

# PKF



## Cyprus Income Tax Guide

2019



Accountants &  
business advisers

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## **PKF Cyprus Tax Guide 2019**

PKF Cyprus Tax Guide provides comprehensive and up to date information to Cyprus Companies and Individuals on Cyprus tax system and on Cyprus Tax rates, such as personal income tax, corporate tax, capital gains tax, immovable property tax, VAT rates, land transfer fees, etc. In addition PKF Cyprus Tax Guide can be a useful reference in tax planning.

This booklet is based on tax legislation and practice as at January 2019. It is intended to provide a general guide on the subject in a condensed form. The included information should not be regarded as a basis for ascertaining the liability of tax in specific circumstances. Take always professional advice before acting on any information included in the booklet. PKF/ATCO Limited is a member firm of the PKF International Limited network of legally independent firms and does not accept any responsibility or liability for the actions or inactions on the part of any other individual member firm or firms."

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# Cyprus Income tax

## Personal tax rates

| Taxable income |           | Tax Rate | Tax   | Accumulated Tax |
|----------------|-----------|----------|-------|-----------------|
| From           | Up to     | %        | €     | €               |
| €              | €         |          |       |                 |
| 0              | 19.500    | 0        | 0     | 0               |
| 19.501         | 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       |       |                 |

## Cyprus Income tax rates

|                             | %    |
|-----------------------------|------|
| Companies (up to year 2012) | 10   |
| Companies (from year 2013)  | 12,5 |

## Tax resident Individuals:

Present in the Republic of Cyprus for more than 183 days in a tax year or if a taxpayer stays in Cyprus for one or more periods equal at least to 60 days, if certain conditions are met. Cyprus tax resident definition for the purpose of special defense contribution has changed. (See note in special defence contribution section)

## Tax resident Cyprus Companies:

Management and control is exercised in the Republic of Cyprus

### Exemptions

### Exemption limit

| Exemptions   | Exemption limit |
|--|-----------------|
| <b>Applicable to individuals only</b>  |                 |
| •Interest  | Entire amount   |
| •Lump sum received as of retiring gratuity, commutation of pension or compensation for death or injury   | Entire amount   |
| •Remuneration from salaried services supplied outside Cyprus to a non resident employer or to a permanent establishment abroad owned by a Cyprus resident employer for more than 90 days in a tax year | Entire amount   |

# Cyprus Income tax

|  |  |
|--|--|
| <ul style="list-style-type: none"> <li>• Remuneration from any office or employment exercised in Cyprus by an individual whose residence was outside Cyprus before the commencement of the employment. The exception is applicable for a period of 5 years from the 1st of January following the year of commencement of the employment with last eligible year being 2020.</li> </ul>   | 20% of Income or €8.550 whichever is the lower |
| <ul style="list-style-type: none"> <li>• Income from employment that exceeds €100.000 annually by any individual whose residence was outside Cyprus before the commencement of the employment. The exception is applicable for the first 10 years of Employment. The exemption is allowable if certain conditions are met.</li> </ul>  | 50%  |
| <p><b>Applicable to Cyprus companies only</b></p>  |  |
| <ul style="list-style-type: none"> <li>• Interest (does not apply for interest income arising in the ordinary course of business which is fully taxable as trading income)</li> </ul>  | Entire Amount                                  |
| <p><b>Applicable to both individuals and companies</b></p>   |  |
| <ul style="list-style-type: none"> <li>• Dividends</li> </ul>  | Entire amount                                  |
| <ul style="list-style-type: none"> <li>• Gains from the disposal of securities</li> </ul>  | Entire amount                                  |
| <ul style="list-style-type: none"> <li>• Profits from a permanent establishment abroad (Under certain conditions)</li> </ul>   | Entire amount                                  |
| <ul style="list-style-type: none"> <li>• Gains derived from foreign exchange differences, with the exception of foreign exchange differences arising from trading in foreign currencies and related derivatives.</li> </ul>  | Entire amount                                  |
| <p><b>Deductions</b></p>   | <p><b>Deduction limit</b></p>                  |
| <p><b>Applicable to companies only</b></p>   |  |
| <ul style="list-style-type: none"> <li>• 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 subsidiary company does not own, direct or indirect, any assets that aren't used in the business. If the subsidiary owns, direct or indirect, assets not used in the business, the interest expense deduction is restricted to the amount which relates to assets used in the business. It applies for acquisitions of subsidiaries from 1st January 2012.</li> </ul> | Entire amount                                  |
| <ul style="list-style-type: none"> <li>• Profits from the exploitation and disposal of intellectual property rights. In case of loss, can be carried forward up to 20%. Under conditions.</li> </ul>   | 80%  |

# Cyprus Income tax

- **Notional Interest Deduction-(NID)**

Notional Interest Deduction is allowable when new equity introduced to a Cyprus company after 1 January 2015 in the form of share capital or share premium. Notional Interest Deduction is calculated on the new capital using the rate of 10 year government bond yield (of the year preceding the tax year) of the country in which the new capital is invested increased by 3%(the minimum amount of the deduction is restricted at the rate of the 10 year Cyprus government bond increased by 3%)

### **Applicable to individuals only**

- Expenditure incurred for the acquisition of shares in an innovative business:

Until 31/12/2016

As from 1 January 2017-amounts invested each tax year in approved innovative small and medium size enterprise, directly or indirectly are deducted from taxable income (under certain conditions)

- Expenses relating to rental income

### **Applicable to both individuals and companies**

- Donations made to approved charities with receipts
- Contributions to trade unions or professional bodies
- Special contribution (Terminated from 1/1/2017)
- Maintenance expenses of a conservation building

### **Personal allowances**

- Life insurance premiums in respect of the life of the claimer
- Life insurance premiums in respect of the life of the claimers' spouse which were in existence up to the 31.12.2002 where personal allowance was given, will continue to be deductible from the claimer
- Contributions for social insurance, provident, medical or other approved funds

The Notional Interest Deduction is restricted to 80% of the taxable income, as calculated, before the deduction of Notional Interest Deduction

Entire amount

Up to 50% of the taxable income prior to this deduction (subject to a maximum of -150.000 per year)  
20% of rental income

Entire amount

Entire amount

Not applicable

Up to €700, €1100 or €1200 per square meter (according to the size of the building).

