

Tax Services

# Tax Facts & Figures 2008 - Cyprus\*



\*connectedthinking

PRICEWATERHOUSECOOPERS 



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# Foreword

There are significant benefits from a proper and effective tax planning. Our people possess the knowledge and expertise to assist you identify such benefits. We are next to you to share know-how and innovative specialized solutions to support you for structuring your operations in a tax efficient way.

This publication aims at providing a general description of the tax system in Cyprus. The tax information contained is based on the tax legislation and practice as at January 2008.

A full and detailed description of the prevailing tax system is not the aim of this booklet nor could it be covered in a brief publication of this kind. Consequently “Tax Facts & Figures - 2008 Cyprus” should only be used as a source of general information and it cannot substitute proper professional advice.

Please do not hesitate to contact us at any of our offices at the addresses shown at the back of this publication.

PricewaterhouseCoopers  
Chartered Accountants

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# Personal Income Tax

## Basis of taxation

All Cyprus tax residents are taxed on all income accrued or derived from all sources in Cyprus and abroad. Individuals who are not tax residents of Cyprus are taxed on income accrued or derived from sources in Cyprus.

An individual is tax resident in Cyprus if he spends in Cyprus more than 183 days in any one calendar year. Days in and out of Cyprus are calculated as follows:

- the day of departure from Cyprus counts as a day of residence outside Cyprus.
- the day of arrival in Cyprus counts as a day of residence in Cyprus.
- arrival and departure from Cyprus in the same day counts as one day of residence in Cyprus.
- departure and arrival in Cyprus in the same day counts as one day of residence outside Cyprus.

## Personal tax rates

The following income tax rates apply to individuals:

Chargeable income	Tax rate	Accumulated tax
€	%	€
0 - 19.500	Nil	Nil
19.501 - 28.000	20	1.700
28.001 - 36.300	25	3.775
over 36.300	30	

Foreign pension is taxed at the rate of 5%. An annual exemption of €3.417 is granted.

## Exemptions

The following are exempt from income tax:

Type of income	Exemption limit
• Interest	The whole amount
• Dividends	The whole amount
• Remuneration from any office or employment exercised in Cyprus by an individual who was not resident of Cyprus before the commencement of his employment, for a period of 3 years commencing from 1st January following the year of commencement of the employment	20% of income with a maximum amount of €8.543 annually
• Remuneration from salaried services rendered outside Cyprus for more than 90 days in a tax year to a non-Cyprus resident employer or to a foreign permanent establishment of a Cyprus resident employer	The whole amount
• Profits of a permanent establishment abroad under certain conditions	The whole amount

- Lump sum received by way of retiring gratuity, commutation of pension or compensation for death or injuries. The whole amount
- Capital sums accruing to individuals from any payments to approved funds (e.g. provident funds) The whole amount
- Deposits with Housing Finance Corporations 40% of the amount deposited. The amount deposited cannot exceed 25% of a person's total income (This exemption applies for deposit schemes that existed as at 30 April 2003. For these schemes, the exemptions applies for 6 years from the date of commencement of the scheme).
- Profits from the sale of securities \* The whole amount

\*The term "Securities" is defined as shares, bonds, debentures, founders' shares and other securities of companies or other legal persons, incorporated in Cyprus or abroad and options thereon.

## Tax deductions

The following are deducted from income:

- |  |   |
|--|---|
| • Contributions to trade unions or professional bodies   | The whole amount  |
| • Loss of current year and previous years  | The whole amount  |
| • Rental income  | 20% of rental income  |
| • Donations to approved charities (with receipts)  | The whole amount  |
| • Expenditure incurred for the maintenance of a building in respect of which there is in force a Preservation Order  | Up to €342, €513 or €598 per square meter (depending on the size of the building) |
| • Social Insurance, provident fund, medical fund, pension fund contributions and life insurance premiums (the allowable annual life insurance premium is restricted to 7% of the insured amount) | Up to 1/6 of the chargeable income  |

## Social grants

The following social grants are given:

- Grant of €2.563 per annum for every child receiving full time higher education in Cyprus (with certain restrictions) or full time university education outside Cyprus. Families with more than three children receive additional grant of €854.
- Grant of €3.417 per annum for blind persons.
- All families resident in Cyprus fulfilling the provisions of the Law, are entitled to a basic child grant, whereas those families that had a gross family (applicant, spouse, children) income for the year 2005 below €34.172 are entitled to an additional child grant as indicated in the table below.

Number of children in the family	Basic annual grant €	Additional annual grant for families with an annual income up to €17.086 €	Additional annual grant for families with an annual income greater than €17.086 and up to €34.172 €
1 child	392	98	49
2 children	783	392	294
3 children	783 per child	294 per child	245 per child
More than 3 children	1.293 per child	431 per child	269 per child

Upon application, the applicants do not need to submit any evidence of their income, unless it is the first time claim. The above mentioned social grants are those applicable for the year 2008.

