



Cyprus Tax Facts 2025

Now, for tomorrow



Foreword

This publication provides general information about the Cypriot tax system, incorporating some useful notes and relevant tax figures, based on current tax legislation and practices. The tax information contained in this booklet is accurate as at the date of its publication.

The publication is limited for general guidance only and does not constitute professional tax advice. For any specific advice, the reader is encouraged to refer to the appropriate tax advisor. Contact details can be found at the end of this booklet.

All of us at Baker Tilly are here to assist you to develop an effective tax strategy consistent with your personal and corporate objectives. Our mission is to proactively use our expertise that we have gained over years, to help our clients to resolve their needs and problems and to manage their tax risks. Acting on behalf of our clients, our focus is to offer a single point of contact approach, enabling our clients to have all their tax requirements catered for through a single point of contact.

Baker Tilly

Cyprus

January 2025

An aerial photograph of a beach with waves crashing onto the shore. The water is a deep blue-green color, and the sand is light-colored. The waves are white and foamy as they break. The beach is wide and sandy, with some small rocks and debris visible. The overall scene is serene and natural.

Cyprus Tax Facts 2025

Table of contents

<u>Personal Income Tax</u>	4
<u>Corporate Income Tax</u>	10
<u>Funds</u>	23
<u>Shipping Companies – Tonnage Tax Regime</u>	24
<u>Transfer Pricing</u>	26
<u>Special Contribution for Defence</u>	30
<u>Capital Gain Tax</u>	32
<u>Inheritance Tax/Gift Tax</u>	33
<u>Value Added Tax</u>	34
<u>Immovable Property Tax</u>	42
<u>Transfer Fees by the Department of Land & Surveys</u>	43
<u>Levy Payable to the Central Agency for the Equal Distribution of Burdens Law</u>	44
<u>Stamp Duty</u>	45
<u>Annual Levy</u>	45
<u>Registration Fees / Capital Duty</u>	46
<u>Professional License Fee</u>	46
<u>Social Insurance</u>	47
<u>General Healthcare System</u>	47
<u>Provisions Regarding the Restructuring of non-Performing Loans</u>	48
<u>Reporting Obligation for Digital Platform Operators (DAC7)</u>	50
<u>Reporting Obligation for Cross-Border Transactions (DAC6)</u>	51
<u>Country-by-Country Reporting</u>	53
<u>Withholding Taxes on Payments to non-residents and Double Tax Treaty Tables</u>	55
<u>Tax Diary and Penalties for Late Submission/non-Payment of Taxes</u>	59
<u>About Baker Tilly</u>	63

Personal Income Tax

Basis Of Taxation

Tax Resident Individual

Tax residents of Cyprus are taxed on all chargeable income accrued or derived from all sources in Cyprus and abroad, and include:

- Profits from business
- Profits or other benefits* from any office or employment
- Dividends and interest**
- Rental income** and royalties
- Pensions and annuities

Non - Tax Resident Individual

Non-tax residents of Cyprus are taxed on certain income accrued or derived from sources in Cyprus, such as:

- Profits or other benefits* from any office or employment exercised in Cyprus
- Pensions derived from past employment exercised in Cyprus
- Rental income from immovable property located in Cyprus
- Gross income derived from the exercise of any profession or vocation in Cyprus, the remuneration of public entertainers

*Benefits in kind

Benefits in kind paid by an employer to or on behalf of its employee, such as housing, travelling, school fees, food allowances, the private use of cars by the employee etc. are taxable in the hands of the employees.

A detailed benefit in kind guidance which covers the various categories of benefits in kind and how these should be quantified has been issued by the Tax Department and it is applicable as of 1 January 2019.

*Other benefits

Loans or financial assistance from a company to an individual director, shareholder, or up to a second degree relative, are taxable as a monthly benefit in kind equal to 9% per annum on the amount of the loan or financial assistance, payable on a monthly basis by the company under the PAYE system.

**Passive interest income, dividend income and interest income

The passive interest income and dividend income derived by Cypriot tax residents is subject to Special Defence Contribution instead of income tax. The rental income derived by Cypriot tax residents is subject to both income tax and Special Defence Contribution (see below the relevant section relating to the Special Defence Contribution).

Tax Residency

183 Days – Tax Residency Test

An individual is considered as resident in Cyprus for income tax purposes if he/she stays physically in Cyprus for a period or periods exceeding 183 days in aggregate during a tax year.

60 Days – Tax Residency Test

An individual who does not remain in any other state for one or more periods which altogether exceed 183 days in the same tax year and who is not tax resident in any other state for the same tax year, may also be considered as tax resident of Cyprus for income tax purposes, provided that the following conditions are cumulatively met:

- he/she remains in Cyprus for at least 60 days during the tax year; and,
- he/she pursues any business in Cyprus and/or he/ she works in Cyprus and/or he/she is a director in a company tax resident in Cyprus at any time during the tax year; and,
- he/she maintains a permanent residence in Cyprus, which can be either owned or rented by him/her.

Personal Income Tax Rates

The following income tax rates apply to all individuals:

Chargeable income for the tax year	Tax Rate	Tax amount	Cumulative tax
€	%	€	€
First 19.500	Nil	Nil	Nil
From 19.501 – 28.000	20	1.700	1.700
From 28.001 – 36.300	25	2.075	3.775
From 36.301 – 60.000	30	7.110	10.885
Over 60.000	35		

The following special modes/rates of tax apply to certain sources of income:

Foreign pension income is taxed at the flat rate of 5% on amounts over €3.420. However, the taxpayer can elect, on an annual basis, to be taxed at the normal tax rates and bands set out above.

Cyprus source widow(er)'s pension is taxed at the flat rate of 20% on amounts over €19.500. However, the taxpayer can elect, on an annual basis, to be taxed at the normal tax rates and bands set out above.

The gross income derived by professionals, artists, and other public entertainers, including athletes, which are non-tax resident individuals is subject to withholding tax at the rate of 10%.

The gross amount of any royalty, premium, compensation or consideration for technical assistance derived from sources within Cyprus by any person who is not a tax resident is subject to withholding tax at the rate of 10%.

The carried interest/performance fee received as variable remuneration by individuals that are employed in Cyprus by an Alternative Investment Fund (“AIF”) Manager, a self-managed AIF or a company involved with the portfolio management of an AIF may be subject to income tax at the flat rate of 8%, with a minimum tax liability of €10.000 per annum, subject to conditions. This special mode of taxation is available for a period of 10 years in total, subject to the annual election of the individual.

Lottery winnings in excess of €5.000 from games of OPAP and from the National Lottery are subject to tax at the flat rate of 20%.

Tax credit for foreign tax

A double tax relief in the form of tax credit is granted in the cases where the foreign source income is taxed abroad. The tax credit is equal to the actual income tax paid on the foreign income and cannot exceed the amount of income tax payable in Cyprus on the said income. The double tax relief is granted unilaterally, even in the cases where there is no double tax treaty in force between Cyprus and the other jurisdiction.

Exemptions from Income Tax

Exemptions from Income Tax
Lump sum payment on retirement or commutation of pension, or a gratuity on death
Capital sums from life insurance policies, provident funds, medical schemes or an approved pension
Income from a scholarship or another educational endowment
Emoluments of foreign officers of an institution exercising an educational, cultural or scientific function
Emoluments of foreign diplomatic and consular representatives that are not citizens of Cyprus
Pensions and special grants under special legislation
Foreign exchange gains (realized and/or unrealized), unless they result from trading in currencies and/or currency derivatives
*Passive interest income (interest accruing to any person from the ordinary carrying on of any business or closely connected with such business is considered trading income and it is included in the calculation of taxable profit)
*Dividend income (unless it relates to a hybrid instrument – i.e. the dividend is allowed as a tax deduction in the jurisdiction of the dividend paying company)
Profits on disposal of shares or securities, as defined in the relevant circulars issued by the Tax Department
20% (capped at €8.550) or 50% from the remuneration derived from first employment in Cyprus (see more details below)
Profits from a foreign permanent establishment, unless the said permanent establishment directly or indirectly engages in more than 50% in activities that lead to investment income, and the foreign tax burden is substantially lower than the tax burden in Cyprus 100%
Remuneration for the rendering of salaried services outside Cyprus to an employer not resident in Cyprus or to a permanent establishment outside Cyprus of an employer resident in Cyprus, for a total aggregate period of more than 90 days in the year of assessment

**The passive interest income and dividend income derived by Cypriot tax residents is subject to Special Defence Contribution (see below the relevant section relating to the Special Defence Contribution).*

Exemption for the remuneration from first employment

20% exemption (Article 8(21)) – Old provisions

Based on the provisions of article 8(21), the 20% exemption (or €8.550, whichever is lower) applies on remuneration from any office or employment exercised in Cyprus by an individual who was resident outside Cyprus before the commencement of his/her employment. This exemption applies for a period of five years commencing from 1 January following the year of commencement of employment (provided the employment started during or after 2012).

In case the 50% exemption is claimed (see below), the 20% exemption does not apply.

20% exemption (Article 8(21A)) – New provisions

Based on the new provisions of the Law, the following will apply:

- From 26 July 2022, the provisions of article 8(21) will not be applicable and the provisions of the new article 8(21A) will apply.
- The individuals that are currently eligible for the exemption of 20% based on the provisions of article 8(21) of the ITL and are not eligible for the transitional provisions of the new Law, will continue to claim the exemption for the remaining years, without being affected by the provisions of the new Law.
- Based on the provisions of article 8(21A), the exemption of 20% (or €8.550, whichever is lower) will be granted to individuals that take up first employment in Cyprus, provided that during the 3 years preceding their employment they were exercising their employment outside Cyprus for a non-Cypriot resident employer. The exemption will be granted for 7 years, starting from the tax year which follows the year of employment in Cyprus.

50% exemption (Article 8(23)) – Old provisions

Based on the provisions of article 8(23), the 50% exemption applies on remuneration exceeding €100.000 per annum from any office or employment exercised in Cyprus by an individual who was tax resident outside Cyprus prior to the commencement of employment.

This exemption applies for the first ten years of employment. The 50% exemption is not available to an individual whose employment commenced on or after 1 January 2015, if such individual was:

- tax resident of Cyprus for a period of three out of the five years preceding the year of employment; or,
- tax resident of Cyprus in the year preceding the year of commencement of employment.

50% exemption (Article 8(23A)) – New provisions

Based on the new provisions of the Law, the following will apply:

- For employments starting after 1 January 2022, the provisions of article 8(23) will not be applicable and the provisions of the new article 8(23A) will apply.
- The individuals that are currently eligible for the exemption of 50% based on the provisions of article 8(23) of the ITL and are not eligible for the transitional provisions of the new Law, will continue to claim the exemption for the remaining years, without being affected by the provisions of the new Law.

- Based on the provisions of article 8(23A), the 50% exemption from income tax for the individuals that take up first employment in Cyprus will be granted subject to the following conditions:

- The exemption will be granted in any tax year in which the remuneration from employment in Cyprus exceeds the amount of €55.000, provided that during the first or second year of employment the remuneration exceeded the amount of €55.000 per annum.
- The exemption will be granted if the individual was not a resident of Cyprus for 15* consecutive years prior to his/her employment.
- The exemption will be granted in the cases where the first employment in Cyprus will commence on or after 1 January 2022.
- The exemption will be granted for a period of 17 years starting from the year of employment in Cyprus.

**Subject to conditions, the exemption is also granted to individuals that were not resident in Cyprus for 10 consecutive years prior to their employment.*

Local, national or global: compliance is key.

Our tax experts are here to help you keep on the right side of it.

Transitional provisions for the 20%/50% exemptions based on the amendments made to the Law

The following transitional provisions are included in the amendments made to the Law:

- The individuals who were not Cypriot tax resident during any of the 15 (or 10 – subject to conditions) years preceding the year of employment will be eligible to claim the 50% exemption during any tax year in which their remuneration exceeds the amount of €55.000, starting from the year 2022 until the completion of 17 consecutive years from the year of their employment, provided that they meet one of the following conditions:
 - They were eligible for the 50% exemption based on the provisions of Article 8(23) of the ITL and they have a continuous employment in Cyprus starting from the year of employment until the tax year 2021; or,
 - Their first employment in Cyprus commenced during the years 2016 until 2021 with a remuneration exceeding the amount of €55.000 per annum; or,
 - Their first employment in Cyprus commenced during the years 2016 until 2021 with a remuneration not exceeding the amount of €55.000 per annum, and within 6 months from 26 July 2022 their remuneration will exceed the amount of €55.000 per annum (subject to conditions).

A circular providing certain clarifications regarding the above provisions and practical examples was issued by the Cypriot Tax Authorities.

Tax deductions

Deduction	Amount
Deemed deduction for expenses on property deriving rental income	20% of gross rental income
Interest paid in respect of rented property	Full amount
Capital Allowances for Rental Income on Cost of Residential Buildings	3%
Subscriptions/contributions to unions or professional associations	Full amount
Donations to approved charitable institutions, supported by receipts	Full amount
Social insurance contributions	Up to 1/5 of taxable income before the deduction of these allowances
*Life insurance premiums (maximum 7% of the capital sum insured)	
Contributions to approved provident funds (maximum 10% of remuneration)	
Contributions to pension funds	
Contributions to medical funds (maximum 2% of remuneration)	
Contributions to the General Healthcare System	Restricted to 50% of the taxable income (after deductions) of the tax year in which the expenses are incurred, or €150.000 per year (whichever is lower). Any restricted costs can be carried forward and utilised over the following five years
Expenditure incurred to finance a small or medium sized “innovative business” (subject to conditions).	

**In the case of cancellation of a life insurance policy within 6 years from the day of its issue, a percentage of the premiums, which were previously allowed, is taxable as follows:*

- Cancellation within 3 years restricted to 30%.
- Cancellation from 4 to 6 years restricted to 20%.
- Cancellation from 7 years onward no restriction.



bakertilly

Now, for tomorrow

Corporate Income Tax

Basis Of Taxation

Tax Resident Company

A Cypriot tax resident company is taxed on its income accrued or derived from all chargeable sources in Cyprus and abroad.

Non – Tax Resident Company

A non-Cypriot tax resident company is taxed on certain income accrued or derived from business activities carried out through a 'permanent establishment' and on certain income arising from sources in Cyprus.

The term 'permanent establishment' describes a fixed place of business through which the business of an enterprise is wholly or partly carried on. The term 'permanent establishment' includes, amongst others, a place of management, a branch, an office, a factory and/or a workshop, as well as certain places of extraction of natural resources.

Tax Residency

Management and control test

A company is considered as resident in Cyprus for corporate tax purposes if its management and control is exercised in Cyprus.

In general and in line with international tax principles, the following conditions are usually considered to determine whether a company is managed and controlled from Cyprus and hence whether it may qualify as a tax resident of Cyprus:

- All strategic (and preferably also day-to-day) management decisions are taken in Cyprus by the directors exercising their duties from Cyprus. This is usually achieved by having meetings of the Board of Directors take place in Cyprus and signing contracts, agreements and other relevant company documents relating to the management, control and administrative functions of the company in Cyprus.

- The majority of the directors of the company are preferably tax resident in Cyprus and they exercise their office from Cyprus. These directors should be sufficiently qualified with prior experience in the related industry.
- An actual administrative office is maintained in Cyprus, through where the actual management and control of the company is exercised.
- Hard copies of commercial documentation (agreements, invoices, etc.) are stored in the office facilities of the company.
- The bank accounts of the company are operated from Cyprus, even if the accounts are maintained with banks established outside Cyprus.
- Accounting records of the company are prepared and kept in Cyprus.

Incorporation test

As from 31 December 2022, any company incorporated or registered in Cyprus whose management and control is exercised outside Cyprus will still be considered as tax resident of Cyprus, unless this company is considered as tax resident in any other state.

Corporate Tax Rate

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

In the case of insurance companies, where the corporation tax payable on taxable profit of the life insurance business is less than 1,5% of the gross premium, the difference is paid as additional corporation tax.