### **Allowance**

Premiums are restricted to 7% of the insured capital sum. Premiums and contributions must not exceed 1/6 of the taxable income before any personal allowance.

# Cyprus Income tax

If a life insurance is cancelled or redeemed within 6 years from the start of the insurance, the previously paid and granted premiums as personal allowance will be taxable under the following rates:

- Cancellation within 3 years 30%
- Cancellation between 4 and 6 years 20%

## **Other important provisions:**

### **• Registration with the Cyprus Tax authorities:**

Cyprus Companies incorporated or registered or become tax residents of Cyprus are obliged to register with the Cyprus tax authorities and obtain their Cyprus Tax Identification Code within 60 days from that date. Also are obliged to inform the Cyprus tax authorities for any amendment on their records within 60 days from that amendment.

### **• Lifting the Cyprus Bank Secrecy:**

The Cyprus Inland Revenue has the power to submit a written application to Cyprus Bank Institutions asking for the lifting of Cyprus Bank Secrecy, for an active or closed account of a person registered to Cyprus Income Tax Office for a period of seven years preceding the application by having necessarily the written consent of the Attorney General.

### **• Application for taxpayers' information by civil servants:**

The Cyprus tax authorities may ask for information, for the purpose of imposing tax, from other governmental departments and specifically by local authorities, semi-governmental authorities excluding the Central Bank of Cyprus and the Department of Supervision and Development of Cooperative Companies.

### **• Accounting books and records:**

Businesses accounting books and records should be updated by the end of the fourth month from the date of each transaction. Furthermore, invoices should be issued within thirty days from the date of the transaction unless a business obtained the written approval of the Commissioner for a longer period.

### **• Imposition of surcharges:**

Late submission of declarations or supporting documents requested by The Cyprus Inland Revenue Office will result in surcharges of €100 or €200 depending on the circumstances.

### **• Tax imposed on profits arising from bets of OPAP and National Lottery:**

A new law is imposed for 20% taxation on profits in OPAP betting's and profits of all National Lottery stakes that exceed €5.000

### **• Tax imposed on profits arising from bets of OPAP and National Lottery:**

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### **• Widow pension:**

Taxpayer can elect, on annual basis, to be taxed either at the normal tax rates and bands or the

# Cyprus Income tax

widow pension to be taxed separately from any other income at the flat rate of 20% on amount over €19.500.

- **Loan restructuring:**

With the aim to give motives for loan restructuring, tax incentives have been provided, in those cases that such a restructuring include transfer of immovable property to the lender against the loan obligation. (Subject to conditions)). The disposal should take place within 2 years from the date that the amendment of the law is applicable (31 December 2015).

If a part of the sale proceeds, will return to the borrower, then this amount is subject to IT, CGT and SDC, which must be withheld and paid to the authorities by the loan provider. The cost of acquisition is the amount had been agreed for the purpose of restructuring. Also it is not payable any transfer fees and stamp duties.

- **Tax ruling: apply from 16/5/2016**

Charge €1000 – without acceleration

Charge €2000 – with acceleration



# Capital Allowances

The annual capital allowances known as wear and tear allowances, (As approved by the Cyprus Tax Authorities) are calculated on the acquisition cost of the fixed assets as follows:

| Fixed Assets   | %                              |
|--|--------------------------------|
| <b>Buildings:</b> (Note 1)   |                                |
| Commercial   | 3                              |
| Industrial, agricultural and hotel   | 4                              |
| Metallic frame of greenhouses  | 10                             |
| Timber frame of greenhouses  | 33 <sup>1/3</sup>              |
| <b>Machinery and equipment:</b> (Note 2)                                     |                                |
| Plant and machinery  | 10                             |
| Furniture and fittings   | 10                             |
| Agricultural machinery and tools   | 15                             |
| Computers & Computer hardware  | 20                             |
| <b>Intellectual Property- 5 years</b>  | 20                             |
| <b>Vehicles:</b>   |                                |
| Motor vehicles other than saloon cars  | 20                             |
| Fork lifts, tractors, excavators, bulldozers, oil tanks and loading vehicles | 25                             |
| <b>Ships:</b>  |                                |
| New commercial vessels   | 8                              |
| New passenger vessels  | 6                              |
| Sailing vessels  | 4.5                            |
| Steamers, tugs and fishing vessels   | 6                              |
| Motor launches   | 12.5                           |
| Second-hand commercial and passenger vessels                                 | over its remaining useful life |
| <b>Loose tools</b>   | 33 <sup>1/3</sup>              |
| <b>Video tapes of video clubs</b>  | 50                             |
| <b>Application software:</b>   |                                |
| Over € 1.709   | 33 <sup>1/3</sup>              |
| Up to € 1.709  | 100                            |

Notes:

- Industrial and hotel buildings acquired during the years 2012-2018 (inclusive) are eligible to tax depreciation at the rate of 7% per annum. For acquisitions after 1/1/2019 the capital allowance will be 4%.
- Plant and machinery acquired during the years 2012-2018 (inclusive) are eligible to tax depreciation at the rate of 20% (excluding such assets which are already eligible for a higher annual tax rate of tax depreciation). For acquisitions after 1/1/2019 the capital allowance will be 10%.
- Any expenditure of a capital nature incurred for the development or acquisition of intangible assets may be claimed as a tax deduction and will be claimed on a straight line basis in the tax year which it was incurred and the immediate four following years.

# Losses and Special Types of Taxation

## Losses

### Carry forward of losses (As from 2012)

If losses carried forward can not be fully set off against a Cyprus company's profits, the amount of that loss is carried forward and is set off against the Cyprus company's taxable profit over the next five years.

### Loss of permanent establishment abroad

Any loss arises from a permanent establishment outside Cyprus can be set off against the profits arises in Cyprus. However, the subsequent profits of the permanent establishment abroad are taxable up to the amount of the utilised losses.