## Example of personal Tax computation

Salary	60.000
Rent receivable	5.000
Interest receivable	1.200
Dividend income	800
Social Insurance contributions	2.900
Life insurance premiums	8.500
Insured sum	100.000
Provident fund contribution	3.000
Donations to approved charities – with receipts	300

## Tax computation

	€	€
Salary	60.000	
Rent receivable	5.000	
Interest receivable (exempt)	-	
Dividends receivable (exempt)	-	
Total income		65.000
Less: deductions		
Donations - (with receipts)	300	
20% of rent income	1.000	1.300
Net total income		63.700
Life insurance premiums: Restricted to 7% of the insured sum (7% @ €100.000 = €7.000). Provident fund, social insurance contributions and life insurance premiums restricted to 1/6 of net total income (€3.000 + €2.900 + €7.000 = €12.900 restricted to 1/6 of €65.700*)		(10.950)
Chargeable income		52.750

\* €65.700 is made up of total income including interest and dividend less deductions

Tax Services  
 Personal Income Tax

	€	€
Tax payable: - first	19.500	nil
- next	8.500	1.700
- next	8.300	2.075
- rest	16.450	4.935
Income tax payable		8.710
Special contribution for defence		
Dividends receivable €800 x 15%	120	
Interest receivable €1.200 x 10%	120	
Rent receivable $€5.000 - 25\% = €3.750 \times 3\%$	112,50	352,50
<b>Total tax payable</b>		<b>9.062,50</b>

# Corporation Tax

## Basis of taxation

All companies tax resident of Cyprus are taxed on all their income accrued or derived from all sources in Cyprus and abroad. A non-Cyprus tax resident company is taxed on income accrued or derived from a business activity which is carried out through a permanent establishment in Cyprus.

A company is resident of Cyprus if it is managed and controlled in Cyprus.

## Corporation tax rates

	<b>Tax rates</b> %
Companies	10
Semi-government organisations	25

## Exemptions

Type of income	Exemption limit
• Profit from the sale of securities	The whole amount
• Dividends	The whole amount
• Interest not arising from the ordinary activities or closely related to the ordinary activities of the company	50%
• Profits of a permanent establishment abroad, under certain conditions	The whole amount

## Tax deductions

All expenses incurred wholly and exclusively in earning the income of the company including:

Type of expense	Exemption limit
• Donations to approved charities (with receipts)	The whole amount
• Employer's contributions to social insurance and approved funds on employees' salaries	The whole amount

- Any expenditure incurred for the maintenance of a building in respect of which there is a Preservation Order Up to €342, €513 or €598 per square meter (depending on the size of the building)
- Entertainment expenses for business purposes Up to €17.086. Nil if the expense exceeds 1% of the gross income of the business

**but not including:**

- expenses of a private motor vehicle The whole amount
- Interest applicable to the cost of acquiring a private motor vehicle, irrespective of its use and to the cost of acquiring any other asset not used in the business The whole amount for 7 years

## Losses carried forward

The tax loss incurred during a tax year and which cannot be set off against other income, is carried forward and set off against future profits with no time restriction. This provision is applicable for all losses incurred from 1997 tax year onwards.

The current year loss of one company can be set off against the profit of another provided the companies are Cyprus tax resident companies of a group. Group is defined as:

- One company holding at least 75% of the shares of the other company.
- At least 75% of the voting shares of the companies are held by another company.

A partnership or a sole trader transferring business into a company can carry forward tax losses into the company for future utilisation.

Losses from a permanent establishment abroad can be set off with profits of the company in Cyprus. Subsequent profits of the permanent establishment abroad are taxable up to the amount of losses allowed.

## Reorganisations

Transfers of assets and liabilities between companies can be effected without tax consequences within the framework of a reorganisation.

Reorganisations include:

- mergers
- demergers
- partial divisions (new provision)
- transfer of assets
- exchange of shares (an enhanced new provision)
- transfer of registered office

## Annual wear and tear allowances on fixed assets

The following allowances which are given as a percentage on the cost of acquisition are deducted from the chargeable income:

<b>Fixed assets</b>	<b>%</b>
Plant and machinery	
Plant and machinery	10
Furniture and fittings	10
Televisions and videos	10
Industrial carpets	10
Boreholes	10
Machinery and tools used in an agricultural business	15
Computer hardware and operating systems	20
Application software	33 1/3
Commercial motor vehicles	20
Motor cycles	20
Excavators, tractors, bulldozers, self-propelled loaders and drums for petrol companies	25
Expenditure on application software less than €1.709, is written off in the year of acquisition	

	%
<b>Buildings</b>	
Commercial buildings	3
Industrial, agricultural and hotel buildings	4
Flats	3
Metallic greenhouse structures	10
Wooden greenhouse structures	33 1/3

<b>Boats</b>	
Sailing vessels	4,5
Steamers, tugs and fishing boats	6
Shipmotor launches	12,5
New cargo vessels	8
New passenger vessels	6
Used cargo/passenger vessels	Over their useful lives

<b>Tools</b>	
Tools in general	33 1/3
Videotapes property of video clubs	50

## Special type of companies

### Shipping companies

- No income tax is payable on the profits earned or dividends paid by a Cyprus shipping company which owns ships under the Cyprus flag and operates in international waters (including chartering), or on the salaries of officers and crew of such ships.
- The exemption also applies to the bare boat charterer of a vessel flying the Cyprus flag under parallel registration.
- Local or international ship management and crew management businesses (corporated or unincorporated) have the option to be taxed either at the rate of 4,25% or at rates equal to 25% of the rates used to calculate tonnage tax of vessels under management which are registered outside Cyprus. If no election is made tonnage tax will be imposed. The election is made annually by 30 November of the previous year.

