March 2013, the applicable rates are as follows:

Contract value (€)	Stamp duty payable
1 – 5,000	-
5,001 – 170,000	0.15%
Over 170,000	0.20% Capped at €20,000

Stamp duty is payable on agreements for the sale/transfer of Cyprus situated immovable property and likely to be payable on share pledge agreements, share purchase agreements and instruments of transfer all relating to Cyprus Company shares.

CFC rules	No
Thin Capitalisation rules	No
Transfer Pricing rules	Arm's length principle applies Transfer Pricing guidelines under consideration
Other Anti-Avoidance Rules (GAARs, SAARs)	No

Tax ruling system Yes

VAT	
Standard rate	18% up to 12 January 2014
	19% as from 13 January 2014
Reduced rate	8% up to 12 January 2014
	9% as from 13 January 2014
Reduced rate	5%
Zero rate	0%