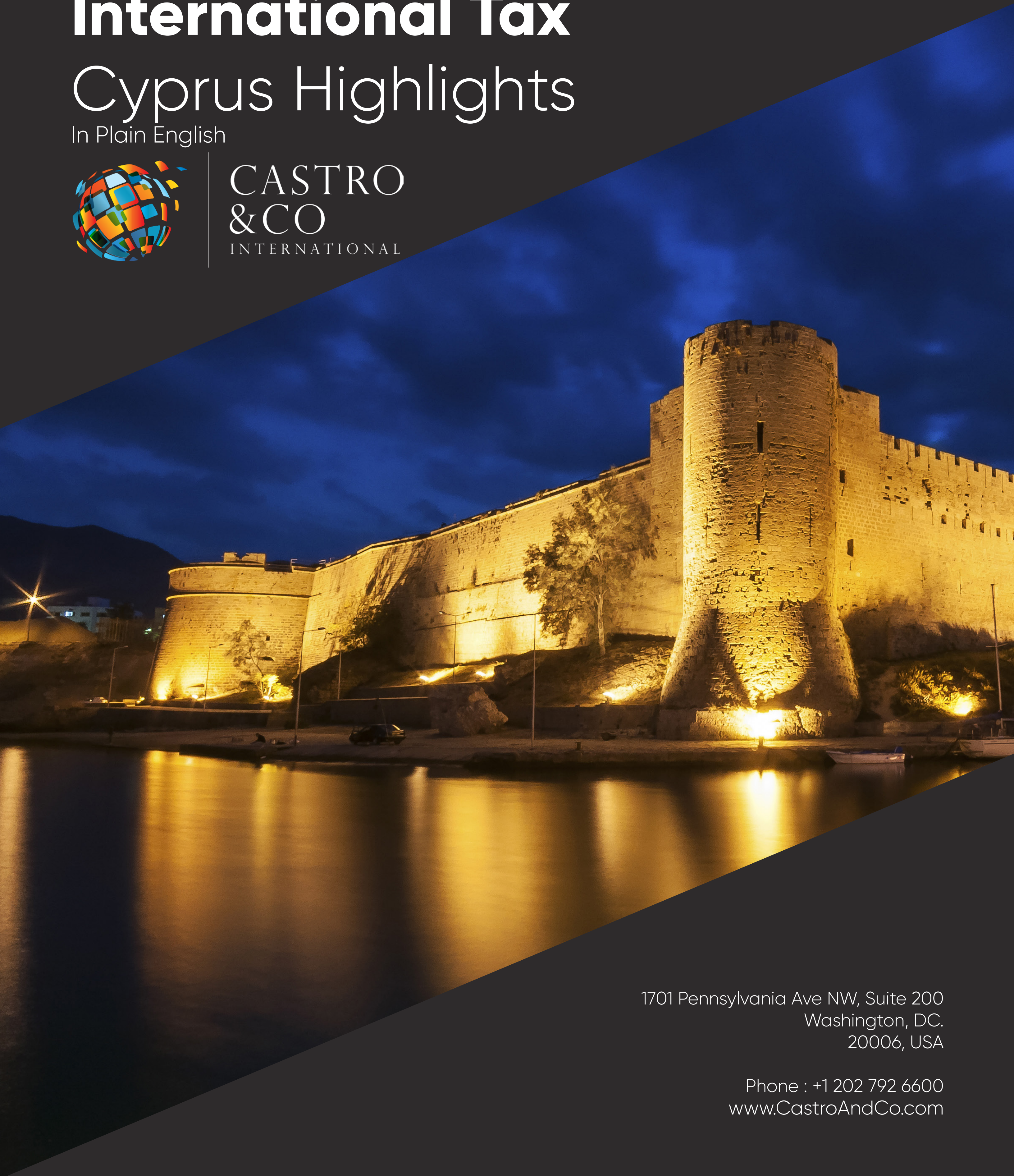
International Tax

Cyprus Highlights

In Plain English

CASTRO &CO INTERNATIONAL



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Investment basics:

Currency – Euro (EUR)

Foreign exchange control – There are no exchange controls.

Accounting principles/financial statements – IAS/IFRS. Financial statements must be prepared annually.

Principal business entities – These are the public and private limited liability company, partnership and branch of a foreign corporation.

Corporate taxation:

Residence – A company is resident in Cyprus if its management and control is exercised in Cyprus. Registration in the country is not decisive.

Basis – Resident companies are taxed on worldwide income. Nonresident companies are taxed only on Cyprus-source income. Branches are taxed in the same way as tax resident companies.

Taxable income – Corporation tax is imposed on business profits; interest and discounts; rents, royalties, remuneration or other profits from property; and net consideration in respect of trade goodwill. Expenses incurred for the production of taxable income are tax deductible if supported by invoices or relevant receipts. Losses carried forward or surrendered by other group companies (group relief) may be offset against taxable profits.

