

CYPRUS

Cyprus is an island in the Eastern Mediterranean Sea. Cyprus is the third largest island in the Mediterranean, and a member state of the European Union.

Cyprus through the years has well succeeded to become an International Business and Financial Centre, that offers a modern business infrastructure, highly educated English speaking personnel, an attractive and sophisticated tax system, a high standard of living and safe environment to work and live in.

Since accession in the EU, Cyprus has successfully created a dynamic business environment and established itself as the gateway for inward our outward investments between the EU and the rest of the world.

The broad system of treaties for the avoidance of the double taxation gives Cyprus the advantage of popularity amongst global investors. There are a large number of Cyprus business companies whose ownership and activities are outside of Cyprus.

Foreign investors chose Cyprus for their business because of its favourable and sustainable business infrastructure, its low tax environment, the freedom from exchange controls allowing profits, dividends and interest from legitimate investments and capital gains from the disposal of securities (i.e. shares in investments, bonds) to be freely remitted abroad.

Then main features for the incorporation of an international business company and tax are highlighted below.

INFORMATION ON CYPRUS INTERNATIONAL BUSINESS COMPANIES (I.B.Cs.)

The term International Business Company refers to legal entities whose beneficial ownership and business activities lie outside the country of registration.

The most common type of Companies incorporated in Cyprus is an entity which is limited in its liability by shares (Cyprus Limited Liability Company / LTD).

The corporate infrastructure in Cyprus is well developed and this allows the quick registration of an I.B.C. as well as obtaining resident and employment permits or any other permits necessary. All such permits are subject to approval by the local authorities. Registration of an I.B.C. usually takes about seven (7) days, if the name is approved in advance.

INFORMATION OF TAX LEGISLATION

The main principles in the tax legislation of Cyprus are:

- The taxation of companies is based on tax residency. Companies will be considered resident in Cyprus and taxed in Cyprus if they are managed and controlled in Cyprus;
- Participation exemption for dividends received from other companies;
- No withholding tax on dividends, interest and royalties payable to non-residents (foreign companies and individuals);
- The corporate rate is 12.5%;
- The term "resident" has been added to the vocabulary of relevant terms under the new taxation system. For corporate entities, as mentioned above, the criteria are management and control. As far as physical persons are concerned, an individual who stays in Cyprus for a period or periods exceeding in aggregate 183 days in the year of assessment is considered resident in Cyprus;
- Tax liability is based either on residence (worldwide income for residents) or on Cyprus source income only for non-residents. Incorporation of the Company per se is no longer a criterion establishing residence in Cyprus.

1. PERSONAL INCOME TAX

An individual is considered to be resident in Cyprus if he spends 183 days or more in Cyprus.

Residents are taxed on income from:

- profits from trade vocation or profession;
- rents, royalties and pensions;
- remuneration and benefits from employment;
- profit from sale of goodwill.

Non-residents are taxed on income including:

- rental income from immovable property in Cyprus;
- profit of a business carried out through a permanent establishment in Cyprus;
- remuneration from employment exercised in Cyprus.

The following income tax rates apply to individuals:

Taxable Income	Taxable Rate	Sum of Tax	Accumulated Tax
€	€	€	€
0 – 19.500	0%	0	0
19.500 – 28.000	20%	1.700	1.700
28.001 – 36.300	25%	2.075	3.775
36.301 – 60.000	30%	7.110	10.885
60.001 – and above	35%		

2. CORPORATION TAX

- Corporate Tax Rate is 12.5% on the Net Profit.
- There is an exemption from tax on dividends received by companies (conditions apply).
- Profit from dealing in securities is tax free. (This includes trading in securities in Cyprus as well as overseas markets).
- Eighty per cent (80%) of the revenue from intellectual property rights deemed as expense thus effectively tax payable on the remaining 20% less other expenses.
- Capital gains from the sale of movable asset are tax free.
- No withholding tax on dividends, interest and royalties payable to non-residents (foreign companies and individuals).
- The taxation of companies is based on tax residency. Companies will be considered resident in Cyprus and taxed in Cyprus if they are managed and controlled in Cyprus.
- Large network of tax treaties with very favorable clauses. Many of the treaties impose low or nil withholding tax on dividends, interest or royalties at source.
- European Union parent subsidiary directives apply
- Tax losses can be carried forward for 5 years but cannot be carried back.
- Group relief -The current year loss of one company can be set off against the profit of another, subject to conditions, provided the companies are Cyprus tax resident companies of a group(1). Group is defined as: One Cyprus tax resident company holding directly or indirectly at least 75% of the voting shares of another Cyprus tax resident company or both of the companies are at least 75% (voting shares) held, directly or indirectly, by a third company