All of the above provisions are currently under review by the European Union.

### Insurance companies

Profits of insurance companies are liable to corporation tax similar to all other companies except in the case where the corporation tax payable on taxable profit of life insurance business is less than 1,5% on gross premium. In this case the difference is paid as additional corporation tax.

## **International Collective Investment Schemes (ICISs)**

The sole object of an ICIS is the collective investment of funds of the unitholders.

ICISs can take the following legal forms:

- International fixed capital company
- International variable capital company
- International unit trust scheme and
- International investment limited partnership

ICISs are liable to corporation tax similar to all other legal entities depending on the legal status of the ICIS.

## Special Contribution for Defence

Special contribution for defence is imposed on income earned by Cyprus tax residents. Non-tax residents are exempt from special contribution for defence. It is charged at the rates shown in the table below:

	Tax rates	
	Individuals %	Legal entities %
Dividend income from Cyprus resident companies	15	Nil
Dividend income from non-Cyprus resident companies	15	Nil <sup>1</sup> (under conditions)
Interest income arising from the ordinary activities or closely related to the ordinary activities of the business	Nil	Nil
Other interest	10 <sup>2</sup>	10
Rental income (reduced by 25%)	3	3
Profits of semi-government organisations	N/A	3

### Notes

1. Dividend income from abroad is exempt from defence fund contribution provided that the company receiving the dividend owns at least 1% of the company paying the dividend. This exemption does not apply if:

- more than 50% of the paying company's activities result directly or indirectly in investment income and
- the foreign tax is significantly lower than the tax burden in Cyprus.

When the exemption does not apply, the dividend income is subject to special contribution for defence at the rate of 15%.

2. Interest income from Cyprus government savings bonds and development bonds and all interest earned by a provident fund is subject to special contribution for defence at 3% (instead of 10%).

In the case where the total income of an individual (including interest) does not exceed €11.960 in a taxable year, then the rate is reduced to 3%.

Special contribution for defence on rental income and trading profits is payable in 6 monthly intervals on 30 June and 31 December each year.

In the case of interest and dividends received gross any defence due is payable at the end of the month following the month in which they were received.

Dividends received from companies net of 20% withholding tax under the legislation that was in force up to 31 December 2002, and not distributed as dividends up to 31 December 2002, can be distributed within six years from the date of their receipt without any further tax deduction.

Foreign taxes paid can also be credited against the defence tax liability.

## Deemed dividend distribution

If a Cyprus resident company does not distribute a dividend within two years from the end of the tax year then:

- 70% of accounting profits (after some adjustments) are deemed to have been distributed.
- 15% special contribution for defence is imposed on deemed dividend distribution applicable to shareholders who are residents of Cyprus.
- Deemed distribution is reduced with payments of actual dividends which have already been paid during the two years from the profits of the relevant year.

When an actual dividend is paid after the deemed dividend distribution, then special contribution for defence is imposed only on the additional dividend paid not previously subject to deemed dividend distribution.

In case of two tier structures of Cyprus companies (parent with subsidiary) owned by non resident shareholders, defence contribution paid by the subsidiary on deemed distribution may be claimed back by the non resident shareholder upon receipt of an actual dividend.

# Capital Gains Tax

Capital Gains Tax is imposed 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 own such immovable property excluding shares listed in any recognised stock exchange.

## Exemptions

The following disposals of immovable property are not subject to Capital Gains Tax:

- 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 donation. The property must be kept by the donee for at least three years. For gifts that were made from the company to its shareholders and took place before 28 May 1999, the exemption applies irrespective of how the immovable property was originally acquired by the company.
- 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, provided that the whole of the gain made on the exchange has been used to acquire the other property. The gain that is not taxable is deducted from the cost of the new property, i.e. the payment of tax is deferred until the disposal of the new property.

## Determination of capital gain

Liability is confined to gains accruing since 1 January 1980. The costs that are deducted from gross proceeds on the disposal of immovable property are its market value at 1 January 1980, or the costs of acquisition and improvements of the property, if made after 1 January 1980, as adjusted for inflation up to the date of disposal on the basis of the consumer price index in Cyprus.

Expenses that are related to the acquisition and disposal of immovable property are also deducted, subject to certain conditions e.g. transfer fees, legal expenses etc.

