



# A & C CHRISTOFI LTD

Tax Facts & Figures 2019

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# Personal Income

Cyprus tax resident individual is taxed on all chargeable income accrued or derived from his Cyprus source income and foreign source income. Individuals who are not tax residents in the Republic of Cyprus are taxed on income accrued or derived from sources within the Republic of Cyprus.

## Residential Status

An individual shall be a tax resident individual in Cyprus if the individual is present in the Republic of Cyprus for a period of, or periods amounting in aggregate to, more than 183 days in any one calendar year.

It is not essential that the stay should be in the same place. It is equally not necessary that the stay should be continued. An individual may also be considered tax resident in Cyprus if he/she spends less than or equal to one hundred and eighty-three days in Cyprus, in other words, it is called "60 days"

## Tax Rates

Relevant Summary	Tax Rate
Where the taxable income does not exceed € 19.500	0%
Where the taxable income exceeds € 19.500 but does not exceed € 28.000	20%
Where the taxable income exceeds € 28.000 but does not exceed € 36.300	€ 1.700/- + 25% of the amount exceeding € 28.000
Where the taxable income exceeds € 36.300 but does not exceed € 60.000	€ 3.775/- + 30% of the amount exceeding € 36.300
Where the taxable income exceeds € 60.000	€ 10.885/- + 35% of the amount exceeding € 60.000



# Residential Status

An individual may also be considered tax resident in Cyprus if he/she spends less than or equal to one hundred and eighty-three days in Cyprus, in other words, it is called "60 days' rule".

For the application of "60 days' rule" all of the following conditions should be satisfied in any one calendar year;

- Do not reside in any other country for more than one hundred and eighty-three days in aggregate, and
- Is not considered tax resident by any other country, and
- Is present at least sixty days in Cyprus, and
- Must maintain in the calendar year permanent home in Cyprus which is either owned or rented by him/her.
- Furthermore, the individual must carry out any business in Cyprus, be employed in Cyprus, holder of an office of a company tax resident in Cyprus at any time in the tax year provided that the employment/business or holding of an office is not terminated during the tax year, if the such is terminated during the tax year the individual would cease to be considered tax resident in Cyprus for that tax year.

The method for computing the number of days of presence in Cyprus:

- The day of arrival in Cyprus counts as a whole day of such presence;
- The day of departure from Cyprus counts as a whole day of residence outside Cyprus;
- Arrival in and departure from, Cyprus on the same day count as a whole day of such presence;
- Departure from and arrival in, Cyprus on the same day count as a whole day of residence



# Tax Rate

## Relevant Summary

- Where the taxable income does not exceed € 19.500
- Where the taxable income exceeds € 19.500 but does not exceed € 28.000
- Where the taxable income exceeds € 28.000 but does not exceed € 36.300
- Where the taxable income exceeds € 36.300 but does not exceed € 60.000
- Where the taxable income exceeds € 60.000

## Tax Rate

0%

20%

€ 1.700/- + 25% of the amount exceeding € 28.000

€ 3.775/- + 30% of the amount exceeding € 36.300

€ 10.885/- + 35% of the amount exceeding € 60.000



# Exemptions

## Type of income

- Interest, excluding interest income arising from the ordinary business activities or closely related to the ordinary business activities of an individual. **The whole amount**
- Remuneration from any employment exercised in Cyprus by an individual who was resident outside Cyprus before the commencement of the employment provided that the annual remuneration of the employee exceeds € 100.000. (Note-1) **50% of the remuneration**
- Remuneration from any employment work in Cyprus by an individual who was not a resident of Cyprus before the initiation of the employment. (Note-2) **20% of the remuneration or € 8.550 (whichever is lower)**
- Remuneration from the rendering of salaried services to a non-Cyprus resident employer or to a permanent establishment of a resident employer outside Cyprus for more than 90 days in a tax year. **The whole amount**
- Dividends. (Note-3) **The whole amount**
- Profits of a permanent establishment established outside Cyprus. (Note-4) **The whole amount**



# Exemptions

## Type of income

- Foreign Exchange gains, with the exception of foreign exchange gains arising from trading in foreign currencies and related derivatives. (Note-5)
- Lump sum received by way of retiring gratuity, commutation of pension or compensation for death or injuries.
- Lump sum received from the life insurance scheme or approved provident funds.
- Rent from conserved building (subject to conditions)
- Gains:
  - arising from a restructuring (Note-6-i)
  - arising from the disposal of securities (Note-6-ii)

The whole amount

The whole amount

The whole amount

The whole amount

The whole amount  
Up to the whole amount



# Notes to the Exemptions

01. An exemption applies for a period of 10 years for employment commencing as from 1 January 2012 provided that the annual remuneration exceeds €100,000. For employment commencing as from 1 January 2015 the exemption does not apply in case the said individual was a Cyprus tax resident for 3 (or more) tax years out of the 5 tax years immediately prior to the tax year of commencement of the employment nor in the preceding tax year. In certain cases, it is possible to claim the exemption where income falls below €100.000 per annum.
02. For employment commencing during or after 2012, the exemption applies for a period of 5 years starting from the tax year following the year of commencement of the employment with the last eligible tax year being 2020. This exemption may not be claimed in addition to the immediately above mentioned a 50% exemption for employment income.
03. Such dividend and interest income may be subject to Special Contribution for Defense
04. With effect as from 1 July 2016, taxpayers may elect to tax the profits earned by a foreign permanent establishment, with a tax credit for foreign taxes incurred on those foreign permanent establishment profits. Transitional rules apply in certain cases on the granting of foreign tax credits where a foreign permanent establishment was previously exempt and subsequently a taxpayer elects to be subject to tax on the profits of the foreign permanent establishment.
05. Person trading in foreign exchange has an option to make an irrevocable election to be subject to tax only on realized foreign exchange differences.
- 06.(i) "Restructuring" means the direct or indirect sale and transfer of immovable property and transfer of rights under a sale contract deposited with the Department of Lands and Surveys, between one or more borrowers and/or debtors and/or guarantors regarding the same credit facility or grant or debt and one or more creditors or non-related persons made from 31 December 2015 up to 31 December 2019, which aims to reduce or repay credit facilities or loans or debts granted to borrowers with one or more lenders.
- 06.(ii) 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. Two Circulars have been issued by the Tax Authorities clarifying that the term also includes among others, options on Securities, short positions on Securities, futures/forwards on Securities, swaps on Securities, depositary receipts on Securities (ADRs, GDRs), rights of claim on bonds and debentures (rights on interest of these instruments are not included), index participations only if they result on Securities, repurchase agreements or Repos on Securities, units in open-end or closed-end collective investment schemes. The redemption of participation or share in an open or closed-ended collective investment scheme constitutes disposal of



# Allowable Deductions

While earning income all expenses are deductible in calculating taxable income, including:

## Expenses Nature

- Amount invested each tax year as from 1 January 2017 in approved innovative small and medium-sized enterprises either directly or indirectly. (Note-1)
- Social Insurance, National Health System medical fund (maximum 1,5% of remuneration), pension and provident fund contributions (maximum 10% of remuneration) and life insurance premiums (maximum 7% of the insured amount).
- Expenditure incurred for the maintenance of a building under Preservation Order.
- Donations to approved charitable organizations.
- Expenses for letting of buildings.
- Loss of current year and previous years. (Note-2)
- Subscriptions to trade unions or professional bodies.
- Interest relating to the acquisition of non- current assets used in business.
- Donations to political parties.

## *Deductions*

Up to 50% of the taxable income as calculated prior to this deduction (subject to a maximum of €150.000 per year)

Up to 1/6 of the chargeable income

Up to €1.200, €1.100 or €700 per square meter

The whole amount

20% of gross rental income

The whole amount

The whole amount

The whole amount

Up to €50.000



# Allowable Deductions

While earning income all expenses are deductible in calculating taxable income, including:

## Expenses Nature

- Profits from the exploitation of intellectual property rights.
- Profits from the disposal of intellectual property rights.
- Expenditures incurred for scientific research.
- Film infrastructure and technological equipment.
- Investment in an innovative business (small/medium sized).

### *Deductions*

Up to 80%

Up to the whole amount

The whole amount

Up to 20%

Up to the whole amount

## Notes to the allowable deductions

**01.** The unused deduction can be carried forward and claimed in the following 5 years, subject to the cap of 50% of taxable income (and an overall maximum of €150.000 per year).

**02.** For individuals required to prepare audited financial statements, current year losses and losses of the previous five years only may be deducted.



# Non-allowable Deductions

Following deductions are not allowed in computing the taxable income

- Private motor vehicle expenses;
- Expenses not incurred in deriving income from business wholly and exclusively;
- Expenses not supported up by supporting documents;
- Interest payable or deemed to be payable in relation to the acquisition of a private motor vehicle, irrespective of whether it is used in the business or not, or the other asset not used in the business. This restriction is winched up after 7 years from the date of purchase of the relevant asset;
- Wages and salaries relating to services offered within the tax year on which social insurance and other contributions have not been paid in the year in which they were due;
- Business entertainment expenses (amount in excess of 1% of the gross income or €17.086, whichever is lower).

