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cutting through complexity

Cyprus Tax Guide 2015

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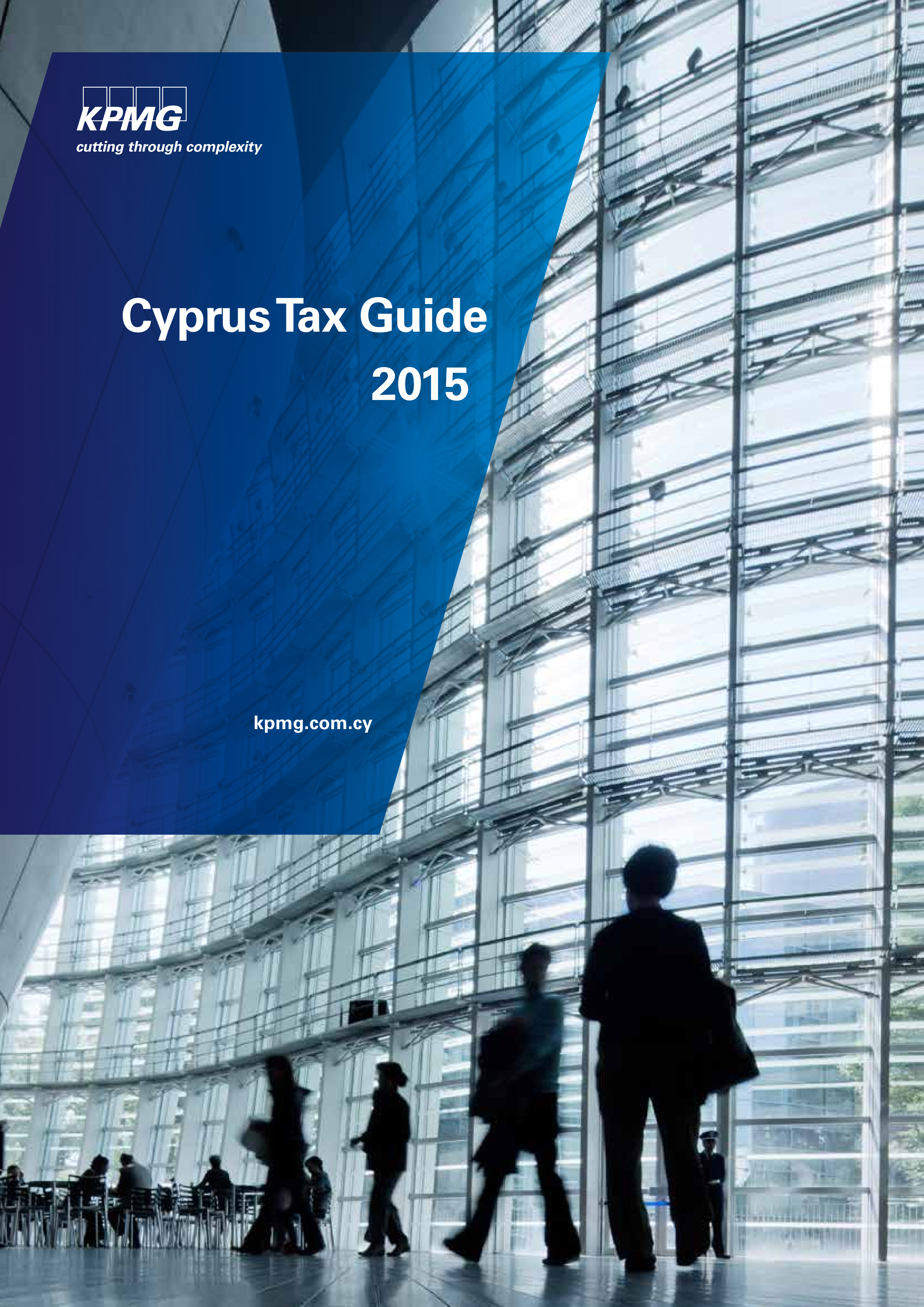

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KPMG in Cyprus

KPMG is a global network of professional firms providing Audit, Tax, and Advisory services. We operate in 155 countries and have 162.000 people working in member firms around the world.

KPMG's offices in individual countries operate in coordination and in compliance with KPMG's international values, quality standards and services. At the same time, the relative independence allowed by KPMG International, enables the individual countries' offices to develop a strong local presence, using both their local market knowledge and KPMG's know-how and international information resources.

KPMG in Cyprus traces its origins back in 1948 and today is one of the largest audit and advisory firms in the Cyprus market.

In today's ever-changing business environment, there is a need for professional business advisors, who do not only have the ability to see the broader picture, but also the commitment and desire to serve each client as an individual.

Quality service is a total and continuing commitment. Our highest priority is to work closely with our clients, listen carefully and help them in anticipating and defining future needs and opportunities.

The integrated approach of our services is based on the following:

- Market Specialisation

→ our strategic advantage

- Technology Usage

→ our leading edge

- International Reach

→ our outlook

Our goal is to help our clients become more successful through close collaboration and quality in service, always aiming to satisfy and exceed their expectations. Relying on our people and their competences, together we succeed.