<b>Example</b>	<b>€</b>	<b>€</b>
Sale price at September 2007	500.000	
Cost of acquisition at 1 January 1991	(90.000)	
Indexation allowance January 1991 to September 2007 €90.000 @ 71,75%	(64.575)	
Capital gain		345.425
Legal expenses		(1.000)
Taxable Capital Gain		344.425

## Lifetime Exemptions

Individuals can deduct from the capital gain the following:

	<b>€</b>
Disposal of private residence (subject to certain conditions)	85.430
Disposal of agricultural land by a farmer	25.629
Any other disposal	17.086

The above exemptions are given only once and not for every disposal.

An individual claiming a combination of the above is only allowed a maximum exemption of €85.430.

## Estate Duty

Estate duty has been abolished since 1 January 2000.

The executor/administrator of the estate of the deceased, is required by the Deceased Persons Estate Law, to submit to the tax authorities a statement of assets and liabilities of the deceased within six months from the date of death.

## Value Added Tax

VAT is imposed on the provision of goods and services in Cyprus, as well as on the acquisition of goods from the European Union 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. Refund of excess input VAT can be obtained in the following cases.

- a period of three years has elapsed from the date the VAT became refundable,
- input VAT which cannot be set off against output VAT until the last VAT period of the year which follows the year in which the VAT period in which the credit was created falls
- The input VAT relates to zero rated transactions
- The input VAT relates to the purchase of capital assets of the company
- The input VAT relates to transactions which are outside the scope of VAT but would have been subject to VAT had they been carried out within Cyprus.

For intra-community acquisitions the trader does not pay VAT on receipt of the goods in Cyprus but instead he accounts for VAT using acquisition accounting. This involves a simple accounting entry in the books of the business whereby he self-charges VAT and at the same time claims it back if it relates to taxable supplies thereby creating no cost to the business.

In cases where the acquisition relates to an exempt transaction, the trader must pay the VAT that corresponds to the acquisition.

## VAT rates

The legislation provides for the following four tax rates:

- Zero rate (0%)
- Reduced rate of five per cent (5%) from 1 July 2000
- Reduced rate of eight per cent (8%) from 1 August 2005
- Standard rate fifteen per cent (15%) from 1 January 2003

## Zero rate 0%

The zero rated goods and services include the following:

- exports of goods to non EU countries;
- intra- Community supplies of goods;
- processing carried out on goods in Cyprus on behalf of a customer abroad provided that the goods will be exported outside the EU when the processing finishes;

- transportation of passengers directly to or from another country;
- transportation of goods from Cyprus to a destination outside the EU
- supply, importation and rental of qualifying aircrafts and qualifying ships
- alterations, repairs to and maintenance of qualifying aircrafts and qualifying ships;
- most foodstuffs;
- supplies of medicaments falling within codes CN30.03 and CN30.04 of the Customs and Excise Tariff;
- supplies of vaccines for medical and veterinary use falling within code CN30.02 of the Customs and Excise Tariff.

### Reduced rate of 5%

The reduced rate of 5% applies to:

- funeral services and the supply of coffins;
- road sweeping, refuse collection and recycling;
- services of writers, composers, artists and interpreters of works of art as well as their rights;
- supply of fertilizers;
- supply of animal feeding stuffs;
- supply of seeds;
- supply of live animals of a kind generally used for human consumption;

- books, magazines and newspapers (as from 1 May 2004);
- gas;
- non-bottled water (as from 1 May 2004);
- transport of passengers and their accompanying luggage on a rural or city bus (for a fee) within Cyprus;
- the letting of camping sites and caravan parks (as from 1 January 2006);
- various goods for the use of handicapped persons;
- ice-cream, yogurt ice-cream and similar products as well as certain salted or spicy products made from cereal, salted or spicy products made from potato and dry roasted or spicy nuts which are used for human consumption (applies as from 1 May 2004).

From 19 October 2007, the reduced rate of VAT of 5% was introduced to the following supplies of goods and services (previously subject to the standard VAT rate of 15%):

- The following services when provided for the purposes of renovation or repair of houses for which a period of three years has elapsed since their first use and which are used as the primary and permanent place of residence: (i) construction services and (ii) services of plumbers, electricians, carpenters and oil painters. In case the materials cost exceeds 50% of the total value, then the VAT to be charged is the standard rate of 15% on the value of the materials and the reduced rate of 5% on the value of the service;
- hair salon services;
- confectionery items, chocolate and biscuits which are partly or wholly covered with chocolate;

- bottled water, manufactured beverages, juice drinks (except those taxed at the standard VAT rate);
- ingredients which are used in the preparation of foodstuffs;
- food supplements and foodstuffs substitutes previously taxed at 15%;
- syrups, flavoured or/ and coloured;
- supplies of medicines and vaccines which were previously taxed at 15%;
- products used for contraception;
- products used for women's sanitary protection;
- medical equipment when intended for the exclusive personal use of disabled persons;
- children's car seats;
- admission to shows, circuses, fairs, amusement parks, concerts, museums, zoos, cinemas, exhibitions and similar cultural events and facilities;
- admission to sport events and licenses for the use of sporting facilities;
- services of repair of medical equipment and equipment used by disabled persons (that are taxed at 5%);
- medical services, dental services and services of thermal treatment which were previously not exempt from VAT;

## Reduced rate of 8%

From 1 August 2005, a new reduced VAT rate of 8% was introduced to the following supplies:

- transportation of passengers and their accompanying luggage by taxi (urban, suburban and rural) as well as by certain buses (tourist, excursion and suburban) within Cyprus.