Taxation of dividends – Dividends received by a Cyprus resident company are exempt from corporation tax

(whether received from a company located in Cyprus or abroad). Dividends received by a Cyprus resident company are exempt from the Special Contribution for Defense (SCD), unless the dividends are paid out of profits that are more than four years old. Dividends received from a nonresident company also generally are exempt from SCD, although the exemption does not apply if more than 50% of the nonresident payer company's activities, directly or indirectly, lead to investment income and the foreign tax burden on the income of the nonresident payer is substantially lower than the tax burden of the company in Cyprus (i.e. less than 6.25%). If not exempt, dividends are liable to SCD at 17%.

As from 1 January 2016, dividends received by a Cyprus company from investments in hybrid instruments that are treated as a tax-deductible expense in the country of the payer are treated as trading profits subject to income tax (i.e. they are not considered dividends exempt from SCD).

Capital gains – Gains derived from the sale of shares are tax-exempt. Capital gains tax at a rate of 20% is imposed on gains from the disposal of immovable property situated in Cyprus and on gains from the disposal of shares in an unlisted company that owns, directly or indirectly, immovable property situated in Cyprus.

Losses – Tax losses may be carried forward for five years for set off against future taxable profits. The carryback of losses is not permitted.

Rate – Companies and public corporate bodies are subject to corporation tax at 12.5%. Certain types of income are subject to SCD at 17% (dividends), 30% (interest) and 3% (rents).

Surtax – No

Alternative minimum tax – No

Foreign tax credit – A unilateral tax credit is granted for tax paid abroad, regardless of the existence of a tax treaty. The provisions of a relevant tax treaty will apply if they are more beneficial.

Participation exemption – See "Taxation of dividends" and "Capital gains."

Holding company regime – There is no special holding company regime, but dividend income and capital gains generally are exempt from tax (see "Taxation of dividends" and "Capital gains").

Incentives – An IP regime that is in line with the recommendations under the OECD BEPS project adopts the "nexus" approach and deems 80% of qualifying profits generated from qualifying IP assets to be a tax-deductible expense. Qualifying profits are calculated based on the level of research and development activities performed by the taxpayer to develop the qualifying assets. Qualifying assets include patents, copyrighted software programs and other intangible assets that are non-obvious, useful and novel; trademarks and copyrights are not included.

Under grandfathering provisions published on 27 October 2016, certain taxpayers may continue to apply Cyprus' previous IP regime until 30 June 2021. Under this regime, 80% of the net profit from the exploitation of IP is exempt from taxation. The net profit is calculated after deducting from the IP income all direct expenses associated with the production of the income, as well as capital allowances at 20%.

Resident companies and nonresident companies with a permanent establishment in Cyprus are entitled to a notional interest deduction of up to 80% of their taxable income on new equity. Qualifying new equity includes share capital and share premium issued and settled on or after 1 January 2015.

Special taxation regimes exist for ship-owning, chartering and ship management companies that own, charter or manage a qualifying ship in a qualifying shipping activity.

Withholding tax:

Dividends – Dividends paid to a nonresident (company or individual) are not subject to withholding tax. Dividends paid to a resident company are not subject to withholding tax, subject to the four-year rule (see "Taxation of dividends" above), but dividends paid to a resident and domiciled individual are subject to SCD at 17% (applied as a withholding tax).

Interest – No withholding tax is imposed on interest paid to a nonresident. Interest paid to a resident is subject to 30% SCD, which is withheld at source.

Royalties – Royalties paid to a nonresident for the use of rights in Cyprus are subject to a withholding tax of 5% on film royalties, and 10% on all other royalties. These rates may be reduced under a tax treaty or the EU interest and royalties directive. Royalties paid to a nonresident for the use of rights outside Cyprus are exempt from withholding tax. There is no withholding tax on the payment of royalties by one resident company to another.

Technical service fees – Technical fees paid to a nonresident are subject to a 10% withholding tax, unless the rate is reduced under a tax treaty. There is no withholding tax on the payment of technical fees by one resident company to another.

Branch remittance tax – No

Other – Rent paid by a Cyprus resident company or partnership, the government or any other local authority to a Cyprus tax resident is subject to a 3% SCD on 75% of the gross rental income, which is withheld at source.

Other taxes on corporations:

Capital duty – Capital duty of EUR 105, plus 0.6%, is payable on the nominal value of authorized share capital.

Payroll tax – Under the PAYE system, the employer is required to withhold personal income tax on the salary of its employees.

Real property tax – No

Social security – An employer must make social insurance contributions equal to 10% of an employee's gross salary, subject to a cap on the annual earnings on which the contributions are payable. An employer also is required to contribute 2% of all earnings of its employees to the social cohesion fund.

