

# CYPRUS TAX FACTS & TAX FIGURES



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## Foreword

THIS PUBLICATION PROVIDES INFORMATION ABOUT CYPRUS' TAX SYSTEM, INCORPORATING SOME USEFUL NOTES AND RELEVANT TAX FIGURES, BASED ON CURRENT TAX LEGISLATION AND PRACTICES. THE TAX INFORMATION CONTAINED IN THIS BOOKLET IS ACCURATE AS AT THE DATE OF ITS PUBLICATION.

THE PUBLICATION IS FOR GENERAL GUIDANCE ONLY AND DOES NOT CONSTITUTE A PROFESSIONAL ADVICE. FOR ANY SPECIFIC SUBJECT, THE READER IS ENCOURAGED TO REFER TO THE APPROPRIATE TAX CONSULTANT.

FOR MORE INFORMATION, PLEASE CONTACT US AT OUR OFFICES. CONTACT DETAILS CAN BE FOUND AT THE END OF THIS BOOKLET.

EKJ Audit Limited  
Cyprus  
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# About Cyprus

## LOCATION-CLIMATE

Cyprus is the third largest island in the Mediterranean Sea and the natural gateway to the Middle East. It is situated at the north-eastern corner of the Mediterranean Sea, in the middle of three continents, namely Asia, Europe and Africa. Its geographical advantage as a natural bridge linking Europe, Africa and Asia became even more important following its accession to the EU (2004) and the Economic and Monetary Union (2008).

An island with a Mediterranean climate: hot, dry summers, with mild winters and the largest number of blue flag beaches per capital in the EU with a unique combination of mountains and beaches in very close proximity.

With a size that is big enough to be called cosmopolitan, at the same time, small enough to be regarded as the ideal place to live and raise a family.

## BUSINESS

In the 21st century, Cyprus has become a bridge of economic co-operation conducive to investments as well as the destination of choice for investors seeking an ideal location for international business.

With more than 30 years of experience as an international business centre that is supported by an abundance of highly skilled professionals and complemented by a modern and investor friendly EU compliant tax system, a solid, impartial and credible legal system that is based on common law principles and a welcoming attitude towards expatriates, Cyprus is naturally the ideal place for business and trade.

## FAMILY

The beautiful island of Cyprus is an excellent place to live in, embracing security and safety for the whole family. You can enjoy sunshine and ideal temperatures for most of the year, as well as the advantage of a very low crime rate which makes the island one of the safest countries in the world!

Cyprus is home to many top-quality private schools offering a high level of education and their basic teaching language is English. There is also a number of reputable state institutions and private universities of higher education, which have secured endorsement of their diplomas by U.K. and USA educational establishments.

By reading this brochure, we hope that readers will learn about the numerous advantages and limitless opportunities that Cyprus has to offer both individuals and businesses. We look forward to meeting you in person.



# Tax Residency Rules for Companies

A company is considered to be a resident of Cyprus for tax purposes if its management and control is exercised from Cyprus. Although there is no definition as to what constitutes management and control in the Income Tax Law, the following factors are important to support the position that a Cyprus Company is resident of Cyprus:

- **Strategic decisions are made in Directors' meetings in Cyprus**
- **The Board of Directors include suitable qualified Cyprus-resident individuals**
- **The Company maintains full documentation of the decision-making process and**
- **The Company maintains an office in Cyprus through which day to day operational functions are exercised**

As from 2023, a Cyprus incorporated company will by default be considered a tax resident of Cyprus provided it is not tax resident in any other jurisdiction. This should be in addition to the management and control test aiming to capture the so-called stateless companies.

All Cyprus tax resident companies are taxed on their income accrued or derived from all chargeable sources in Cyprus and abroad.



# The Cyprus Corporate Tax System at a Glance

Corporate Income Tax Rate	12.5%
Branch Tax Rate	12.5%
Capital Tax Gains	20%
Special Defence Tax Rate	3% / 17% / 30% on certain income
Basis	Worldwide income
Participation Exemption	Yes
Losses Carry Forward	5 years
Losses Carry Back	No
Double Taxation Relief	Yes
Group Relief	Yes
Transfer Pricing Rules	Yes
Stamp Duty (on contracts with specified consideration)	0%-2% (maximum Eur 20,000)
Control Foreign Corporation Rules (CFCs)	Yes
Tax Year	Calendar Year
Advance Payment of Tax	Yes
Tax Return Due Date	31 March of Second Year Following Tax Year
Capital Duty	0.6% on Authorized Share Capital

## WITHHOLDING TAX (WHT) RATES ON DIVIDENDS / INTEREST / ROYALTY

Cyprus does not levy a WHT on dividends, interest and royalties paid to non-residents of Cyprus except in the case of royalties earned on rights used within Cyprus, which are subject to a WHT of 10% (5% in the case of cinematographic films) which may be reduced or eliminated by double tax treaties entered by Cyprus or by the EU Interest and Royalty Directive as enacted in the Cyprus tax legislation.