## Loans or other financial assistance

- Loans or other financial assistance provided by the company to facilitate a director, to an individual shareholder, or to his/her spouse or, to any relative up to a second degree is considered as a monthly benefit equal to 9% per annum calculated on the amount received. Such benefit is included in the individual's taxable income subject to income tax.



# Carryforward of losses

- Where a business is converted into a limited liability company, any unutilized tax losses can be transferred to the new company.

Individuals may carryforward tax losses incurred during a tax year over the next five years, to be offset against taxable income.

# Tax credits and tax allowances

## Description

Social insurance contributions, contributions to the General Healthcare System, to approved provident and pension funds, contributions to medical or other approved funds as well as life insurance premiums in respect of the life of the claimant.

## *Credit/allowance*

Limited to 1/6 of the taxable income before this allowance

# Explanation:

- The allowance for the annual life insurance premium is restricted to 7% of the insured amount. Life insurance policies, in respect to the life of the claimant's spouse, which were in existence up to the 31 December 2002 and for which the claimant was receiving a tax allowance, will continue to be deductible by the claimant. In the event of cancellation of a life insurance contract within 6 years from the date, it was entered into, a portion of the life insurance premiums already given as an allowance will be taxable as follows:
  - Cancellation within three years 30%
  - Cancellation between 4 to 6 years 20%



# Corporation Tax

## Scope of tax

- All Cyprus tax resident companies are taxed on their income accrued or derived from all chargeable 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 and on certain income arising from sources in Cyprus.  
It is expected that as from 1 January 2019 Controlled Foreign Company (CFCs) rules will apply, i.e. non-distributed profits of CFCs directly or indirectly controlled by a Cyprus tax resident company may become subject to tax in Cyprus (certain exceptions may apply).

A company is a resident of Cyprus if it is managed and controlled in Cyprus. Foreign taxes paid can be credited against the Cyprus corporation tax liability.

# Residential Status

- A company is a tax resident in Cyprus if it is managed and controlled from the Republic of Cyprus.

# Corporate Tax Rate

- The corporation tax rate for all companies is 12,5%



# Exemptions

The followings are exempt from corporate tax:

## Type of income

### *Exemption limit*

■ Gains derived from restructuring. (Note-1)	Up to the whole amount
■ Dividends (excluding, as from 1 January 2016, dividends which are tax deductible for the paying company). (Note-2)	The whole amount
■ Interest income. (Note-3)	The whole amount
■ Gains relating to foreign exchange with the exception of FX gains arising from trading in foreign currencies and related derivatives. (Note-4)	The whole amount
■ Profit derived from the disposal of securities. (Note-5)	The whole amount
■ Profits from a foreign permanent establishment maintained outside Cyprus. (Note-6)	The whole amount
■ Income arising from a company operating in Cyprus in the audiovisual industry.	Up to 50%



# Notes to the Exemptions

- 01.** “Restructuring” means the direct or indirect sale and transfer of immovable property and transfer of rights under a sale contract deposited with the Department of Lands and Surveys, between one or more borrowers and/or debtors and/or guarantors regarding the same credit facility or grant or debt and one or more creditors or non-related persons made from 31 December 2015 up to 31 December 2019, which aims to reduce or repay credit facilities or loans or debts granted to borrowers with one or more lenders.
- 02.** Such dividend income may be subject to Special Contribution for Defense (The income tax exemption shall not apply to the extent that dividends are deductible from the taxable income of the dividend paying company. Dividends that do not qualify for the income tax exemption are not considered as dividends for special defense contribution purposes).
- 03.** Excluding interest income arising in the ordinary course of the business or closely connected with the ordinary carrying on of the business.
- 04.** Person trading in FX has an option to make an irrevocable election to be subject to tax only on realized FX differences.
- 05.** 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. Two Circulars have been issued by the Tax Authorities clarifying that the term also includes among others, options on Securities, short positions on Securities, futures/forwards on Securities, swaps on Securities, depositary receipts on Securities (ADRs, GDRs), rights of claim on bonds and debentures (rights on interest of these instruments are not included), index participations only if they result on Securities, repurchase agreements or Repos on Securities, units in open-end or closed-end collective investment schemes. The redemption of participation



# Notes to the Exemptions

06. With effect as from 1 July 2016, taxpayers may elect to tax the profits earned by a foreign permanent establishment, with a tax credit for foreign taxes incurred on those foreign permanent establishment profits. Transitional rules apply in certain cases on the granting of foreign tax credits where a foreign permanent establishment was previously exempt and subsequently a taxpayer elects to be subject to tax on the profits of the foreign permanent establishment.

## Allowable Deductions

Following expenses are deductible for corporate tax purpose, incurred wholly and exclusively in earning taxable income, including:

### Type of expense

- Interest incurred for the acquisition of a fixed asset used in the business (Note-1)

The whole amount of interest expense if the subsidiary does not own (directly or indirectly) any assets not used in the business. A restricted amount of interest expense is allowed to the extent the subsidiary owns (directly or indirectly) assets used in the business. It is expected that as from 1 January 2019 an interest limitation rule will apply in accordance with the EU relevant Directive.



# Allowable Deductions

Following expenses are deductible for corporate tax purpose, incurred wholly and exclusively in earning taxable income, including:

## Type of expense

- Notional interest deduction (NID) on new equity. (Note-2)
- Royalty income, entrenched income and other qualifying income derived from qualifying intangible assets in the 'new' Cyprus intellectual property (IP) box (provision applies with effect from 1 July 2016) (1). (Note-3)
- Royalty income, embedded income and other qualifying income derived from qualifying intangible assets in the 'old' Cyprus IP box. (Note-4)
- Expenditure for the maintenance of buildings under a preservation order.
- Donations to approved charitable organizations (with supporting evidence).
- Donations to political parties.
- Employer's contributions to social insurance, national health system and approved funds on employees' salaries.
- Employer's contribution to medical funds for employees.

The NID deduction cannot exceed 80% of the taxable profit derived from the assets financed by the new equity (as calculated prior to the NID deduction).

Up to 80%

80% of the net profit

Depends on the size of the building

The whole amount or 100%

Up to €50.000

The whole amount

1% on employee's remuneration



# Allowable Deductions

Following expenses are deductible for corporate tax purpose, incurred wholly and exclusively in earning taxable income, including:

## Type of expense

- Employer's contribution to the provident/pension fund for employees.
- Expenditures incurred for the acquisition of shares in an innovative business (abolished from 1, January 2017).
- Entertainment expenses for business purposes.
- Tax amortization on any expenditure of a capital nature for the acquisition or development of IP (provision applies with effect from 1 July 2016). (Note-5)

10% on employee's remuneration

The whole amount

€17.086 or 1% of the gross income of the business whichever is lower

Allocated over the lifetime of the IP (maximum period 20 years)

## Notes to the allowable Deductions

- 01.** Interest expense incurred for the direct or indirect acquisition of 100% of the share capital of a subsidiary company will be treated as deductible for income tax purposes provided that the 100% subsidiary company does not own (directly or indirectly) any assets that are not used in the business. If the subsidiary owns (directly or indirectly) assets not used in the business the interest expense deduction is restricted to the amount which relates to assets used in the business. This applies for such acquisitions of subsidiaries from 1 January 2012.



# Notes to the allowable deductions

- 02.** Equity introduced to a company as from 1 January 2015 (new equity) in the form of paid-up share capital or share premium may be eligible for an annual notional interest deduction (NID). The annual NID deduction is calculated as the new equity multiplied by the NID interest rate. The relevant interest rate is the yield on 10-year government bonds (as at December 31 of the prior tax year) of the country where the funds are employed in the business of the company plus a 3% premium (subject to a minimum amount which is the yield on the 10 year Cyprus government bond as at the same date plus a 3% premium). For 2018 the minimum relevant NID interest rate is 4,881% (6,489% for 2017). A taxpayer may elect not to claim all or part of the available NID for a particular tax year. Certain anti-avoidance provisions apply.
- 03.** A fraction is applied to the net profit based on research and development (R&D) activity. The higher the amount of R&D undertaken by the taxpayer itself or via a taxable foreign permanent establishment or via unrelated third party outsourcing, the higher the amount of R&D fraction (modified nexus fraction).
- 04.** The term 'qualifying intangible assets' under the old Cyprus IP box includes copyrights, patents, and trademarks. The old Cyprus IP box closed as from 30 June 2016. Under transitional/ grandfathering rules, taxpayers with intangible assets that were already included in the old Cyprus IP box as at 30 June 2016 continue to apply the old Cyprus IP box provisions for a further five years i.e. until 30 June 2021 for those intangible assets. A much shorter transitional/grandfathering period to 31 December 2016 applied in the case of intangible assets acquired directly or indirectly from related parties during the period 2 January 2016 – 30 June 2016, unless at the time of acquisition such intangible assets were already benefitting from an IP box (including the Cyprus IP box) or were not acquired with the main purpose (or one of the main purposes) being tax avoidance. Embedded income and income earned from intangible assets economically but not legally owned will only qualify in the relevant transitional/ grandfathering period if earned from those type intangible assets that would qualify for the new Cyprus IP box (i.e. patents, copyrighted software, etc.). Additionally, any expenditure of a capital nature incurred for the acquisition or development of such intangible assets may be claimed as a tax deduction in the year in which it was incurred and the immediate four following years on a straight-line basis.