Tax credit for foreign tax

A double tax relief in the form of tax credit is granted in the cases where the foreign source income is taxed abroad. The tax credit is equal to the actual corporation tax paid on the foreign income and cannot exceed the amount of corporation tax payable in Cyprus on the said income. The double tax relief is granted unilaterally, even in the cases where there is no double tax treaty in force between Cyprus and the other jurisdiction

Exemptions from Corporation Tax

Exemptions from Corporation Tax
Income of any religious, charitable or educational institution of a public character
Income of any co-operative society in respect of transactions between its members
Income of any local authority
Income of any approved pension scheme or provident fund or any insurance fund
Income of any company formed exclusively for the purpose of promoting art, science or sport
Foreign exchange gains (realized and/or unrealized), unless they result from trading in currencies and/or currency derivatives
*Passive interest income (interest accruing to any person from the ordinary carrying on of any business or closely connected with such business is considered trading income and it is included in the calculation of taxable profit)
**Dividend income (unless it relates to a hybrid instrument – i.e. the dividend is allowed as a tax deduction in the jurisdiction of the dividend paying company)
Profits on disposal of shares or securities, as defined in the relevant circulars issued by the Tax Department
Profits from a foreign permanent establishment, unless the said permanent establishment directly or indirectly engages in more than 50% in activities that lead to investment income, and the foreign tax burden is substantially lower than the tax burden in Cyprus 100%

*The passive interest income derived by Cypriot tax resident companies is subject to Special Defence Contribution (see below the relevant section relating to the Special Defence Contribution).

**In case the dividend relates to a hybrid instrument, the dividend income will be subject to Special Defence Contribution.

Tax deductions

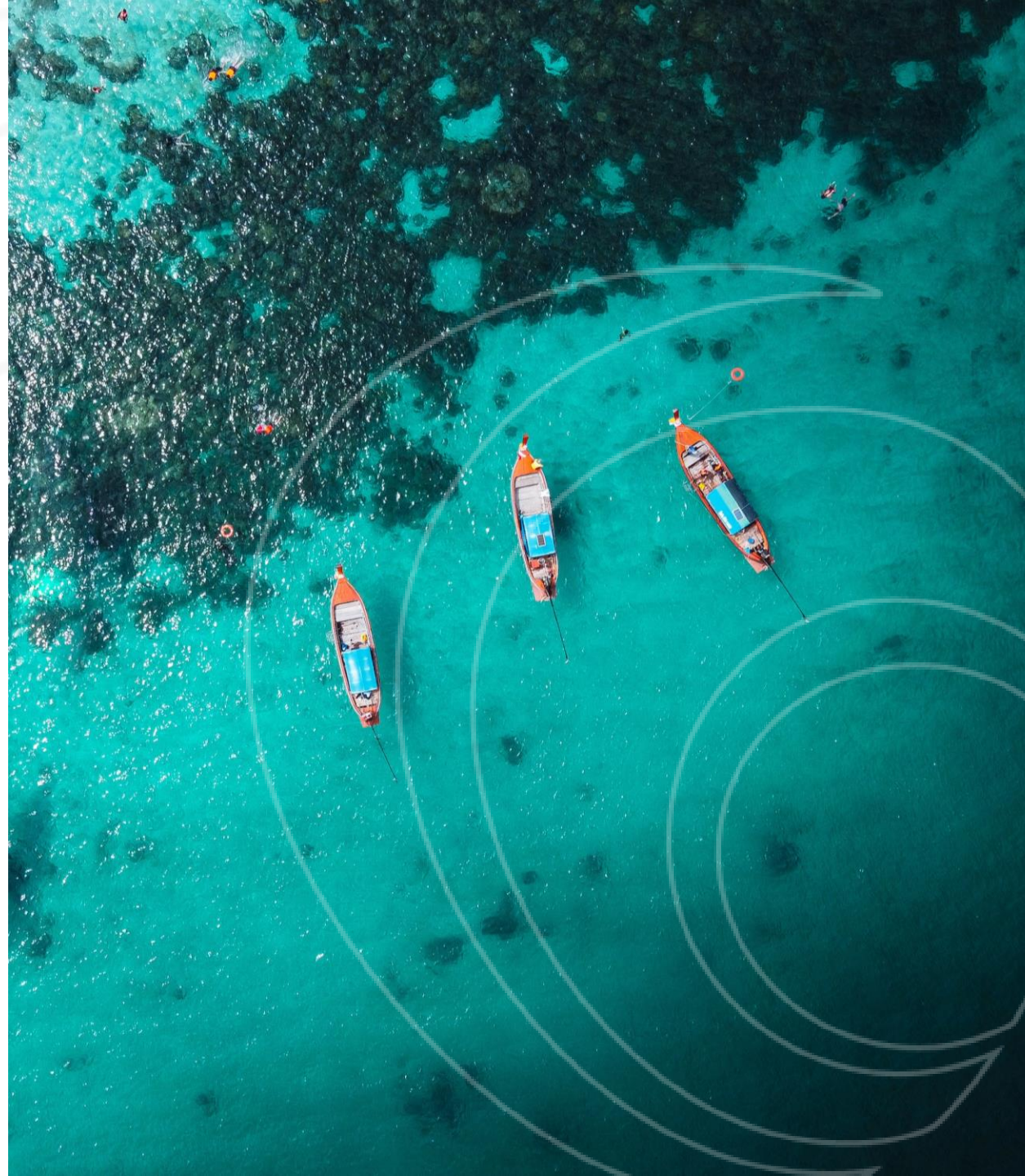
In general, the expenses incurred wholly and exclusively in the course of the business, for the production of taxable in-come and supported by documentary evidence, are deductible for corporate tax purposes, including the following:

Deduction allowed for Companies	Amount
Expenditure on patents, patent rights or intellectual property rights	Full amount
Expenditure incurred for research and development. An increased deduction by 20% is provided for the years 2022, 2023 and 2024 (subject to conditions)	Full amount (plus increased deduction of 20% for 2022, 2023 and 2024)
30% of the expenditure incurred to finance a small or medium sized "innovative business" (subject to conditions)	Restricted to 50% of the taxable income (after deductions) of the tax year in which the expenses are incurred, or €150.000 per year (whichever is lower). Any restricted costs can be carried forward and utilised over the following five years
Business entertaining expenses	Lower of €17.086 or 1% of the gross income of the business
Donations or contributions made for educational, cultural or other charitable purposes (with receipt)	Full amount
<u>Employer's contributions to:</u> Social insurance General Healthcare System Approved provident/pension funds Medical funds	Full amount Full amount Maximum 10% of the remuneration of the employee) Full amount

Deduction allowed for Companies	Amount
Specific provisions for bad debts	Full amount
Contributions to a fund approved under regulations for educational purposes and maintenance of an individual attending any university, college, school or other educational institution	Full amount
Interest expense incurred for the acquisition of an asset used in business that generate taxable income	Full amount
As from 1 January 2012, interest expense incurred for the direct or indirect acquisition of 100% of the share capital of a subsidiary company, provided that the 100% subsidiary does not own (directly or indirectly) any assets that are not used in the business.	Full amount unless the subsidiary owns (directly or indirectly) assets not used in the business (in which case the interest expense deduction is restricted to the amount which relates to assets used in the business). Furthermore, as of 1 January 2019, the interest limitation rules regarding the deductibility of interest expense should also be considered (please see below section 'EU Anti-Tax Avoidance Provisions')
Royalty income, embedded income and other qualifying income derived from qualifying intangible assets based on the provisions of the IP Box Regime (please see below section IP BOX REGIME)	80% of the net profit (calculated using the nexus approach)
Tax amortisation on any expenditure of a capital nature for the acquisition or development of IP	Allocated over the useful life of the IP (maximum period 20 years)
Expenditure on repair of premises, plant, machinery and means of transport	Full amount

Deduction allowed for Companies	Amount
Expenditure incurred for the maintenance, preservation, restoration of an ancient monument	Up to €700, €1.100 or €1.200 per square meter (depending on the size of the building).
Expenditure incurred to conduct a study by an approved professional to upgrade/improve the energy efficiency of a building used by the business or for the issuance of an energy savings certificate	Full amount
As of 1 January 2015, new equity introduced to a company may be eligible for a notional interest deduction ("NID"). The NID equals the multiple of the 'reference interest rate' and new equity. 'Reference interest rate' means the yield of the 10-year government bond (of the preceding year) of the country in which the new equity is invested, increased by a premium of 5%. Certain anti-avoidance provisions also apply.	$NID = \text{new equity} \times \text{reference interest rate}$ The NID cannot exceed 80% of the taxable profit derived from the assets financed by the new equity.

Deductions Not Allowed
Domestic or private expenses including the cost of travelling between the place of residence and the place of work
Rent of premises owned and used by the person carrying on a business
Remuneration or interest on capital paid or credited by the person carrying on a business
Cost of goods taken out of the business for private use
Disbursements or expenses not incurred wholly or exclusively for the generation of taxable income
Any sum employed or intended to be employed as capital
Expenditure for improvements, alterations or additions to immovable property (these costs are capitalized and are subject to capital allowances – see below the relevant table)
Sums recoverable under an insurance or contract of indemnity
Rent or cost of repairs of premises not incurred for the generation of taxable income
Any amount relating to the payment of taxes or professional tax
Payments of a voluntary nature (other than payments made to approved funds)
Expenses relating to the use of a private motor vehicle
Business entertaining expenses (in excess of 1% of gross income or €17.086, whichever is lower)
Interest applicable to the cost of purchase of a private motor vehicle or any other asset not used in the business (based on the provisions of the law, this restriction does not apply after the lapse of seven years from the date of purchase of the relevant asset)
Salaries for which contributions in respect of provident funds, pension funds, social security and other related funds were not paid within the year due for payment. If paid within two years from the due date, the salaries and the related contributions will be allowed as a tax-deductible expense in the year of payment
Foreign exchange losses (realized and/or unrealized), unless they result from trading in currencies and/or currency derivatives



Annual Wear and Tear Allowances on Tangible Fixed Assets

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

	Percentage %
Plant & Machinery	
Acquired in the years 2012–2018	20
Acquired in the years 2023–2026 and connected to renewable energy systems and/or to investments in other technical systems to improve energy efficiency	20
Otherwise	10
Furniture & Fittings	10
Buildings	
Capital expenditure incurred during the years 2023–2026 to improve the energy efficiency of a building	7
Commercial and other Buildings (maximum 33 Years)	3
Hotel and industrial buildings	
Acquired in the years 2012–2018	7
Otherwise (maximum 25 years)	4
Agricultural buildings	
Acquired in the years 2017–2018	7
Otherwise (maximum 25 years)	4
Computer Hardware & Operating Software	20
Application software:	
If not exceeding €1.710	100
If exceeding €1.710	33,3

	Percentage %
Boats	
Sailing Vessels	4,5
Steamers, Tugs & Fishing Boats	6
Ship Motor Launches	12,5
New Cargo Vessels	8
New Passenger Vessels	6
Other	
Photovoltaic Systems	10
Wind Power Generators	10
Tools in General	33,3
Vehicles & Means of Transport	
Motor vehicles other than saloon cars	20
Commercial electric vehicles other than saloon cars acquired in the years 2023–2026	33,3
Tractors, Trenchers, excavators, Bulldozers, Transcavators, Self-Propelled Sholves & Loaders, Drums, Oil Tanks	25
New Airplanes	8
New Helicopter	8

Our experts work through the complexities of taxation.

No matter where you operate, we'll help you stay compliant with the ever-changing regulatory changes.

Tax Losses

Set-off losses against profits of the same year

The amount of any loss which, if a gain or profit would be subject to tax, is set off against the income of that person from other sources for the same year of assessment. The loss is computed in the same way as computing the profit.

Carry forward of losses

Where the amount of a loss cannot be wholly set off against the person's income from other sources for that year of assessment, the amount of such loss, to the extent to which it is not set off, is carried forward and is set off against the income of such person for the next five (5) subsequent years.

No carry back of losses is allowed

Under the provisions of the Law the carry back of losses is not allowed.

Losses of a business carried on outside Cyprus

Losses incurred by any person from any business carried on outside the Republic, whether through a permanent establishment or not, is allowed as a deduction from such person's income from other sources for the same year. To the extent that it cannot be wholly set off in this way, the remaining amount of such loss is carried forward and set off against such person's income for subsequent years.

Surrendering of losses

Losses may be surrendered by a company resident in Cyprus (the "surrendering company") to another company resident in Cyprus (the "claimant company").

Definition of a group

Two companies are deemed to be members of a group if:

- one is at least 75% subsidiary of the other; or
- both, each one separately, are at least 75% subsidiaries of a third company.

Set-off of group loss

Group companies may be a mixture of resident or non- resident companies, provided the non-resident company owns at least 75% of the resident company.

As from 1 January 2015, the group loss relief provisions are extended to cases where a subsidiary company which is tax resident in another EU member state, can surrender its taxable losses to another group member company tax resident in Cyprus, provided the subsidiary has exhausted all the means of surrendering or carrying forward the losses in its member state of residence, or to any intermediary holding company.

IP Box Regime

Old IP Box Regime

The provisions of the Old IP Box Regime expired on 30 June 2021.

New IP Box Regime

The provisions of the new IP Box Regime are applicable as of 1 July 2016.

Based on the provisions of the new IP Box Regime, 80% of the overall profit derived from the business use of a qualifying intangible asset is treated as tax deductible (subject to conditions).

The calculation of the qualifying profits subject to the 80% tax deduction is based on the 'nexus approach' and is outlined below:

$$\begin{array}{ccc} \text{Qualifying Expenditure + Uplift expenditure} & & \text{Overall Profit} \\ \hline & \times & \downarrow \\ \text{Total Expenditure} & & \text{Qualifying Income – Direct Costs} \end{array}$$

Every year the taxpayer may elect not to claim the whole or part of this allowance. In the case of a resulting loss, only 20% of the loss can be surrendered to other group companies or be carried forward to subsequent years.

Qualifying Income

“Qualifying Income” includes, but is not limited to the following:

- Royalties or other amounts in connection with the use of qualifying intangible asset
- Any amount for a license for the operation of qualifying intangible asset
- Any amount received from insurance or as compensation in relation to the qualifying intangible asset
- Capital gains and other income from the sale of qualifying intangible asset
- Embedded income of qualifying intangible asset arising from the sale of products or by using procedures that are directly related to this item

Overall Profit

“Overall profit” arising from the qualifying intangible asset means the gross income accrued within the tax year, less the direct costs for generating such income.

Qualifying intangible assets

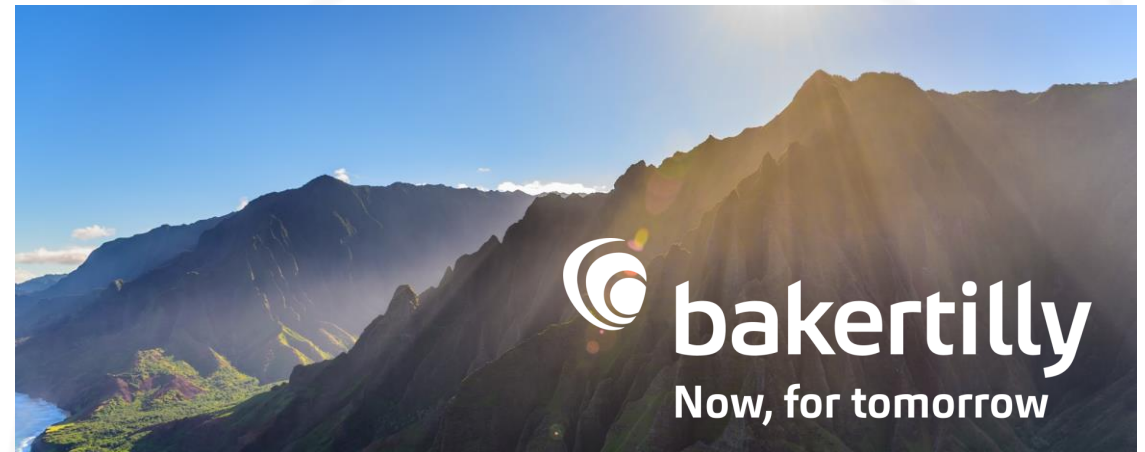
“Qualifying intangible asset” means an asset which was acquired, developed or exploited by a person in furtherance of his business, (excluding intellectual property associated with marketing) and which is the result of research and development activities and includes intangible assets for which only economic ownership exists.

These assets are:

- patents as defined in the Patents Law
- computer software
- other IP assets which are legally protected and they fall under one of the following:
 - utility models, intellectual property assets which provide protection to plants and genetic material, orphan drug designations and extensions of protections for patents;
 - non-obvious, useful, and novel, where the person which utilizes them in furtherance of a business does not generate annual gross revenues exceeding €7.500.000 (in case of a group of companies not exceeding €50.000.000), which are certified as such by an Appropriate Authority in Cyprus or abroad.