Introduction

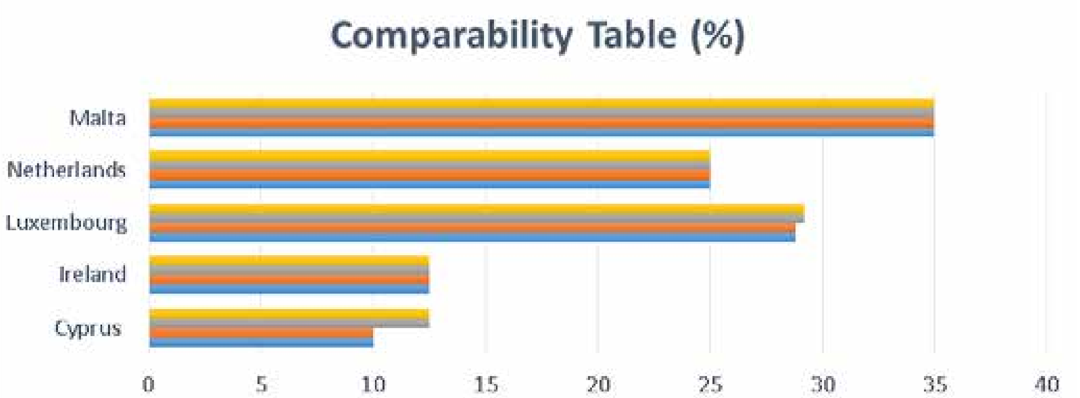
Why Cyprus

Cyprus has been a full member of the European Union since 2004 and a member of the Eurozone since 2008. Cyprus successfully assumed the presidency of the European Union in the second half of 2012. The geographic position of Cyprus, connecting Europe to Africa, the Middle East and Asia naturally make the island a hub for business and trade.

At a glance

- Cyprus has one of the most competitive corporate tax regimes in the EU and double taxation treaties with over 50 countries. The OECD lists Cyprus on its "white list" as one of the countries that have implemented the internationally agreed standard. The provisions of the Cyprus legislation have been amended in this respect, rendering the country completely compatible with the internationally agreed tax standard on the exchange of information
- Full compliance with EU tax directives
- All double tax treaties that Cyprus has entered into after the introduction of the new Article 26 of the OECD Model Tax Treaty regarding the exchange of information between treaty partners have fully adopted the revised Article 26. In all treaty negotiations that are currently under way, Cyprus insists on adopting the new Article 26
- Member of the OECD Convention on Mutual Administrative Assistance in Tax Matters
- Early adopter of the OECD's new single global standard for the automatic exchange of information between tax authorities worldwide
- Full compliance with FATCA on the basis of a Model I IGA
- Advanced transport and telecommunications infrastructure with high-speed internet and mobile telecommunications, two international airports (Larnaca and Paphos) and sea ports (Limassol and Larnaca) with close proximity to the Suez Canal
- Robust legal system based on common law in compliance with EU law – easily understood by international businesses
- The Knight Frank Global Lifestyle Review has ranked Cyprus the 5th best country to relocate
- Transparency International ranks Cyprus as 31st out of 175 countries for perceived levels of corruption in the public sector for 2014
- The Basel AML Index issued by the Basel Institute on Governance ranks Cyprus for 2014 as 125th out of 162 jurisdictions on the country's risk level in money laundering/terrorist financing based on its adherence to AML/CTF standards and other risk categories such as financial regulations, public transparency, corruption and rule of law thus listing it as one of the least likely jurisdictions for AML/CTF.

Corporate Tax Rate Comparison 2011 - 2014



	Cyprus	Ireland	Luxembourg	Netherlands	Malta
2014	12,5	12,5	29,22	25	35
2013	12,5	12,5	29,22	25	35
2012	10	12,5	28,8	25	35
2011	10	12,5	28,8	25	35

Company Taxation

a. Tax Residency

A company is considered to be tax resident in Cyprus if its management and control is exercised in Cyprus. Several factors should be taken into consideration to establish where the management and control of a company is exercised. Such factors are:

- the make up and the residence of the Board of Directors;
- the place where major decisions are taken; and
- the place where the major contracts are signed.

Tax residency is required in order for a company to be taxed under the Cyprus tax laws and also for taking advantage of all European Directives as well as the Double Tax Treaty (DTT) network that Cyprus has secured for tax residents.

b. Tax Rates

The Cyprus tax regime is not incentive based; Cyprus' 12,5% corporate income tax rate, one of the lowest in the European Union is applicable on active businesses incurring trading income from any industry or sector.

Investment income is taxed under Special Defence Contribution at a different rate ranging from 3% to 30% depending on the type of income such as dividends, interest and rents.

c. Trading Profits

Tax resident companies are subject to tax on their income accrued or arising from sources both within and outside Cyprus whereas companies that are not tax resident in Cyprus are potentially subject to tax on income accruing or arising from sources within Cyprus (e.g. Cyprus land/buildings).

However, in arriving at the taxable income, certain types of income are exempt from corporate tax in Cyprus, such as dividends, capital gains or profit from the sale of shares and other securities.

d. Arriving at taxable income

Several deductions and exemptions are taken into account in the determination of taxable income. Under the general principle, expenses are allowed as a deduction from the taxable base if (i) they are incurred wholly and exclusively in the production of income; (ii) are specified as tax deductible in the Cyprus Income Tax law and; (iii) are not specifically disallowed under the Cyprus Income Tax Law and the Circulars issued by the Income Tax Office.

e. Deductions

Interest

Interest on debt facilities incurred for the acquisition of assets used in the business, is generally tax deductible. In respect of interest on loans obtained for the acquisition of shares in another company it may be tax deductible if (i) the shares of the company are directly or indirectly wholly acquired (i.e. 100% shareholding) and (ii) the acquired company holds assets used in the business.

Deemed deduction on qualifying IP income

An 80% deemed deduction is allowed from qualifying IP income subsequent to the deduction of direct expenses incurred in the production of such income and the write-off of capital expenditure over a 5 year period.

Expenses on Scientific Research

Expenditure for scientific research, incurred by a person carrying on a business, that has been incurred for the use and benefit of the business shall be allowed as a deduction. To the extent that such expenditure is capital in nature and is not eligible for annual wear and tear capital allowances, a depreciation on a straight-line basis over a period of six years is available.

Miscellaneous Expenses

Expenses wholly and exclusively incurred in the production of income are allowed as a deduction from the company's taxable income. All expenses should be supported by evidence (e.g. invoices, receipts) as provided for in the Cyprus Income Tax Laws.