# Notes to the allowable deductions

05. Excluding goodwill and intangible assets falling under the transitional rules of the old Cyprus IP box which continue with that box's tax amortization (see 3 above). A taxpayer may elect not to claim all or part of the available tax amortization for a particular tax year.

## Non-allowable Deductions

The following expenses are not deductible in calculating taxable income:

- Expenses of the private motor vehicle.
- Interest payable or deemed to be payable in relation to the acquisition of a private motor vehicle, irrespective of whether it is used in the business or not, or the other asset not used in the business. This restriction is lifted after 7 years from the date of acquisition of the relevant asset.
- Excess Borrowing Cost (EBC) which exceeds 30% of taxable earnings before interest, tax depreciation and amortization in respect of fixed and intangible assets used in the business.
- Wages and salaries relating to services offered within the tax year on which social insurance and other contributions have not been paid in the year in which they were due. (If the said contributions are paid within two years following the due date. Such expenses will be tax deductible in the year in which they are paid.
- Expenses not incurred wholly and exclusively for income generation.
- Expenses not having supporting documents.



# Carryforward of Losses

- If tax loss sustained in a tax year cannot be fully-set off in that year with income under any other head, it can be carried forward to subsequent five tax years.
- Group relief is available if both companies are members of the same group for the entire tax year. Two companies are considered to be part of a group for group relief purposes if:
  - a\_ One is a 75% subsidiary of the other, or
  - b\_ Both are 75% subsidiaries of a third companyAs from 1 January, 2015 interposition of a Non- Cyprus tax resident company will not affect the eligibility for group relief as long as such company is tax resident of either an EU country or in a country with which Cyprus has a tax treaty or an exchange of information agreement (bilateral or multilateral).
- A partnership or a sole trader transferring a business into a company can carry forward tax losses into the company for future utilization.
- Losses of an exempt foreign permanent establishment can be set off with profits of the Cyprus head office. In such case, future profits of an exempt foreign permanent establishment abroad are taxable up to the number of losses allowed.

## Group Relief:

- Current year tax losses may be surrendered by one Cyprus tax resident group company to another. A group company which is tax resident in another EU country may also surrender current year tax losses to a Cyprus tax resident company, provided such company firstly exhausts all possibilities available to utilize its tax losses in its country of residence or in the country of any intermediary EU holding company.



## Tax Credit for Foreign Tax Paid

- Any foreign tax paid on income subject to income tax in Cyprus is credited against any Cyprus income tax payable on such income, irrespective of the existence of a tax treaty.

## Annual wear and tear allowances on tangible fixed assets

- Annual wear and tear allowances are calculated as a percentage on the cost of acquisition of the asset used in the business and are deductible from taxable income.

## Plant and Machinery

<u>Description</u>	<u>Rates</u>
■ Plant and machinery.....	10%
■ Furniture and fittings.....	10%
■ Industrial carpets 10%.....	10%
■ Boreholes.....	10%
■ Machinery and tools used in an agricultural business.....	15%

## Explanation:

Plant and machinery, vehicles (excluding private motor vehicles) and other assets acquired during the tax years 2012 - 2018 (inclusive) are eligible to accelerated tax depreciation at the rate of 20% per annum (excluding such assets which are already eligible for a higher annual tax rate of tax depreciation).



# Buildings

<u>Description</u>	<u>Rates</u>
Plant and machinery .....	4%
Commercial buildings .....	3%
Flats .....	3%
Metallic greenhouse structures .....	10%
Wooden greenhouse structures.....	33 1/3%

*The rates stated for buildings are for new buildings. Rates are amended in the case of second-hand buildings.*

# Vehicles and means of transportation

<u>Description</u>	<u>Rates</u>
▪ Commercial motor vehicles.....	20%
▪ Motorcycles.....	20%
▪ Excavators, tractors, bulldozers, self-propelled loaders ..... and drums for petrol companies	25%
▪ Armored Motor Vehicles (e.g. used by Security Services).....	20%
▪ Specialized Machinery for the laying of Railroads (e.g. Locomotive engines, Ballast wagons, Container ..... wagons, and Container Sleeper Wagons)	20%
▪ New Airplanes .....	8%
▪ New Helicopters.....	8%
▪ Sailing vessels.....	4.5%
▪ Motor Yachts.....	6%
▪ Steamers, tugs and fishing boats .....	6%
▪ Ship-motor launches .....	12.5%
▪ New cargo vessels.....	8%
▪ New passenger vessels.....	6%
▪ Used cargo/passenger vessels.....	Over their useful lives



## Others

<u>Description</u>	<u>Rates</u>
Televisions and videos .....	10%
Computer hardware and operating systems .....	20%
Application software .....	33 1/3%
Wind Power Generators .....	10%
Photovoltaic Systems .....	10%
Tools in General .....	33 1/3%
Videotapes property of video clubs .....	50%
Expenditure on application software less than €1.709 is written off in the year of acquisition.....	-----



# Shipping companies

The Mercantile Shipping Legislation approved by the EU provides for exemption from all direct taxes and taxation under tonnage tax regime of qualifying ship owners, charterers and ship managers, from the operation of qualifying community ships and foreign (non-community) ships (under conditions), in qualifying activities.

The legislation allows non-community vessels to enter the tonnage tax regime provided that the fleet is composed by at least 60% community vessels. If this requirement is not met, then non-community vessels can still qualify if certain criteria are met.

The legislation includes an “all or nothing” rule, meaning that if a ship owner/ charterer/ ship manager of a group elects to be taxed under the Tonnage Tax regime, all ship owners/ charterers/ ship managers of the group should elect the same.

An exemption is also given in relation to the salaries of officers and crew aboard a Cyprus ship.

## Ship owners

### *The exemption applies to:*

- Profits earned from the use/chartering out of the ships
- Interest income relating to the working capital of the company
- Profits from the disposal of qualifying ships
- Dividends received from the above profits at all distribution levels
- Profit from the disposal of ship owning companies



# Charterers

## *The exemption applies to:*

- Profits earned from the operation of chartered in ships
- Interest income relating to the working capital of the company
- Dividends received from the above profits at all distribution levels

## **Note:**

The law grants the exemption provided that the option to register for Tonnage Tax is exercised for all vessels and provided a composition requirement is met: at least 25% (reduced to 10% under conditions) of the net tonnage of the vessels owned or bareboat chartered in.

## Ship managers

- Profits from technical and/or crew management
- Dividends paid out of these profits at all levels of distribution
- Interest income relating to the working capital of the company

## *In order to qualify ship managers must satisfy the following additional requirements:*

- Maintain a fully-fledged office in Cyprus with personnel sufficient in number and qualification
- At least 51% of all onshore personnel must be community citizens
- At least 2/3 of total tonnage under management must be managed within the community (any excess of 1/3 taxed under corruption tax)

The solicitation of the tonnage tax system is compulsory for owners of Cyprus flagships and optional for owners of non-Cyprus flagships, charterers and ship managers. Those who choose to enter the Tonnage Tax regime must remain in the system for at least 10 years unless they had an effective reason to exit such as disposal of their vessels and termination their activities.



# Special Contribution for Defence

*The persons that are subject to special contribution for defence are:*

- Cyprus tax resident companies
- Individuals who are tax resident and domiciled in Cyprus

Special Contribution for Defence is imposed on dividend income, 'passive' interest income and rental income earned by companies' tax resident in Cyprus and by individuals who are both Cyprus tax resident and Cyprus domiciled.

## **Rates indicated below**

<i>Rental income less 25%</i>	<b>3%</b>
<i>Interest income</i>	<b>30%</b>
<i>Interest earned by the Social Insurance Fund</i>	<b>3%</b>
<i>Interest earned by an approved provident fund</i>	<b>3%</b>
<i>Interest received by an individual from Government Savings Certificates and Government Bonds</i>	<b>3%</b>
<i>Rental income less 25%</i>	<b>17%</b>



# Dividends

Dividends received by a company resident in the Republic from another company resident in the Republic, excluding dividends paid indirectly after the lapse of 4 years from the end of the year in which the profits which were distributed as dividends were generated.