Qualifying expenditure

“Qualifying expenditure” for qualifying intangible asset is the sum of total research and development costs incurred in any tax year, wholly and exclusively for the development, improvement or creation of qualifying intangible assets and which costs are directly related to the qualifying intangible assets. The table in the next page summarizes the qualifying and non-qualifying expenditure.



Qualifying expenditure
Wages and Salaries
Direct Costs:
➤ All direct and indirect costs incurred in earning the income from the qualifying intangible asset
➤ The amortization of the cost of the intangible
➤ Notional interest on equity contributed to finance the development of the qualifying intangible asset
General expenses relating to installation used for research and development
Expenses for supplies related to research and development activities
Costs associated with research and development that has been outsourced to non-related person
Non-Qualifying expenditure
Cost for the acquisition of intangible assets
Interest paid or payable
Costs relating to the acquisition or construction of immovable property
Amounts paid or payable directly or indirectly to a related person to conduct research and development activities, regardless of whether these amounts relate to cost sharing agreement
Costs which cannot be proved directly connected to a specific eligible intangible asset

An up-lift expenditure will be added to the 'qualifying expenditure'. The uplift is the lower of:

- 30% of the 'qualifying expenditure', or
- The total expenditure incurred for the development/acquisition of the 'qualifying intangible asset'.



Reorganizations

Transfers of assets and liabilities between companies can, subject to conditions, be effected without tax consequences within the framework of a reorganization and tax losses can be carried forward by the receiving entity.

Types of reorganizations:

- Merger
- Division
- Partial division
- Transfer of assets
- Exchange of shares
- Transfer of registered office of a European company ("SE") or a European cooperative company ("SCE").

There are certain anti-avoidance provisions for reorganizations which provide that a reorganization would only be eligible to qualify as tax-free, where the Commissioner is satisfied that such a reorganization has commercial or financial purpose.

EU Anti-Tax Avoidance Provisions

Cyprus has implemented in its legislation all the provisions of the EU Anti – Tax Avoidance Directive, with some of the provisions being introduced as from 2019 and others in 2020.

Interest Limitation Rules

The Interest Limitation Rules apply as from 1 January 2019.

Application

The interest limitation applies to:

- Companies which are tax residents of Cyprus
- Permanent establishments ("PEs") of companies which are tax resident in another EU member state or a third country.

- Each company separately, unless it relates to companies/PEs belonging to a Cypriot Group.
- A Cypriot Group is defined the same way as for group loss relief purposes plus PEs in Cyprus belonging to non-resident companies (i.e. a minimum shareholding of 75% is required).

The limitation does not apply to:

- Standalone companies
- Financial institutions
- To companies with exceeding borrowing cost below €3.000.000

Maximum deduction

The maximum amount which can be claimed is the higher of:

- the actual amount of the 'exceeding borrowing costs' if below €3 million;
- 30% of the taxable income before exceeding borrowing costs, taxes, depreciation and amortisation of assets ('Taxable EBITDA').

'Taxable EBITDA' is defined as the total of net taxable income (calculated as per the Cypriot income tax laws) increased by the exceeding borrowing costs, the depreciation and amortization of fixed assets and intangibles and the notional deduction of 80% on the gross profit as a result of the Intellectual Property ("IP") Box regime. Losses brought forward are not taken into consideration nor group loss relief.

'Exceeding borrowing costs' is defined as the excess of borrowing costs over interest income and other economically equivalent taxable revenues.

The definition of "borrowing costs" is based on the provisions of the ATAD, i.e., interest expense on all forms of debt, other costs economically equivalent to interest, as well as expenses incurred in relation with the raising of finance. There is no distinction on the deductibility based on who is the lender/creditor and the rule applies to both interest under intra-group and third-party loans alike.

The following are not included in exceeding borrowing costs:

- Notional Interest Deduction (“NID”)
- Financial costs resulting purely by applying International Accounting Standards when not relating to finance leases
- Interest costs not tax deductible under section 11 of the income tax laws
- Interest income exempt from taxation as provided in the income tax laws
- If interest income exceeds interest expense, then there is no restriction

For Cypriot groups, the exceeding borrowing costs mean total tax-deductible interest costs less total taxable interest income of the members of the Cypriot Group. The interest limitation is apportioned between the members of the Cypriot Group on the basis of their exceeding borrowing costs.

Exclusions

The law contains a grandfathering clause according to which interest on loans that were concluded before 17 June 2016, is excluded from the borrowing cost definition, but the grandfathering will not apply to any subsequent modifications of such loans. The law also excludes interest on loans used to fund long term public infrastructure projects where the operator, borrowing costs, assets and income are all located in the EU.

The law also excludes interest on loans used to fund long term public infrastructure projects where the operator, borrowing costs, assets and income are all located in the EU.

Carry forward of excess borrowing costs / unused interest capacity

The law allows the possibility for the taxpayer to carry forward exceeding borrowing costs for a tax year for the next 5 years.

As a result, if a taxpayer’s exceeding borrowing costs during a given financial year are below 30% of its taxable EBITDA, it may still deduct, in addition to the exceeding borrowing costs of the current financial year, those exceeding borrowing costs that were not deductible in previous financial years (within the limits of the 30% EBITDA limit of the same year).

Furthermore, the law allows for a five-year carry forward of unused interest capacity, i.e., the amount by which 30% of taxable EBITDA exceeds the amount of exceeding borrowing costs. The unused interest capacity does not take into account the limit of €3 million.

Controlled Foreign Corporations (“CFC”)

The CFC Rules apply as from 1 January 2019.

Definition

A CFC is defined as a company not tax resident in Cyprus or a permanent establishment (“PE”) outside Cyprus of a company tax resident in Cyprus, whose income is not taxable or exempt in Cyprus if the following two conditions are met:

- In the case of a non-Cypriot tax resident entity, the Cypriot tax resident company (“the Controlling Entity”), alone or together with its associated enterprises (companies with more than 25% participation), holds a direct or indirect participation of more than 50% in such entity. The threshold is determined in terms of participation in the share capital, voting rights or the entitlement to profits.
- The company or PE is low-taxed, i.e., the income tax it pays is lower than 50% of the Cypriot corporate income tax that it would have paid by applying the provisions of the Cypriot income tax law.

At Baker Tilly we believe that when it comes to tax planning, clients need more than technical guidance.

They need a firm that combines technical knowledge with a personal commitment to client service and a unique understanding of client needs.

Application of CFC rules

A Cypriot Controlling Entity is obliged to add to its taxable income the profits of losses of the CFC provided all the following conditions are satisfied:

- the CFC has undistributed profits to the extent that such profits would be taxable in Cyprus;
- the arrangements between the Controlling Entity and the CFC are not genuine arrangements and which have been put in place in order to take tax advantage;
- The Controlling Cypriot Entity or persons related to the Controlling Cypriot Entity company based in Cyprus exercise the functions of significant persons, which functions actually contribute to the generation of the income of the CFC.

This does not apply in the case of the CFC whose accounting profits:

- do not exceed €750.000 and the passive income does not exceed €75.000; or
- do not exceed 10% of its operating costs for the tax period.

Effectively the above limit the application of the CFC rules to entities that were not able to generate the income themselves, (considering the assets owned and the risks assumed), and in relation to which the significant people functions are carried out by the controlling Cypriot entity or persons in Cyprus.

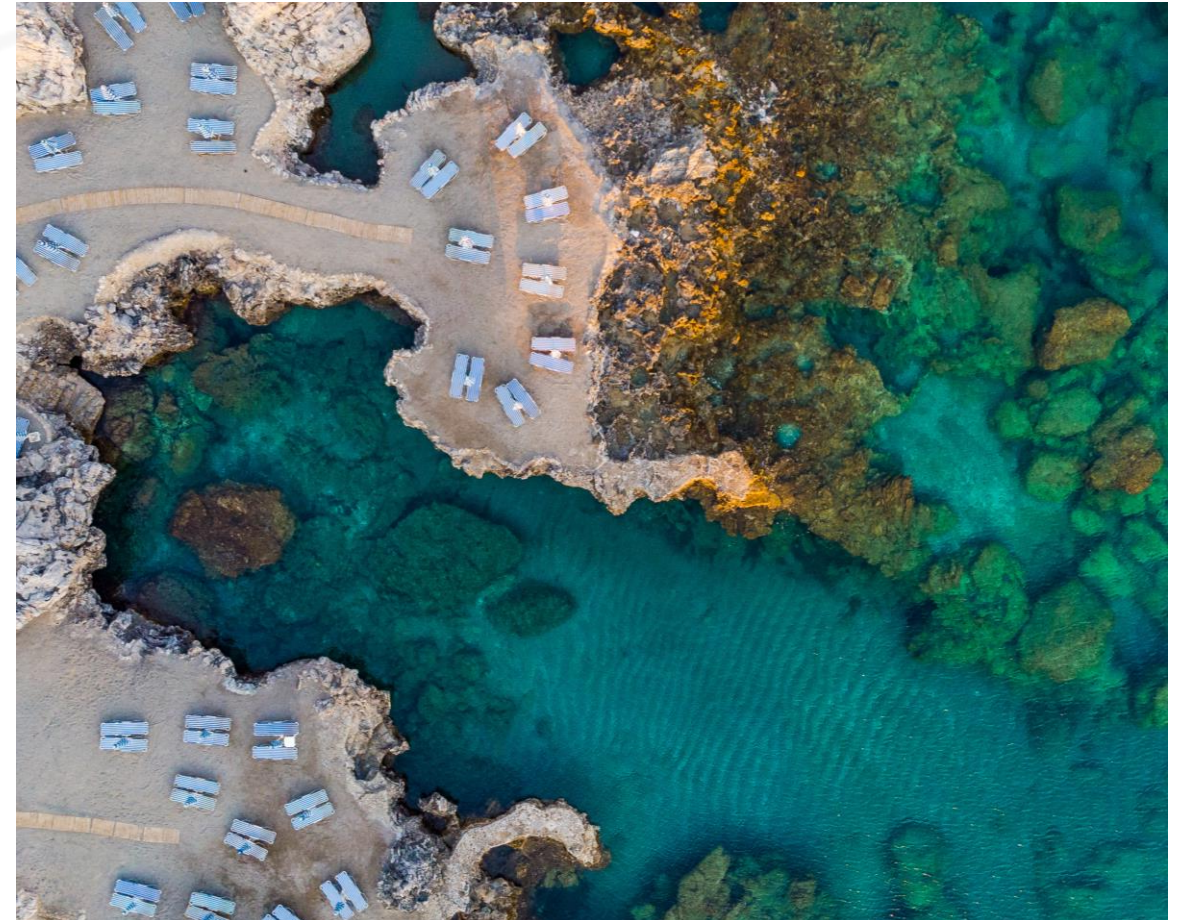
CFC's income to be included

- The income to be included is the income of the CFC not distributed to the Controlling Entity within the same tax year or within the 7 months following the year end.
- The income to be included in the tax base is calculated in accordance with IFRS or other accepted accounting standards.
- The income to be included in the tax base is calculated in proportion to the entitlement of the taxpayer to receive profits of the entity.
- The income is included in the tax year in which the tax year of the entity ends.

Avoidance of double taxation – credit for foreign tax paid

Where the CFC's profits are subject to the CFC rules and are included in the Controlling Entity's taxable income, any foreign tax paid on the CFC profits is given as a tax credit against the Cypriot tax on the basis of the provisions of sections 35 and 36 of the income tax law.

Foreign tax includes (1) profits tax paid by the CFC, (2) withholding tax on income received by the CFC and (3) tax resulting from the CFC rules applied in another jurisdiction based on similar CFC rules like Cyprus.



Exit Taxation

The Exit Taxation Rules apply as from 1 January 2020.

A Cypriot tax resident company or a company tax resident in another jurisdiction with a permanent establishment in Cyprus which moves assets or its tax residency out of the tax jurisdiction of Cyprus shall be subject to tax on an amount equal to the market value of the transferred assets at the time of exit, less their value for tax purposes.

The above applies in any of the following circumstances:

- A company tax resident of Cyprus transfers assets from its head office to a permanent establishment that maintains in another Member State or in a third country, in so far as Cyprus no longer has the right to tax the transferred assets.
- A non-tax resident company with a permanent establishment in Cyprus transfers assets from the permanent establishment to its head office or another permanent establishment that it maintains in another Member State or in a third country, in so far as Cyprus no longer has the right to tax the transferred assets.
- A tax resident of Cyprus transfers its tax residence to another Member State or to a third country, except for those assets which remain effectively connected with a permanent establishment in Cyprus.
- A non-tax resident company with a permanent establishment in Cyprus transfers the business carried on by its permanent establishment to another Member State or to a third country in so far as Cyprus no longer has the right to tax the transferred assets.

The payment of the exit taxes can be deferred to be paid in several instalments within a period of 5 years, provided that the assets or tax residency are transferred to another Member State or to a third country that is party to the agreement on the European Economic Area (EEA).

Hybrid mismatches

The Hybrid Mismatches provisions apply as from 1 January 2020 and the Reverse Hybrid Mismatches rule provisions apply as from 1 January 2022.

The hybrid mismatch rules aim to prevent Cypriot tax resident entities and Cypriot permanent establishments of foreign tax resident entities, from avoiding income tax by obtaining a double non-taxation benefit that is derived from the exploitation of differences between the tax treatment of entities and instruments across different countries.

The main provisions of the Hybrid Mismatch rule provide the following:

- a. To the extent that a hybrid mismatch results in a double deduction:
 - The deduction in the hands of the investor that is a tax resident of Cyprus is not granted;
 - In the cases where the deduction is granted in the tax jurisdiction of the investor that is not a tax resident of Cyprus, the deduction in the hands of the payer who is a tax resident of Cyprus is not granted.
- b. To the extent that a hybrid mismatch results in a deduction without inclusion:
 - The deduction in the hands of the payer that is tax resident in Cyprus is denied;
 - In the cases where the payer is not a tax resident of Cyprus and the deduction is not denied in the payer's jurisdiction, the amount that would otherwise give rise to a mismatch outcome shall be included in the tax-able income of the recipient in Cyprus.
- c. In addition to the above, certain other specific provisions that cover various other hybrid mismatches were also introduced in the legislation.
- d. The provisions relating to notional interest deduction on new equity as per the section 9B of the law do not fall within the scope of the provisions for Hybrid Mismatches as discussed above.

e. Reverse hybrid mismatches.

- Where one or more associated non-tax resident entities holding in aggregate a direct or indirect interest in 50% or more of the voting rights, capital interests or rights to a share of profit in a hybrid entity that is incorporated or established in Cyprus are located in a jurisdiction or jurisdictions that regard the hybrid entity as a taxable person, the hybrid entity shall be regarded as a Cypriot tax resident and taxed on its income under income tax and special defence contribution, to the extent that that income is not otherwise taxed under the laws of Cyprus or any other jurisdiction.

f. Dual residency mismatch.

- In case that a tax resident of Cyprus is also a tax resident of another jurisdiction, to the extent that a deduction is granted for payment, expenses or damages from the taxable income of this company both in Cyprus and in the other jurisdiction, then irrespective of any other provisions of the income tax law, the relevant deduction will not be granted in Cyprus to the extent that the other jurisdiction allows the deduction against income that is not dual-inclusion income.
- It is noted that, if the other jurisdiction is a Member State with which Cyprus has entered into an agreement for the avoidance of double taxation, then the company is not considered a tax resident of Cyprus and the deduction is not granted in Cyprus.



Funds

The Cyprus Alternative Investment Funds ("AIFs") and Undertakings for Collective Investment in Transferable Securities ("UCITS")

Definition of AIFs

An AIF is defined as a collective investment undertaking, raising external capital from a number of investors with a view to investing it in accordance with a defined investment policy for the benefit of those investors.

The AIF Law allows for the creation of the following three types of AIFs in Cyprus:

- AIFs with Limited Number of Persons (up to 50) ("AIF- LNPs")
- AIFs with Unlimited Number of Persons ("AIF-UNPs")
- Registered AIFs ("RAIFs")

AIFs can take the following legal forms and may be established with limited or unlimited duration:

AIF-LNPs:

- Variable Capital Investment Company ("VCIC")
- Fixed Capital Investment Company ("FCIC")
- Limited Partnership ("LP")

AIFs / RAIFs:

- Variable Capital Investment Company ("VCIC")
- Fixed Capital Investment Company ("FCIC")
- Common Fund ("CF")
- Limited Partnership ("LP")

Definition of UCITS

An Undertaking for Collective Investment in Transferable Securities ("UCITS") is defined as a collective investment undertaking whose sole aim is the collective investment in transferable securities and/or other liquid financial instruments, of capital raised from the public, and which operates on the principle of risk-spreading and whose units are, at the request of holders, repurchased or redeemed, directly or indirectly out of the UCITS' assets.