For payroll items to be allowed as an expense, all associated social security, provident fund or pension contributions have to be paid to the authorities within the year those are due.

Business Entertainment

Expenses incurred in the course of business entertainment are generally tax deductible whilst being subject to a cap at the rate of 1% of gross income with a maximum amount of €17.086.

Expenses related to Innovation companies

All expenses related to research and development undertaken by innovation companies as well as all expenses incurred in the purchase of shares in innovation companies will be treated as a deduction from taxable income.

f. Exemptions

Interest Income

Interest income not derived from, or closely related to, the company's ordinary trading activities is exempt from corporate income tax; it may however be taxed as investment income (see section on investment income). Interest derived from, or closely related to, the company's ordinary trading activities is taxed under corporate income tax at 12,5%.

Dividend Income

Dividend income is exempt from income tax; it may however be taxed as investment income (see section on investment income).

Gain from the disposal of securities

Any income/gain arising from the sale of securities is completely exempt from corporate tax. The term 'Securities' includes but is not limited to: ordinary and preference shares, founder's shares, options on titles, debentures, bonds, short positions on titles, futures/forwards on titles, swaps on titles, depositary receipts on titles, rights of claims on bonds and debentures, index participations (only if they represent titles), repurchase agreements or Repos on titles, participations in companies, units in open-end or closed-end collective investment schemes such as Mutual Funds, International Collective Investment Schemes (ICIS) and Undertakings for Collective Investments in Transferable Securities (UCITS).

g. Capital Allowances

The carrying on of a business is further supported by the availability of a broad range of capital allowances on the cost of plant, machinery, buildings and other fixed business assets. These capital allowances are deducted from profits chargeable to corporate income tax.

Qualifying assets

Assets for which capital allowances are granted include property, plant and equipment that are used in a business. Capital allowances are granted on the original cost and subsequent expenditure of a capital nature.

The capital allowances on qualifying assets are granted provided the following conditions are satisfied:

- the expenditure must be made in respect of a qualifying asset
- the qualifying asset must belong to the person claiming the capital allowances
- the qualifying asset must be used in the business.

Annual Wear and Tear Allowance	
Buildings	
Commercial buildings and apartments	3%
Industrial, agricultural and hotel buildings	4 %
Plant and machinery	
Machinery	10%
Furniture and fittings	10%
Computer hardware and operating systems	20%
Application software	33 1/3 %
Application software up to EUR €1.708	100 %
Commercial vehicles	20 %
Tools	33 1/3 %
Boreholes	10%
Agricultural machinery	15 %
Boats	
New cargo vessels	8 %
New passenger vessels	6 %
Sailing vessels	4 1/2 %
Motors launches	12 1/2 %
Used vessels	useful life

h. Losses

Trading losses are carried forward subject to a temporal limitation of a period of five years from the year to which the losses relate.

Losses incurred from business carried outside Cyprus by a Cyprus company (i.e. through a permanent establishment), are allowed as a deduction against other taxable profits. In practice, losses from a permanent establishment abroad is first set off against profits of the same year from other permanent establishments of the same company abroad. The remaining losses are set off against the taxable profits from the rest of the operations of the same year and can be surrendered to other companies of the group. Any remaining losses which are not absorbed are carried forward to the following years.

i. Group Relief

Group relief is allowed for at least seventy-five percent (75%) group holdings and is applicable only on yearly results assuming claimants are Cyprus tax resident companies and members of the same group for the whole tax year.

j. Withholding tax on outgoing payments of dividend, interest or royalty

Cyprus imposes no withholding taxes on payments to non tax resident persons (companies or individuals) in respect of dividends, interest and royalties used outside Cyprus, irrespective of whether the recipient of the payment resides in a treaty country or not.

This provides for excellent profit repatriation opportunities and when combined with the tailor made financing structures implemented through the use of Cyprus companies and the novel IP regime, allow Cyprus to pose as an ideal holding jurisdiction, minimizing or eliminating withholding tax exposure for international businesses and multinational groups.

k. Foreign PE profits are tax exempt

Subject to the criteria listed below, any profit of a foreign Permanent Establishment (PE) of a Cyprus company is exempt from corporate tax in Cyprus:

A. The PE must not engage more than 50%, directly or indirectly, in activities which lead to passive income,

or

B. The foreign tax burden imposed on the PE must not be substantially lower than that in Cyprus.

Losses from a foreign PE of a Cyprus company abroad may be offset with profits of the Cyprus company or other Cyprus group companies for the same year subject to the provisions for recapturing of future PE profits.

This allows international businesses operating in a broad scope of sectors such as construction and trading to organize their operations under Cyprus companies by optimizing their commercial and tax strategies.

l. Double tax relief by means of credit unilaterally awarded

According to the Cyprus Income Tax Law, tax withheld in respect of income sourced abroad will be credited against the tax chargeable in respect of the same income in Cyprus. The amount of the credit shall not exceed the amount which would have been ascertained if the amount of the income was computed in accordance with the provisions of the Cyprus Income Tax Law.

m. Full access to EU Tax Directives

The Cyprus Tax Laws have been amended as to incorporate all EU Directives, including the Interest and Royalty Directive, the Parent-Subsidiary Directive, the Directive on Mergers and the Directive on Savings and Interest payments.

IP Incentives

The Cyprus Tax Regime On IP Rights

In an effort to keep up with the world's technology oriented economic environment, aligning with the need for stimulating economic growth, Cyprus has adopted a new IP Regime providing for a very competitive and favorable taxation of a wide range of IP related income.

The anchor for the newly introduced regime is in fact a notional 80% deduction income derived from a wide range of IP rights; effectively IP Companies may be taxed at a rate not to exceed 2,5% on IP income incurred as illustrated in the example below.

What IP Rights are Covered?

- Trade Marks
- Patents
- Copyrights

What Income is eligible?