Dividends received directly or indirectly from dividends on which defence contribution has already been paid.

Dividends received by a company resident in the Republic or a company not resident in the Republic which maintains a permanent establishment in the Republic from a company which is not resident in the Republic.

This exemption does not apply if:

- 1 More than 50% of the activities of the non-resident dividend paying company lead to investment income; and
- 2 The foreign tax burden on the income of the dividend-paying company is substantially lower than the tax burden of the Cyprus tax resident company or the non-resident company which has a permanent establishment in the Republic.



# Deemed dividend distribution

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A Cyprus tax resident company is deemed to distribute as a dividend 70% of its accounting profits (as adjusted for Special Contribution for Defence purposes and net of Corporation Tax, Special Contribution for Defence on company incomes, Capital Gains Tax and unrelieved foreign taxes) two years from the end of the tax year in which the profits were generated.

Such a deemed dividend distribution is reduced with payments of actual dividends paid during the relevant year the profits were generated and the two following years.

On the remaining net amount, (if any) of deemed dividend 17% Special Contribution for Defence is imposed to the extent that the ultimate direct/ indirect shareholders of the company are individuals who are both Cyprus tax resident and Cyprus domiciled. Prior to 16 July 2015 the imposition applied to the extent the ultimate direct/indirect shareholders of the company were Cyprus tax resident individuals.

When an actual dividend is paid after the deemed dividend distribution date, then if Special Contribution for Defence is due on such a dividend, the 17% is imposed only on the amount of the actual dividend paid which exceeds the dividend that was previously deemed to have been distributed and previously suffered Special Contribution for Defence.

# Disposal of assets to shareholder at less than market value

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When a company disposes of an asset to an individual shareholder or a relative of his/her up to second degree or his/her spouse for a consideration less than its market value, the difference between the consideration and the market value will be deemed to have been distributed as a dividend to the shareholder.

This provision does not apply for assets originally gifted to the company by an individual shareholder or a relative of his up to second degree or his/her spouse.



## Company dissolution

The aggregate profits of the last five years prior to the company's dissolution, which has not been distributed or been deemed to be distributed, will be considered as distributed on dissolution and will be subject to defence contribution.

Companies that are under voluntary dissolution or liquidation are obliged to submit within one month from the date of the approval of the resolution, a deemed dividend declaration and pay any special defence contribution in relation to the profits of the specific tax year and the two preceding years.

The deemed dividend distribution provisions do not apply on any accounting profits arising during the dissolution or liquidation of the assets of the company are not sufficient for the repayment of its creditors and no amount is available to be distributed to its shareholders.

Where assets are distributed to the company's shareholders upon the company's liquidation or dissolution, which have a market value that exceeds the cost of their acquisition by the company, the deemed distribution provisions will apply.

The amount of the dividend that is deemed to be distributed to its shareholders will be equal to the difference between the market value of the assets and the cost of acquisition of the particular asset by the company. The deemed dividend distribution of profits that become realized upon the company's dissolution or liquidation may not exceed the amount of the net assets distributed to the shareholders. These provisions do not apply in the case of dissolution under reorganization, in accordance with certain prerequisites set out in the relevant Regulations or where the shareholders are not resident or non-domiciled in Cyprus.

## Reduction of capital

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In the case of a company's capital reduction, any amounts paid or due to shareholder individuals in excess of the amount of the share capital that was actually paid by the shareholder will be treated as a deemed dividend subject to special defence contribution (provided that the ultimate shareholders are Cyprus tax resident and Cyprus domiciled individuals).

The buyback or redemption of units or other ownership interests in an opened-ended or closed-ended collective investment scheme is not considered a capital reduction and is not subject to special defence contribution.



# Capital gains tax (CGT)

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Capital Gains Tax is imposed (when 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.

Further, as from 17 December, 2015 shares of companies which indirectly own immovable property located in Cyprus and at least 50% of the market value of the said shares derive from such immovable property are subject to Capital Gains Tax.

In the case of share disposals, only that part of the gain relating to the immovable property situated in Cyprus is subject to capital gains tax. Disposal for the purposes of capital gains tax specifically includes; exchange, leasing, gifting, abandoning the use of the right, granting of the right to purchase, and any sums received upon cancellation of disposals of property.

Shares listed on any recognized stock exchange are excluded from these provisions.



# Exemptions

The following disposals of immovable property are not subject to CGT:

- Exchange of properties, to the extent that the gain made on the exchange, has been used to acquire the new 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.
- Donations to a political party.
- Gifts to charities and the Government.
- Transfers as a result of reorganizations.
- Exchange or disposal of immovable property under the Agricultural Land (Consolidation) Laws.
- Expropriations
- 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 donee for at least three years.
- 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.
- Subject to conditions, land as well as land with buildings, acquired at market value (excluding exchanges, donations, and foreclosures) from unrelated parties in the period 16 July 2015 up to 31 December 2016 will be exempt from CGT upon their future disposal.
- Transfers arising on death.
- Gifts made from parent to child or between husband and wife or between up to third-degree relatives.



# Deductions

Individuals are entitled to deduct from the gains the following lifetime deductions:

■ Disposal of principal private residence (Subject to conditions)	€ 85.430
■ Disposal of agricultural land by a farmer	€ 25.629
■ Other disposals	€ 17.086

# Deductions

Estate duty has been abolished since 1 January 2000. The executor/ administrator of the estate of the deceased, is however 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.

# Penalties

Administrative penalties amounting to €100 or €200 depending on the specific case, are imposed for late submission of declarations or late submission of supporting documentation requested by the Commissioner.

In the case of late payment of the tax due, an additional penalty of 5% is imposed on the unpaid tax in addition to any interest that may be imposed.



# Immovable Property Tax

Immovable property tax has been abolished since 1 January 2014

## Maintenance Records

Every person (individual, company or partnership) deriving income from the following sources:

- 1 Profits or other benefits from any business, or
- 2 Dividends, interest or discounts or
- 3 Profits or other benefits from any office or employment, leasing, intellectual property rights, patent rights, remuneration or other profits arising from ownership or
- 4 Trade goodwill is obliged to;
  - Issue receipts and invoices, as specified by relevant Regulations. Invoices should be issued within 30 days from the date of the transaction unless written approval has been obtained by the Commissioner for the purpose of issuing the invoices at a later date. In the case where invoices are not issued within the prescribed deadline, a penalty of €100 per month will be imposed.
  - Maintain accounting books and records and prepare financial statements in accordance with acceptable accounting standards, which are audited in accordance with accepted auditing standards, by a person that is eligible to act as an auditor of a company in accordance with the Companies Law.
  - Update its accounting books and records within four months from the date of the transactions. In the case where accounting books and records are not updated within the prescribed deadline, a penalty of €100 per quarter will be imposed. An individual doing business is exempt from the obligation to maintain accounting books and records if his/her annual gross income does not exceed the amount of €70.000 (including business income). Accounting books and records should be kept for a period of at least six years.



# Tax Treaties and Withholding Tax (WHT) Tables

## WHT on dividend, interest and royalties' tables

Table A below illustrates the applicable Cyprus WHT rates on outbound dividend, interest and royalty payments. Table B, further below, illustrates the WHT rates provided for in the double tax treaties entered into by Cyprus. This table illustrates the maximum tax rates on Cyprus inbound payments which the treaty partner country may charge on such type incomes qualifying under the respective treaty. The actual WHT rate charged may be lower/eliminated based on each paying country's domestic law provisions.

Paid to	Dividends (1) %	Interest (1) %	Royalties Rights not used within	Royalties Rights used within Cyprus %
Non-treaty Countries	Nil	Nil	Nil	5/10 (2)
	Nil	Nil	Nil	5
Austria	Nil	Nil	Nil	Nil
Bahrain	Nil	Nil	Nil	Nil
Belarus	Nil	Nil	Nil	5
Belgium	Nil	Nil	Nil	Nil
Bosnia (7)	Nil	Nil	Nil	Nil
Bulgaria	Nil	Nil	Nil	5/10 (5)
Canada	Nil	Nil	Nil	0/5/10 (4), (5)
China, P.R.	Nil	Nil	Nil	5/10 (5)
Czech Republic	Nil	Nil	Nil	0/10 (11)
Denmark	Nil	Nil	Nil	Nil
Egypt	Nil	Nil	Nil	5/10 (5)
Ethiopia	Nil	Nil	Nil	Nil
Estonia	Nil	Nil	Nil	Nil
Finland	Nil	Nil	Nil	Nil
France	Nil	Nil	Nil	Nil
Georgia	Nil	Nil	Nil	Nil
Germany	Nil	Nil	Nil	Nil
Greece	Nil	Nil	Nil	0/5 (5)