UCITS can take the following legal forms:

- Variable Capital Investment Company ("VCIC")
- Common Fund ("CF")

Key tax highlights from the operation of Funds

- Funds which are opaque/ non-transparent for tax purposes and which are managed and controlled in Cyprus (or incorporated in Cyprus and not considered tax resident in any other jurisdiction) are tax resident in Cyprus and are subject to the provisions of the Cyprus tax framework.
- In the case of funds which have compartments, any compartment is assessed separately for tax purposes subject to the provisions of the Cyprus Tax law.
- Under circumstances and depending on the legal form of the fund, some funds may be transparent for tax purposes.
- Any subscription, redemption, conversion or transfer of the shares/units of the fund are exempt from Cyprus Stamp duty.
- The gains arising from the disposal/redemption of shares/units of a fund are not subject to capital gains tax unless the fund directly or indirectly owns immovable property in Cyprus.

- Interest received by a fund is considered as active interest income and taxed under corporate income tax at the rate of 12,5% . Funds can also claim NID.
- The dividends received by a fund are exempt from both income tax and SDC in Cyprus, subject to the applicable participation exemption conditions.
- No withholding tax is levied on profit distributions made by a fund to non-Cyprus tax resident investors or to Cypriot tax resident companies. Any dividends distributed by a fund to individuals who are considered both Cypriot tax residents and domiciled in Cyprus are subject to SDC withholding at the rate of 17%.
- No permanent establishment should be created in Cyprus, in cases of investment into Cyprus tax-transparent investment funds by non-Cyprus tax resident investors and management from Cyprus of non-Cyprus investment funds.
- The carried interest/performance fee received as variable remuneration by individuals that are employed in Cyprus by an AIF Manager, a self-managed AIF or a company involved with the portfolio management of an AIF may be subject to income tax at the flat rate of 8% (instead of the normal personal income tax rates), with a minimum tax liability of €10.000 per annum, subject to conditions. This special mode of taxation is available for a period of 10 years in total, subject to the annual election of the individual.
- Fund management services (including certain ancillary marketing and administrative services) provided to special investment funds are exempt from VAT.

Shipping Companies – Tonnage Tax System

The Cypriot Merchant Shipping Legislation (fully approved by the EU) provides for the exemption from taxation on income for qualifying ship owners, charterers and ship managers from the operation of qualifying ships that engage in qualifying activities and meet certain conditions. Those that meet the conditions required to qualify for the provisions of the relevant legislation have the option to be taxed under the tonnage tax system.

Qualifying ships include ships flying a flag of an EU member state or a country in the European Economic Area, as well as foreign/non-EU flag ships (subject to conditions). In case the fleet comprises of both EU/EEA flag and non-EU flag ships, the legislation allows the non-EU flag ships to enter the tonnage tax system if the fleet is composed by at least 60% of EU/EEA flag ships. Nevertheless, even if the aforementioned 'mixed fleet' requirement is not met, the non-EU ships can still qualify for the tonnage tax system, subject to conditions.

Those who opt to be taxed under the tonnage tax system must remain in the system for ten years unless they have a valid reason to exit.

The exemption applies to:

- Profits derived 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 and the distribution of this profit

Charterers

Any charterer, tax resident of Cyprus, who charters a ship under bareboat, demise, time or voyage charter is eligible for the tonnage tax system, provided that the option to register for tonnage tax is exercised for all vessels and provided a composition requirement is met.

Based on the composition requirement, at least 25% (reduced to 10% under certain conditions) of the net tonnage of the vessels should be owned or bareboat chartered in.

A charterer opting for the tonnage tax system must remain in the system for ten years.

The exemption applies to:

- Profits derived 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

The exemption also applies to the bareboat charterer of a vessel flying the Cyprus flag under parallel registration.

Bareboat charter out agreements may be eligible for the tonnage tax system, subject to conditions.

Ship managers

A ship manager, tax resident of Cyprus, who provides crew and/or technical management services is eligible for the tonnage tax system provided it satisfies certain criteria, which include:

- Maintain a fully-fledged office in Cyprus with personnel sufficient in number and qualification (depending on their activities);
- At least 51% of all onshore personnel must be EU/EEA citizens
- At least 2/3 of the total tonnage under management must be managed within the EU/EEA (any excess of 1/3 is taxed under corporate income tax). A charterer opting for the tonnage tax system must remain in the system for ten years. Ship managers pay only 25% of the tonnage tax calculated on the net tonnage of the ship.

In addition, there are certain other conditions that should also be met at the time that the ship manager opts to be taxed under the tonnage tax system.

For ship managers, the tonnage tax rates applicable for all vessels under management are 25% of the rates applicable to ship owners and charterers.

The exemption applies to:

- 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

Tonnage Tax Rates

Units of net tonnage	Rate per 100 units of the net tonnage	
	Ship owners / charterers	Ship managers
0 - 1.000	€36,50	€9,13
1.001 - 10.000	€31,03	€7,76
10.001 - 25.000	€20,08	€5,02
25.001 - 40.000	€12,78	€3,20
In excess of 40.000	€7,30	€1,83

Any residual tonnage of less than 100 units of net tonnage shall be charged proportionally.

There are also certain environmental incentives which provide for the reduction of tonnage tax up to 30% for owners of Cyprus and Community flagged ships that use mechanisms for the environmental preservation of the marine environment and the reduction of the effects of climate change.

Tonnage tax is payable on 31 of March each year and is calculated by reference to the net tonnage of the qualifying ships under one's ownership, charter or management.

Transfer Pricing Documentation Requirements

As from 1 January 2022, related party transactions between Cyprus tax resident persons and permanent establishments of foreign entities are subject to the local transfer pricing requirements in Cyprus, subject to the conditions and exemptions outlined below.

A. Definition of Related Parties

The Income Tax Law has been amended to update the definition of related parties and introduce a minimum 25% relationship threshold relevant for companies.

In summary, two companies are considered as related if the same person (and its related persons) or group(s) of persons (under certain conditions) directly or indirectly:

- hold 25% of the voting rights or share capital of both companies; or,
- have the right to at least 25% of both companies' income.

A company is also considered related to a person (and its related persons) that directly or indirectly:

- hold 25% of its voting rights or share capital; or,
- have the right to at least 25% of its income.

Two or more persons are considered related if they act together (or take directions) to directly or indirectly:

- hold 25% of the voting rights or share capital; or,
- have the right to at least 25% of the profit of a company.

B. TP Documentation Obligations

The requirements for transfer pricing documentation cover:

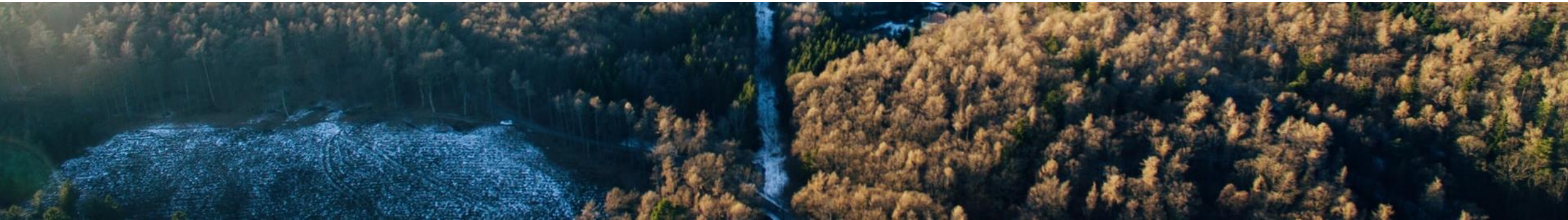
- transactions between Cyprus tax resident companies,
- transactions between permanent establishments in Cyprus of non - tax resident companies and their head office or related companies of the head office established outside Cyprus and
- transactions between Cyprus tax resident companies and their foreign permanent establishments

The Transfer Pricing Documentation will include the Master Transfer Pricing File (where the ultimate parent is in Cyprus) and the Cyprus Local Transfer Pricing File, as well as the Summary Information table.

Exemptions:

The following exemptions shall apply:

- **Master File:** Only Cyprus tax resident entities that are the ultimate parent or surrogate parent entity of an MNE group falling under the scope of Country-by-Country reporting have an obligation to prepare and maintain a Master File. All other persons are exempt from this obligation.
- **Local File:** Persons that engage in Controlled Transactions with arm's length value less than €1.000.000 per annum in aggregate per transaction category for sale/purchase of goods, provision/receipt of services, receipt/payment of IP licencing/royalties and other services (or €5.000.000 per annum for financing transactions) are exempt from the obligation to prepare a Cyprus Local File. The thresholds have been communicated to the taxpayers via a letter sent by the Tax Commissioner to the local associations.



General Comments:

The TP Documentation File must be updated on an annual basis taking into consideration market fluctuations and must be submitted for Quality Review by the submission deadline of the Income Tax Return for the relevant year.

A person who holds a Practicing Certificate from the Institute of Certified Public Accountants of Cyprus (ICPAC) or another approved by the Council of Ministers body of certified auditors in Cyprus is expected to perform a Quality Review of the Cyprus Local File.

The TP Documentation File should be maintained by the taxpayer in electronic or paper format and may be prepared in a generally acceptable language, preferably in English, however, the CTD may request its translation in Greek if necessary.

The Transfer Pricing File must be retained by the taxpayer and submitted to the Cyprus Tax Department within 60 days from such request received from the Tax Department.

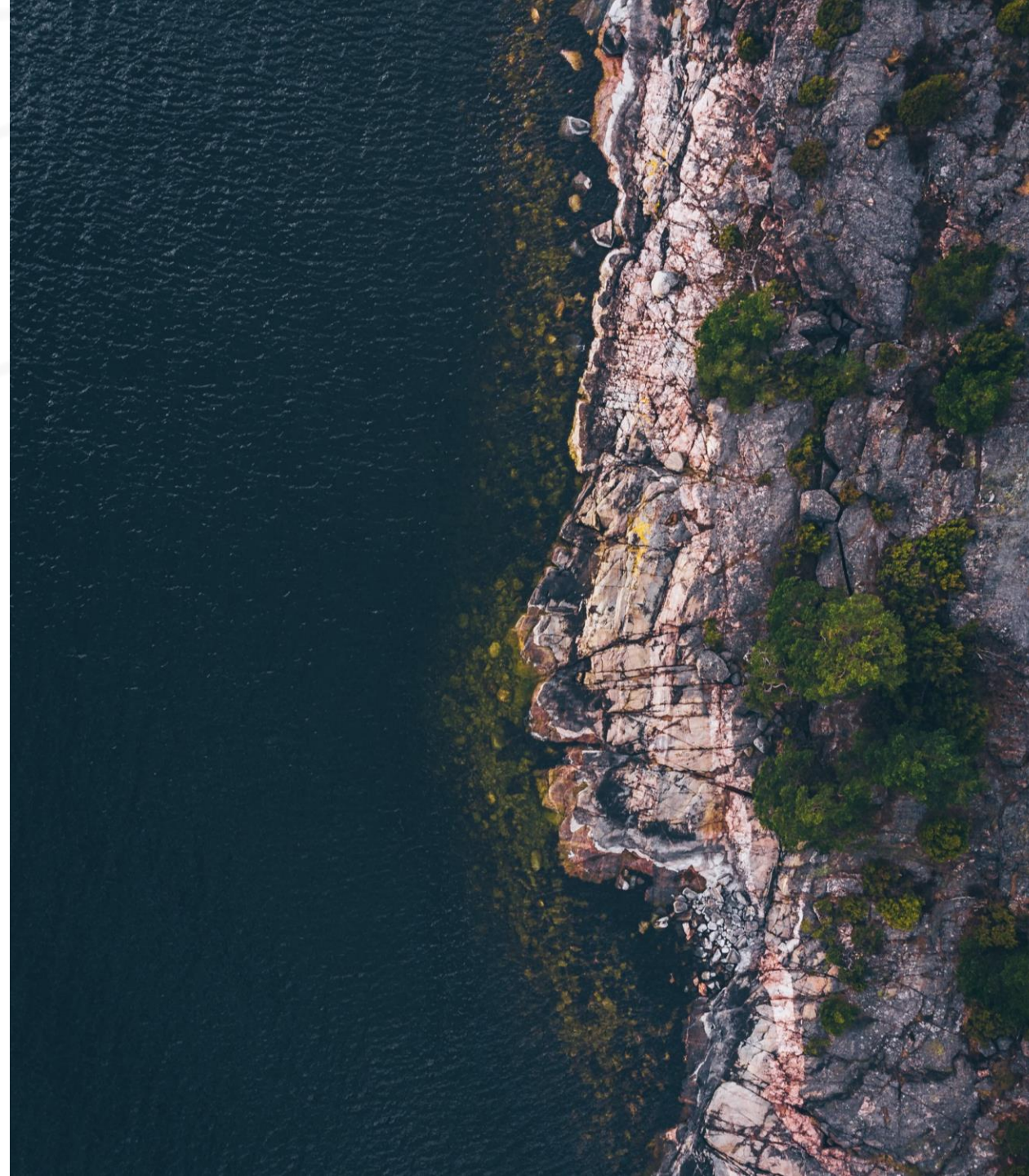
Master Documentation File

Content of Master File:

- Organizational structure
- Description of MNE's business
- MNE's intangibles
- MNE's intercompany financial activities
- MNE's financial and tax position

Local Documentation File

- Local File is intended to provide more detailed information relating to specific intercompany transactions affecting a specific jurisdiction.
- Prepared annually by deadline of submission of the TD4
- Contents in line with BEPS Action 13 / Quality Review by local auditor



Summary Information Table (SIT)

The Summary Table disclosure requirement:

- A return that contains a list of intercompany transactions for specific tax years.
- Must be prepared by all taxpayers that engage in Controlled Transactions, disclosing details regarding such transactions, including the names and tax identification codes of the related counterparties, and the respective values per transaction category (sale/purchase of goods, provision/receipt of services, financing transactions, receipt/payment of IP licenses/royalties, other).
- Electronically submitted on an annual basis to the tax authorities with the Income Tax return for the relevant tax year (i.e. within 15 months from the year-end – unless an extension is granted).

Simplification Rules

As per the interpretative circular 6/2023 issued by the Cyprus Tax Department, when the threshold is not exceeded, simplification rules (i.e. safe harbor provisions) may apply for certain sub-categories of transactions, to consider that the said transactions satisfy the arm's length principle.

	Master File	Local File	Summary Information Table (SIT)
Threshold	Consolidated revenues exceeding €750.000.000 Ultimate or Surrogate Parent entity is a Cypriot tax resident, subject to CbCR	Obligation only if: Aggregated value of controlled transactions falling within a particular category exceed €1.000.000 / €5.000.000 per annum (depending on the category)	Obligation exists as long as there is an obligation for a Local File
Preparation Deadline	By the Income Tax Return submission (e.g., 15 months following calendar year-end)		
Submission Deadline	Upon request should be made available within 60 days, starting from receipt of request		Concurrently with the Income Tax Return
Annual preparation or update requirement	Yes	Yes	Yes
Local sign-off requirement	No	Yes	N/A
Penalties	If notice from CTD to provide TPD (within 60 days) and taxpayer fails to do so: If submitted between 61 and 90 days after request date: €5.000 If submitted between 91 and 120 days after request date: €10.000 If not submitted or submitted after the 120th day: €20.000		€500 (For late or non-submission)

Baker Tilly's experienced professionals provide comprehensive tax services to help business owners, executives and individuals identify immediate and potential tax opportunities and concerns.

C. Advance Pricing Agreement (“APA”) Procedure

Cyprus tax resident persons and non-Cyprus tax resident persons that have a permanent establishment situated in Cyprus may submit to the CTD an APA Request with respect to current or future domestic or cross border Controlled Transactions.

An APA is a voluntary agreement between the taxpayer and one or more tax authorities that allows the parties to **agree in advance** on the transfer pricing methodology for any given intercompany transaction for a specific timeframe.