- Royalty Income
- Gains from the sale of the IP
- Damages for IP Infringement

The Cyprus IP Regime in practice

- Deduction of expenses for the acquisition and development of Intellectual Property
  - Directly related costs
  - Interest expense on loan obtained for acquiring or developing the IP
  - Amortization of capital costs equally split over a five year period (year in which the cost was incurred and the subsequent 4 years)
- 80% notional deduction from eligible income
  - notional deduction is applied on net profits (i.e. following the deduction of directly related expenses and amortization).

Taxation of Royalty Income (Practical Example)

A Cyprus tax resident company derives royalty income amounting to EUR 100.000 and incurs directly related expenses of EUR 40.000. Under the new IP Regime the royalty income will be taxed as follows:

Net Income from royalties	(100.000- 40.000)	€60.000
80% statutory exemption	60.000x 80%	(€ 48.000)
Taxable Income		€12.000
Tax Liability	12.000@12,5%	€1.500
Effective tax rate		2,50%

Investment Income

a. Dividends

With respect to dividends, Cyprus offers one of the most attractive participation exemption regimes globally. Foreign dividends can be exempt with no reference to a specific participation threshold or a participation holding period.

Inter-company Dividends

Dividends paid from one Cyprus company to another are free from any withholding tax in Cyprus.

Dividends received from abroad

Where a Cyprus company receives dividend income from a company abroad, dividends received are tax exempt if one of the following two conditions are satisfied:

(1) The company paying the dividend must not engage more than fifty percent directly or indirectly in activities which lead to passive income (non-trading income), Or
(2) the foreign tax burden on the income of the company paying the dividend is not substantially lower than the tax burden in Cyprus.

If the above conditions are not satisfied, then dividends will be taxed at the rate of seventeen percent (17%) as of 1st January 2014.

Deemed Dividend Distribution Provisions

Companies which do not distribute 70% of their profits after tax, as defined by the Special Contribution for the Defence of the Republic Law, within two years after the end of the year of assessment to which the profits refer, will be deemed to have distributed this amount as a dividend. Special contribution for defence tax at 17% will be payable on such deemed dividend to the extent that the shareholders (individuals and companies) at the end of the period of the two years from the end of the year of assessment to which the profits relate, remain Cyprus tax residents. For example, the 2013 accounting profits will be deemed to be distributed on 31/12/2015.

The amount of this deemed dividend distribution (DDD) is reduced by any actual dividends paid out of the profits of the relevant year at any time. The special contribution for defence tax is paid by the company for the account of the Cyprus tax resident shareholders.

Any accounting profits derived by a Cyprus company that are attributable, directly or indirectly, to non-tax resident shareholders will not be subject to the DDD provisions.

b. Interest

Interest which is not derived from or is not closely connected with the company's ordinary carrying on of business is subject to Special Defence Contribution (SDC) at 30% (100% of such income is exempted from Corporate Income Tax).

c. Rents

Rental income is subject to both income tax and Special Defence Contribution (SDC). For income tax purposes it is assessed under corporate or individual rates depending on the status of the recipient. For SDC, the rate of SDC on rents is 3%. It is imposed on the gross rental income reduced by 25%. From 1 July 2011, the tenant (except for individuals), is obliged to withhold and lodge with the tax authorities, the SDC on the amount of the rent payable. The SDC contribution is not deductible for corporation tax purposes.

Capital Gains Tax

Capital gains are not included in the ordinary trading profits of a business but instead are taxed separately under the Capital Gains Tax Law (CGT) at the rate of twenty percent (20%) after allowing for indexation. Capital gains tax is only imposed on the sale of immovable property situated in Cyprus, other property related rights as well as on the sale of shares in companies (other than quoted shares) in which the underlying asset includes immovable property situated in Cyprus.

Expenses that are related to the acquisition and disposal of the property may also be deducted from the taxable base subject to conditions. However, Immovable Property Tax, Immovable Property Fees and Sewerage Council Fees are not treated as deductible expenses for Capital Gains Tax purposes.

Capital Gains that arise from the disposal of immovable property held outside Cyprus or shares in companies which may have as an underlying asset immovable property held outside Cyprus, are completely exempt from capital gains tax in Cyprus.

International Investment

The Cyprus tax, legal and regulatory system provide excellent opportunities for the operation of international businesses. The tax system remains one of the most favorable, featuring the 12,5% corporate tax rate as well as the tax exempt status of gains from the sale of securities and dividends received from overseas. The combination of tax beneficial provisions coupled with the affordable costs of high-level professional services that can be offered, render Cyprus as an attractive investment destination for investors originating from around the world.

Cyprus has been constantly emerging as a reputable and accredited onshore location for international multinationals that have rendered Cyprus as the primary location for the establishment of their holding companies.

Holding companies

Cyprus main features for Holding Companies	
1)	One of the lowest corporate tax rates in the EU at 12,5%
2)	A generous participation exemption regime
3)	Capital Gains are exempt from taxation
4)	No withholding tax on dividend and interest outbound payments
5)	Any gains from trading in a wide range of securities is tax exempt
6)	A competitive IP Regime
7)	Foreign Permanent Establishment profits are tax exempt
8)	Double tax relief by means of credit is unilaterally awarded
9)	Access to an extensive and expanding network of Double Tax Treaties
10)	Full access to EU Tax Directives

Financing Companies

Cyprus main features for Financing Companies		
1)	Taxation of interest income as trading profit at 12.5%	
2)	Financing costs deductible from financing income	
3)	Margin availability for back to back loan transactions as follows:	
	a) Up to €50.000.000	0,35%
	b) From €50.000.000 to €200.000.000	0,25%
	c) Over €200.000.000	0,125%
4)	The exemption from taxation of gains from disposal of securities sets a favorable framework for debt restructurings	
5)	No withholding taxes on interest payments	
6)	Favorable withholding tax from payments abroad subject to Double Tax Treaty provisions	
7)	Access to the EU Interest and Royalties Directive	