### Group relief losses

Loss of a Cyprus tax resident company can be set off against the profit of another company of the group which is also Cyprus tax resident. Two or more companies can be defined as group when the one company hold at least 75% (direct or indirect) of the voting shares of the other company or the voting share of both companies are held at least by 75% (direct or indirect) by a third company.

As from 1 January 2015 interposition of a non Cyprus tax resident company/ies will not affect the eligibility for group relief (subject to conditions).

Also as from 1 January 2015 a Cyprus tax resident company can claim the tax losses of a group company which is tax resident in another EU country. (Subject to conditions)

## Special types of taxation

### Former Cyprus offshore companies (International business companies)

Former Cyprus offshore companies (International business companies) are subject to Cyprus tax at the rate of 4.25% for the commencing years of the 2002's tax year regardless of the place of their management and control. From the tax year 2003 and onwards when the management and control is exercised in Cyprus, former Cyprus offshore companies are subject to Cyprus tax at the rate of 10% (12.5% as from 2013). Former Cyprus offshore companies under certain conditions could choose to be taxed at 4.25% for the years of 2003, 2004 and 2005.

As of 1st of January 2006, International Business companies are taxed at a tax rate 10% (12.5% as from 2013).

### Life insurance companies

Life insurance companies are subject to a minimum tax of 1.5% of their gross premiums.

The interest income is deemed to be the result of the original nature of business and therefore is considered as business income rather than interest.

### Pensions from overseas

The individual resident's received pensions from abroad up to €3.420 are exempt; any excess above €3.420 is taxed separately at a flat rate of 5%.

The taxpayer can choose to be taxed at normal Cyprus Tax rates if more favourable.

# Losses and Special Types of Taxation

## **Income of professionals, artists and athletes**

The gross income derived by any non-resident individual of the Republic from the activity within the Republic of any profession or vocation is subject to 10% Cyprus withholding tax deducted at source.

## **Film rentals**

The gross income from film projection in Cyprus for a non resident is subject to 5% Cyprus withholding tax.

## **Royalties**

The gross income from royalty, premium, compensation or other income derived from sources in the Republic, by a non resident, is subject to 10 % Cyprus withholding tax.

## **Natural resources**

The gross income derived from non resident with no permanent establishment in Cyprus relating to extraction, exploration or use of the continental shelf as well as the establishment and use of pipelines and other installation on the Cyprus ground or exclusive economic zone, is subject to 5% Cyprus withholding tax.

# Shipping Enterprises

The new Cyprus tax system for merchant shipping was approved by the European Commission on 24th March 2010 and provides that profits from shipping operations, from the provision of crew or technical ship management services, dividends paid directly or indirectly out of such profits and interest earned on funds used as working capital or for the payment of expenses relating to the management of ships are covered by tonnage tax.

## Tonnage Tax

Tonnage tax is calculated on the net tonnage of the ship and on the basis of a broad range of bands and rates prescribed in the legislation.

Specifically the tax is calculated based on the following tax rates:

| Net Tonnage (NT)      |                       |                       |                       |                     |
|-----------------------|-----------------------|-----------------------|-----------------------|---------------------|
| 0-1.000               | 1.001-10.000          | 10.001-25.000         | 25.001-40.000         | > 40.000            |
| € 36,50 per<br>100 NT | € 31.03 per<br>100 NT | € 20.08 per<br>100 NT | € 12.78 per<br>100 NT | € 7.30 per<br>100NT |

Note: Tax rates applicable to ship managers' are 25% of the above.

## Ship Owners:

Ship owners of Cyprus flag ships automatically fall within the scope of tonnage tax. Ship owners of EU community flag ships and foreign flag ships may opt to be taxed under tonnage tax (certain circumstances must apply for foreign flag ships).

Any ship owner opting for the tonnage tax must remain in the system for 10 years at least.

## Charterers:

A Charterer who charters a ship under bareboat, demise, time or voyage charter is eligible to opt for the tonnage tax system provided that the tonnage of the ships under time or voyage do not exceed 75% of the total tonnage of the ships chartered and owned, for more that three tax periods. The percentage increases to 90% if the ships chartered are EU/EEA ships or their crew and technical management are carried out from the EU/EEA. Charterers of non EU flag ships must comply with further requirements.

## Ship Managers:

A ship manager providing crew and / or technical ship management services is eligible for the tonnage tax system under certain circumstances provided the criteria are satisfied.

# Special contribution for defence

## Tax Rates

Special contribution for defence is payable at the following rates:

|   | Contribution rate |
|---|-------------------|
| •Dividend (1,2,3) - as from 1/1/2014  | 17%               |
| •Interest - (as from 29/4/2013)   | 30%               |
| •Resident individual's interests received from the Cyprus Government savings and developments bonds | 3%                |
| •Interest received by Approved Provident Fund   | 3%                |
| •Rental income (reduced by 25%)   | 3%                |

## Notes:

1. Special contribution for defence is calculated on the above types of income earned by all tax residents of Cyprus (including resident Cyprus companies) and is not applicable on dividends payable to non-resident persons of Cyprus.  
Prior to 16 July 2015 individuals were subject to special contribution for defence if they were tax resident in Cyprus. As from 16 July 2015 individuals are subject to special contribution for defence if they are also Cyprus domiciled. An individual is Cyprus domiciled if he has a domicile of origin in Cyprus per Wills and Succession Law. Irrespective of the domicile of origin of a person, an individual is a Cyprus domiciled if he has been a tax resident in Cyprus for at least 17 out of the 20 tax years preceding the tax year of assessment
2. Dividne Income from - non Cyprus tax resident companies is exempt. The exemption does not apply when:
  - the paying company's activities lead to investment income which exceeds the 50% of the total income and
  - the foreign tax is significantly lower than the tax in Cyprus.  
Significantly lower means lower of 6,25%
3. Dividends received by a Cyprus tax resident company from other Cyprus tax resident companies are tax free, unless they are declared indirectly after the lapse of four years after the year in which the profits arose, in which case they may be subject to Special contribution for defence at 17%.  
Dividends emanating directly or indirectly out of such dividends on which Special Defence Contribution was previously suffered, are exempt.