Stamp duty – Stamp duty is payable on a document if it relates to property situated in Cyprus or to an act to be performed in Cyprus. Stamp duty on commercial contracts is charged at rates that vary according to the contract amount. A ceiling of EUR 20,000 per document applies.

Transfer tax – The transfer of immovable property is subject to a transfer fee ranging from 3% to 8%, calculated on the market value of the property as estimated by the land registry department. A 50% reduction in the transfer fees that initially applied for immovable property transfers up through 31 December 2016 was extended indefinitely, and a 100% exemption applies if the transfer of the immovable property is subject to VAT.

Other – The SCD is imposed on income derived by Cyprus resident companies and individuals resident and domiciled in Cyprus, and is levied on dividends (17%), interest (30%) and rent (3%). Some exemptions apply (see "Taxation of dividends").

A basic levy of 0.15% (paid in four installments of 0.0375%) on specified deposits is payable by all credit institutions incorporated in Cyprus and by their foreign branches.

An annual company levy of EUR 350 is imposed on companies, capped at a total of EUR 20,000 for companies in a group. The levy is payable by 30 June of each year; penalties apply for late payment.

Anti-avoidance rules:

Transfer pricing – Transactions between related parties must be carried out at market value and on arm's length commercial terms.

Thin capitalization – No, but EU anti-tax avoidance directive (ATAD) interest restriction provisions are expected to apply as from 1 January 2019.

Controlled foreign companies – No, but EU ATAD controlled foreign company provisions are expected to apply as from 1 January 2019.

Disclosure requirements – Cyprus has adopted country-by-country (CbC) reporting in line with BEPS action 12 and the EU directive on the mandatory automatic exchange of tax information. A Cyprus resident parent company of a multinational group must file an annual CbC report with the Commissioner of Income Tax if the consolidated turnover of the group exceeds EUR 750 million. A Cyprus resident member (constituent entity) of a multinational group headquartered outside Cyprus also may be required to submit a CbC report in Cyprus under the secondary filing mechanism.

The CbC report, which covers each jurisdiction in which the multinational group conducts business activities, must include information on revenue, profit (loss) before income tax, income tax paid, the number of employees and tangible assets other than cash or cash equivalents. There also are certain notification obligations with respect to informing the Cyprus tax authorities of the identity of the ultimate parent entity and the reporting entity.

Cyprus has adopted the EU tax intermediaries' directive (DAC6) on the mandatory automatic exchange of tax information with respect to reportable cross-border arrangements.

Other – A general anti-avoidance provision allows the Commissioner of Income Tax to disregard artificial/fictitious transactions and assess tax on the person concerned.

Compliance for corporations:

Tax year – The tax year is the calendar year. The accounts of a company may be closed on a date other than 31 December, in which case, taxable profits are apportioned on a time basis to the relevant tax years.

Consolidated returns – Taxation on a consolidated basis is not permitted and each company must submit a separate return. The setoff of group losses is possible provided there is a 75% parent-subsidiary relationship, including subsidiaries under the 75% control of a common parent company. Group loss relief is available between resident companies and companies resident in another EU member state.

Filing requirements – Electronic filing is mandatory for companies. The deadline for the electronic submission of the tax return is 31 March of the second year following the tax year of assessment. Companies must make two provisional payments of tax on 31 July and 31 December. If the income declared for the payment of the provisional tax is lower than 75% of the income as finally determined, an additional amount equal to 10% of the difference between the final and provisional tax is payable.

Penalties – Administrative penalties of EUR 100 or EUR 200 (depending on the circumstances) are imposed for the late filing of a tax return or the late submission of information requested by the tax authorities. Further, where the tax liability reported on the tax return is not paid by the statutory deadline or the date provided in an assessment issued by the Commissioner of Income Tax, an additional 5% penalty on the tax payable is imposed. If a company fails to settle its tax obligations for the relevant tax year within two months after the payment deadline, an additional 5% penalty on the tax payable is imposed. Interest is charged on late payments at 3.5% per annum.

Rulings – Rulings are available on matters of interpretation of the tax law. A fee of EUR 1,000 must be paid for a tax ruling by the Commissioner of Income Tax (increased to EUR 2,000 if the taxpayer requests an expedited ruling, i.e. within 21 business days from the date the request was submitted).

Personal taxation:

Basis – A resident individual is subject to income tax on his/her worldwide income. A nonresident individual is taxed only on Cyprus-source income. Certain types of income are subject to SCD at 17% (dividends), 30% (interest) and 3% (rent).