Tax commissioners should accept or reject the agreement request **within 10 months** of submission (extendable up to 24 months upon notification).

The agreements are valid for a period of up to **four years**.

An APA may be revised/revoked/cancelled e.g., in case critical assumption prove to be erroneous or material change in circumstances.

The APA request may cover the various conditions and assumptions relevant for determining the arm’s length pricing of the Controlled Transactions for a specified period, including:

- the critical assumptions on the functional and risk profile of the parties involved,
- the relevant market conditions,
- the applicable TP method to be followed,
- the identified uncontrolled comparable transactions and any necessary adjustments made to determine the arm’s length price range,
- any other specialised matter relating to the pricing of the Controlled Transactions.

There are three types of agreements:

- Unilateral
- Bilateral
- Multilateral

Bilateral and Multilateral APAs: The APA request for cross border Controlled Transactions may be bilateral or multilateral, involving the tax authorities in other jurisdiction(s) with which Cyprus has concluded a Double Tax Treaty. In such cases, a corresponding request needs to be filed by the taxpayer with the authorities in the other jurisdiction(s) and the CTD may consult in writing with such authorities under the relevant mutual agreement and exchange of information procedures and applicable EU legal framework, for the purpose of issuing the APA decision.



Special Contribution for Defence

Special Contribution for Defence (“SDC”) is imposed on dividend income, “passive” interest income and rental income earned by companies which are tax resident in Cyprus and by individuals who are both tax resident and domiciled in Cyprus.

Domiciled in Cyprus

An individual is considered as domiciled in Cyprus if he/ she has a domicile of origin in Cyprus as this is defined in the Wills and Succession Law (WSL) (i.e. domicile of the father at the time of birth), except in specified cases. The following individuals are not considered to be domiciled in Cyprus:

- An individual who has obtained and maintained a domicile of choice outside Cyprus in accordance with the Wills and Succession Law, provided that he/she has not been a tax resident of Cyprus for a period of 20 consecutive years preceding the tax year in which he/ she becomes tax resident of Cyprus; or
- An individual who has not been a tax resident of Cyprus for a period of 20 consecutive years prior to July 2015 (when the relevant changes in the law were introduced).

Notwithstanding the above, an individual, who has been a tax resident of Cyprus for at least 17 years out of the 20 years prior to the tax year, will be considered to be “domiciled in Cyprus”.

Tax rates

Special Contribution for Defence is charged at the rates shown in the table shown on the right and is imposed on the gross income received or credited.

	Individuals (resident and domiciled) %	Individuals (resident and non- domiciled) %	Legal entities resident in Cyprus %
Dividend income from Cyprus tax resident companies	17	Nil	Nil (subject to anti avoidance provisions)
Dividend income from non-Cyprus tax resident companies	17	Nil	Nil*
Interest income arising from the ordinary activities or closely related to the ordinary activities of the business	Nil	Nil	Nil
Other interest income (“passive”)	17 (or 3**)	Nil	17 (or 3**)
Rental income received from Cyprus or abroad (reduced by 25%)	3	Nil	3

*The dividend income that Cypriot tax resident companies receive from a non-tax resident company is exempt from SDC, unless more than 50% of the income of the dividend paying company has resulted from passive activities and the foreign tax burden on the profits of the dividend paying company is substantially lower (i.e. less than 6,25%) than the tax burden in Cyprus. In such case, the dividends will be subject to SDC at the rate of 17%.

**Passive interest income is taxable under SDC at the rate of 17% (effective from 1 January 2024). However, interest received by the Social Insurance Fund, a Provident Fund, a Pension Fund or a Governmental Authority/Organization or interest received by a tax resident individual or legal entity from Cyprus Government sources (government saving certificates, development bonds and corporate bonds) as well as corporate bonds listed on a recognized Stock Exchange is subject to SDC at the reduced rate of 3% (instead of 17%).

**A Cypriot tax resident individual, whose annual income, including interest, does not exceed €12.000, has the right to a refund of the tax withheld on interest in excess of the amount corresponding to 3%.



Deemed dividend distribution

A Cypriot tax resident company is obliged to pay 17% SDC on a deemed distribution of 70% of the accounting profits after tax and certain adjustments. The deemed distribution takes place two years after the end of the year to which the profits relate to and the amounts subject to the deemed distribution are reduced by any actual dividends paid during the two years. For example, profits of the tax year 2023 are subject to the deemed distribution rules as at 31 December 2025.

The deemed dividend distribution provisions are only applicable to the profits that are attributable directly or indirectly to shareholders that are both Cypriot tax resident and domiciled in Cyprus.

Deemed distribution does not apply in respect of profits that are directly or indirectly attributable to shareholders that are not tax resident of Cyprus or to individuals who are tax residents but are not considered to be domiciled in Cyprus.

Tax credit for foreign tax

A double tax relief in the form of tax credit is granted in the cases where the foreign source income is taxed abroad. The tax credit is equal to the actual income tax paid on the foreign income and cannot exceed the amount of income tax payable in Cyprus on the said income. The double tax relief is granted unilaterally, even in the cases where there is no double tax treaty in force between Cyprus and the other jurisdiction.

Capital Gains Tax

Capital gains tax in Cyprus is imposed on the gains arising from the disposal of the following:

- Immovable property located in Cyprus
- Shares of companies whose property also consists of immovable property located in Cyprus
- Shares of companies which directly or indirectly participate in a company or companies which own immovable property located in Cyprus and at least the 50% of the market value of these shares comes from the market value of the immovable property located in Cyprus

The capital gains tax is calculated based on the rate of 20%.

Definitions

Determination of gains

The tax is imposed on the gain from the disposal of the immovable property. The gain is calculated as the disposal proceeds, less the greater of:

- the cost/improvements in case the property was acquired after 1 January 1980, adjusted for inflation; or,
- the market value on 1 January 1980 in case the property was acquired before 1 January 1980, adjusted for inflation.

Inflation is calculated using the official Retail Price Index.

Any expenses relating to the acquisition/disposal of the immovable property are also deducted, subject to conditions. These may include land transfer fees, legal fees, interest on loans to acquire the property etc.

Immovable property includes:

- Land
- Buildings and other erections, structures or fixtures affixed to the land or to any buildings
- Other erections or structures
- An undivided share in any property set out above
- Oilfields and pipelines

Chargeable disposals include:

- A transfer of ownership of the property at the District Lands Office by sale, gift or exchange
- A transfer of a registered lease over 15 years
- An agreement for the sale
- An abandonment of the use or enjoyment of any relevant right

Exemptions

The following disposals of immovable property are not subject to Capital gains tax:

- A gift made from parent to child or between spouses or relatives within the third degree of kindred.
- A gift made to a limited company whose shareholders are and continue to be members of the disposer's family (family being spouse and relatives within the third degree of kindred) for a period of five years after the gift.
- A gift of property made by a limited company, where all the shareholders are members of the same family, to any of its shareholders when the property which is gifted was acquired by the company also as a gift. The property must remain to the hands of the donee for a period of at least three years.

- A gift of property made to the Republic or a gift of property made for educational, instructive or other charitable purposes to a local authority or to any charitable institution in Cyprus approved as such by the Council of Ministers.
- A gift of property to a political party in Cyprus.
- A transfer arising by reason of death/inheritance.
- A transfer of immovable property between estranged spouses after the issue of a divorce court order which constitutes a settlement of property between them under the relevant laws.
- An exchange or sale of property under the Agricultural Land (Consolidation) Laws.
- An exchange of property where the market values of the exchanged properties are the same.
- A transfer of property or shares in the course of an approved company reorganisation.
- A transfer of shares held in an immovable property rich company listed on any recognized stock exchange.
- A transfer of an immovable property (land or building) acquired during the period 16 July 2015 up to 31 December 2016, whenever the disposal takes place, provided that it is acquired from an independent third party and it is not acquired through an exchange of property or through donation/gift.

Lifetime exemptions

The following can be deducted by individuals from the capital gains:	€
Sale of own residence (subject to certain conditions)	85.430
Sale of agriculture land by a farmer	25.629
Other sales	17.086

The combination of the above exemptions cannot exceed €85.430 per individual.

Inheritance Tax/Gift Tax

There is no inheritance tax or gift tax in Cyprus.

In case of death, the administrator of the estate of the deceased must file a capital statement of assets and liabilities to the Tax Department. Once the capital statement is filed, the relevant tax investigation will take place and once the due taxes (if any) are duly settled, the clearance from the Tax Department will be provided so that the transfer of the assets can take place to the successors.

Value Added Tax ('VAT')

General Overview

VAT is a tax on consumer expenditure, which has been adopted by all the EU member states, as well as a number of countries outside EU.

VAT is based on a number of EU Directives which, subject to certain exceptions, have been incorporated into the Cypriot VAT legislation.

In general, taxable persons charge output VAT on their taxable supplies that fall within the scope of VAT and may be charged with input VAT on goods or services which they receive from other taxable persons.

A taxable person is a person who is either registered or is required to be registered for VAT purposes.

Subject to certain conditions, if during a particular VAT period the total output VAT exceeds total input VAT, a payment will need to be made to the relevant authorities. Similarly, if the total input VAT exceeds the total output VAT, the excess input VAT is carried forward as a credit and set off against future output VAT (provided that certain conditions are met) or refunded to the taxpayer (again, subject to conditions).

In certain cases, input VAT may not be recoverable, either due to the nature of the goods/services being acquired or due to the activities of the taxpayer.

VAT Scope – VAT is charged on:

- The supply of goods and services made in Cyprus by a taxable person in the course or furtherance of business
- The import of goods to Cyprus, irrespective of whether they are imported for business purposes or not, and whether the importer is a taxable person or not
- The intra-community acquisition of goods into Cyprus (usually by a taxable person)
- On certain services received from abroad by a taxable person

There are special rules for trading activities with businesses located in other EU member states.

VAT rates

The legislation provides for the following VAT rates:

- Zero rate (0%)
- Super reduced rate of 3%
- Reduced rate of 5%
- Reduced rate of 9%
- Standard rate of 19%

Please see below some **examples** of services/goods that are subject to each VAT rate category:

Zero Rate (0%)

- Export 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
- Supply, modification, repair, maintenance, chartering and hiring of aircrafts used by airlines operating for reward mainly on international routes
- Supply of services to meet the direct needs of sea going vessels and aircrafts
- Transportation of passengers from the Republic to a place outside the Republic and vice versa using a seagoing vessel or aircraft
- Supplies of gold to the Central Bank of the Republic
- International passenger transportation to the extent it takes place within Cyprus territory

- Typewriters with Braille characters and special electronic typewriters for people with disabilities.
- Wheelchairs and other vehicles with or without a motor or other propulsion mechanism, intended exclusively for personally use by people with disabilities.

Temporary application of zero rate (0%) until 31 December 2025

- Baby Milk – liquid or powdered.
- Baby and adult diapers.
- Women's hygiene products – (tampons, sanitary pads and incontinence pads).
- Fruits – fresh (Subject to conditions)
- Vegetables fresh or chilled (Subject to conditions)



Super-reduced rate of 3%

- Right of entry from debut performance of theatrical, musical, dance or classical plays.
- Street cleaning, waste collection and waste treatment services performed by private entities, excluding the services provided by national and local bodies or public interest entities.
- Disposal and treatment of wastewater and emptying residence and industrial tanks.
- Supply of books, newspapers and magazines in hardcopy or electronic format (including brochures, prospectuses, children's books, colouring books, printed or handwritten sheet music, hydrographic and similar maps), excluding publications which are intended wholly or mainly for advertising purposes, publications which are wholly or mainly comprised of video content or acoustic music and publications of non-profit organizations as well as any related services.
- Special lifting devices (stairs, lifts, similar lifting equipment) for people with disabilities.
- Wheelchairs and other vehicles for people with disabilities with or without a motor or other propulsion mechanism.
- Orthopedic items and appliances including medical surgical belts, bandages and crutches.
- Splints, supports and other goods or devices intended for fractures.
- Prosthetic items.
- Devices for the facilitation of hearing for the deaf and other handheld devices, carried by persons or introduced into the human body for the purpose of filling a deficiency or treating a disability.

Reduced rate of 5%

- The supply of Foodstuff (except from the temporary application of zero rate of 0% for the specific items)
- The supply of prepared or unprepared foods and beverages (excluding alcoholic drinks, beer, wine and soft drinks)
- Supply of catering services from school canteens
- Coffins and funeral services
- The supply of live animals used for the preparation of food
- The supply of pharmaceutical products and vaccines that are used for health care, prevention of illnesses and as treatment for medical or veterinary purposes
- Books, newspapers and magazines which are intended wholly or mainly for advertising purposes, publications which are wholly or mainly comprised of video content or acoustic music and publications of non-profit organizations as well as any related services.
- Entry fees to theatres (except from debut), circus, festivals, luna parks, concerts, museums, cinema etc.
- Entry fees at sports events and fees for using athletic centres
- Transportation of persons and luggage carried by urban and rural buses with a fare for each passenger
- Hairdressing services
- Renovation and repair of private households after three years of first residence (subject to conditions)
- Acquisition or construction of primary residence (subject to conditions)

Reduced rate of 9%

- All restaurant and catering services (including the supply of alcoholic drinks, beer, wine and soft drinks)
- Accommodation in hotels and other similar establishments
- Transportation of passengers and their accompanying luggage by taxi and tourist 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

Standard rate of 19%

- The standard rate applies to all the supplies of goods or rendering of services in Cyprus which are not exempt or are not subject to the reduced rates of 0%, 5% and 9%.

Contributing to our clients' success by accelerating tax deductions, increasing tax credits, reducing cash taxes and mitigating risks

Exempt supplies

Examples include the following exempt supplies with certain conditions:

- Most banking, financial and insurance services
- Most hospital, medical and dental care services
- Certain cultural educational and sports activities
- Postal services provided by the national postal authority
- Lottery tickets and betting coupons for football and horse racing
- Management services provided to mutual funds
- The letting of residential immovable property (the letting of immovable property with the right of purchase is not exempt) or commercial immovable property (subject to conditions)
- Supplies of real estate (except supply of buildings before their first use) including supplies of land and of second-hand buildings

Persons who make only exempt supplies with EU parties cannot register for VAT purposes and cannot recover back any input VAT. However, they may have to register if they receive services from abroad, which are subject to the reverse charge rules in Cyprus.

Persons who make exempt supplies with non-EU parties may have the right to register for VAT purposes and recover input VAT (subject to conditions).

VAT Registration

VAT registration is obligatory under of circumstances:

- At the end of any month, if the value of taxable supplies for the last 12 months exceeds €15.600.
- At any time, when there are reasonable grounds to believe that the value of taxable supplies in the next 30 days from that point in time will exceed €15.600.

- At any time, if the person makes supplies of services to a taxable person in another EU member state which are taxable where that person is established (no registration threshold applies).
- At the end of any month, if the total value of that person's acquisitions from all other EU Member States in the year beginning from 1 January has exceeded the registration threshold of €10.251,61.
- At any time, if there are reasonable grounds to believe that the value of the acquisitions that person would be making in the following 30 days will exceed the registration threshold of €10.251,61.
- At any time, if in the twelve-month period starting from 1 January of the year, the value of distance sales of a person to other non-VAT registered persons established in other EU Member States exceeds €10.000.
- Taxable persons that are not established in Cyprus and are engaged or expect to be engaged in business activities in Cyprus that are subject to VAT, will have the obligation to register with the Cyprus VAT Registry (no registration threshold applies).

Voluntary VAT registration

A person who has a business establishment in Cyprus, or whose usual place of residence is in Cyprus, and delivers supplies outside Cyprus which would be taxable supplies if delivered within Cyprus, is entitled to voluntary registration.

Furthermore, the voluntary registration can also be made by persons which have taxable turnover that falls below the registration limit, so that they can recover the input VAT that they pay on their expenses/purchases.

VAT Group

Cyprus applies a VAT group regime, whereby entities within a VAT group can benefit from disregarding their intra-group transactions and appointing a member to submit a single return. Non-Cypriot incorporated entities can also enter the regime, as long as they maintain a business/fixed establishment in Cyprus. Certain conditions need to be made by the entities that will enter the VAT group, such as having financial, economic and organisational links.

VAT on immovable property

Imposition of the standard VAT rate of 19% on the supply of new buildings that are not subject to the reduced VAT rate of 5% (see below the section relating to the primary residence)

Up to 10 November 2022, the supply of new buildings (including the land in which they are erected) before their first use was subject to VAT at the standard rate of 19%.