<b>Paid to</b>	<b>Dividends (1) %</b>	<b>Interest (1) %</b>	<b>Royalties Rights not used within</b>	<b>Royalties Rights used within Cyprus %</b>
Hungary	Nil	Nil	Nil	Nil
Iceland	Nil	Nil	Nil	5
India	Nil	Nil	Nil	5/10 (5)
Iran	Nil	Nil	Nil	5/6 (5)
Ireland, Rep. of	Nil	Nil	Nil	0/5 (5)
Italy	Nil	Nil	Nil	Nil
Jersey	Nil	Nil	Nil	Nil
Kuwait	Nil	Nil	Nil	5
Latvia	Nil	Nil	Nil	0/5 (12)
Lebanon	Nil	Nil	Nil	Nil
Lithuania	Nil	Nil	Nil	5
Luxembourg (13)	Nil	Nil	Nil	Nil
Malta	Nil	Nil	Nil	5/10 (5)
Mauritius (13)	Nil	Nil	Nil	Nil
Moldova	Nil	Nil	Nil	5
Montenegro (7)	Nil	Nil	Nil	5/10 (5)
Norway	Nil	Nil	Nil	Nil
Poland	Nil	Nil	Nil	5
Portugal	Nil	Nil	Nil	5/10 (5)
Qatar	Nil	Nil	Nil	5
Romania	Nil	Nil	Nil	0/5 (10)
Russia	Nil	Nil	Nil	Nil
San Marino (13)	Nil	Nil	Nil	Nil
Serbia (7)	Nil	Nil	Nil	5/10 (5)
Seychelles	Nil	Nil	Nil	5
Singapore	Nil	Nil	Nil	5/10 (5)
Slovakia Republic (9)	Nil	Nil	Nil	0/5 (10)
Slovenia	Nil	Nil	Nil	5
Switzerland	Nil	Nil	Nil	Nil
Syria	Nil	Nil	Nil	5/10 (5)
Thailand	Nil	Nil	Nil	5/10 (6)
Ukraine	Nil	Nil	Nil	5/10 (8)
United Arab Emirates	Nil	Nil	Nil	Nil
United Kingdom (14)	Nil	Nil	Nil	Nil
United States	Nil	Nil	Nil	Nil
Spain	Nil	Nil	Nil	Nil



# Notes- Table A

- 01.** Under Cyprus legislation, there is no WHT on dividends and interest paid to non-residents of Cyprus. Further, there is also no WHT on royalties paid to non-residents of Cyprus for rights not used within Cyprus.
- 02.** Royalties earned on rights used within Cyprus are subject to WHT of 10% (except royalties relating to cinematographic films, where the WHT rate is 5%).
- 03.** A WHT rate of 5% is applicable on royalties for cinematographic films including films and videotape for television.
- 04.** 0% on literary, dramatic, musical, or artistic work (excluding motion picture films and works on film or videotape for use in connection with television).
- 05.** The WHT rate of 5% is applicable on cinematographic film royalties.
- 06.** 5% WHT applies for any copyright of literary, dramatic, musical, artistic, or scientific work.
- 07.** Serbia, Montenegro, and Bosnia apply the Yugoslavia/ Cyprus treaty.
- 08.** A 5% WHT will be levied on payment of royalties in respect of any copyright of scientific work, any patent, trademark, secret formula, process, or information concerning industrial, commercial, or scientific experience and cinematographic films.
- 09.** The Cyprus-Czechoslovakia treaty applies with the Slovak Republic.
- 10.** 5% WHT 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.
- 11.** 10% WHT rate applies for patent, trademark, design or model, plan, secret formula or process, computer software or industrial, commercial, or scientific equipment, or for information concerning industrial, commercial, or scientific experience.
- 12.** Nil applies if the payer is a company that is a resident in Cyprus and the beneficial owner of the income is a company (other than a partnership) that is a resident in Latvia. 5% WHT rate applies to all other cases.
- 13.** The treaty/ amendments to the treaty are effective as from 1 January 2019.
- 14.** The treaty is effective as from 1 January 2019 for Cyprus.



## Table B-WHT on payments to Cyprus

Paid from	Dividends %	Interest %	Royalties %
Armenia	0/5 (1)	5	5
Austria	10	Nil	Nil
Bahrain	Nil	Nil	Nil
Barbados	Nil	Nil	Nil
Belarus	5/10/15 (2)	5	5
Belgium	10/15 (3)	0/10 (4), (5)	Nil
Bosnia (6)	10	10	10
Bulgaria	5/10 (7)	0/7 (4), (8)	10 (8)
Canada	15	0/15 (9)	0/10 (10)
China P.R.	10	10	10
Czech Republic	0/5 (11)	Nil	0/10 (12)
Denmark	0/15 (4), (13)	Nil	Nil
Egypt	15	15	10
Ethiopia	5	5	5
Estonia	Nil	Nil	Nil
Finland	5/15 (14)	Nil	Nil
France	10/15 (15)	0/10 (16)	0/5 (17)
Georgia	Nil	Nil	Nil
Germany	5/15 (18)	Nil	Nil
Greece	25	10	0/5 (19)
Guernsey	Nil	Nil	Nil
Hungary	5/15 (3)	0/10 (4)	Nil
Iceland	5/10 (39)	Nil	5
India	10 (20)	0/10 (44)	10 (21)
Iran	5/10 (45)	5	6
Ireland, Rep. of	Nil	Nil	0/5 (19)
Italy	15	10	Nil
Jersey	Nil	Nil	Nil
Kuwait	0	0	5
Latvia	0/10 (42)	0/10 (42)	0/5 (43)
Lebanon	5	5	Nil
Lithuania	0/5 (22)	Nil	5
Luxembourg (46)	0/5 (47)	Nil	Nil
Malta	Nil	10	10
Mauritius (46)	Nil	Nil	Nil
Moldova	5/10 (24)	5	5
Montenegro (6)	10	10	10



## Table B-WHT on payments to Cyprus

Paid from	Dividends %	Interest %	Royalties %
Norway	0/15 (36)	Nil	Nil
Poland	0/5 (23)	0/5 (4)	5
Portugal	10	10	10
Qatar	Nil	Nil	5
Romania	10	0/10 (4)	0/5 (25)
Russia	5/10 (26)	Nil	Nil
San Marino (46)	Nil	Nil	Nil
Serbia (6)	10	10	10
Seychelles	Nil	Nil	5
Singapore	Nil	0/7/10 (4), (27)	10
Slovak Republic	0/5 (28)	Nil	Nil
Slovenia	5	5	5
South Africa	5/10 (41)	Nil	Nil
Spain	0/5 (28)	Nil	Nil
Sweden	5/15 (3)	0/10 (4)	Nil
Switzerland	0/15 (40)	Nil	Nil
Syria	0/15 (29)	0/10 (9)	10/15 (38)
Thailand	10	10/15 (30)	5/10/15 (31)
Ukraine	5/15 (32)	2	5/10 (33)
United Arab Emirates	Nil	Nil	Nil
United Kingdom	0/15 (34)	10	0/5 (17)
United Kingdom	0/15 (49)	Nil	Nil
United States	5/15 (35)	0/10 (16)	Nil



# Notes- Table B

The old treaty (1974) applies up to 31 March 2019 for corporation tax and up to 5 April 2019 for income tax/capital gains tax in the UK. The new treaty (2018) applies after these dates.

A WHT rate of 15% applies to dividends paid out of income (including gains) derived directly or indirectly from immovable property by an investment vehicle which distributes most of its income annually and whose income from such immovable property is exempt from tax, except for cases where the beneficial owner of the dividend is a pension scheme established in Cyprus. Nil rate applies in all other cases.



# Notes- Table B

1. The WHT rate of 5% applies where a dividend is paid by a company in which the beneficial owner has invested less than €150.000.
2. A WHT rate of 5% applies where the investment is not less than €200.000 in the share capital of the company paying the dividend. If such investment is less than €200.000, dividends are subject to 15% WHT which is reduced to 10% if the recipient company controls 25% or more of the paying company.
3. A WHT rate of 15% applies if received by a company holding less than 25% of the share capital of the paying company and in all cases if received by an individual.
4. No WHT if paid to the government/Central Bank/ Public Authority of the other state.
5. No WHT for interest on deposits with banking institutions.
6. Serbia, Montenegro, and Bosnia apply the Yugoslavia/Cyprus treaty.
7. The WHT 5% rate applies to companies holding directly at least 25% of the share capital of the company paying the dividend. In all other cases, the WHT is 10%.
8. The treaty rates do not apply if the payment is made to a Cyprus entity by a resident of Bulgaria owning directly or indirectly at least 25% of the share capital of the Cyprus entity and the Cyprus entity pays tax in Cyprus at a tax rate lower than the usual tax rate.
9. Nil if paid to a government/Central Bank/ Public Authority or for the export guarantee.
10. Nil on literary, dramatic, musical, or artistic work (but not including royalties in respect of motion picture films and works on film or videotape for use in connection with television).
11. Nil applies if received by a company (excluding partnership) which holds directly at least 10% of the share capital of the paying company for an uninterrupted period of no less than one year. A WHT rate of 5% applies in all other cases.
12. 10% WHT applies for a patent, trademark, design or model, plan, secret formula or process, computer software or industrial, commercial, or scientific equipment, or for information concerning industrial, commercial, or scientific experience.
13. A WHT rate of 15% if received by a company controlling less than 10% of the share capital of the paying company or the duration of any holding is less than one uninterrupted year. A WHT rate of 15% also applies if received by an individual.