From 1 January 2006, the reduced VAT rate of 8% was introduced to the following supplies:

- restaurant services and the supply of food in the course of catering except the supply of alcoholic beverages, wine and beer which are subject to the standard VAT rate of 15% (before this amendment were subject to the reduced VAT rate of 5%);
- hotel accommodation and accommodation services in similar tourist spaces (before this amendment were subject to the reduced VAT rate of 5%);
- transportation of passengers and their accompanying luggage by sea within Cyprus.

## Exemptions

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

- rents from immovable property (the letting of immovable property with the right of purchase is not exempt);
- most banking and financial services and insurance services;
- most hospital, medical and dental care services;
- certain cultural educational and sports activities;
- supplies of real estate (except supply of new buildings before their first use; included in the exemption are supplies of land and supplies of second-hand buildings);
- postal services provided by the national postal authority; and
- lottery tickets and betting coupons for football and horse racing.

## Grant for acquisition of first residence

The grant is given to entitled persons for the construction, or purchase or acquisition of a new house which is used as the main and primary place of residence.

The application for the grant is submitted to the Ministry of Finance, in relation to houses for which an application has been submitted for the issue of a planning permission after the 1 May 2004. Persons entitled to this grant are individuals who are citizens of the Republic of Cyprus or of any other EU member state, who reside permanently in the Republic of Cyprus and who have reached the age of 18 at the time of application. The grant is given for houses whose total covered area does not exceed 250 m<sup>2</sup>.

The amounts of the grant valid from 1 January 2008 are as shown in the table below:

One bedroom apartment	€19.249,28
Two bedroom apartment	€19.249,28
Three bedroom apartment	€17.729,63
Semi detached house	€15.196,87
Detached house	€20.262,38
Construction of house	€10.131,13

## **Difference between zero rate and exempt supplies**

The difference between zero rate and exempt supplies is that businesses that make exempt supplies, are not entitled to recover the VAT with which they have been charged on their purchases, expenses or imports.

## Irrecoverable input VAT

As an exception to the general rule, input VAT cannot be recovered in a number of cases which include the following:

- Acquisitions used for making exempt supplies.
- Purchase, import or hire of saloon cars.
- Entertainment and hospitality expenses (except those relating to employees and directors).
- Housing expenses of directors.

## Registration

Registration is compulsory for businesses with (a) turnover in excess of €15.600 during the 12 preceding months or (b) an expected turnover in excess of €15.600 within the next 30 days. Businesses with turnover less than €15.600 and companies which make supplies for which the right to claim the amount of the related input VAT is granted have the option to register if they wish to do so.

An obligation for registration also arises for companies which make acquisitions of goods from other EU Member States in excess of €10.251,61 during any calendar year.

Exempted products and services, and disposals of items of capital nature are not taken into account for determining annual turnover for registration purposes. Registration is effected by completing the appropriate application form.

### **VAT declaration - Payment/return of VAT**

VAT returns must be submitted quarterly and the payment of the VAT must be made by the 10th day of the second month that follows the month in which the tax period ends.

VAT registered persons and companies have the right to request for a different filing period. Approval of the VAT authorities is required.

Where in a quarter input tax is higher than output tax, and therefore a repayment is due, the difference is refundable or is transferred to the next VAT quarter to be credited against any payable account.

## Immovable Property Tax

Immovable Property Tax is imposed on the market value as at 1 January 1980 and applies to the immovable property owned by the taxpayer on 1 January of each year. This tax is payable on 30 September each year.

Physical and legal persons are both liable to Immovable Property Tax.

### Tax rates

Property value €	Rate ‰	Accumulated tax €
Up to 170.860	-	-
170.861 - 427.150	2,5	641
427.151 - 854.300	3,5	2.136
Over 854.300	4	

## Exemptions

The following are not subject to Immovable Property Tax:

- Public cemeteries
- Churches and other religious buildings
- Public hospitals
- Schools
- Immovable property owned by the Republic
- Foreign embassies and consulates
- Common use and public places
- Property under Turkish occupation
- Buildings under a Preservation Order
- Buildings of charitable organisations
- Agricultural land used in farming or stock breeding, by farmer or stock breeder residing in the area.

# Trusts

A trust is established by an individual “the settlor” and is a means whereby property “the Trust Property” is held by one or more persons “the Trustees” for the benefit of another or others “the Beneficiaries” or for specified purposes.

Trusts have traditionally been very important tax planning devices. Even today a very high proportion of tax saving schemes involve trusts.