As from 11 November 2022, the supply of new buildings (including the land in which they are erected) when the sale is made within a period of 5 years from the date of complete erection and any subsequent sale(s) made within the above 5-year period (provided that the building was not systematically used by a non-related party for a period of at least 24 months) is subject to VAT at the standard rate of 19%. It should be noted that this is a relatively new provision in the legislation which may be further amended during 2023.

The above do not apply to buildings that will be the primary residence of the buyer in Cyprus and meet the relevant conditions to be eligible for the reduced VAT rate of 5%.

Long-term lease of immovable property subject to VAT at the rate of 19% (or 5% - subject to conditions)

As from 1 January 2019, the long term leasing of immovable property which essentially gives to the lessee the right to sell the property as owner or the right to sell the property is considered as a supply of goods and not as a supply of services and may be subject to VAT at the rate of 19% (or 5% - subject to conditions and depending on the case of the purchaser).

Imposition of the standard VAT rate of 19% on non-developed building land

As from 2 January 2018, the transfer of non – developed building land intended for the construction of structures in the course of carrying out a business activity is subject to 19% VAT. 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.



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

Subject to certain conditions, as from 1 October 2011, the reduced rate of 5% applies to the acquisition and/or construction of residences to be used by eligible persons as their primary and permanent place of residence in Cyprus, provided that they have received a certified confirmation from the Tax Department.

Old provisions applicable until 15 June 2023

Based on the old provisions of the VAT Law, the reduced rate of 5% VAT was applicable to the first 200 sqm of the buildable area, in accordance with the architectural plans submitted to the competent authority irrespective of the total buildable area of the property or the total value of the transaction.

Transitional provisions (applicable until 31 October 2023)

In the cases where planning permission has been obtained or an application for such permission has been submitted to the competent authority until 31 October 2023, the old provisions will be applicable*.

Thus, the reduced rate of 5% VAT will be applicable to the first 200 sqm of the buildable area, irrespective of the total buildable area of the property or the total value of the transaction.

**Requirement to file the application for the reduced rate of 5% VAT within 3 years from 16 June 2023*

New provisions applicable as of 16 June 2023

Based on the new provisions of the VAT Law, which are applicable as of 16 June 2023, the reduced VAT rate of 5% will apply to the first 130 sqm of a primary residence, up to a value of €350,000, provided that :

- The total value of the property does not exceed €475,000; and
- The total buildable area does not exceed 190 sqm.

As an exception to the above, people with disabilities can apply for the reduced VAT rate of 5% on the first 190 sqm of buildable area, irrespective of the total buildable area of the property.

Furthermore, for families with more than three children (i.e. at least four children), the total buildable area is increased by 15 sqm for each child above the three children.

Imposition of the reduced rate of 5% on the renovation and repair of private residential homes

As from 20 August 2020, 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) is subject to VAT at the reduced VAT of 5%, excluding the value of materials which constitute more than 50% of the value of the services.



Reverse charge supplies

Reverse charge – abroad

Reverse Charge on intra-community acquisitions (B2B) and on services received from abroad

When a taxable person established in Cyprus acquires goods or services from another taxable person located in an EU Member State, the buyer has to account for the VAT in Cyprus under the reverse charge mechanism. In certain cases (i.e. if the transaction is exempt from VAT), the reverse charge may not be applicable.

Reverse charge – domestic supplies

Reverse charge on construction services

Any person who provides services or services with goods relating to civil engineering, construction, conversion, demolition or maintenance of a building, in furtherance of the business, should not charge any VAT on the relevant services in the cases where the recipient is a taxable person. Instead, the client will account for VAT under the reverse charge mechanism.

Reverse charge on scrap metals

Any taxable person who provides goods relating to scrap metals and used metals to another taxable person, in furtherance of the business, should not charge any VAT on the relevant transaction. Instead, the recipient of the metals will account for VAT under the reverse charge mechanism.

Reverse charge on loan restructuring arrangements

In case an immovable property is transferred from the borrower to the lender in the course of a loan restructuring, as well as under a forced process, the borrower should not charge any VAT on the relevant transaction. Instead, if the transaction is subject to VAT, the lender will account for VAT under the reverse charge mechanism.

Reverse charge on certain electronic devices

In case certain types of goods such as mobile phones, microprocessors, central processing units, game consoles, computer, tablets and laptops are sold by a taxable person to another taxable person, in furtherance of the business, the seller should not charge any VAT on the relevant sale. Instead, the buyer of the goods will account for VAT under the reverse charge mechanism.

Reverse charge for precious metals

Any taxable person supplying unprocessed or semi-processed precious metals to another taxable person, in furtherance of the business, should not charge any VAT on the relevant transaction. Instead, the recipient will account for VAT under the reverse charge mechanism.

New VAT rules for e-commerce

As from 1 July 2021, the VAT rules on cross-border B2C e-commerce activities have changed throughout the EU and the Mini One Stop Shop ("MOSS") has been extended and turned to One Stop Shop (OSS).

The key highlights of the new scheme are the following:

- Online sellers (including online marketplaces/platforms) can register in one EU Member State for the declaration and payment of VAT on all distance sales of goods and cross-border supplies of services to customers within the EU, through the new One Stop Shop (OSS).
- The old thresholds for distance sales of goods within the EU have been abolished and a new EU-wide threshold of €10.000 has been introduced. Below this threshold, the supplies of Telecommunication, Broadcasting and Electronically supplied services ("TBEs") and intra-community distance sales of goods may remain subject to VAT in the Member State of supplier of TBEs or where those goods are located at the time when their dispatch or transport begins.

- The application of MOSS has been extended to all B2C services and intra-EU B2C sales of goods subject to threshold of €10,000. This covers goods and TBEs.
- Online marketplaces and electronic interfaces are liable to collect and pay VAT for B2C supplies of goods when they invoice or are responsible for the transfer of the goods.
- The VAT exemption applicable so far on importation of small consignments of a value up to EUR 22 is abolished. All goods imported in Cyprus are now subject to VAT.
- The Import One Stop Shop (IOSS) scheme has been introduced, covering the distance sales of low value imported goods (i.e. <€150) which are not subject to excise duties, to simplify the declaration and payment of VAT. Under IOSS, the sellers of such goods need to register to IOSS and apply VAT on the sales of the said goods, based on the VAT rate applicable in the EU Member State where the goods will be delivered. If the value of the goods/package is more than €150, the VAT is paid by the customer on importation.

VAT declaration filing and payment

VAT returns

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

VAT registered persons have the right to request for a different filing period, which needs to be approved by the Tax Department.

VIES returns

A taxable person delivering intracommunity supplies of goods and/or services to taxable persons in other EU Member States has an obligation to register with VIES. In addition, the taxable person has an obligation to submit monthly electronic VIES forms within 15 days from the end of the related month.

Intrastat returns

A taxable person who acquires goods in Cyprus from other EU Member States for a value greater than €180.000 during the relevant year should register for Intrastat for arrivals purposes in Cyprus and submit monthly Intrastat forms (i.e. intra-community imports declaration) within 10 days from the end of the related month.

A taxable person who dispatches goods from Cyprus to other EU Member States for a value greater than €55.000 during the relevant year should register for Intrastat for dispatches purposes in Cyprus and submit monthly Intrastat forms (i.e. intra-community exports declaration) within 10 days from the end of the related month.

VAT refund

VAT refunds will be suspended where income tax returns (i.e. Company Income Tax Return (TD.4), Self-employed Income Tax Return (TD.1) and Employer's Return (TD.7) have not been submitted by the date of submission of the VAT refund claim. In addition, no interest is payable on a VAT refund for the period during which the refund is suspended.

VAT refund applications cannot be submitted after 6 years from the end of the relevant tax period. Exceptions will be allowed only if approved by the Tax Department.

Taxable persons that claim VAT refund will be entitled to a repayment of the VAT principal amount and, in case the repayment is delayed for more than 4 months, to a payment of interest.

Important Penalties

Penalties	Amount €
Late submission of VAT return	100 for each return
Late payment of the VAT	10% of the amount due, plus interest
Failure to comply with the reverse charge provisions in relation to the receipt of services from abroad or the receipt of services and/or goods by other Cypriot established traders (the total penalty may not exceed €4.000)	200 for each return
Late submission of VIES return	50 for each return
Late submission of corrective VIES return	15 for each return
Late registration with the VAT authorities	85 per month of delay
Late submission of Intrastat return	15 for each return
Late de-registration	85 one off

Immovable Property Tax

Immovable property tax was levied annually until 31 December 2016 on immovable properties located in Cyprus, based on the market value of the properties. The immovable property tax was levied based on certain progressive rates that were applicable per owner (and not per property). The immovable property tax has been abolished as from 1 January 2017.



Transfer Fees by the Department of Land and Surveys

Land registration fees are imposed by the Land and Surveys Department on the transfer and registration of immovable property, which is defined in the Immovable Property (Tenure, Registration and Valuation) Law as follows:

- Land
- Buildings and other erections, structures or fixtures affixed to the land or to any building or other erections or structures
- An undivided share in any property

Rates of fees

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

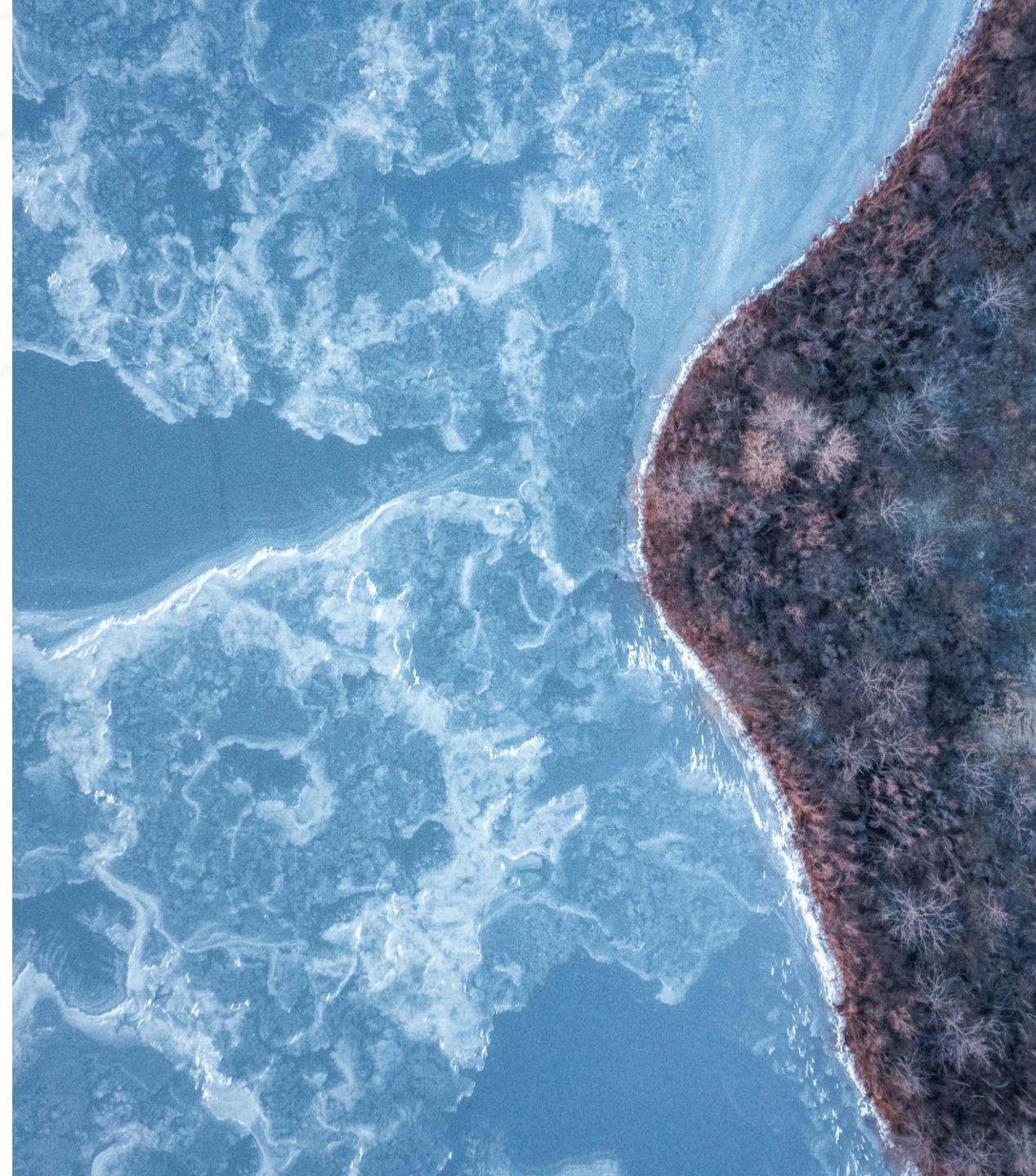
Market Value	Rate	Fee	Cumulative Fee
€	%	€	€
0 - 85.000	3	2.550	2.550
85.001 - 170.000	5	4.250	6.800
Over 170.000	8		

Currently, the above transfer fees are reduced by 50% in case of a purchase of immovable property.

Land transfer fees are not payable on transfers of immovable property from a company to another company under an approved reorganization scheme.

The transfer fees in the case of free transfers of property, are calculated on the value of the property as follows:

- From parents to children – Nil
- Between spouses - 0,1%
- Between third degree relatives - 0,1%
- To trustees - €50





Levy payable to the Central Agency for the Equal Distribution of Burdens Law

As of 22 February 2021, a levy of 0,40% will be imposed and collected upon the sale of immovable property, subject to the following rules and conditions:

The levy is imposed upon the sale of:

- Immovable property
- Shares of a company that is not listed in a recognised Stock Exchange and that directly or indirectly holds immovable property with a recorded general estimation value under a General Valuation and Revaluation Survey.

The levy is calculated as follows:

- In the case of the direct disposal of immovable property, the levy is imposed on the sales proceeds/amount.
- In the case of disposal of shares held in a company that holds immovable property, the levy is imposed on the latest general valuation value of the property undertaken by the Department of Lands and Surveys, attributed to the shares being sold.

No levy is imposed in the case of:

- A restructuring of a non-performing loan as defined in the Capital Gains Tax Law.
- A company reorganisation as defined in the Income Tax Law.
- Shares listed on a recognized stock exchange.

The Tax Commissioner is responsible for the assessment and collection of the levy and the issue of the relevant determination required during the transfer of the immovable property or the shares that directly or indirectly own immovable property.

Stamp Duty

The Cyprus Stamp Duty Law provides that stamp duty is payable on any document which concerns any property situated in Cyprus or matters or things to be executed or done in Cyprus, irrespective of the place of execution of the document.

The stamp duty payable on the value of the above instruments is as follows:

For sums €1 - €5.000	Nil
For sums €5.001 - €170.000	€1,50 for every €1.000 or part of €1.000
For sums exceeding €170.000	€2 for every €1.000 or part of €1.000 plus €247,50

The maximum stamp duty payable is capped at €20.000.

Time of payment of stamp duty

The due date for such stamp duty payment is within 30 days from the date of the signing of a document which is considered to be subject to stamp duty. If for whatever reason an agreement, which is subject to stamp duty, is not stamped, then a penalty will be imposed.

Annual Levy

Companies

Up to the calendar year ended 31 December 2023, the annual fees that were payable by the companies which are registered with the Registrar of Companies in Cyprus amounted to €350. The annual fees were payable by the 30th of June of each calendar year.

The annual levy has been abolished via a Government Bill that was approved by the House of Representatives during 2024. The entities that have already paid the annual levy for 2024 will receive a refund of the amount paid.

Group of Companies

The total amount of the fee payable is capped at €20.000 for groups of companies.

Penalties

In case the fee is not paid by the due date, a charge of 10% is imposed if the payment is made within 2 months of the due date. In the case of the payment is made within 5 months of the due date, an additional charge of 30% is imposed.

Company strike-off

The Registrar of Companies can strike off a company if the company does not pay its annual levy within one year of the due date.

Our experience and expert knowledge can provide professional assistance to businesses internationally

Registration Fees / Capital Duty

Incorporation of a Cyprus Company

Authorised share capital

A flat duty of €105 is payable upon incorporation.

Issued share capital

If the shares are issued at a premium, there is a flat duty of €20. There is no capital duty payable if the shares are issued at nominal value.