# Special contribution for defence

## Deemed dividend distribution

As from 2003 the resident Cyprus companies are deemed to have distribute, in the form of dividends, 70% of their accounting profits after deducting the Cyprus corporation tax (Cyprus corporation tax means income tax, capital gains tax, special defence contribution and foreign taxes), from the end of the second year of the year when the profits has been related and accounted for 17% (apply from 1/1/2014) special defence contribution (3% in Collective Investment Scheme). The deemed distribution is reduced by any actual dividends distributed.

Based on the amendment Act of 2012 deemed dividend distribution does not apply with respect to profits for the years 2012, 2013 and 2014 to the extent that the company acquires plant, machinery and buildings. For the purpose of deem dividend distribution, it is not allowable any cost of acquisition of property, plant and equipment after 1/1/2015.

When an actual dividend was paid after the deemed distribution, then special defence contribution is imposed on the dividend paid over and above the dividend previously deemed to had been distributed.

## Reduction of capital

In the case of a reduction of capital, amounts paid or due to shareholders exceeding the paid up share capital will be considered as dividends distributed and will be subject to special defence contribution at the rate of 17% (20% for 2013) after deducting any amounts which have been deemed as distributable profits.

## Company dissolution

The total of the last five years' profit preceding the liquidation which have not been distributed or deemed to be distributed will be considered as distributed on liquidation and are subject to defence contribution at the rate of 17% (20% for 2013) (3% in collective Investment scheme). Dissolution of a company in the course of reorganisation is exempted.

## Disposal of Asset to a shareholder at a price less than market value

When a Cyprus company disposes an asset to an individual shareholder or a relative of his or his spouse at a price less than its market value, the difference between the consideration and the market value will be deemed to have been distributed to the shareholder. This provision doesn't apply for assets gifted by an individual shareholder or a relative of his up to second degree or his spouse.

## Loan restructuring:

With the aim to give motives for loan restructuring, tax incentives have provided, in those cases that such a restructuring include transfer of immovable property to the lender against the loan obligation (Subject to conditions). The disposal should take place within 2 years from the date that the amendment of the law is applicable (31 December 2015).

If a part of the sale proceeds, will return to the borrower, then this amount is subject to IT, CGT and SDC, which must be withheld and paid to the authorities by the loan provider. The cost of acquisition is the amount had been agreed for the purpose of restructuring.

# Social insurance contributions and NHS

## Rates

Employers, employees and self-employed persons are required to contribute to the following funds:

| Fund                     | Percentage of earnings |            |               |
|--------------------------|------------------------|------------|---------------|
|                          | Employer               | Employee   | Self-employed |
|                          | %                      | %          | %             |
| Social Insurance         | 8,3                    | 8,3        | 15,6          |
| Social cohesion fund*    | 2,0                    |            |               |
| Redundancy fund          | 1,2                    |            |               |
| Industrial Training fund | 0,5                    |            |               |
| <b>Total</b>             | <b>12,0</b>            | <b>8,3</b> | <b>15,6</b>   |

Holiday fund (if not exempted) 8,0 %

(The percentage varies depending on the type of activity)

\*The amount contributed to social cohesion fund is calculated on the entire emoluments regardless of the paid social insurance contribution's maximum level of emoluments.

## Notes:

- Level of emoluments subject to social insurance contributions:

|                   | Weekly | Monthly | Yearly  |
|-------------------|--------|---------|---------|
| Weekly employees  | €1.051 | -       | €54.652 |
| Monthly employees | -      | €4.554  | €54.648 |

- The minimum amount of emoluments of self employed persons on which social insurance is contributed varies depending on the nature of activity.

## Cyprus National Health System Contributions (effective from 1 March 2019)

As per the recent legislation governing, amongst others, the level of contributions to the Republic's National Health System (N.74 (I) 2017), it is provided that Cyprus nationals as well as other qualifying employees and their employers should contribute to the National Health System, as noted below:

| Κατηγορίες                             | Φάση 1                | Φάση 2             |
|--|-----------------------|--------------------|
|  | From 1/3/19 - 29/2/20 | 1/3/2020 - onwards |
| Employees, Pensioners, unearned income | 1,70%                 | 2,65%              |
| Employer                               | 1,85%                 | 2,90%              |
| Government of Cyprus                   | 1,65%                 | 4,70%              |
| Self employed                          | 2,55%                 | 4,00%              |

Contributions are to be applied to a maximum level of income (including interest, dividends, rental income etc) of -180.000 per annum.

# Cyprus Capital gains tax

## Cyprus Tax Rate

Cyprus Capital gains tax is levied on gains from the disposal of Cyprus property (immovable) at the rate of 20%, as well as gains from the disposal of shares in Cyprus companies owning immovable property and are not listed in any recognised stock exchange and rights arising from a sales agreement of immovable property situated in Cyprus. As from 17 December 2015 gain from the disposal of shares of a company which own indirectly immovable property in Cyprus, is subject to Cyprus capital gain tax, provided that the market value of this property exceed the 50% of the shares market value.

## Taxable gain

The taxable gain is the difference between the gross proceeds and the original cost of the Cyprus property increased with any improvements as adjusted for inflation up to the date of disposal and based of the consumer price index in Cyprus. In the case the property has been acquired before 1 January 1980, the gain is the difference between the gross proceeds and the market value of the property as was at the 1st of January 1980. The market value as was on the 14th of July 1974 can also be chosen for calculation if the owner chooses to do so. The definition of the gain, in accordance to amendment of the law at 17 December 2015, includes also any gain / profit does not fall under income tax law.

## Exempt gains

The following life time exemptions are available to individuals.

1. The first -17.086 of taxable gains from the disposal of any Cyprus property
2. The first -25.629 of taxable gains from the disposal of agricultural land by a farmer (subject to certain conditions)
3. The first -85.430 of taxable gains from the disposal of private residence used by the owner as main residence (subject to certain conditions)

An individual is entitled only to the exemption whichever is the greater.