## International trusts

International trusts are governed by the International Trusts Law of Cyprus. International Trusts are not taxed in Cyprus. In fact, Cyprus International Trusts enjoy important tax advantages, providing significant tax planning possibilities. The following advantages are indicative of the possible options for tax minimisation.

All income, whether trading or otherwise, of an International Trust (ie a Trust whose property is located and income is derived from outside Cyprus) is not taxable in Cyprus.

- Dividends, interest or other income received by a Trust from a Cyprus international business company are neither taxable nor subject to withholding tax.
- Gains on the disposal of the assets of an international Trust are not subject to capital gains tax in Cyprus.

- An alien who creates an International Trust in Cyprus and retires in Cyprus is still exempt from tax if all the property settled and the income earned is abroad, even if he is a beneficiary.
- The assets of an international trust are not subject to estate duty in Cyprus.
- Trusts are usually used by wealthy individuals for the purpose of protecting their estate from inheritance or capital gains taxes in their home country. They can also be used by expatriates settling into a trust before repatriating, assets acquired while working abroad, to protect such assets from the tax net of their home country.

## Transfer fees by the Department of Land and Surveys

The fees charged by the Department of Land and Surveys for transfers of immovable property are as follows:

Value	Rate	Fee	Accumulated fees
€	%	€	€
Up to 85.430	3	2.563	2.563
85.431 - 170.860	5	4.272	6.835
Over 170.860	8		

In the case of property transferred to a family company, transfer fees are refundable after five years if the property remains with the company and the shareholders remain the same.

In the case of property transferred from a company whose shareholders are spouses and/or their children, to one of the two spouses, or their children or to a relative up to third degree of relation the transfer fees are calculated on the value of the property as follows:

- if the transfer is to a spouse 8%
- if the transfer is to a child 4%
- if the transfer is to a relative 8%

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### Transfer fees by the Department of Land and Surveys

Also the following rates are applicable in the case of free transfers:

- |                                  |       |
|----------------------------------|-------|
| • from parents to children       | 4%    |
| • between spouses                | 8%    |
| • between third degree relatives | 8%    |
| • to trustees                    | €8.54 |

Value in these cases is the one written on the title deed which refers to values of the year 1920.

In the case of companies' reorganizations, transfers of immovable property are not subject to transfer fees by the Department of Land and Surveys.

## Social Insurance

<b>Contributions</b>	<b>%</b>
Employer	6,3
Employee	6,3

The maximum level of annual income on which social insurance contributions are paid on is as follows:

	<b>€</b>
Weekly employees	46.020
Monthly employees	46.032

### Other employer's contributions

The employer makes the following other contributions based on employee's emoluments:

	<b>%</b>
Social cohesion fund	2,0
Redundancy fund	1,2*
Industrial training fund	0,5*
Holiday fund (if is not exempt)	8,0*

\* Restricted to the maximum level as stated above

The contributions of self-employed persons are 11,6% of income, according to the following table.

<b>Weekly salaries</b>	<b>Lower Limit €</b>	<b>Upper Limit €</b>
1. Doctors, pharmacists, specialists in health matters (qualified), accountants, economists, lawyers and other professionals		
Up to 10 years	325	885
> 10 years	653	885
2. Wholesalers, estate agents, directors (businessmen)	653	885
3. Professors and teachers		
Up to 10 years	316	885
> 10 years	632	885
4. Builders and other related construction industry businesses	396	885
5. Drivers, excavator drivers and other related professions, technicians, associates in media, machinery users (apart from the construction industry) assemblers of products, writers, typists, cashiers, secretaries and technicians which do not fall in any other category	316	885
6. Shopkeepers, cleaners, messengers, guards and owners of dry cleaners	299	885

	<b>Lower Limit €</b>	<b>Upper Limit €</b>
7. Farmers, stock breeders, aviarists, fishermen and other related professions, hawkers, postmen, refuse collectors, workers in mines & quarries, marine workers specializing in underwater constructions, installators of forklift equipment, street sweepers and people responsible for provision of services and salesmen	219	885
8. Butchers, bakers, confectioners and similar professions	241	885
9. Designers, users of computers, ship engineers, agents and musicians, magicians, persons that do not fall in any other professional category	325	885

## Stamp Duty

The following table gives the amount or rate of duty payable on certain documents. Transactions which fall within the scope of reorganizations are exempt from stamp duty. Also, any contracts relating to assets situated outside Cyprus or business affairs that take place outside Cyprus are exempt from stamp duty.

### Nature of documents

Receipts - for sums of €3,42 – €34,17	3,42 cents
Receipts - for sums of over €34,17	6,84 cents
Cheques	5,13 cents
Letters of credit	€1,71
Letters of guarantee	€3,42
Bills of exchange (payable within three days on demand or at sight)	85,43 cents
Contracts	
- the first €170.860	1.5‰
- over €170.860	2‰
- without fixed sum	€34,17
Customs declaration documents	€17,10 - €34,17
Bills of lading	€3,42
Charterparty	€17,09

As from 14 August 2007 stamp duty has been capped at a maximum of €17.086.