Additional increases of capital

Authorised share capital

There is no capital duty payable for any increases in the authorised share capital.

Issued share capital

There is a flat duty of €20 on every issue, irrespective of whether the shares are issued at nominal value or at a premium.

Professional License Fee

On 13 October 2020, the Executive Committee of the Union of Cyprus Municipalities decided on the adoption of a uniform policy for the imposition of the annual professional license fee to legal entities who carry on any business, trade or profession within each municipality's limits.

For the above purpose legal entities are classified into the following categories:

- Active legal entities that are part of a group of companies;
- Active legal entities that are not part of a group of companies (working independently);
- Dormant legal entities - notwithstanding if they are part of a group of companies or not (for the purpose of being sold for an immediate activation).

The table below shows the fee that will be levied to each category:

Category of legal entity	Professional License Fee (per legal entity)
Active legal entities that are part of a group of companies	€150
Active legal entities that are not part of a group of companies	€250
Dormant legal entities	Not Applicable

Exemptions

Exemptions apply in case the status of the active legal entity is not in line with the Registrar of Companies records or any other records. In such cases, an objection can be filed to request an exemption from the payment of the professional license fee.

Examples of such cases is where the legal entity is under a compulsory or voluntary liquidation or under strike off procedure.

Social Insurance

Contributions	Employee	Employer
Social Insurance	8,8%	8,8%
Social Cohesion Fund	-	2,0%
Redundancy Fund	-	1,2%
Human Resources Development Authority Fund	-	0,5%
Holiday Fund (unless obtained exemption)	-	8,0%

As from 1 January 2025, the maximum amount subject to Social Insurance Contribution is €66.612 per annum for monthly paid employees (i.e. €5.551 per month). For weekly paid employees, the maximum amount is €1.281 per week.

The contributions to Social Cohesion Fund are calculated on the total emoluments with no upper limit.

An employer who has in place an annual vacation leave system which provides for more days than the ones provided under the Central Holiday Fund, may obtain permission from the Social Insurance Department to be exempted from contributing to the Central Holiday Fund.

The employers are responsible to pay to the Social Insurance Department on a monthly basis their share of the contributions together with the amounts deducted from the emoluments of their employees. Late payment results in the imposition of a penalty of 3% for each month of delay but the total penalty cannot exceed 27% of the amount due.

Self-employed individuals

Contributions of self-employed individuals are subject to the rate of 16,6%. It should be mentioned that the amount of the contributions is subject to a lower and a maximum limit, depending on the profession or trade of the self-employed person.

General Healthcare System (“GESY”)

The General Healthcare System (“GHS”) Law was introduced in 2019 and transforms the existing public health care system. Patients will have the freedom to choose their health care provider, from the private as well as the public health care sector, from those providers registered with the Health Insurance Organization (“HIO”).

GHS is a universal health care system, financed through individual, employer and government contributions.

Category	Applicable on	As from 1 March 2020
Employees	Own emoluments	2,65%
Employers	Employees' emoluments	2,90%
Self-employed	Own income	4,00%
Pensioners	Pension	2,65%
Persons holding office*	Officers' Remuneration	2,65%
Republic of Cyprus or Physical/ Legal person responsible for the remuneration of persons holding an office	Officers' Remuneration	2,90%
Persons earning rental, interest, dividend and other income	Rental, Interest, Dividend Income etc	2,65%
Republic's Consolidated Fund	Emoluments/ Pensions of persons (employees, self employed, pensioners and person earning income	4,70%

*Relates to holders of public or local authority office or other office, the income out of which does not come within the scope of employees, self-employed, pensioners, persons earning rental, interest, dividend and other income.

Method of deduction

GHS contributions will be deducted from the entire earnings of the employee (as defined in the Social Insurance Law). The maximum amount subject to the GHS contributions is €180.000 per annum. The insurable earnings limit relating to the Social Insurance Fund contributions does not apply in this case.

The employer is responsible for paying both their own and their employees' contributions through Social Insurance Services (by means of deduction from their salary).



Provisions Regarding the Restructuring of non-performing loans

The Cypriot tax laws were amended to temporarily exempt the restructuring of bank loans from taxation (subject to conditions), in order to facilitate and encourage the restructuring of non-performing loans ("NPLs").

The amendments affected the Income Tax Law, the Capital Gains Tax Law, the Special Defence Contribution Law, the Stamp Duty Law, the VAT Law, the Collection of Taxes Law and the Department of Lands and Surveys (Fees and Charges) Law.

The exemptions introduced in 2015 were intended to be valid for 2 years from the date the various amending laws entered into force, however, the exemptions have been extended for a further of 8 years, until 31 December 2025.

Transactions covered by these provisions

The exemptions cover transactions relating to the direct or indirect sale and transfer of immovable property and rights upon immovable property pursuant to a contract deposited with the Land Registry Office between borrowers/guarantors and lenders, with the objective of reduction or settlement of loans, advances or other credit facilities granted by financial institutions and other lenders, which were considered as non-performing loans at or before 31 December 2015.

The relevant provisions cover only the transactions affecting the transfers of immovable property between a borrower/guarantor and a lender or between a borrower/guarantor and a person who is not a related party.

The term "lender" covers financial institutions (i.e. licensed credit institutions) as well as credit acquiring institutions that took over the NPLs from financial institutions pursuant to the relevant legislation.

The term "borrower" covers any other person who entered into a contract with the lender and any person whose NPL was acquired by a credit acquiring institution pursuant to the relevant legislation.

The term "borrower" also includes a connected person of the principal borrower, provided that the disposal and transfer of immovable property is made to the lender, or to an unrelated party.

Based on an amendment to the relevant legislation voted by the Cyprus Parliament during December 2023, the exemptions also cover transfers made to Cyprus Asset Management Company ("KEDIPEs") as part of the loan restructuring plan facilitated by KEDIPEs for certain individuals that do not afford to repay their loan instalments (which are instead paid by the government in the form of 'rents' – i.e. 'mortgage to rent'), subject to conditions.

Summary of the tax exemptions

The acquisition of an immovable property by a bank or its wholly owned Special Purpose Company ("SPV") in the context of a loan restructuring arrangement, will be subject to the following direct tax exemptions:

- No corporate income tax on the gains (if any) realised in the course of the restructuring
- No capital gains tax on the gains (if any) realised in the course of the restructuring
- Any accounting profits that may arise in the course of the restructuring are not taken into consideration for deemed dividend distribution purposes (i.e. either because of the transfer of the property or because of the write off of the NPL by the borrower)
- There is no obligation to prepare a balancing statement for the immovable property transferred in the course of the restructuring
- No transfer fees on the transfer/registration of the immovable property in the course of the restructuring
- No stamp duty is imposed on the loan restructuring agreement and other instruments/contract executed as part of the loan restructuring
- No levy is payable to the Central Agency for the Equal Distribution of Burdens Law

In the event of the property disposal or possession of a property by the lender for own use, which such property was acquired in the course of a loan restructuring, the acquisition cost for the lender for income tax and capital gains tax purposes is considered to be the agreed "restructuring price" and the disposal value is reduced by any amount returned to the borrower.

The "restructuring price" is the price at which the immovable property is transferred to the lender in the course of the restructuring, pursuant to the agreement concluded between the lender and the borrower.

The legislation further provides that in the event where part of the disposal proceeds has been returned to the borrower, any tax exemption granted to the borrower may be clawed back. In this instance, the lender is responsible to withhold the appropriate amount of tax and make the relevant payment to the Tax Department on behalf of the borrower.

Value added tax considerations

Other than the ability to transfer any memo/charge placed on an immovable property by the Tax Department concerning VAT related liabilities, the loan restructuring provisions do not affect the VAT legislation.

Therefore, for VAT purposes, the transaction relating the loan restructuring(s) are considered as normal transactions and are not subject to any exemptions.

Persons engaged in loan restructuring transactions and in general persons affected by such loan restructuring transactions should examine the VAT treatment of relevant transactions in order to ensure both compliance with the provisions of the legislation and VAT efficiency.

Debt to asset swaps should be considered as sale of the property. The consideration for the sale should be the "restructuring price".

For simplification purposes, the VAT that applies on the transactions relating to a loan restructuring is accounted by the lender under the reverse charge mechanism.

Reporting Obligation for Digital Platform Operators (DAC7)

General Overview

- DAC7 is the EU Council Directive 2021/514 which was adopted by the Economic and Financial Affairs Council on 22 March 2021 in order to amend the Council Directive 2011/16/EU on administrative cooperation in the field of taxation.
- DAC7 introduces reporting obligations for EU and non-EU Digital Platform Operators (“DPOs”) that connect certain ‘Reportable Sellers’ to buyers. DAC7 only covers the intermediation services provided by DPOs and therefore it does not apply in the cases of e-shops where sellers own their own products/services.
- DPOs have the option to register in only one Member State (also applicable to DPOs located outside EU). The objective is to provide information to EU Member States to conduct accurate income tax and VAT assessments for ‘Reportable Sellers’.

Reportable Seller

A “Reportable Seller” is:

- a platform user (individual or entity) that carries out a ‘Relevant Activity’ and is resident in an EU Member State OR rents out immovable property located in an EU Member State.

Relevant Activity

Any activity (domestic or cross-border) carried out for a consideration and being any of the following:

- Rental of immovable property (i.e. residential, holiday, commercial)
- Personal services (i.e. time or task-based work such as freelancing)
- Sale of goods (i.e. new or used, B2B or B2C)
- Rental of any mode of transport (i.e. cars)

Outside the scope of DAC7

The following **platforms** are outside the scope of DAC7:

- Platforms exclusively allowing users the processing of payments in relation to a ‘Relevant Activity’.
- Platforms exclusively allowing users to list/advertise a ‘Relevant Activity’.
- Platforms exclusively redirecting/transferring users elsewhere.

The following **entities** are outside the scope of DAC7:

- Governmental entities.
- Listed entities.
- Entities for which the DPO facilitated more than 2.000 relevant activities in a calendar year, relating to the rental of immovable property units located at the same street address, owned by the same owner and offered for rent on a platform by the same seller.
- Entities for which the DPO facilitated less than 30 relevant activities in a calendar year, relating to the sale of goods for which the total consideration did not exceed €2.000.

Deadlines

The information is reportable by 31 January of the year following the calendar year in which the seller is identified as a ‘Reportable Seller’, and the first information should be reported for 2023.

Reporting Obligation for Cross – Border Transactions (DAC6)

General Overview

- DAC 6 is the EU Council Directive 2018/822 which was adopted by the Economic and Financial Affairs Council on 25th May 2018 in order to amend the Council Directive 2011/16/EU on administrative cooperation in the field of taxation.
- DAC6 relates to the mandatory automatic exchange of information of certain cross-border arrangements and was introduced by the Council in order to improve transparency by requiring EU intermediaries (or taxpayers) to provide information regarding potential aggressive tax planning arrangements to EU Member States.
- The 'cross border arrangements' that are considered reportable are those that meet certain criteria (i.e. Hallmarks) which indicate that aggressive tax planning may have taken place. An arrangement is cross-border if it involves at least two EU Member States or an EU Member State and a third country, provided that certain criteria are met.
- The provisions of DAC 6 apply to all kind of direct taxes. Indirect taxes such as VAT, customs, excise duties and social security contributions are excluded.

EU Intermediary

An "Intermediary" is:

- Any person that designs, markets, organizes, makes available for implementation or manages the implementation of a "reportable cross-border arrangement" (a "primary intermediary").
- Any person that knows or could be reasonably expected to know (based on facts, circumstances, available information and the relevant expertise/understanding that they have) that they have undertaken to provide, directly or by means of other persons, aid, assistance or advice with respect to designing, marketing, organizing, making available for implementation or managing the implementation of a "reportable cross-border arrangement" (a "secondary intermediary").

The Intermediary must be linked to an EU Member State (i.e. tax resident, permanent establishment, incorporated, registered with a professional body/association).

EU Taxpayer

A "Taxpayer" is any person:

- To whom a "reportable cross-border arrangement" is made available for implementation
- Who is ready to implement a "reportable cross-border arrangement"
- Who has implemented the first step of a "reportable cross-border arrangement".

The taxpayer must be linked to an EU Member State (i.e. tax resident, permanent establishment, income/profits from EU Member State, activity in an EU Member State).

Obligation to report

The obligation to report lies with the Intermediary, unless any one of the following conditions is met:

- The EU Intermediary is protected by professional secrecy (i.e. legal professional privilege)
- The reportable cross-border arrangement was designed in-house
- The Intermediary does not have a nexus with the EU. If an Intermediary does not have an obligation to report, the disclosure obligation is shifted to the relevant Taxpayer (or any other Intermediary that provided assistance for the implementation the arrangement).

Deadline for reporting

The deadline for reporting by primary intermediaries and taxpayers is within 30 days from:

- The day after the reportable cross-border arrangement is made available for implementation
- The day after the reportable cross-border arrangement is ready for implementation
- When the first step of implementation has been made whichever occurs first.

The deadline for reporting by secondary intermediaries is within 30 days from the day after they provided aid, assistance or advice with respect to a reportable arrangement.

The penalties for non-reporting, delayed reporting, filing inaccurate/incomplete/misleading information, failure/delay in notifying other intermediaries or the relevant taxpayer and failure to provide any requested information to the Tax Department range from €1.000 to €20.000, depending on the offence.



Hallmarks

Hallmarks subject to the main benefit test

Generic Hallmarks – Category A

- A.1 Compliance with a condition of confidentiality.
- A.2 Performance-based remuneration – contingent fee.
- A.3 Standardized documentation or structures.

Specific Hallmarks – Category B

- B.1 Acquisition of loss-making company and use of its losses.
- B.2 Conversion of income into capital or categories that are taxed at lower rates or are exempt from tax.
- B.3 Circular transactions resulting in the round-tripping of funds.

Cross-border transactions – Category C

- C.1 Deductible cross-border arrangements:
 - b. i. Recipient tax resident in a jurisdiction with no CIT or 0% (or almost 0%) CIT rate.
 - c. Payment benefits from a full exemption from tax.
 - d. Payment benefits from preferential tax regime.

Hallmarks not subject to the main benefit test

Cross-border transactions – Category C

- C.1 Deductible cross-border arrangements:
 - a. Recipient not tax resident in any jurisdiction.
 - b. ii. Recipient resident in a black-listed country.

C.2 Depreciation of assets claimed in more than one jurisdiction.

C.3 Relief from double taxation in more than one jurisdiction.

C.4 Transfer of assets with material difference in the amount being treated as payable.

Automatic Exchange of Information and Beneficial Ownership – Category D

D.1 Arrangements undermining reporting obligations on automatic exchange of financial information.

D.2 Arrangements involving no-transparent legal or beneficial ownership chains.

Transfer Pricing – Category E

E.1 Use of unilateral safe harbor rules.

E.2 Transfer of hard-to-value intangibles or rights in intangibles.

E.3 Cross-border transfer of significant functions, risks and/ or assets.

Main benefit test

The **main benefit test** examines whether the arrangement is such that a tax advantage in an EU Member State is the main benefit or one of the main benefits which, having regard to all relevant facts and circumstances, a person may reasonably expect to derive from the arrangement.

Country-by-Country Reporting

Country by Country (“CbC”) reporting is a requirement for multinational enterprise groups (“MNE Groups”) generating consolidated annual turnover exceeding €750 million during the fiscal year immediately preceding the reporting fiscal year.

In this respect, MNE Groups with an ultimate Cyprus tax resident parent, are required to file on an annual basis a CbC report which includes specific financial data covering income, taxes, and other key measures of economic activity by territory. Under certain conditions, a CbC reporting requirement may also apply for Cyprus tax resident entities belonging to an MNE Group.

Cyprus tax resident constituent entities of an MNE Group should notify the Cyprus tax authorities of whether they are the reporting entity and if they are not, the details of the reporting entity of the MNE Group.

Filing Obligations

A filing obligation exists for a Cyprus tax resident entity that:

- is the ultimate parent entity of an MNE Group, and
- prepares consolidated financial statements or would be required to prepare such statements if its equity interests were traded on a public securities exchange is obliged to file electronically a CbC report on behalf of the MNE Group with the Cyprus tax authorities.

Cyprus tax resident entities belonging to an MNE group that has a non-Cyprus tax resident ultimate parent may under certain conditions be obliged to submit a CbC report in Cyprus (under the “secondary filing mechanism”) or be designated by the MNE Group as the sole substitute of the ultimate parent entity (under the “surrogate parent” mechanism).