IP Companies

Cyprus main features for IP Companies	
1)	Notional deduction of 80% from qualifying royalty income reduces tax rate to approx. 2,5%
2)	5 year amortization of IP acquisition cost further reduces taxable base
3)	Wide range of IP rights qualify for the exemption
4)	Loss carry forward is limited to 20%
5)	No withholding taxes on royalty payments if IP not used in Cyprus
6)	Favorable withholding tax from payments abroad subject to Double Tax Treaty provisions
7)	Access to the EU Interest and Royalties Directive

Trading Companies

Cyprus main features for Trading Companies	
1)	One of the lowest corporate tax rates in the EU at 12,5%
2)	Deduction of eligible expenses
3)	Loss carry forward availability (limited to 5 years)
4)	Trading profits of foreign P.E. exempt from taxation
5)	Losses of foreign P.E. available for relief subject to recapture
6)	Accelerated depreciation rates available
7)	Group relief provisions available
8)	Interest expense on 100% equity acquisitions is tax deductible

Double Tax Treaty Network

Cyprus has over the years developed an extensive network of Double Tax Treaties, facilitating international investment to and from Cyprus. Cyprus has managed to conclude and maintain over the years a number of treaties with exemplary beneficial provisions that when combined with the favorable aspects of the Cyprus tax system provide a valuable tool for international businesses.

Cyprus has over the last three decades, been used extensively for International Tax planning by multinational companies from all over the world including Russia, China, the United States, India, Canada and many European countries like Germany, the UK, Denmark and Sweden. It is an undisputed fact that most of the investment that is routed into Central / Eastern Europe including Russia and Ukraine is routed through Cyprus because of the very advantageous tax treaty network and the local tax provisions.

To facilitate international business Cyprus has signed approximately 50 double taxation agreements two of which (Guernsey, and Switzerland) are still pending completion of the ratification process. Negotiations for more than 10 other new agreements are currently taking place and are expected to be concluded in due time.

An outline of the Cyprus Double Tax Treaty network effective as at 01/01/2015 is listed below.

			PAID FROM CYPRUS (1)			RECEIVED IN CYPRUS		
			Dividends	Interest	Royalties	Dividends	Interest	Royalties
Treaty Countries		Effective Date	%	%	%	%	%	%
Cyprus Companies			0	0	0 (2)	Treaty rates	Treaty rates	Treaty rates
1.	Armenia	01/01/2012	0 (27)	5 (6)	5	0 (27)	5 (6)	5
2.	Austria	01/01/1991 (31)	0	0	0	10	0	0
3.	Belarus	01/01/2000	5 (17)	5	5	5 (17)	5	5
4.	Belgium	01/01/2000	10 (8)	10 (6,18)	0	10 (8)	10 (6,18)	0
5.	Bulgaria	01/01/2002	5 (22)	7 (6)	10	5 (22)	7 (6, 23)	10 (23)
6.	Canada	01/01/1985	0	15 (4)	10 (5)	15	15 (4)	10 (5)
7.	China	01/01/1992	0	10	10	10	10	10
8.	Czech Republic	01/01/2010	5 (28)	0	10	5 (28)	0	10
9.	Denmark	01/01/2012	15 (29)	0	0	15 (29)	0	0
10.	Egypt	01/01/1996	15	15	10	15	15	10
11.	Estonia	01/01/2014	0	0	0	0	0	0
12.	Finland	01/01/2014	5 (9)	0	0	5 (9)	0	0
13.	France	28/01/1983	0	10 (10)	0 (3)	10 (9)	10 (10)	0 (3)
14.	Germany	01/01/2012	5 (30)	0	0	5 (30)	0	0
15.	Greece	01/01/1967	25	10	0 (12)	25 (11)	10	0 (12)
16.	Guernsey	(44)	0	0	0	0	0	0
17.	Hungary	01/01/1982	0	10 (6)	0	5 (46)	10 (6)	0
18.	Iceland	01/01/2015	5 (49)	0	5	5 (49)	0	5
19.	India	01/01/1993 (32)	10 (47)	10 (10)	15 (15)	10 (47)	10 (10)	15 (15)
20.	Ireland	01/01/1962 (33)	0	0	0 (12)	0	0	0 (12)
21.	Italy (34)	01/01/1970	0	10	0	15	10	0
22.	Kuwait	01/01/2014	0	0	5	0	0	5
23.	Lebanon	01/01/2006	5	5	0	5	5	0
24.	Lithuania	01/01/2015	0 (45)	0	5	0 (45)	0	5
25.	Malta	01/01/1994	15	10	10	0	10	10
26.	Mauritius	01/01/2001	0	0	0	0	0	0
27.	Moldova	01/01/2009	5 (22)	5	5	5 (22)	5	5
28.	Montenegro (25)	01/01/1987	0	10	10	10	10	10
29.	Norway (35)	01/01/2015	0 (13,30)	0	0	0 (13, 30)	0	0
30.	Poland (36)	01/01/2013	0 (37)	5 (6)	5	0 (37)	5 (6)	5
31.	Portugal	01/01/2014	10	10	10	10	10	10
32.	Qatar	01/01/2010	0	0	5	0	0	5
33.	Romania	01/01/1983	10	10 (6)	5 (7)	10	10 (6)	5 (7)
34.	Russia	01/01/2000 (38)	5 (16)	0	0	5 (16)	0	0
35.	San Marino	01/01/2008	0	0	0	0	0	0
36.	Serbia (25)	01/01/1987	0	10	10	10	10	10
37.	Seychelles	01/01/2007	0	0	5	0	0	5
38.	Singapore	01/01/2002	0	10 (6,24)	10	0	10 (6,24)	10
39.	Slovakia (39)	01/01/1981	0	10 (6)	5 (7)	10	10 (6)	5 (7)
40.	Slovenia	01/01/2012	5	5 (6)	5	5	5 (6)	5
41.	South Africa	01/01/1999	0	0	0	0	0	0
42.	Spain	01/01/2015	0 (43)	0	0	0 (43)	0	0
43.	Sweden	01/01/1988	0	10 (6)	0	5 (46)	10 (6)	0
44.	Switzerland	(44)	15 (29)	0	0	15 (29)	0	0
45.	Syria	01/01/1996	0 (46)	10 (6)	15 (26)	0 (46)	10 (6)	15 (26)
46.	Thailand	01/01/2001	10	15 (6,20)	5 (21)	10	15 (6,20)	5 (21)
47.	Ukraine (19)	01/01/2014	5 (41)	2	10 (42)	5 (41)	2	10 (42)
48.	U.A.E	01/01/2014	0	0	0	0	0	0
49.	United Kingdom	01/01/1973 (40)	0	10	0 (3)	15 (14)	10	0 (3)
50.	United States	01/01/1986	0	10 (10)	0	5 (48)	10 (10)	0