## Exempt disposals

- Transfers by reason of death.
- Gifts between relatives up to the third degree of kindred (for example husband to wife, brothers, grandfather to grand son and uncle to nephew).
- Exchange of Cyprus properties (under certain conditions).
- Gifts to Cyprus companies where all the shareholders are and continue to be members of the donor's family for at least five years after the transfer date.
- Gifts to the Government, district authorities and approved charitable institutions.
- Gifts from family companies to their shareholders where the property was acquired by donation and is kept by the donee for at least three years.
- Expropriations.
- Transfer as a result of re-organisations (under certain conditions)
- Gain from disposal of land and buildings acquired from 16 July 2015 until 31 December 2016.



# Cyprus Capital gains tax

- With the aim to give motives for loan restructuring, tax incentives have provided, in those cases that such a restructuring include transfer of immovable property to the lender against the loan obligation. (Subject to conditions). The disposal should take place within 2 years from the date that the amendment of the law is applicable (31 December 2015).

If a part of the sale proceeds, will return to the borrower, then this amount is subject to IT, CGT and SDC, which must be withheld and paid to the authorities by the loan provider. The cost of acquisition is the amount had been agreed for the purpose of restructuring.

## Cyprus property tax

Cyprus property tax (Cyprus Immovable property tax) is calculated on the market value of the Cyprus property as was at the 1st of January 1980 and applies to immovable property owned by taxpayers at the 1st of January each year and is payable on the 30th of September of the same year. For the immovable property tax for year 2016, any payments took place until 31/10/2016 it is provided a discount of 75% and for any payments that will take place after 1/11/2016 it is provided a discount of 72.5%. In addition, any payment that will take place after 31/12/16, are out of date and a 10% penalty plus interest from 1/10/2016 will be imposed. The law was abolished as from 1/1/2017.

### Cyprus property Tax Rates

The Cyprus Property tax is calculated in accordance to the following rates:

Value of Cyprus property

| From      | Up to     | Rate | Accumulated Cyprus immovable property Tax |
|-----------|-----------|------|---|
| €         | €         | %    | €   |
| 0         | 40.000*   | 0,60 | 240                                       |
| 40.001    | 120.001   | 0,80 | 880                                       |
| 120.001   | 170.000   | 0,90 | 1.330                                     |
| 170.001   | 300.000   | 1,10 | 2.760                                     |
| 300.001   | 500.000   | 1,30 | 5.360                                     |
| 500.001   | 800.000   | 1,50 | 9.860                                     |
| 800.001   | 3.000.000 | 1,70 | 47.260                                    |
| 3.000.001 | and above | 1,90 |   |

\* When the value of the property does not exceed the € 12.500 no tax is imposed.

### Exemptions

Agricultural land used as such by its owner is exempt from Immovable Property Tax. Public cemeteries, churches and other religious buildings, public hospitals, schools, buildings owned by the Government, embassies and consulates, common use areas, properties under Turkish occupation, preserved buildings and buildings used by charities are also exempt from Immovable Property Tax.

# Cyprus property transfer fees

The following Cyprus property transfer fees apply on immovable property and based on the market value of the property according to the Cyprus Land Registry Office.

## Rates

| Value of Cyprus property |           | Transfer fee | Cyprus property Accumulated Fees |
|--------------------------|-----------|--------------|----------------------------------|
| From                     | Up to     | rate         |                                  |
| €                        | €         | %            | €                                |
| 0                        | 85.000    | 3            | 2.550                            |
| 85.001                   | 170.000   | 5            | 6.800                            |
| 170.000                  | and above | 8            |                                  |

### Notes:

- Transfer as gift in family company
- Transfer as gift between relatives up to the 3rd degree of kindred. The used percentages are based on the value written in the title deed.
- No transfer fees will be payable when the immovable property to be transferred is subject to VAT. If it is not, the transfer fee will be reduced by 50 %.
- Mortgage registration fees amount to 1% of the market value of the property.
- Nil transfer fees and nil mortgage registration fees are payable in case of immovable properties transfer due to a company reorganization.
- No transfer fees are payable in case of loan restructuring.

# Stamp duty & Cyprus Reg. of Companies

## Stamp duty:

|   |       |
|---|-------|
| •Receipts:<br>For sums over €4  | €0,07 |
| •Cheques  | €0,05 |
| •Letters of credit  | €2    |
| •Letters of guarantee   | €4    |
| •Bills of exchange (under certain conditions)   | €1    |
| •Contracts  |       |
| Up to €5.000  | 0     |
| Over €5.000   | 0,15% |
| Over €170.000   | 0,20% |
| With no fixed sum   | €35   |
| •Bills of lading  | €4    |
| •Charterparty   | €18   |
| •Powers of attorney:  |       |
| General   | €6    |
| Limited   | €2    |
| •Certified copies of contracts and documents  | €2    |
| • Customs documents   |       |
| •Issue of Cyprus tax resident certificate by Cyprus Tax Department  |       |
| From the 1st March 2013 stamp duty has been capped at a maximum amount of €20.000   |       |
| <b>Cyprus Registrar of Companies Levies</b>   |       |
| •Incorporation of a limited liability company   | €105  |
| •Annual levy paid to the Cyprus Registrar of Companies<br>Maximum amount of €20,000 still applies for Group of companies. The levy is payable on the year of incorporation of the company to the Cyprus Registrar of companies. It is payable up to the 30th June of each year. Late payment gives rise to penalties. | €350  |
| • No stamp duties are payable for documents prepared as a result of loan restructuring.   |       |

# Cyprus V.A.T.

Cyprus VAT was introduced on the 1st of July 1992 and is obligatory on the supply of goods and provision of services in Cyprus and on imports into Cyprus from non Member States of the European Union.

## Persons liable

All enterprises and persons performing business activity and being registered or required to be registered. A taxable person can be an individual or a company, a partnership, a self employed person including clubs, associations, institutions and other.

## Registration

Every person is required to register to Cyprus VAT if:

- at the end of any month where the turnover for the preceding 12 months exceeds €15.600 or
- at anytime it is anticipated that the turnover within the next 30 days will exceed €15.600
- at anytime a business provides or anticipates to provide services into VAT registered persons in any Member State of the European Union.
- at anytime it is received or anticipated to be received services from the European Union or Third Countries.

A person that makes taxable supplies but does not meet the above requirements for compulsory registration may voluntarily register to Cyprus VAT unless he deals with exempt supplies.