## Capital Duty

### Upon incorporation of the company

Authorised share capital	€102,52 plus 0,6% on the authorised share capital
Issued share capital	There is no stamp duty payable if the shares are issued at their nominal value. There is a €17,09 flat duty if the shares are issued at a premium

### Upon subsequent increases

Authorised share capital	0,6% on the additional share capital
Issued share capital	€17,09 flat duty on every issue, whether the shares are issued at nominal value or at a premium.
Powers of attorney	
- general	€5,13
- limited	€1,71
Certified copies of contracts and documents	€1,71

# Tax treaties withholding tax tables

The following tables give a summary of the withholding taxes provided by the double tax treaties entered into by Cyprus.

Paid from Cyprus			
	Dividends (1) %	Interest (1) %	Royalties (1) %
Non-treaty countries	Nil	Nil	Nil (2)
Austria	10	nil	nil
Belarus	5 (18)	5	5
Belgium	10 (8)	10 (6,19)	nil
Bulgaria	5 (23)	7 (6)	10
Canada	15	15 (4)	10 (5)
China	10	10	10
Czech Republic	10	10 (6)	5 (7)
Denmark	10 (8)	10 (6)	nil
Egypt	15	15	10
France	10 (9)	10 (10)	nil (3)
Germany	10 (8)	10 (6)	nil (3)
Greece	25	10	nil (12)
Hungary	nil	10 (6)	nil
India	10 (9)	10 (10)	10 (16)
Ireland	nil	nil	nil (12)
Italy	nil	10	nil

## Tax treaties withholding tax tables

Paid from Cyprus			
	Dividends (1) %	Interest (1) %	Royalties (1) %
Kuwait	10	10(6)	5 (7)
Lebanon	5	5	nil
Malta	15	10	10
Mauritius	nil	nil	nil
Norway	nil	nil	nil
Poland	10	10 (6)	5
Romania	10	10 (6)	5 (7)
Russia	5 (17)	nil	nil
Singapore	nil	10 (6,25)	10
Slovakia	10	10 (6)	5 (7)
South Africa	nil	nil	nil
Sweden	5 (8)	10 (6)	nil
Seychelles	nil	nil	5
Syria	nil (8)	10	10
Thailand	10	15 (21)	5 (22)
United Kingdom	nil	10	nil (3)
United States	nil	10 (10)	nil
USSR (20)	nil	nil	nil
Yugoslavia (26)	10	10	10

## Tax treaties withholding tax tables

<b>Received in Cyprus</b>			
	<b>Dividends %</b>	<b>Interest %</b>	<b>Royalties %</b>
Treaty countries:			
Austria	10	nil	nil
Belarus	5 (18)	5	5
Belgium	10 (8)	10 (6,19)	nil
Bulgaria	5 (23)	7 (6,24)	10 (24)
Canada	15	15 (4)	10 (5)
China	10	10	10
Czech Republic	10	10 (6)	5 (7)
Denmark	10 (8)	10 (6)	nil
Egypt	15	15	10
France	10 (9)	10 (10)	nil (3)
Germany	10 (8)	10 (6)	nil (3)
Greece	25 (11)	10	nil (12)
Hungary	5 (8)	10 (6)	nil
India	10 (9)	10 (10)	15 (15)
Ireland	nil	nil	nil (12)
Italy	15	10	nil
Kuwait	10	10 (6)	5 (7)
Lebanon	5	5	nil
Malta	nil	10	10

## Tax treaties withholding tax tables

<b>Received in Cyprus</b>			
	Dividends (1) %	Interest (1) %	Royalties (1) %
Mauritius	nil	nil	nil
Norway	nil (13)	nil	nil
Poland	10	10 (6)	5
Romania	10	10 (6)	5 (7)
Russia	5 (17)	nil	nil
Singapore	nil	10 (6,25)	10
Slovakia	10	10 (6)	5 (7)
South Africa	nil	nil	nil
Sweden	5 (8)	10 (6)	nil
Seychelles	nil	nil	5
Syria	nil (8)	10 (4)	10
Thailand	10	15 (21)	5 (22)
United Kingdom	15 (14)	10	nil (3)
United States	5 (9)	10 (10)	nil
USSR (20)	nil	nil	nil
Yugoslavia (26)	10	10	10

## Notes

- (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 withholding tax of 10%.
- (3) 5% on film and TV royalties.
- (4) Nil if paid to a Government or for export guarantee.
- (5) Nil on literary, dramatic, musical or artistic work.
- (6) Nil 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 a company controlling less than 25% of the voting power or by an individual.
- (9) 15% if received by a person controlling less than 10% of the voting power.
- (10) Nil 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) This rate applies to individual shareholders regardless of their percentage of shareholding.  
Companies controlling less than 10% of the voting shares are also entitled to this rate.