As from 31st December 2022 there will be withholding tax: 30% on interest, 17% on dividends and 10% on royalty payments to countries in the EU list of non-cooperative jurisdictions on tax matters as follows:

American Samoa, Anguilla, Bahamas, Fiji Islands, Guam, Palau, Panama, Samoa, Trinidad and Tobago, Turks and Caicos Islands, US Virgin Islands, Vanuatu.

# The Cyprus Corporate Tax System Main Features

- Taxation is based in Residency status: Management and Control of the company must be exercised in Cyprus.
- The normal corporation tax rate is set at 12.5% on any resulting net profits. Specific types of income are exempt.
- Notional interest deduction (NID) is available on new capital introduced into the Cypriot company; up to 80% on the taxable income incurred.
- Royalty income from qualifying IP assets (patents, computer software) can be taxed under the “IP Box Regime”; exemption 80% of the profits qualifying for the regime are exempt from tax (effective tax rate as low as 2.5%).
- Any profit from the disposal of titles is exempt from Corporate Tax.
- Only the direct or indirect disposal of immovable property situated in Cyprus is subject to Capital Gains Tax.
- No withholding tax on ongoing payments (dividends - interest - royalties).
- Dividend income is exempt (subject to relaxed conditions).
- Applicability of all EU Directives; Parent - Subsidiary Directive and Interest and Royalty Directive fully transposed in local legislation.
- Foreign exchange differences are tax neutral.
- Group relief availability (for 75% holdings).
- Advanced tax ruling practice offers safety and predictability for investments.
- Ability to claim tax credit on taxation paid abroad on foreign income provided that the income is taxable in Cyprus.
- Attractive and constantly expanding Double Tax Treaty network that enable the receipt of dividends, interest, and royalties from abroad with nil or low withholding tax.

# Capital Gains Tax

Capital Gains Tax (CGT) is imposed (where the disposal is not subject to income tax) at the rate of 20% on gains from the disposal of immovable property situated in Cyprus including gains from the disposal of shares in companies which directly own such immovable property.

Lifetime exemptions applicable to individuals for gains from the sale of immovable property are as follows:

	Gain up to €
Any Disposal of Immovable Property	17,086
Disposal of Agricultural Land	25,629
Disposal of Private Residence	85,430

## THE FOLLOWING DISPOSALS OF IMMOVABLE PROPERTY ARE NOT SUBJECT TO CGT:

- Transfers arising on death
- Gifts made from parent to child or between husband and wife or between up to third degree relatives
- Gifts to a company where the company's shareholders are members of the donor's family and the shareholders continue to be members of the family for five years after the day of the transfer
- Gifts by a family company to its shareholders provided such property was originally acquired by the company by way of gift. The property must be kept by the donor for at least three years
- Gifts to charities and the Government
- Transfers as a result of reorganisations
- Exchange or disposal of immovable property under the Agricultural Land (Consolidation) Laws
- Expropriations
- Exchange of properties, to the extent that the gain made on the exchange has been used to acquire the new property.
- Donations to a political party



## SPECIAL CONTRIBUTION FOR DEFENCE

Type of income	Gain up to €
Interest income earned from sources within and inside the Republic	30%
Rental income minus 25%	3%
Interest received by provident funds	3%
Foreign dividend income (exempted under certain conditions)	17%
Additional for individuals only	Rates
Interest income from Government Development Bonds and Government Saving Bonds	3%
Interest when total income does not exceed €12,000	3%
Dividend received by individuals	17%

\*No Special Defence Contribution for individuals who are Cyprus Tax Residents but not domiciled in Cyprus (please refer to the section "Cyprus Personal Taxation: Non - Domicile Rules").

## SOCIAL INSURANCE SYSTEM & CONTRIBUTIONS

	Employer	Employee	*
Social Insurance (S.I.)	8.3%	8.3%	C
Social Cohesion Fund	2.0%	-	NC
Redundancy Fund	1.2%	-	C
Industrial Training Fund	0.5%	-	C
<b>Total</b>	<b>12.0%</b>	<b>8.3%</b>	

\*C=Cap at €4.840/month, NC=No Cap

## GENERAL HEALTH SYSTEM (GHS)

	Applied on	Year 2022
Employees / Pensioners	Own emoluments	2.65%
Employers	Employees' emoluments	2.90%
Self Employed	Own income	4.00%
Persons earning rental, interest, dividend and other income	Rental, Interest, Dividend Income etc.	2.65%

GHS contributions are capped at €180,000 on total annual incomes.



# Value Added Tax

VAT is imposed on the supply of goods and provision of services in Cyprus, as well as on the acquisition of goods from the EU and the importation of goods into Cyprus.

Taxable persons charge VAT on their taxable supplies (output tax) and are charged with VAT on goods or services which they receive (input tax). If output tax in a VAT period exceeds total input tax, a payment has to be made to the state. If input tax exceeds output tax, the excess input tax is carried forward as a credit and set off against future output VAT or claim a refund under certain circumstances.

## VAT RATES

In general, the applicable standard rate of goods and services is 19%, except in cases of reduced VAT rate of 5% and 9% on certain goods and services.