## Exemptions

The main transactions which are exempt from Cyprus VAT could be summarised as follow<sup>s</sup>:

- Financial services
- Hospital and medical care
- Postal and insurance services
- Management services provided to Cyprus funds

## Cyprus VAT rates

Cyprus VAT legislation uses the following tax rates:

- Standard rate 19%
- Zero rate 0%
- Reduced rate of 5%
- Reduced rate of 9%

## Difference between zero rated transactions and exempt transactions

The basic difference between zero rated transactions and exempt transactions is that the businesses making exempt supplies of goods or provision of services are not eligible to recover the tax paid on their purchases and expenses while the businesses making zero-rated supplies of goods or provision of services are eligible to recover the tax paid on their purchases and expenses.

## **Cyprus VAT returns and payments**

All persons liable to Cyprus VAT must file a quarterly return within 40 days following the end of each quarter and pay the balance between output VAT (collected) and input VAT (paid). As from 2 May 2017 the electronic submission of VAT returns will be compulsory, through the taxisnet system.

## **Intra-community trading**

The following returns must be submitted by persons trading intra-community, buying from or selling to other Member States of the European Union:

### **For acquisitions:**

- Intrastat-arrivals
- Include in the VAT return (total)

### **For dispatches:**

- Intrastat-dispatches
- VAT Information Exchange System (VIES form)
- Included in the VAT return (total with 0%)

## **VIES**

As from 1 January 2010 Cyprus VAT legislation had been altered so that to comply with the EU legislation.

From 2010 onwards, enterprises resident in the Republic providing services to other Member State set the recipient liable to take care of the VAT involved under the reverse charge. Whether there is a sale of goods or provision of services in other Member State, enterprises are liable to submit the VIES return electronically (from this year onwards) on the 15th day following the end of each month through the website: <https://taxisnet.mof.gov.cy/displayWelcome.do>.

# Cyprus double tax treaties

The following table is a summary of the applicable withholding tax rates for the income between countries having a double taxation treaty with Cyprus. The tax rates below are valid under certain conditions which are determined by the provisions of each agreement.

**TABLE OF CYP. WITHHOLD. TAX RATES(CYP.DOUBLE TAX TREATIES TABLE)**

| Treaty country        | Received in Cyprus |          |           | Paid from Cyprus (1) |          |           |
|-----------------------|--------------------|----------|-----------|----------------------|----------|-----------|
|                       | Dividends          | Interest | Royalties | Dividends            | Interest | Royalties |
| Armenia               | 0(24)              | 5        | 5         | 0(24)                | 5        | 5         |
| Austria               | 10                 | 0        | 0         | 10                   | 0        | 0         |
| Azerbaijan (36)       | 0                  | 0        | 0         | 0                    | 0        | 0         |
| Bahrain               | 0                  | 0        | 0         | 0                    | 0        | 0         |
| Bailiwick of Guernsey | 0                  | 0        | 0         | 0                    | 0        | 0         |
| Barbados (31)         | 0                  | 0        | 0         | 0                    | 0        | 0         |
| Belarus               | 5(14)              | 5        | 5         | 5(14)                | 5        | 5         |
| Belgium               | 10 (5)             | 10(4&39) | 0         | 10(5)                | 10       | 0         |
| Bosnia(25),(44)       | 10                 | 10       | 10        | 0                    | 0        | 0         |
| Bulgaria              | 5(20)              | 7(4&23)  | 10(23)    | 5(20)                | 7(4)     | 10        |
| Canada                | 15                 | 15(3)    | 10(12)    | 15                   | 15(3)    | 10(12)    |
| China                 | 10                 | 10       | 10        | 10                   | 10       | 10        |
| Czech Republic        | 0(27)              | 0        | 0(28)     | 0(27)                | 0        | 0(28)     |
| Denmark (29)          | 0(40)              | 0        | 0         | 0(40)                | 0        | 0         |
| Egypt                 | 15                 | 15       | 10        | 15                   | 15       | 10        |
| Estonia               | 0                  | 0        | 0         | 0                    | 0        | 0         |
| Ethiopia (43)         | 5                  | 5 (4)    | 5         | 5                    | 5 (4)    | 5         |
| France                | 10(6)              | 10(7)    | 0(2)      | 10(6)                | 10(7)    | 0(2)      |
| Finland               | 5(33)              | 0        | 0         | 5(33)                | 0        | 0         |
| Georgia               | 0                  | 0        | 0         | 0                    | 0        | 0         |
| Germany               | 5(6)               | 0        | 0         | 5(6)                 | 0        | 0         |
| Greece                | 25(8)              | 10       | 0(9)      | 25                   | 10       | 0(9)      |
| Guernsey              | 0                  | 0        | 0         | 0                    | 0        | 0         |
| Hungary               | 5(5)               | 10(4)    | 0         | 0                    | 10(4)    | 0         |
| Iceland               | 5(34)              | 0        | 5         | 5(34)                | 0        | 5         |
| India (47)            | 10(6)              | 10(7)    | 15(11)    | 10(6)                | 10(7)    | 15(11)    |
| Iran (43)             | 5(44)              | 5 (4)    | 6         | 5(44)                | 5 (4)    | 6         |
| Ireland               | 0                  | 0        | 0(9)      | 0                    | 0        | 0(9)      |
| Italy                 | 15                 | 10       | 0         | 0                    | 10       | 0         |
| Jersey (43)           | 0                  | 0        | 0         | 0                    | 0        | 0         |
| Kuwait                | 0                  | 0        | 5         | 0                    | 0        | 5         |
| Kyrgyzstan (36)       | 0                  | 0        | 0         | 0                    | 0        | 0         |
| Latvia (31)           | 0(47)              | 0 (48)   | 0 (49)    | 0 (47)               | 0 (48)   | 0 (49)    |
| Lebanon               | 5                  | 5(15)    | 0         | 5                    | 5(15)    | 0         |
| Lithuania             | 0(37)              | 0        | 5         | 0(37)                | 0        | 5         |
| Luxembourg            | 0/5(51)            | 0        | 0         | 0                    | 0        | 0         |
| Malta                 | 0                  | 10(7)    | 10        | 15                   | 10(4)    | 10        |
| Mauritius             | 0                  | 0        | 0         | 0                    | 0        | 0         |
| Moldova               | 5(20)              | 5        | 5         | 5(20)                | 5        | 5         |
| Montenegro(25),(44)   | 10                 | 10       | 10        | 0                    | 0        | 0         |
| Norway                | 0(16)              | 0        | 0         | 0                    | 0        | 0         |
| Poland                | 10(41)             | 5(4)     | 5         | 0(38)                | 5(4)     | 5         |
| Portugal              | 10                 | 10       | 10        | 10                   | 10       | 10        |