# Notes- Table B

14. A WHT rate of 15% applies if received by a company controlling less than 10% of the voting power in the paying company and in all cases if received by an individual.
15. A WHT rate of 15% if received by a company (partnership is excluded) holding less than 10% of the capital of the paying company and in all cases if received by an individual.
16. Nil if paid to a government, bank, or financial institution.
17. A WHT rate of 5% on royalties for cinematographic films including films and videotapes for television.
18. A WHT rate of 15% if received by a company holding less than 10% of the capital of the paying company and in all cases if received by an individual.
19. A WHT rate of 5% on cinematographic film royalties (other than films shown on television).
20. Prior to 1 April 2017, the applicable WHT rate is 15% if received by a company holding less than 10% of the shares of the paying company and in all cases if received by an individual.
21. A WHT rate of 10% is also applicable for payments of a technical, managerial, or consulting nature. Prior to 1 April 2017, a rate of 15% applies on royalties.
22. A WHT rate of 5% if received by a company (other than a partnership) holding less than 10% of the capital of the company paying the dividend and in all cases if received by an individual.
23. Nil rate applies if the recipient company (partnership is excluded) holds directly 10% of the share capital of the paying company for an uninterrupted period of at least 2 years. 5% in all other cases.
24. A WHT rate of 5% applies if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the capital of the company paying the dividends. 10% WHT rate with the rate in all other cases.
25. 5% WHT 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.



# Notes- Table B

26. A WHT rate of 10% on dividend if paid by a company in which the beneficial owner has invested less than €100.000 in the share capital of the company paying the dividend.
27. A WHT rate of 7% if paid to a bank or financial institution.
28. A WHT rate of 5% if received by a company holding less than 10% of the capital of the paying company and in all cases if received by an individual or a company not limited at least partly by shares.
29. A WHT rate of 15% if received by a company holding less than 25% of the share capital of the paying company and in all cases if received by an individual or a company not limited at least partly by shares.
30. A WHT rate of 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.
31. A WHT rate of 5% applies for any copyright of literary, dramatic, musical, artistic, or scientific work. A WHT 10% rate applies for industrial, commercial, or scientific equipment.
32. A 15% rate applies for patents, trademarks, designs or models, plans, secret formulas, or processes.
33. A WHT rate of 15% if a dividend is paid by a company in which the beneficial owner holds less than 20% of the share capital of the paying company and the beneficial owner has invested less than €100.000.
34. A WHT 5% WHT will be levied on payment of royalties in respect of any copyright of scientific work, any patent, trademark, secret formula, processor information concerning industrial, commercial or scientific experience. 10% WHT will be levied in all other cases.
35. A WHT rate of 15% applies to individual shareholders regardless of their percentage of shareholding. Companies controlling less than 10% of the voting shares are also entitled to a rate of 15%. Companies controlling at least 10% of the voting shares are entitled to nil WHT.
36. A WHT rate of 15% if received by a company controlling less than 10% of the voting power of the paying company and in all cases if received by an individual. If a company controls at least 10% of the voting power of the paying company in order to benefit from the WHT rate of 5% other conditions relating to the income of the paying company need to be satisfied, otherwise a WHT rate of 15%.
37. Nil rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the company paying the dividends or if the beneficial owner of the shares is the Government of Cyprus or Norway. A WHT rate of 15% in all other cases.



# Notes- Table B

38. The Cyprus - Czechoslovakia treaty applies with the Slovak Republic.
39. 10% WHT rate applies on payment of royalties of any copyright of literary, artistic or scientific work including cinematograph films, and films or tapes for television or radio broadcasting. A rate of 15% applies on payments of royalties of any patent, trademark, design or model, plan, secret formula or process, or any industrial, commercial, or scientific equipment, or for information concerning industrial, commercial or scientific experience.
40. A WHT rate of 5% if received by company (other than a partnership) which holds directly at least 10% of the capital of the company paying the dividend. 10% in all other cases.
41. Nil rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 10 percent of the capital of the company paying the dividends during an uninterrupted period of at least one year (the holding period condition may be satisfied post the date of the dividend payment). Nil rate also applies if the beneficial owner is a pension fund or other similar institution or relates to the Government of Cyprus or Switzerland. 15% in all other cases.
42. A protocol to the treaty entered into force on 18 September 2015 but may apply retrospectively. 5% WHT rate applies if the beneficial owner is a company which holds at least 10% of the capital of the company paying the dividend. 10% in all other cases.
43. Nil applies if the payer is a company that is a resident in Latvia and the beneficial owner of the income is a company (other than a partnership) that is a resident in Cyprus. 10% rate applies for all other cases (except for certain governmental interest).
44. Nil applies if the payer is a company that is a resident in Latvia and the beneficial owner of the income is a company (other than a partnership) that is a resident in Cyprus. 5% rate applies to all other cases.
45. Nil if paid to a government or any other institution agreed upon between the two States. Prior to 1 April 2017, nil rate also applies if paid to a bank or financial institution. 10% WHT rate applies in all other cases.
46. The WHT rate of 5% applies if the beneficial owner of the dividends holds directly at least 25% of the capital of the company paying the dividends.
47. The treaty/treaty amendments are/are effective as from 1 January 2019.
48. Nil applies if the beneficial owner (other than a partnership) holds directly at least 10% of the capital of the company paying the dividends. 5% WHT rate applies to all other cases.



# Penalties and Thresholds

## Penalties:

1. The penalty for late submission of VAT return is € 51 for each return.
2. The penalty in case of failure to keep books of accounts and records for a period of 6 years is € 341.
3. The penalty for late submission of VIES return is € 50 for each return.
4. The penalty for late submission of corrective VIES returns € 15 for each return.
5. Omission to submit the VIES return constitutes a criminal offense with a maximum penalty of € 850.
6. The penalty for late registration with the VAT authorities € 85 per month of delay.

## Thresholds:

1. Registration threshold (taxable supplies in Cyprus) € 15.600.
2. Registration threshold for distance sales (sale of goods to persons not subject to VAT registration in Cyprus, by suppliers' resident in another EU Member State) € 35.000
3. Registration threshold for acquisition of goods in Cyprus from suppliers' resident in another EU Member State € 10.251,61.
4. Registration threshold for the intra-community supply of services there is no threshold.
5. Registration threshold for receipt of services from abroad for which the recipient must account for VAT under the reverse charge provisions € 15.600.



# **Administration of intra-community trading and intracommunity services**

Businesses that undertake intra-community trading, i.e. acquisitions and sales of goods and supply of services from/to EU member states need to complete the following forms:

## **Intra-Community Acquisitions**

1. Intrastat - Arrivals of Goods
2. Inclusion in the VAT return (on a total basis)

## **Intra-Community Supplies**

1. Intrastat - Departures of goods
2. Recapitulative statement for supplies of goods and services (VIES form)
3. Inclusion in the VAT return (on a total basis)

## **Intrastat submission process**

INTRASTAT forms are submitted to the Tax authorities within 10 days from the end of the related month, in electronic form only, provided that the supplies of a taxable person exceed the registration threshold for Intrastat purposes. The Recapitulative statement is submitted to the Tax authorities within 15 days from the end of the related month in electronic form.



# The VAT on immovable property

- (i) Leasing of immovable property VAT at the standard rate must be charged on the lease of immovable property when the lessee is a taxable person and is engaged in taxable activities by at least 90%. The lessor has the right to opt not to impose VAT on the specific property. The option is irrevocable.
- (ii) Sale of non-developed building land VAT at the rate of 19% must be charged on the sale of non-developed building land, as from 2 January 2018. Non-developed building land is defined as any land intended for the construction of one or more structures in the course of carrying out business activity. No VAT will be imposed on the purchase or sale of land located in a livestock zone or areas which are not intended for development such as zones/areas of environmental protection, archaeological and agricultural.
- (iii) Repossession of immovable property by financial institutions VAT must be accounted under the reverse charge provisions on transactions relating to transfers of immovable property during the process of loan restructuring and for compulsory transfer to the lender, as from 2 January 2018.
- (iv) Leases of immovable property which effectively transfer the risks and rewards of ownership of immovable property as from 1 January 2019 leases of immovable property which effectively transfer the risks and rewards of ownership of immovable property are considered to be supplies of goods. They also become subject to VAT at the standard rate.