Residence – An individual is resident in Cyprus for income tax purposes if he/she stays in Cyprus for a period or periods exceeding 183 days in the aggregate in a tax year. An individual also may become a tax resident of Cyprus even if he/she does not spend more than 183 days in the Republic, if he/she does not spend more than 183 days in any other state within a tax year, is not a tax resident of any other state within the same tax year, remains in Cyprus for at least 60 days in the tax year, maintains a permanent home in Cyprus that is either owned or rented and carries on a business in Cyprus, or is employed in Cyprus or holds an office in a Cyprus tax resident person at any time during the tax year. For SCD purposes, an individual is a resident if he/she also is domiciled in Cyprus.

An individual is “domiciled in Cyprus if he/she has a domicile of origin in Cyprus based on the provisions of the Wills and Succession Law (WSL) (i.e. domicile of the father at the time of birth), except in specified cases. An individual who is resident in Cyprus (as defined in accordance with the provisions of the Income Tax Law) for at least 17 out of the 20 years before the relevant tax year will be deemed to be domiciled in Cyprus, irrespective of his/her domicile of origin.

Filing status – Each individual is assessed on a separate basis; joint assessment of couples is not permitted.

Taxable income – Personal income tax is imposed on income from an office or employment; business profits; discounts; pensions; charges or annuities; rents, royalties, remuneration or other profits from property; and net consideration in respect of trade goodwill. Benefits in kind are included in taxable income. If a company director or individual shareholder (or spouse or relatives (up to the second degree)) receives a loan or financial assistance from the company, he/she will be deemed to have received a benefit in kind equal to 9% per annum of the loan/assistance.

Capital gains – Gains derived from the sale of shares are tax-exempt. Capital gains tax at a rate of 20% is imposed on gains from the disposal of immovable property situated in Cyprus and on gains from the disposal of shares in an unlisted company that owns, directly or indirectly, immovable property situated in Cyprus.

Deductions and allowances – The most important personal deductions are: donations to approved charities; social insurance fund contributions (and similar contributions paid abroad); life insurance premiums; pension plan contributions; and medical fund contributions. Expenses incurred for the production of taxable income are tax deductible provided they are supported by invoices or relevant receipts.

Rates – The first EUR 19,500 is tax-free, with progressive tax rates up to 35% imposed on the remaining amount.

Other taxes on individuals:

Capital duty – No

Stamp duty – Stamp duty is payable on a document if it relates to property situated in Cyprus or to an act to be performed in Cyprus. Stamp duty on commercial contracts is charged at rates that vary according to the contract amount. A ceiling of EUR 20,000 per document applies.

Capital acquisitions tax – No

Real property tax – No

Inheritance/estate tax – No

Net wealth/net worth tax – No

Social security – An employee is required to make social insurance contributions at 8.3% of his/her salary (subject to a maximum cap on salary of EUR 54,652 for 2019). Self-employed individuals contribute at 15.6%. The contribution is calculated on notional income, which varies according to the trade or profession.

Compliance for individuals:

Tax year – Calendar year

Filing and payment – The employer withholds tax on employment income under the PAYE system. A self- employed individual pays tax through the provisional and self-assessment systems.

Tax returns must be submitted in electronic form or by other means approved by the Commissioner. The tax return must be filed by 30 July following the tax year for an employee; 30 September for a self-employed individual who is not required to file audited accounts; and 31 March of the year following the tax year for a self- employed person whose return is accompanied by audited accounts. Self-employed individuals with annual turnover of more than EUR 70,000 must prepare audited accounts.

Penalties – Administrative penalties of EUR 100 or EUR 200 (depending on the circumstances) are imposed for the late filing of a return or late submission of information requested by the tax authorities. Further, where the tax liability reported on the tax return is not paid by the statutory deadlines or the date provided in an assessment issued by the Commissioner of Income Tax, an additional 5% penalty on the tax payable will be imposed. If an individual fails to settle his/her tax obligations for the relevant tax year within two months after the payment deadline, an additional 5% penalty on the on the tax payable is imposed. Interest is charged on late payments at 3.5% per annum.

Value added tax:

Taxable transactions – VAT is levied on the sale of goods, the provision of services and the import of goods from outside the EU.

Rates – The standard rate is 19%, and there are reduced rates of 0%, 5% and 9%. Certain supplies are zero-rated or exempt.

Registration – The registration threshold for VAT purposes is EUR 15,600 (EUR 10,251 for intra-community acquisitions of goods). A VAT registration obligation also is triggered when providing taxable supplies to EU VAT registered persons (irrespective of the amount). Additionally, all taxable persons making taxable supplies of goods or services to nontaxable persons must issue and deliver "legal receipts." Penalties apply for failure to comply.

Filing and payment – The deadline for submission of the quarterly VAT return and VAT payment is the 10th of the second month following the relevant period.

Source of tax law: Income Tax Law, Special Defense Contribution Law, Capital Gains Tax Law, VAT Law, circulars of the Commissioner of Income Tax, court cases

Tax treaties: Cyprus has concluded 63 tax treaties. Cyprus signed the OECD MLI on 7 June 2017.

Tax authorities: Tax Department