# Cyprus double tax treaties

**TABLE OF CYP. WITHHOLD. TAX RATES(CYP.DOUBLE TAX TREATIES TABLE)**

| Treaty country       | Received in Cyprus |          |           | Paid from Cyprus (1) |          |           |
|----------------------|--------------------|----------|-----------|----------------------|----------|-----------|
|                      | Dividends          | Interest | Royalties | Dividends            | Interest | Royalties |
| Qatar                | 0                  | 0        | 5         | 0                    | 0        | 5         |
| Romania              | 10                 | 10(4)    | 5(13)     | 10                   | 10(4)    | 5(13)     |
| Russia               | 5(17)              | 0        | 0         | 5(17)                | 0        | 0         |
| San Marino           | 0                  | 0        | 0         | 0                    | 0        | 0         |
| Serbia               | 10                 | 10       | 10        | 10                   | 10       | 10        |
| Seychelles           | 0                  | 0        | 5         | 0                    | 0        | 5         |
| Singapore            | 0                  | 10(18)   | 10        | 0                    | 10(18)   | 10        |
| Slovakia (30)        | 10                 | 10(4)    | 5(13)     | 10                   | 10(4)    | 5(13)     |
| Slovenia             | 5                  | 5        | 5         | 5                    | 5        | 5         |
| South Africa         | 0                  | 0        | 0         | 0                    | 0        | 0         |
| Spain                | 0(35)              | 0        | 0         | 0(35)                | 0        | 0         |
| Sweden               | 5(5)               | 10(4)    | 0         | 5(5)                 | 10(4)    | 0         |
| Swiss Confederation  | 0(40)              | 0        | 0         | 0(40)                | 0        | 0         |
| Syria                | 0(5)               | 10(4)    | 15(19)    | 0(5)                 | 10(4)    | 15(19)    |
| Tajikistan(36)       | 0                  | 0        | 0         | 0                    | 0        | 0         |
| Thailand             | 10                 | 10(21)   | 5(22)     | 10                   | 10(21)   | 5(22)     |
| Ukraine (46)         | 5(32)              | 2        | 5(42)     | 5(32)                | 2        | 5         |
| United Arab Emirates | 0                  | 0        | 0         | 0                    | 0        | 0         |
| United Kingdom       | 15(10)             | 10       | 0(2)      | 0                    | 10       | 0(2)      |
| USA                  | 15(26)             | 10(7)    | 0         | 0                    | 10(7)    | 0         |
| Uzbekistan(36)       | 0                  | 0        | 0         | 0                    | 0        | 0         |

## Cyprus double tax treaties notes:

- Dividends and interest paid to non-residents of Cyprus, as well as royalties' payable abroad and granted for use outside Cyprus are exempt from any Cyprus withholding tax.
- 5% applies only on television and film rights.
- 0% applies if it is paid to a Government or for export guarantee.
- 0% applies if it is paid to the Government of the contracting state.
- 15% applies if it is received by a company that controls less than 25% of the voting rights and in all cases if received by individual.
- 15% applies if it is received by a company that controls less than 10% of the voting rights and in all cases if received by individual.
- 0% applies if it is paid to a Government, a financial institution or a bank of the contracting state.
- The double tax treaty between Cyprus and Greece provides 25% withholding tax but according to the legislation of Greece 10% tax is withheld as from 1/1/2009.
- 5% applies only on film rights.
- The double tax treaty between Cyprus and United Kingdom provides 15% withholding tax no tax is withheld on dividends according to the legislation of the United Kingdom. Companies controlling at least 10% of the voting rights are not entitled to withholding tax.
- 10% applies for payments of a technical, administrative or advisory nature.
- 0% applies on theatrical, musical, literary or any other artistic work.

# Cyprus double tax treaties

13. 0% applies for patents, production processes or any royalties arising from scientific research.
14. 15% applies in cases of investments which are less than -200.000. The withholding tax can be reduced to 10% if the investment is over 25% of the company's share capital.
15. 0% applies if is paid to the Government of the contracting state or to any other institution, local authority and any bank which is owned entirely by the state.
16. 0% applies if it is received by a company (other than a partnership) holding at least 10% of the share capital of the company issuing the dividend or if it is paid to the Government of any of the two contracting states. 15% applies in all other cases.
17. 10% applies when the dividends are received from a company which invested less than €100.000.
18. 7% applies if it is paid to a bank or a relevant financial institution.
19. 10% applies on artistic, scientific and literary work.
20. 10 % applies if it is received by a company holding less than 25% of the share capital of the company issuing the dividend.
21. 10% applies on interest paid to a financial institution or on interest paid in connection with commercial, industrial or even scientific equipment
22. 10% applies on royalties in connection with commercial, industrial or even scientific equipment increases to 15% for patents, production processes or any other royalties arising from scientific research.
23. The rates apply when the payment it is made to a Cyprus Company by a Bulgarian resident which holds directly or indirectly less than 25% of a Cyprus company's share capital.
24. A rate of 5% if a dividend is paid by a company in which the beneficial owner has invested less than €150.000.
25. The provisions of the double tax treaty between the Republic of Cyprus and the former Socialist Federal Republic of Yugoslavia still apply. Bosnia also applies this provision.
26. 5% applies if it is received by a company which controls at least 10% of the voting rights.
27. Applies if it is received by a company owning directly 10% of the shares for an uninterrupted period of one year. In all other cases 5% applies.