- (15) 10% for payments of a technical, managerial or consulting nature.
- (16) Treaty rate 15%, therefore restricted to Cyprus legislation rate.
- (17) 10% if dividend paid by a company in which the beneficial owner has invested less than US\$100.000.
- (18) If investment is less than 200.000 euro, dividends are subject to 15% withholding tax which is reduced to 10% if the recipient company controls 25% or more of the paying company.
- (19) No withholding tax for interest on deposits with banking institutions.
- (20) Armenia, Kyrgyzstan, Moldova, Tadjikistan, Uzbekistan and Ukraine apply the USSR/Cyprus treaty.
- (21) 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.
- (22) 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.
- (23) 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%.
- (24) 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.
- (25) 7% if paid to bank or financial institution.
- (26) Slovenia, Serbia and Montenegro apply the Yugoslavia/Cyprus treaty.

# Tax Diary

## End of following month

Payment of tax deducted from employees salary (PAYE)

Payment of special contribution for defence on dividends and interest received in the preceding month

## 30 January

Final deadline for the avoidance of penalty of 5% for the payment of corporation tax based on the tax return of the penultimate year, if not paid on 1 August of previous year.

## 31 January

Submission of declaration of deemed dividend distribution (IR623) for the year ended 31 December two years ago.

## 30 April

Submission of the previous year personal returns of individuals where their gross income arises exclusively from salaried services (1)

Payment of premium tax for life insurance companies - first instalment for the year

Submission by employers of the total payroll of the previous year (Form I.R.7)

## 30 June

Submission of previous year personal returns of individuals not preparing audited financial statements (1) (2) and payment of tax via a self-assessment method.

Payment of special contribution for defence for the first six months of the year

## 1 August

Submission of provisional tax declaration and payment of first instalment of provisional tax for the year

Payment of previous year's final corporation tax under the self-assessment method

Payment of previous year's income tax based on the assessment raised by the Commissioner of Income Tax

Payment of previous year's income tax under the self assessment method by individuals preparing audited financial statements (2)

## 31 August

Payment of premium tax for life insurance companies - second instalment for the year.

## 30 September

Payment of provisional tax - second instalment for the year

Payment of immovable property tax for the year

## 31 December

Submission of previous year audited financial statements and tax returns (2)

Payment of provisional tax - third and last instalment for the year

Payment of second instalment of special contribution for defence for the last six months of the year

Payment of premium tax for life insurance companies - third and last instalment for the year

### Interest and Penalties

The official rate as set by the Finance Minister, is 8% per annum for all amounts due after 1 January 2007. The interest rate for outstanding amounts before 1 January 2007 is 9%.

In addition to the interest, a penalty is also charged depending on the circumstances.

### Notes

(1) Physical persons submit returns only when their gross income exceeds €19.500.

(2) A physical person is obliged to submit audited financial statements if his/her turnover exceeds €68.344 annually.

# PricewaterhouseCoopers in Cyprus

PricewaterhouseCoopers ([www.pwc.com](http://www.pwc.com)) provides industry-focused assurance, tax and advisory services for public and private clients. More than 146.000 people in 150 countries connect their thinking, experience and solutions to build public trust and enhance value for clients and their stakeholders.

PricewaterhouseCoopers Cyprus tap the knowledge and experience of their international network helping their clients to solve complicated business problems, improve their performance and manage risk in a hard competitive environment.

Our position is strengthened with more than 800 people and offices throughout Cyprus ([www.pwc.com/cy](http://www.pwc.com/cy)). Our team effort makes us efficient in preparing our clients for the needs of tomorrow.

Organised under specialised service lines in Cyprus, we provide a wide range of financial services to both local and international clients, which operate in all sectors of business activity and range from the private individual to the large multinational organisation.

Some of the services provided by the firm are:

### **Assurance Services**

Statutory and regulatory audit services, which include evaluation of information systems and advisory services for accounting and regulatory issues for all types of businesses through specialist industry divisions (Financial Services (FS), Consumer & Industrial Products & Services (CIPS) and Technology, Information, Communications, Entertainment & Media (TICE)). Expertise on corporate reporting, performance measurement as well as compliance and review of security and information technology systems.

### **Advisory Services**

Governance, Risk Management and Compliance, Strategy & Operational Effectiveness, Security & Technology, Process Improvement, Corporate Finance, Transactions Support, Crisis Management, People and Change, as well as general advisory services.

## **Tax Services**

Corporate: Tax planning on structuring, mergers & buyouts and other business issues, tax returns administration, agreement with Tax Authorities and obtaining tax rulings. VAT: Advisory services for tax planning, VAT recovery and VAT minimisation and tax compliance (administration of tax returns, communication with VAT authorities, agreement of disputed assessments etc). Personal: Tax planning, completion submission & agreement of tax returns, tax services to expatriates, pensioners and other non-Cypriot individuals.

## **Global Compliance Services**

Accounting, company administration and corporate statutory compliance services including advice on establishment and administration of local and international business companies, collective investment schemes, UCITS investment firms and trusts.

## **Corporate Support Services**

Our Corporate Support Services, which employs among others, accountants, lawyers and other qualified staff and engages selected lawyers with extensive and specialized knowledge in corporate law and other business related matters, aims at delivering full support and solutions that combine the required expertise with commercial insight thus adding value to the clients' business.

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