Notes to the Treaties:

1) Under Cyprus legislation there is no withholding tax on dividends, interests and royalties paid to non-residents of Cyprus.

2) In case where royalties are earned on rights used within Cyprus there is a withholding tax of 10%.

3) 5% on film and TV royalties.

4) 0% if paid to a Government or for export guarantee.

5) 0% on literary, dramatic, musical or artistic work.

6) 0% if paid to the Government of the other State.

7) This rate applies for patents, trademarks, designs or models, plans, secret formulas or processes, or any industrial, commercial or scientific equipment, or for information concerning industrial, commercial or scientific experience.

8) 15% if received by an individual or if received by a company controlling directly or indirectly less than 25% of the capital of the paying company.

9) 15% if received by an individual or if received by a company directly controlling less than 10% of the voting power.

10) 0% if paid to a Government bank or financial institution.

11) The treaty provides for withholding taxes on dividends but Greece does not impose any withholding tax in accordance with its own legislation. 12) 5% on film royalties (apart from films broadcasted on television).

13) 5% if received by a person controlling less than 50% of the voting power.

14) 0% if recipient is a company which alone or together with associated companies) control directly or indirectly at least 10% of voting power.

15) 10% for payments of a technical, managerial or consulting nature.

16) 10% if dividend paid by a company in which the beneficial owner has invested less than EUR 100.000.

17) If the investment is less than EUR 200.000, dividends are subject to 15% withholding tax which is reduced to 10% if the recipient is the beneficial owner and directly controls 25% or more of the share capital of the paying company.

18) No withholding tax for interest on deposits with banking institutions.

19) The old USSR/ Cyprus treaty is applicable until 31/12/2013. From January 1st 2014, the provisions of the Ukraine-Cyprus Double Tax Treaty enter into force.

20) 10% on interest received by a financial institution or when it relates to sale on credit of any industrial, commercial or scientific equipment or of merchandise.

21) This rate applies for any copyright of literary, dramatic, musical, artistic or scientific work. A 10% rate applies for industrial, commercial or scientific equipment. A 15% rate applies for patents, trade marks, designs or models, plans, secret formulae or processes.

22) This rate applies to companies holding directly at least 25% of the share capital of the company paying the dividend. In all other cases the withholding tax is 10%.

23) This rate does not apply if the payment is made to a Cyprus international business entity by a resident of Bulgaria owning directly or indirectly at least 25% of the share capital of the Cyprus entity.

24) 7% if paid to a bank or financial institution.

25) Montenegro and Serbia apply the Yugoslavia/Cyprus treaty.

26) A rate of 10% applies to copyrights on literary, artistic and scientific work including cinematograph films, and films or tapes for television or radio broadcasting.

27) The 0% is applicable if the beneficial owner has invested in the capital of the company not less than the equivalent of 150.000 Euro at the time of the investment. In all other cases the rate is 5%.

28) 0% if dividends received and beneficially held by a company directly holding at least 10% of the capital of the company paying the dividends for an uninterrupted period of at least 1 year.

29) 0 per cent of the gross amount of the dividends if the beneficial owner is a company (other than a partnership) which holds directly at least 10 per cent 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, if the beneficial owner is the other Contracting State or the central bank of that other State, or any national agency or any other agency (including a financial institution) owned or controlled by the Government of that other State or if the beneficial owner is a pension fund or other similar institution providing pension schemes in which individuals may participate in order to secure retirement benefits, where such pension fund or other similar institution is established, recognized for tax purposes and controlled in accordance with the laws of that other State.

30) 15% if received by an individual or if received by a company directly holding less than 10% of the share capital of the company paying the dividends.

31) A protocol signed on 21 May 2012 entered into force on 11 January 2013 and is effective as of 1 January 2014. The protocol introduces new provisions on exchange of Information but does not amend the existing withholding rates set by the original Treaty.

32) The provisions of the Treaty enter into force on 01/01/1993 for Cyprus and 01/04/2013 for India.

33) The provisions of the Treaty enter into force on 01/01/1962 for Cyprus and 01/04/1962 for Ireland.

34) An amending protocol, signed on 4 June 2009, entered into force on 23 November 2010. The Protocol introduces clarifications as to the elimination of double taxation and further new provisions on exchange of information but does not amend the existing withholding rates set by the original Treaty.

35) In force until 31/12/2014, the Convention of 2 May 1951 concluded between Norway and the United Kingdom had been extended by Exchange of Notes, in accordance with Article XX, to Cyprus. A new DTT has been signed between Cyprus and Norway on 5 December 2013. The Treaty is not in force yet. It provides that the WHT on dividends is 15% or 0% (subject to conditions) and the WHT on interest and royalty payments is 0%.