## Cyprus double tax treaties

28. 10% applies for the following: patent, trade mark, design or model, plan, secret formula or process, computer software or industrial, commercial or scientific equipment, or for information concerning commercial, industrial or scientific experience.
29. Under this treaty provisions no withholding tax will apply, assuming that the company holds at least 10% of share capital and for a minimum shareholding period of 12 months, otherwise a 15% withholding applies.
30. The treaty between the Republic of Cyprus and the Czechoslovak Socialist Republic still applies.
31. The treaty is effective as from 1 of January 2018.
32. 15% applies if the investment is less than -100.000 and lower of 20% of the company's share capital.
33. 5% applies if the recipient is a company that owns at least 10 % of the company distributing the dividends, with voting rights in the company distributing the dividends. In all other cases a 15% applies.
34. 5% applies if the recipient is a company that owns at least 10 % of the company distributing the dividends. In all other cases a 10% applies.
35. 0% applies if the dividend is received by a company holding at least 10% of the issued share capital. 5% applies in all other cases.
36. The treaty between the Republic of Cyprus and the United Soviet Socialist Republic still applies.
37. 0% applies if the beneficial owner is a company which holds directly at least 10% on the capital of the company paying the dividends. 5% applies in all other cases.
38. 0% applies if the beneficial owner is a company which holds directly at least 10% on the capital of the company paying the dividends, where such holding is being possessed for an interrupted period of 24 months. 5% applies in all other cases.

# Cyprus double tax treaties

39. Nil withholding tax is applied on interests derived from deposits in financial institutions.
40. 0% applies if it is received by a company (other than a partnership) holding at least 10% of the share capital of the company issuing the dividend for a minimum shareholding period of 12 months, or if it is paid to the Government of any of the two contracting states, pension fund or any similar institution. 15% applies in all other cases.
41. The treaty is effective from 18 September 2015 but may apply retrospectively. 5% applies if the recipient is a company that owns at least 10 % of the company distributing the dividends. In all other cases a 10% applies.
42. 5% applies for royalties in respect of copyrights of scientific work, patent, trade mark, secret formula, production process or information relating to industrial, commercial or scientific experience. 10% applies in all other cases.
43. The treaty has been published in the Gazette but has not come into force until the time of publication of this guide.
44. 5% applies if the recipient is a company that owns at least 25 % of the company distributing the dividends. In all other cases a 10% applies.
45. It was formed a new treaty, which is expected to be effective not earlier than 1/1/2019.
46. It was formed a new treaty, which is not signed yet.
47. 0% applies if it is received by a company (other than a partnership). 10% applies in all other cases.
48. 0% applies if it is received by a company (other than a partnership) or by the government of any of the two contracting states. 10% applies in all other cases.
49. 0% applies if it is received by a company (other than a partnership). 5% applies in all other cases.
50. Other than the Double Tax Agreements which are presently in force, the conclusion of various other Agreements is pending. These Agreements are currently under negotiation.
51. 0% 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 for all other cases.

# Cyprus Tax diary 2019

|                   |   |
|-------------------|---|
| End of each month | <ul style="list-style-type: none"><li>• Payment of PAYE and special contribution deducted from the employees salary in the preceding month</li><li>• Payment of Special Defence Contribution withheld from rental payment, by a company, partnership, the state or local authority, in the preceding month</li><li>• Payment of special defence contribution on dividends and interest paid in the preceding month</li><li>• Payment of National Health System deductions and contributions</li></ul> |
| 31 January        | <ul style="list-style-type: none"><li>• Submission of deemed dividends distribution declaration (IR 623) for the tax year 2017</li></ul>  |
| 31 March          | <ul style="list-style-type: none"><li>• Electronic submission of 2017 tax returns for companies (IR 4)</li><li>• Submission of 2017 tax returns of individuals for which audited financial statements were prepared (with turnover exceeding €70.000).</li></ul>  |
| 30 April          | <ul style="list-style-type: none"><li>• Submission of the personal tax returns of individuals for 2018 (if gross income of employee or pensioner exceeds €19.500 ) (deadline will be extended by 3 months in case of electronic submission)</li><li>• Payment of provisional tax for the first four months of 2019 by life insurance Companies</li></ul>  |
| 30 June           | <ul style="list-style-type: none"><li>• Payment of special contribution of defence of rental income for the first half of 2019</li><li>• Submission of personal tax returns of individuals for the year 2018 without audited financial statements and for payments of the tax via self assessment (deadline will be extended by 3 months in case of electronic submission)</li></ul>  |
| 31 July           | <ul style="list-style-type: none"><li>• Electronic submission of employers return for the year 2018</li><li>• Submission of the provisional tax return and payment of the first instalment for 2019</li></ul>   |
| 1 August          | <ul style="list-style-type: none"><li>• Payment of the corporation tax and income tax for individuals preparing audited accounts, via self assessment of 2018</li></ul>   |
| 31 August         | <ul style="list-style-type: none"><li>• Payment of the provisional tax for the second four months of 2019 by life insurance companies</li></ul>   |
| 31 December       | <ul style="list-style-type: none"><li>• Payment of the second and last instalment for 2019 provisional tax</li><li>• Payment of the special contribution of defence of rental income for the second half of 2019</li><li>• Payment of provisional tax for the last four months of 2019 by life insurance companies</li></ul>  |

## Penalties

If the above mentioned deadlines are not kept penalties and interest are imposed. The interest rate has been set at 2% effective as from the 1st January 2019.

## **PKF International**

PKF International was formed in 1969 and it is a leading worldwide professional organization of auditors, accountants, tax advisers and management consultants. Through over than 400 member firms and correspondents in 300 locations in around 150 countries, PKF provides services to large and small businesses and individuals.

PKF International is a full member of the Forum of Firms - an organisation dedicated to consistent and high quality standards of financial reporting and auditing practices worldwide. PKF International is an association of legally independent firms.

## **PKF in Cyprus**

PKF is a major accounting and consulting organization in Cyprus. The professional services provided by the Cyprus firms are:

- Audit and business advisory services
- Advice on foreign and local investment
- Tax planning for companies and individuals
- Local tax compliance
- Establishment and administration of IBC's

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