## EXEMPTIONS

**Certain goods or services are exempt from VAT. They include:**

- leasing of buildings used for residence
- most banking, financial services, and insurance services
- most hospital, medical and dental care services
- certain cultural educational and sports activities
- supplies of second-hand buildings
- management services provided to mutual funds

An obligation for VAT registration arises for businesses carrying out economic activities from the receipt of services from abroad for which an obligation to account for Cyprus VAT under the reverse charge provision exists subject to the registration threshold of €15,600 per any consecutive 12-month period.

No registration threshold exists for the provision of intra – community supplies of services.



# Cyprus Personal Taxation

## TAX RESIDENCY RULES

### The 183-day rule

An individual spending at least 183 days within a tax year (1st January to 31st December) in Cyprus is considered as a Tax Resident of Cyprus.

### The 60-day rule

An individual spending at least 60 days (in one or more periods) within a tax year in Cyprus is considered as a Tax Resident of Cyprus provided that all below conditions are met:

- Does not spend more 183 days (in one or more periods) within a tax year in another country and is not considered as a tax resident of another jurisdiction.
- Maintains an owned or rented property in Cyprus.
- An employee or director of a Cyprus company.

## NON-DOMICILE RULES

According to the provisions of the Cyprus Tax Law, an individual who is a tax resident of Cyprus under the provisions of the Income Tax Law (either by the 183 days rule or the 60 days rule) but is “non-domiciled” in the Republic of Cyprus will be exempt from Special Defence Contribution (SDC).

As per the SDC law dividends and interest income earned by individuals who are tax residents and domiciled in Cyprus are subject to SDC tax at 17% and 30% respectively. Rental income is also subject to SDC at the rate of 3% on 75% of the gross amount. Therefore, non-domiciled individuals will enjoy this exemption on dividend, interest, and rental income.

- An individual’s domicile is that of his/her father’s domicile of origin (at birth) or that of his/her choice. Therefore, an individual born to a non-Cypriot domiciled father is considered to be non-domiciled in Cyprus provided that the individual was not a Cyprus tax resident for a period of at least 20 consecutive years prior to the tax year in question.
- A non-domiciled individual may be deemed as domiciled in Cyprus if he/she has been a Cypriot tax resident for at least 17 out of the last 20 years prior to the relevant tax year. An individual born to a Cypriot domiciled father may also qualify as non-domiciled in Cyprus subject to certain conditions.

# Cyprus Personal Taxation

## PERSONAL INCOME TAX RATES

Chargeable Income (€)	Tax Rates
0 - 19,500	0%
19,501 - 28,000	20%
28,001 - 36,300	25%
36,301 - 60,000	30%
Over 60,000	35%

## PERSONAL ALLOWANCES AND DEDUCTIONS

- Contributions to S.I., NHS, approved pensions funds, health and life insurance premiums are deductible for the calculation of an individual's taxable income (cannot be more than 1/5 of the taxable income).
- Dividend income is exempt from Income Tax and taxed under Special Defence Contribution (SDC) Tax at 17%. SDC is exempt for non-Domiciled individuals.
- Capital Gains Tax applies only on direct or indirect sale of immovable property situated in Cyprus. Taxed at 20% on gains.
- The pension income which arises from services rendered abroad is taxed at a flat rate of 5% for amounts exceeding €3,420 per annum.
- Resident individuals can enjoy the benefits of the Double Tax Treaty Network such as zero or reduced withholding taxes on income received from abroad.
- 100% exemption on remuneration for salaried services rendered outside Cyprus for more than 90 days to a non-Cyprus resident employer.
- 100% exemption on lump sum repayments from life insurance schemes or from provident funds.
- Inheritance tax has been abolished since 1 January 2000
- No wealth taxes. No immovable property taxes.

## ALLOWANCES TO RELOCATED EMPLOYEES

Individuals who were based overseas and who were not Cyprus tax residents before their commencement of their employment in Cyprus may be entitled to one (but not simultaneously) to the following exemptions:

### The 50% exemption rule

50% exemption on remuneration applies, for first employments commencing as from 1 January 2022 exercised in Cyprus with remuneration exceeding €55,000 p.a., by individuals who were not a resident of Cyprus for a period of at least 10 consecutive tax years immediately prior to the commencement of their employment in Cyprus. The exemption applies for a period of 17 years.

### The 20% exemption rule

20% exemption on individual's emoluments below €55,000 for first employments provided that, prior to the commencement of their employment in Cyprus, were not resident of Cyprus for a period of at least 3 consecutive tax years and were employed outside of Cyprus by a non-resident employer. The exemption applies for a period of 7 years. The maximum tax allowance is €8,550.





# About us

EKJ Audit Limited fully reflects professional experience and ethical standing.

Our expert knowledge lies in providing comprehensive solutions to clients in the audit and assurance spectrum, preparatory work for fraud investigation, accounting, and computerization of accounting departments, setting-up internal procedures, tax planning, structuring & optimization in both Cyprus and abroad.

As a forward-looking professional services firm, we have leveraged upon our experience, and we have incorporated Digital Accounting and Digital Transformation services, ERP advisory and implementation solutions, paving the way for the necessary Digital Transformation of the accounting profession.

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