36) An amending protocol, signed on 22 March 2012, entered into force on 9 November 2012. The protocol introduces among others new rates for dividend and interest as well as further amendments to the initial Treaty; the withholding rates outlined herein refer to the new rates introduced by the Protocol.

37) The 0% is applicable if the beneficial owner hold directly at least 10% of the capital of the company paying the dividend for an uninterrupted period of 24 months. In all other cases the rate is 5%.

38) An amending protocol, signed on 7 October 2012, entered into force on 2 April 2012. The provisions of the new Protocol are effective as of 1 January 2013 with the exception of 1 January 2017 (Provisions on "Gains from Alienation of Property") and the provisions on "Assistance in Collection" that will generally apply upon the introduction of the necessary legal basis by Cyprus. The Protocol introduces among others, new exchange of information provisions but does not amend the existing withholding rates set by the original Treaty.

39) In an Exchange of Letters dated 10 December 1999 and 10 January 2000, Cyprus and the Slovak Republic agreed to continue to apply the Czechoslovak treaty of 15 April 1980 in relations between the two states.

40) The provisions of the Treaty enter into force on 01/01/1973 for Cyprus and 01/04/1973 for the United Kingdom.

41) The 5% applies where the company receiving the dividend owns at least 20% in the capital of the paying company or has invested an amount of at least EUR100.000. In all other cases, a 15% withholding shall apply.

42) A reduced 5% withholding tax in respect of the use or the right to use any copyright of scientific work, patent, trade mark, secret formula, process or information concerning industrial, commercial or scientific experience will apply under the new Treaty. In all other cases a general withholding tax on royalties of 10% will apply.

43) 5% if the recipient is an individual or if the recipient is a company directly holding less than 10% of the capital.

44) Pending exchange of ratification documents for the Treaty to enter into force.

45) This rate applies to companies who are the beneficial owners of the dividend and hold directly at least 10% of the share capital of the company paying the dividend. In all other cases the withholding tax is 5%.

46) 15% if received by an individual or if received by a company controlling directly less than 25% of the capital of the paying company.

47) 15% if received by an individual or if received by a company controlling less than 10% of shares.

48) To be entitled to this rate (a) must be a corporation, AND (b) minimum 10% ownership of the outstanding shares of the voting stock during the part of the paying corporation's taxable year which precedes the date of payment of the dividend and during the whole of its prior taxable year (if any), AND (c) not more than 25% of the gross income of the corporation paying the dividends (for such prior taxable year (if any)) consists of interest/dividends (other than interest derived from the conduct of a banking, insurance, or financing business and dividends/interest received from subsidiary corporation, 50% or more of the outstanding shares of the voting stock of which is owned by the paying corporation at the time such dividends/interest is received). Otherwise a 15% WHT rate applies.

49) 10% if received by an individual or if received by a company controlling directly less than 10% of the capital of the paying company.

Filings and Tax Administration

The financial statements of Cypriot companies must be prepared under IFRS and they form the basis for determining the tax base for reporting and on which Cyprus taxation will occur.

The Cyprus tax system is a self-assessment regime in which companies:

- determine their tax liabilities
- file their tax returns and
- make appropriate payments.

Under the Income Tax Law, a company is required to file its annual tax return, prepared on the basis of audited financial statements to the local Tax authorities. The filing date is 12 months after the financial year ending 31 December extended by 3 calendar months in the case of electronic filings. As of 2010, Corporate Income Tax Returns can only be filed electronically.

Companies are required to prepare financial statements and pay tax on a temporary and self-assessment basis.

Provisional tax payments must be made on estimated current year income in two equal installments, on 31st July and 31st December of the current year. If the income declared for provisional tax purposes is less than three-fourths of the income as finally determined, the taxpayer must pay, in addition to the normal tax, an amount equal to one-tenth (10%) of the difference between the final and the provisional tax. Estimated income can be revised (upwards/downwards) anytime before December 31st, the date the last provisional payment is due.

A final payment must be made on 1st August of the following year of assessment, so as to bring the total installment payments to the level of the tax liability as finally determined.

Failure to adhere to the above requirements will result to the imposition of penalties including interest of 4% for every completed month per year (as of 01/01/2015) plus a 5% additional tax on the tax due in case of (a) late submission of the Financial Statements, or (b) failure to settle the tax due, within a period of 30 days from the prescribed filing date. Further penalties may apply in relation to non-compliance (EUR100-EUR200) and an additional monetary fine of 5% on tax due and not paid within the prescribed deadline.

Other Taxes

a. VAT

The VAT system was first introduced in Cyprus in 1992 and since then it has undergone various amendments, the most important of which was upon the accession of the Republic of Cyprus in the European Union on 01/05/2004 and following implementation of the EU VAT package rules on 01/01/2010.

The Cyprus VAT Legislation is fully compliant with the provisions of the EU VAT Directive (Directive 2006/112) and the EU customs code, closely following the judgments of the European Court of Justice on VAT and customs issues. Cyprus is also included amongst the contracting parties of the World Customs Organization (WCO).

Until early 2012 Cyprus enjoyed the lowest standard VAT rate across the EU, being 15%. However, since March 2012, successive increases in the standard VAT rate have been decided by the Cyprus House of Representatives as a means of confronting the global economic recession. For a ten month period (01/03/2012 – 13/01/2013) the standard VAT rate of 15% was increased to 17% which was then successively increased to 18%. On 13 January 2014, the standard VAT rate of 18% has been increased to 19%.

The Cyprus VAT Legislation also provides for two reduced VAT rates (5% and 8%) and for zero rated supplies. On 13 January 2014, apart from the standard VAT rate, the then applicable reduced VAT rate of 8% has also increased to 9%, mainly affecting hotel accommodation and catering services. Emphasis should be placed on the fact that the Cyprus VAT Authorities have not expressed their intention to proceed with any future increase in the applicable VAT rates as they have been set since 13 January 2014.