## ***Imposition of the reduced rate of 5% on the acquisition and/or construction of residences for use as the primary and permanent place of residence.***

- 1) The reduced rate of 5% applies to contracts that have been concluded from 1 October 2011 onwards provided they relate to the acquisition and/ or construction of residences to be used as the primary and permanent place of residence for the next 10 years.
- 2) The reduced rate of VAT of 5% applies to the first 200 square meters. The standard rate applies for the remaining square meters as determined based on the building coefficient.
- 3) The reduced rate is imposed only after obtaining a certified confirmation.



- 4) The eligible person must submit an application on a special form, which will state that the house will be used as the primary and permanent place of residence. The applicant must attach a number of documents supporting the ownership rights on the property and evidencing the fact that the property will be used as the primary and permanent place of residence. The application must be filed prior to the actual delivery of the residence to the eligible person.
- 5) As from 8 June, 2012 eligible persons include residents of Non-EU Member States, provided that the residence will be used as their primary and permanent place of residence in the Republic.
- 6) The documents supporting the ownership of the property must be submitted together with the application. The documents supporting the fact that the residence will be used as the primary and permanent place of residence (copy of telephone, water supply or electricity bill or of municipal taxes) must be submitted within six months from the date on which the eligible person acquires possession of the residence.
- 7) A person who ceases to use the residence as his primary and permanent place of residence before the lapse of the 10 year period must notify the Commissioner of Taxation, within thirty days. The person must also pay the difference resulting from the application of the reduced and the standard rate of VAT attributable to the remaining period of 10 years for which the property will not be used as the main and primary place of residence.
- 8) Persons who have already acquired a residence on which the reduced VAT rate was imposed, can re-apply and acquire a new residence on which the reduced VAT rate will be imposed, irrespective of whether the 10 year prohibition period for using the initial residence has lapsed or not. A condition for this to apply is that in case the 10 year period of using the residence as the main and permanent place of residence has not lapsed, the persons must return to the Tax Department the difference in the VAT between the standard and reduced VAT rates applicable at the time of the acquisition or construction of the residence.
- 9) Persons who make a false declaration to benefit from the reduced rate are required by law to pay the difference of the additional VAT due. Furthermore, the legislation provides that such persons are guilty of a criminal offense and, upon conviction, are liable to a fine, not exceeding twice the amount of the VAT due, or imprisonment up to 3 years or may be subject to both sentences.



## **Imposition of the reduced rate of 5% on the renovation and repair of private residences**

- 1) As from 4 December 2015 the renovation and repair of used private residences (for which a period of at least three years has elapsed from the date of their first use) is subject to VAT at the reduced rate of VAT of 5%, excluding the value of materials which constitute more than 50% of the value of the services.
- 2) In addition, as from 4 December 2015 the renovation and repair of old private residences (for which a period of at least three years has elapsed from the date of their first use) and which are used as the place of residence of vulnerable groups or residences that are used as the place of residence and which are located in remote areas are subject to VAT at the reduced rate of VAT of 5%.

## **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 charged on their purchases, expenses or imports.

## **Imposition of 19% VAT on the letting of immovable property for business purposes**

- 1) As from 13 November 2017, VAT at 19% is imposed on the leasing and/or letting of immovable property to a taxable person for the purposes of carrying on taxable activities, commencing on/or after 13 November 2017. The leasing of buildings used as residences remains an exempt transaction for VAT purposes.
- 2) The lessor has the right to notify the Tax Commissioner by submitting a relevant form, to opt for the non-imposition of VAT to the lessee of the immovable property, subject to the terms and conditions specified in the relevant Notification of the Tax Commissioner. The initial decision of the lessor, to opt for the non-imposition of VAT of the immovable property is irrevocable.

## **Long-term lease of immovable property**

- 1) As from 1 January 2019 the long term leasing of immovable property which essentially gives the lessee the right to sell the property as owner or the right to sell the property is considered as a supply of good and not as a supply of service which is subject to VAT at 5% or 19% (depending on the case of the purchaser).
- 2) The imposition of VAT does not cover cases where the right of the immovable property is transferred after its first occupation and is therefore not subject to VAT. Transitional provisions apply for all cases which were completed or agreed before 1 January 2019 and each case must be examined separately.



## Imposition of 19% VAT on non-developed building land

- 1) As from 2 January 2018, VAT at 19% is imposed on the transfer of non-developed building land. Specifically, VAT is imposed on the transfer of ownership, transfer of indivisible land portion, transfer of ownership under a sale agreement or an agreement which specifically provides that the ownership will be transferred on a future date or by virtue of a leasing agreement with the right to buy non-developed building land which is intended for the construction of one or more structures in the course of carrying out a business activity.
- 2) Non-developed building land includes all non-developed land plots that are intended for the construction of one or more structures. In the above definition are included non-developed building land that is either covered or not from the water supply and covers land plots of all sorts as listed below:
  - Land plots under development
  - Finished land plots
  - Land plots with a final approval certificate or,
  - Land plots with land title
  - Other types of land plots are also included in the list of the non-developed building.



# Value Added Tax (VAT)

Value Added Tax is imposed on the supply of all goods and services in Cyprus, on the acquisition of goods from the European Union and on the importation of goods from third countries.

The liability of a registered person in respect of taxable supplies (goods & services) made by him during the tax period shall be the difference between:

1. Output tax due from him in respect of taxable supplies (goods & services) made during a VAT tax period; and
2. Input tax paid during the said VAT tax period for the purpose of taxable supplies (goods & services) made or to be made by him.
3. If output tax in a VAT period exceeds the total of input tax, a payment has to be made to the government. If input tax exceeds output tax, the excess input tax is carried forward for set off against future output VAT.



# Refund of input tax

If the input tax paid on taxable supplies (goods & services) made during a VAT period exceeds the output tax, refund of excess input tax can be obtained in the following cases:

- A period of eight months 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.
- The input VAT relates to exempt financial and insurance services provided to Non-EU resident clients (services for which the right to recover the related input VAT is granted).

## VAT Rates

Category	Rate
Standard rate	19%
Reduced rate of five percent	5%
Reduced rate of nine percent	9%
Zero rate	0%

### **Standard Rate**

The standard rate applies to all supplies of goods and services in Cyprus other than zero-rated, reduced rate and exempt supplies.



## Reduced rate of 9%

The reduced rate of 9% applies to:

- All restaurant and catering services (including the supply of alcoholic drinks, beer, wine, and soft drinks).
- Accommodation in hotels, tourist lodgments and any other similar lodgments including the provision of holiday lodgments.
- Transportation of passengers and their accompanying luggage within the Republic using urban, intercity and rural taxis and tourist and intercity buses.
- Movement of passengers in inland waters and their accompanying luggage.
- Provision of services and supply of goods by nursing homes, which are not exempt transactions.

## Reduced rate of 5%

The reduced rate of 9% applies to:

- The supply of foodstuff.
- The supply of prepared or unprepared foodstuff and/or beverages (excluding alcoholic drinks, beer, wine, and soft drinks) or both, irrespective of whether the goods are delivered from the supplier to the customer or taken away by the customer.
- The supply of pharmaceutical products and vaccines that are used for health care, prevention of illnesses and as a treatment for medical or veterinary purposes.
- The supply of live animals used for the preparation of food.
- Books, newspapers, and magazines.
- Entry fees to theaters, circus, festivals, Luna parks, concerts, museums etc.
- Entry fees at sports events and fees for using athletic Centre's.
- Hairdressing services.



- Renovation and repair of private households after three years of the first residence.
- Supply of catering services from school canteens.
- Acquisition or construction of a residence.

### **Zero rates 0%**

The zero rates applies to:

- The exportation of goods.
- Supply, modification, repair, maintenance, chartering and hiring of sea-going vessels, which are used for navigation on the high seas and carrying passengers for reward or used for the purpose of commercial, industrial or other activities.
- Supplies of gold to the Central Bank of the Republic etc.
- Supply, modification, repair, maintenance, chartering and hiring of aircraft, used by airlines operating for reward mainly on international routes.
- Supply of services to meet the direct needs of seagoing vessels and aircraft.
- Transportation of passengers from the Republic to a place outside the Republic and vice versa using a seagoing vessel or aircraft



# Exemptions

1. Rental services (Immoveable property for residential purpose).
2. Financial services.
3. Educational services.
4. Insurance services.
5. Postal services.
6. Hospital and medical services.

## Registration

### Who is liable to be registered?

Every individual or company is liable to be registered if:

- At the end of any month, the value of taxable supplies recorded in the last 12 months exceeds €15.600; or
- At any point in time the value of taxable supplies is expected to exceed €15.600 in the next 30 days;
- Provides services to a VAT registered person within the European Union with nil registration threshold;
- Is involved in the acquisition of goods from other EU member states (relates to persons who offer exempt supplies of goods and services or are non-profitable organizations) with registration threshold of €10.250;
- Offers zero-rated supplies of goods or services
- Acquires a company on a going concern basis;
- A foreign taxable person makes distance sales with registration threshold of €35.000.