3. SPECIAL CONTRIBUTION FOR DEFENCE

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. It is charged at the rates shown in the table below:

	Tax rates	
	Individuals	Legal entities
	%	%
Dividend income form Cyprus tax resident companies	17	NIL
Dividend income form non - Cyprus tax resident companies	17	NIL
Other interest income	30	30
Rental income (reduce by 25%)	3	3

4. CAPITAL GAINS

Capital Gain Tax at a rate of 20% is only imposed on the sale of immovable property (land and buildings) situated in Cyprus or on the sale of shares of not listed companies which own immovable property in Cyprus. There is no Capital Gain Tax on the sale of any movable property including shares and real estate situated outside Cyprus.

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

Gains as well as trading profits from the disposal of securities are fully exempt from all taxes. The term securities includes: ordinary and preference shares, founder's shares, options on titles, debentures, bonds, short positions on titles, swaps on titles, depositary receipts on titles, rights of claims on bonds and debentures, index participations (only if they result in titles), repurchase agreements, participations in companies, units in open-end or closed-end collective investment schemes.

5. CAPITAL DUTY/STAMP DUTY

Capital duty is payable upon incorporation as a fixed amount of €105 plus 0.6% on the nominal value of the authorised share capital and 0.6% upon subsequent increases. There is no capital duty on the share premium. Therefore the capital duty may be minimised by having a small authorised share capital and a high share premium.

Cyprus law provides that stamp duty shall be imposed in cases where a written document refers to assets in Cyprus, or matters or things that will be done in Cyprus. Stamp duty rate on agreements ranges between 0.15% and 0.20% depending on the amount stipulated on the agreement, with a maximum duty of €17.086. The duty is payable within 30 days from the execution of the agreement.

6. VAT

Due to the fact the VAT is a tax on consumption, the Cypriot holding company will not be subject to VAT legislation, or entitled or obliged to register for VAT purposes, if the activity of the Cypriot holding company is restricted to merely holding shares.

There are four current VAT rates provided by the law as follows:

- Standard rate (19%) – for all supplies of goods or services except if are taxed at a reduced rate or are exempted as below indicated.
- Zero rated (0%) – regarding the supply, hiring and repair of sea-going vessels and aircrafts, the supply of services to meet the direct needs of sea-going vessels, the supply of goods entered into a customs regime, the supply of medicines and food – except the supply of food in the course of catering. In addition, the supply of goods is zero-rated if the VAT Commissioner is satisfied that the goods have been exported or supplied to a registered person in another Member State.
- Reduced rate (5%) – regarding the supply of coffins, services of writers, artists, on the supply of fertilizers, foodstuffs for animals, live animals, seeds, non- bottled water, newspapers, books, periodicals, certain products for persons with special needs, ice cream, certain types of nuts (salted etc), transport of passengers and their accompanying luggage with urban and rural buses, the letting of camping sites and caravan parks, hair salon services, repair and maintenance of private households (based on specific condition), confectionary products, bottled water, juices, pharmaceutical products, entry fees to theatres, cinemas and sporting events, Luna parks and other similar cultural events.
- Reduced Rate (9%) – regarding the transport of passengers and their accompanying luggage within Cyprus, via urban, suburban and rural taxis as well as with tour and suburban buses, restaurant services and the supply of food in the course of catering except the supply of alcoholic beverages wine and beer, which is chargeable at a rate of 19%, as well as on the supply of accommodation in the hotel sector or in sectors with a similar character.

The above is intended to provide a brief guide only. It is essential that appropriate professional advice is obtained.



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