Moreover, the Cyprus VAT Authorities have employed various tax incentive schemes, such as the VAT relief upon importation of aircraft in the Republic, a special scheme for pleasure boats, as well as the VAT relief to non-EU citizens when purchasing or constructing residential properties in the Republic. All incentive schemes have received positive feedback from local and foreign tax payers. Currently, the Cyprus VAT Authorities are examing the introduction of a VAT relief program for private aircrafts. As of 01 January 2015, the VAT Mini One Stop Shop Scheme has been implemented, which shall affect supplies of broadcasting, telecommunication and e-services.

b. Customs and Excise

For its harmonization with the EU acquis in the customs and excise field Cyprus charges excise duty rates on energy products and electric power, on spirits and alcoholic beverages, on tobacco products, on motor vehicles and on other products such as smoked salmon and caviar. Moreover, rules have been implemented with respect to the possession, circulation and control of goods subject to excise duties which are being transferred within the EU. A tax warehousing system has also been introduced together with duty suspension arrangements, particularly for movements of goods within the Community.

Cyprus also abides by the provisions of EU Council Directive 2658/87 on the Customs tariff code applied by all EU Member States. Appendix I of the said Regulation is being amended on an annual basis and includes the Combined Nomenclature and the Common Customs Tariff.

The Customs and Excise Department is actively involved in meetings of the European Council and Committee, the World Customs Organization, Europol, OLAF, etc.

Personal Taxation

a. Income tax

Income tax is chargeable on all income arising or accruing in Cyprus. Cyprus Tax resident individuals are subject to personal income tax on their income accrued worldwide. Other individuals who are not Cyprus tax residents are only subject to personal income tax on income accrued from sources in Cyprus.

b. Tax residency

Cyprus tax residency rules

Cyprus has adopted a residency-based system of taxation, whereby physical presence in Cyprus exceeding 183 days in a tax year (1st January to 31st December) will constitute tax residency for individuals. Therefore, if the individuals are physically present in Cyprus for more than 183 days in a tax year, they will be considered tax residents of Cyprus in that tax year. Consequently, if the individuals are physically present in Cyprus for less than 183 days in a tax year they will be regarded to be non-tax residents of Cyprus in that tax year.

c. Sources of Income

Tax Residents

Resident persons are charged to tax on their income accrued or arising from sources both within and outside Cyprus, as follows:

- Any profits or other benefits from any business, office or employment
- Any pension, charge or annuity
- Any rents, royalties, remuneration or other profits arising from property
- Any amount received in consideration for any trade goodwill.

Non tax residents

Non tax resident persons are charged to tax only on income accruing or arising from sources within Cyprus, as follows:

- Any profits or other benefits from any office or employment exercised in Cyprus
- Any rents, royalties, remuneration or other profits arising from property situated in Cyprus
- Any amount received in consideration for any trade goodwill
- Pensions deriving from past employment exercised in Cyprus.

d. Personal income tax rates in Cyprus

The net taxable income arising for individuals will be subject to the following rates:

Chargeable Income (€)	Tax Rate (%)
0 – 19.500	0
19.501 – 28.000	20
28.001 – 36.300	25
36.301 – 60.000	30
Over 60.000	35

e. Reimbursement of expenses

A reimbursement of the employees expenses by the employer is taxable, unless it can be proved that such remuneration was utilized by the employees on behalf of the employer, wholly and exclusively for the production of taxable income (i.e. would have been a tax deductible expense if suffered by the employer himself).

f. Deductions from taxable income

In arriving at the taxable income in a year of assessment, individuals are entitled to a limited number of deductions:

- Contributions made to trade unions (receipts needed)
- Donations or contributions made to approved charitable organisations (receipts needed)
- Subscriptions made to professional bodies (receipts needed)
- Income arising from trading in securities (stocks, shares, units in funds, etc)
- Interest income (but subject to the Special Defence Contribution tax at 30%)
- Dividend income (but subject to the Special Defence Contribution tax at 17%).

g. Concessions available to expatriates

Cyprus has developed into an attractive destination for high caliber professionals and to this end designed a number of tailor made concessions for international and mobile professionals.

- Effective from 1 January 2012, 50% of the gross emoluments are allowed to be deducted from taxable income for individuals that were not tax residents of Cyprus prior to the commencement of their employment in Cyprus. This deduction applies when income exceeds €100,000 p.a. and is allowed for a period of five (5) years, commencing from the year of employment
- The tax benefits available under the Cyprus income tax law for expatriates, includes a tax exemption of €8,550 or twenty percent (20%), whichever is lower, of the gross emoluments of an individual who was not a tax resident of Cyprus prior to the commencement of his employment in Cyprus. This exemption applies for a period of three (3) years, commencing in the tax year following the year of taking up employment in Cyprus (for example, where an expatriated employee commences employment in Cyprus for the first time during the 2014 year, the exemption will apply from 2015 to 2017)
- Moreover, the Cyprus Income Tax Legislation provides for an exemption on the remuneration received for rendering salaried services to a non Cyprus tax resident employer or to a resident employer's foreign permanent establishment, provided the period of employment abroad is for an aggregate period of more than 90 days in the relevant year of assessment
- Additionally, foreign pensions in respect of services rendered outside Cyprus are tax free in respect of the first €3.420 and thereafter, are taxed at a flat rate of 5%. The taxpayer may opt to be taxed in the normal way, where this special mode of taxation of income results in a higher tax liability.

h. Personal allowances

The following personal allowances are permitted in addition to the exemptions and deductions outlined above:

- EU Social Insurance contributions
- Contributions to approved Pension or Provident Funds
- Premiums paid by an employee to an approved insurance company on a life insurance only (provided that this deduction does not exceed 7% of the sum assured)
- The total of the deductions for all contributions above, shall not exceed one sixth (1/6) of the taxable income of the individual before taking into consideration the above allowances, but after taking into consideration all allowable exemptions/deductions.

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