# VAT declaration - payment/refund of VAT

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A VAT return is the taxpayer's document of declaration through which taxpayer not only furnishes the details of transactions during a tax period but also determine his sales tax liability.

On the return form, the taxpayer declares, for a particular tax period, his respective input tax and output tax.

VAT returns must be electronically submitted on a quarterly basis 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 have the right to request for a different filing period. The approval of the Commissioner of Taxation is required. The Commissioner of Taxation also has the right to request from a taxable person to file his VAT returns for a different period.

Where in a quarter input tax is higher than output tax, the difference is refunded or is transferred to the next VAT quarters.

As from 19 February, 2013 taxpayers who make a claim for VAT refund will be entitled to repayment of the principal amounts together with interest in the event that the repayment is delayed for a period exceeding four months from the date of the submission of the claim.

The grace period for the Tax Department to repay the refundable amounts is extended by another four months (i.e. eight months in total) in the event that the Commissioner of Taxation is carrying out an investigation in relation to the submitted claim.



# Trusts

A “trust” is an obligation annexed to the ownership of property, and rising out of a confidence reposed in and accepted by the owner, or declared and accepted by him, for the benefit of another, or of another and the owner. A trust is not a separate legal entity.

## International Trusts

The Law defines an International Trust as being trust in respect of which:

- 1) The Settlor is not a tax resident in Cyprus during the calendar year which precedes the year of creation of the trust;
- 2) At least one of the Trustees is a tax resident in Cyprus during the trust period; and
- 3) None of the Beneficiaries are tax residents in Cyprus during the calendar year which precedes the year of creation of the trust.

According to applicable law:

- 1) Where the beneficiary is resident in Cyprus, the income and profits of a Cyprus International Trust which are earned or deemed to be earned from sources within and outside of Cyprus, are subject to every form of taxation imposed in Cyprus.
- 2) Where the beneficiary is not a resident of Cyprus, the income and profits of a Cyprus International Trust which are earned or deemed to be earned from sources within Cyprus, are subject to every form of taxation imposed in Cyprus.



# Social insurance

## Contributions to Social Insurance and other funds

Contributions to social insurance and other relevant funds are calculated on the employee's gross emoluments at the following rates:

	Employee %	Employer %	Self Employed %
<b>Social insurance fund</b>	<b>8,3</b>	<b>8,3</b>	<b>15,6</b>
<b>Social Cohesion Fund</b>	---	<b>2,0</b>	---
<b>Industrial Training Fund</b>	---	<b>0,5</b>	---
<b>Redundancy Fund</b>	---	<b>1,2</b>	---

## Income limits

The above rates (excluding the rate applicable to contributions to the Social Cohesion Fund) are applied on the employee's gross emoluments subject to the following upper limits.

	Per Week €	Per Month €	Per Annum €
<b>Weekly employees</b>	<b>1.051</b>	---	<b>54.652</b>
<b>Monthly employees</b>	---	<b>4.554</b>	<b>54.648</b>

## Self Employed

The amount of contributions payable by self-employed individuals is subject to a lower and an upper weekly limit depending on the occupation of the self-employed individual

	Per Week €	Per Month €
<b>Self – employed</b>	<b>depends on the occupational nature</b>	<b>1.051</b>

## Payment deadline for employers

The contributions that the employer is obliged to pay, should be paid not later than the end of the calendar month following the month that the contributions relate to.



## Payment deadline for self-employed individuals

Months that the contributions relate to	Date
January – March	10th day following the end of the following the end of each quarter.
April – June	
July – September	
October – December	

## Additional fee for late payment of contributions

Every employer or self-employed individual who fails to pay the contributions within the time limit is obliged to pay an additional fee in the range of 3% and 27%, depending on the period of delay, calculated on the number of contributions due for payment.

## Contributions to the General Healthcare System

As from 1 March 2019, the contributions are calculated and paid as a percentage on the gross emoluments/pensions as follows:

Contributor's category	01/03/2019 - 29/02/2020	01/03/2020 onwards
	%	%
<b>The Republic</b>	<b>1,65</b>	<b>4,70</b>
<b>Employers</b>	<b>1,85</b>	<b>2,90</b>
<b>Self-employed</b>	<b>2,55</b>	<b>4,00</b>
<b>Employees / pensioners / income earners/ persons holding an office</b>	<b>1,70</b>	<b>2,65</b>
<b>The Republic or natural/ legal person responsible for the remuneration of Officers</b>	<b>1,85</b>	<b>2,90</b>

## Income limit

For the purposes of calculating the contributions, gross emoluments are limited to €180.000 per annum with the exception of categories Employers, The Republic or natural/legal person responsible for the remuneration of Officers.



# Stamp duty

## Document Type

Receipts (if not exempt) - for sums of over €4	7 cents
Cheques	5 cents
Letters of credit	€ 2
Letters of guarantee	€ 4
Bills of exchange (payable within three days, on demand or at sight)	
Contracts with a fixed amount:	
• the first €5.000	0
• between €5.001 - to €170.000	1.5%
• above €170.000	2%
Contracts without fixed sum	€ 35
Customs declaration documents	€ 18-€ 35
(depending on document type)	€ 4
Bills of lading	
Charter party	€ 18
Powers of attorney	
• general	€ 6
• limited	€ 2
Certified copies of contracts and documents	€ 2



# Capital duty

## Upon incorporation of a Cyprus company

Authorized share capital	€105
Issued share capital	There is no capital duty payable if the shares are issued at their nominal value. There is a flat duty € 20 if the shares are issued at a premium.

## Upon subsequent increases

Authorized share capital	Nil
Issued share capital	€ 20 flat duty on every issue, whether the shares are issued at the nominal value or at a premium.



# Interest and Penalties

The official interest rate, as set by the Finance Minister, for all amounts due as from 1 January 2019 is 2%.

## Previous years interest and penalties

Year	Rate
up to 31 December 2006	9%
for the years 2007-2009	8%
for the year 2010	5,35%
for the years 2011 and 2012	5%
for 2013	4,75%
for 2014	4,5%
for 2015-2016	4%
for 2017-2018	3,5%

In addition to the interest, penalties are also charged depending on the circumstances.



# Notes

- Physical persons are required to submit personal tax returns only when their gross taxable income exceeds €19.500.
- A physical person is obliged to submit audited financial statements if his/ her annual income from business, rents, dividends interest, royalties or goodwill exceeds €70.000. Such physical person should be paying his/ her 2018 income tax by 1st August 2019 and submitting his/ her tax return by 31 March 2020.



# Tax Diary 2019

## End of each month

Payment of tax deducted from employees' salary (PAYE) in the preceding month.

Payment of special contribution for defense withheld on payments of dividends, interest or rents (when the tenant is a company, partnership, the state or local authority) made to Cyprus tax residents in the preceding month.

Payment of tax withheld in the preceding month on payments to non-Cyprus residents.

**31st March**

- Electronic submission of the 2017 corporation tax return (TD4) for accounting periods ending on 31 December 2017 (TD4).
- Electronic submission of the 2017 income tax return of physical persons preparing audited financial statements (2).

**30 April**

**Payment of premium tax for life insurance companies first installment for 2019.**

**30th June**

- Payment of special contribution for defense for the first six months of 2019 on rents if such tax is not withheld at source by the tenant and on dividends or interest from sources outside Cyprus.
- Payment of 2018 personal income tax under the self-assessment method by self-employed individuals not preparing audited financial statements.



<b>31st July</b>	<ul style="list-style-type: none"> <li>■ Electronic submission by employers of the total 2018 payroll (Form TD7).</li> <li>■ Submission of the 2019 provisional income tax return and payment of the first installment.</li> <li>■ Electronic submission of 2018 personal income tax returns and payment of 2018 personal income tax under the self-assessment of/by employees and pensioners, whose incomes do not include income from a trade/business, rents, dividends, interest, royalties nor income relating to trading goodwill.</li> </ul>
<b>1st August</b>	<ul style="list-style-type: none"> <li>□ Payment of 2018 final corporation tax under the self-assessment method.</li> <li>□ Payment of 2018 personal income tax under the self-assessment method by self-employed individuals preparing audited financial statements.</li> </ul>
<b>31st August</b>	Payment of premium tax for life insurance companies' second installment for 2019.
<b>30th September</b>	Electronic submission of 2018 personal tax returns of self-employed individuals not required to prepare audited financial statements.
<b>31st December</b>	<ul style="list-style-type: none"> <li>■ Payment of provisional tax - second and last installment for 2019.</li> <li>■ Payment of special contribution for defense for the last six months of 2019 on rents if such tax is not withheld at source by the tenant and on dividends or interest from sources outside Cyprus.</li> <li>■ Payment of premium tax for life insurance companies - third and last installment for 2019.</li> </ul>





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