CbC reporting notifications

Each Cyprus tax resident constituent entity of an MNE Group should notify, on an annual basis, the Cyprus tax authorities if it is the reporting entity of the MNE Group (i.e., the ultimate parent or surrogate parent). In the case where the entity is not the reporting entity, then it should also notify the authorities of the details and tax residency of the reporting entity of the MNE Group. Such notifications should be submitted before the end of each financial year.

Information to be disclosed

MNE Groups need to disclose on their CbC report the following data for each tax jurisdiction in which they operate:

- The amount of revenue, profit before tax, and corporate taxes paid and accrued.
- Capital retained earnings and tangible assets, together with the number of employees.
- Identification of each entity within the group doing business in a particular tax jurisdiction, with a broad indication of its economic activity.

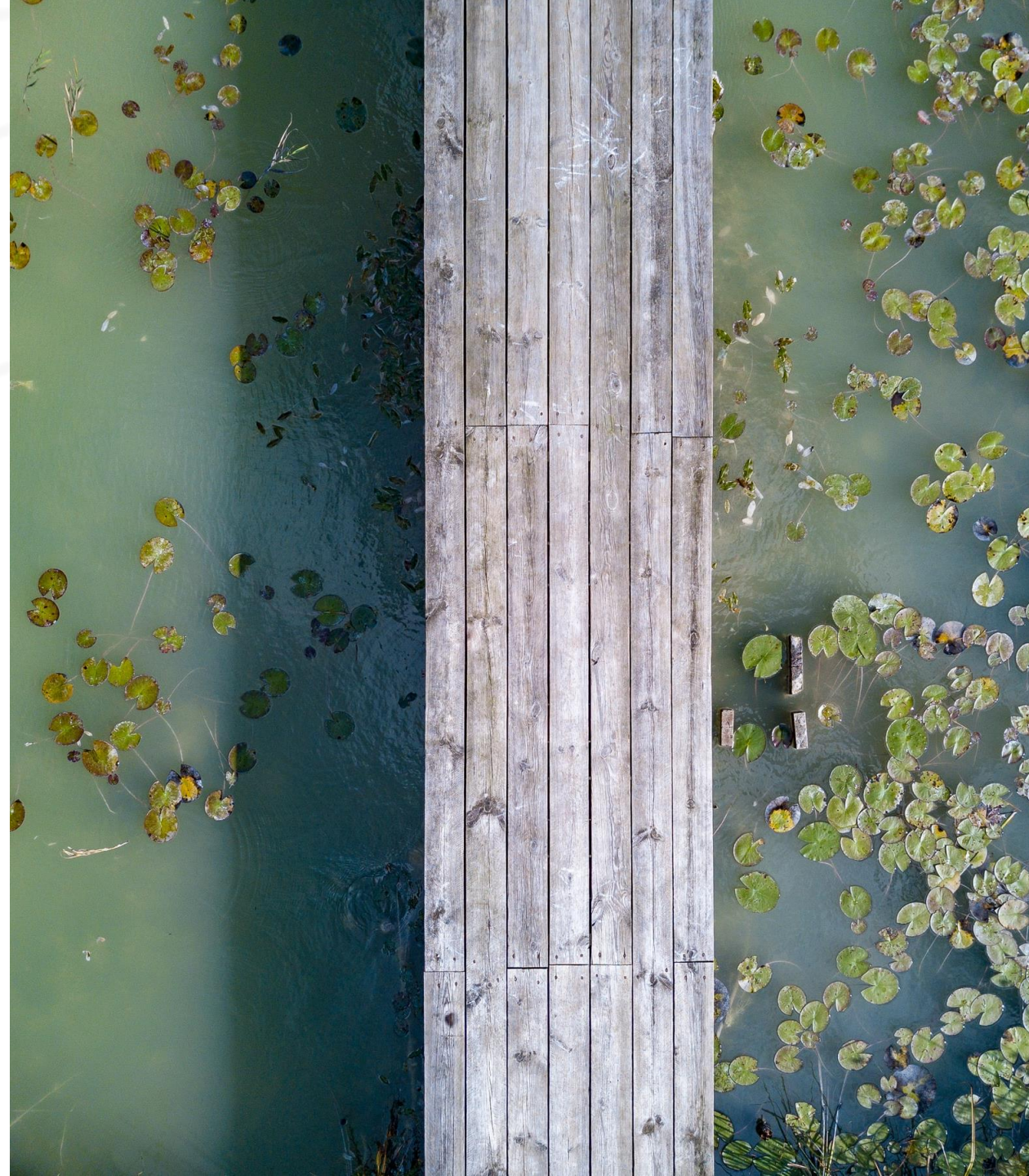
The format of the CbC report is consistent with the template published by the OECD as part of the BEPS project (Action 13) and the EU Directive 2016/881.

Deadlines

- Submission of the CbC notification **by 31 December** of the reporting year
- Submission of the CbC report by the reporting entity is by **31 December** of the year following the reporting year.

Penalties

The penalties for failing to submit a CbC report/notification, to maintain books/records or to provide information/access to records to the Tax Department range from €500 to €20.000, depending on the offence.



Withholding Taxes on Payments to Non-Residents and Double Tax Treaty Tables

General Provisions

Dividends

Dividends paid to a non-resident company or non-resident individual are not subject to withholding tax in Cyprus.

Interest

No withholding tax is imposed on interest paid to a non- resident company or individual.

Royalties

Royalties paid to a non-resident for the use of rights in Cyprus are subject to a withholding tax of 5% (applicable for film royalties) and 10% (all other royalties). These rates may be reduced under the provisions of a double tax treaty or the EU interest and royalties directive.

Royalties paid to a non-resident for the use of rights outside Cyprus are exempt from withholding tax.

There is no withholding tax on the payment of royalties by one resident company to another resident company.

Taxation of income from exploration within the Republic of Cyprus

The gross income earned from sources within Cyprus by any person (company or individual) who is not tax resident in Cyprus and who does not have a permanent establishment in Cyprus, as consideration for services carried out in Cyprus regarding the extraction, the exploration or exploitation of the seabed, subsoil or natural resources and the establishment and operation of pipelines and other installations on the ground, the seabed or the surface of the sea, is liable to tax at the flat rate of 5%.

Taxation of income from the exercise of certain professions

The gross income derived by professionals, artists, and other public entertainers, including athletes, which are non-tax resident individuals is subject to withholding tax at the rate of 10%.

Provisions for payments to recipients located in EU blacklisted jurisdictions

The outbound payments of dividends, interest and royalties by a Cypriot tax resident company to a company which is tax resident in a country included in the EU blacklist or to a company incorporated in a backlisted country which is not considered as tax resident anywhere may be subject to withholding tax, as outlined below:

Dividends

In the cases where the company receiving the dividend holds more than 50% of the voting rights, share capital or is entitled to receive more than 50% of the profits of the Cypriot tax resident dividend paying company, the dividends will be subject to a withholding tax of 17%.

The above does not apply to dividends paid by a company tax resident in Cyprus which is listed on a recognised stock exchange.

Interest

Interest will be subject to a withholding tax of 17% (effective from 1 January 2024).

The above does not apply to interest paid relating to securities listed on a recognised stock exchange.

Royalties

Royalties will be subject to a withholding tax of 10%, irrespective of whether the asset for which the royalty is paid is for use in Cyprus or elsewhere.

Double Tax Treaties concluded by Cyprus – Summary of the withholding tax rates

Paid from Cyprus	
Paid to	Royalties Rights used within Cyprus %
Non-treaty countries	0/5/10
Andorra	0
Armenia	5
Austria	0
Azerbaijan	0
Bahrain	0
Barbados	0
Belarus	5
Belgium	0
Bosnia and Herzegovina	10
Bulgaria	10
Canada	0/10
China	10
Croatia	5
Czech Republic	10
Denmark	0
Egypt	10
Ethiopia	5
Estonia	0
Finland	0
France	0/5
Georgia	0
Germany	0
Greece	0/5
Guernsey	0

Hungary	0
Iceland	5
India	10
Iran	6
Ireland	0/5
Italy	0
Jersey	0
Jordan	7
Kazakhstan	10
Kuwait	5
Kyrgyzstan	0
Latvia	0/5
Lebanon	0
Lithuania	5
Luxembourg	0
Malta	10
Mauritius	0
Moldova	5
Montenegro	10
Netherlands	0
Norway	0
Poland	5
Portugal	10
Qatar	5
Romania	0/5
Russia	0
Saudi Arabia	5/8
San Marino	0
Serbia	10
Seychelles	5
Singapore	10

Slovakia	0/5
Slovenia	5
South Africa	0
Spain	0
Sweden	0
Switzerland	0
Syria	10/15
Thailand	5/10/15
Ukraine	5/10
United Arab Emirates	0
United Kingdom	0
United States of America	0
Uzbekistan	0

No tax is withheld for payment of dividends and interest to non-residents of Cyprus.

No tax is withheld when the royalty is paid for the use outside Cyprus.

Table B – Cyprus withholding tax rates on inbound dividend/interest/royalty payments

Paid to Cyprus			
Paid from	Dividends %	Interest %	Royalties %
Andorra	0	0	0
Armenia	0/5	0/5	5
Austria	10	0	0
Bahrain	0	0	0
Barbados	0	0	0
Belarus	5/10/15	5	5
Belgium	10/15	0/10	0
Bosnia and Herzegovina	10	10	10
Bulgaria	5/10	0/7	10
Canada	15	0/15	0/10

Paid from	Dividends %	Interest %	Royalties %
China	10	10	10
Croatia	5	0/5	5
Czech Republic	0/5	0	10
Denmark	0/15	0	0
Egypt	5/10	10	10
Ethiopia	5	0/5	5
Estonia	0	0	0
Finland	5/15	0	0
France	10/15	0/10	0/5
Georgia	0	0	0
Germany	5/15	0	0
Greece	25	10	0/5
Guernsey	0	0	0
Hungary	5/15	0/10	0
Iceland	5/10	0	5
India	10	0/10	10
Iran	5/10	0/5	6
Ireland	0	0	0/5
Italy	15	10	0
Jersey	0	0	0
Jordan	5/10	0/5	7
Kazakhstan	5/15	0/10	10
Kuwait	0	0	5
Latvia	0/10	0/10	0/5
Lebanon	5	0/5	0
Lithuania	0/5	0	5
Luxembourg	0/5	0	0

Paid from	Dividends %	Interest %	Royalties %
Malta	0	0/10	10
Mauritius	0	0	0
Moldova	5/10	5	5
Montenegro	10	10	10
Netherlands	0/15	0	0
Norway	0/15	0	0
Poland	0/5	0/5	5
Portugal	10	10	10
Qatar	0	0	5
Romania	10	0/10	0/5
Russia (suspended)	5/15 (suspended)	0/5/15 (suspended)	0 (suspended)
Saudi Arabia	0/5	0	5/8
San Marino	0	0	0
Serbia	10	10	10
Seychelles	0	0	5
Singapore	0	0/7/10	10
Slovakia	10	0/10	0/5
Slovenia	5	0/5	5
South Africa	5/10	0	0
Spain	0/5	0	0
Sweden	5/15	0/10	0
Switzerland	0/15	0	0
Syria	0/15	0/10	10/15
Thailand	10	0/10/15	5/10/15
Ukraine	5/10	0/5	5/10
United Arab Emirates	0	0	0
United Kingdom	0/15	0	0
United States of America	5/15	0/10	0



Tax Diary and Penalties for Late Submission or non-Payment of Taxes Submission of income tax returns

Every person (individual or company) is obliged to submit a tax return electronically, based on the dates included in the table below.

Individuals with gross income subject to tax are obliged to submit a tax return, irrespective of whether their income is below €19.500 (i.e. the tax free allowance). A decree is expected to be issued by the Council of Ministers that will define certain categories of individuals and the conditions under which such individuals will be exempted from the obligation to submit an income tax return.

Subject to conditions, taxpayers have the right to submit a revised tax return within 3 years from the submission due date of the tax return for the relevant tax year.

Date	Obligation	Tax Form	Penalties
31 January 2025	Submission of the deemed dividend distribution form and payment of the SDC on deemed dividend distribution for the profits of tax year 2022	TD623	1,2
	Submission of DAC7 report by Digital Platform Operators		18
28 February 2025	Qualifying charterers and managers as well as qualifying owners of foreign flagged vessels shall submit tonnage tax declaration and pay tonnage tax for the previous year	MS TT 2 A/B/C	3
31 March 2025	Submission of income tax return for Companies, along with the relevant form confirming the withholding of SDC on rents (if required/applicable)	TD4 TD614	1,4
	Submission of income tax return, accounts and additional information by individuals who submit audited/reviewed accounts	TD1	1,4
	Qualifying owners of Cyprus flagged vessels shall submit tonnage tax declaration upon entry to the Tonnage Tax System and pay tonnage tax for the current year	MS TT 2 B/C	3

Date	Obligation	Tax Form	Penalties
30 April 2025	Payment of the first instalment of the premium tax for insurance companies (life business) for 2025	TD199	-
31 May 2025	Submission of Employer's Tax Return	TD7	1
30 June 2025	Payment of SDC and GHS on rental, dividend and interest income received during the first half of the current year for which no withholding has been made at source	-	5
	Payment of SDC and GHS withheld on rent payments made during the first half of the current year	TD614	5
31 July 2025	Submission of the 2024 personal income tax return by individuals and payment of the income tax liability	TD1	1,4,7
	Payment of the first instalment of provisional tax assessment for 2025	-	6,8
1 August 2025	Payment of the 2024 tax balance through self-assessment by individuals preparing audited/reviewed financial statements and companies	-	7
31 August 2025	Payment of the second instalment of the premium tax for insurance companies (life business) for 2025	TD199	-
31 December 2025	Submission of the 2025 revised provisional tax assessment (if applicable)	TD6	6,8
	Payment of the second instalment of provisional tax assessment for 2025	TD5	6,8
	Payment of SDC and GHS on rental, dividend and interest income received during the second half of the current year for which no withholding has been made at source	-	5
	Payment of the third and last instalment of the premium tax for insurance companies (life business) for 2025	TD199	-
	Payment of SDC and GHS withheld on rent payments made during the second half of the current year	TD614	5

Date	Obligation	Tax Form	Penalties
By the end of the next month	Payment of SDC and GHS withheld on dividend and interest payments relating to the previous month and submission of the relevant forms	TD602 TD603	5
	Payment of PAYE/income tax deducted from employees' emoluments relating to the previous month	-	9
	Payment of social insurance and contributions to GHS deducted from employee emoluments relating to the previous month	Y.K.A. 2-002	10
Within 30 days	Payment of Capital Gains Tax	-	2
	Submission of XML DAC6 report in case of a reportable cross-border arrangement (the deadline is within 30 days from the date on which a triggering event took place)	-	17
Within 60 days	Obtaining a Tax Identification Code ("TIC") for newly incorporated companies or foreign companies that become tax residents of Cyprus	TD2001	11
	Notification of changes of company details (i.e. registered address, activities, etc.)	TD2003	12
	Submission of the Transfer Pricing documentation file, in case this is requested by the Tax Authorities	-	Refer to the Transfer Pricing section above
By the 10th of the second month after the end of the VAT period	Submission of VAT Return	VAT 4	13
	Payment of VAT amount due	-	14

Date	Obligation	Tax Form	Penalties
Within 10 days from the end of the relevant month	Submission of Intrastat form	INTRAST AT 1.1, 1.2	15
Within 15 days from the end of the relevant month	Submission of VIES form for goods and services	VIES 1	16
By the end of the financial year	Submission of the Country-by-Country notification	-	Refer to the Country-by-Country section above

1. The late submission of the tax return results in the imposition of an administrative fine if €100. If the tax return for a specific year is requested in writing by the Tax Department and this is not submitted within the requested period, or if the Tax Commissioner requests supporting documentation and these are not provided promptly, a penalty of €200 is imposed.
2. Interest is imposed at the rate of 5% per annum from the due date. Furthermore, in case of late payment of the tax due, a penalty of 5% is imposed on the tax due.
3. In case of a late payment of the tonnage tax, a surcharge of 10% on the amount of tonnage tax is imposed for every year of delay, until the payment of the tax due.
4. The non-submission of a tax return is a criminal offence and may result both in additional administrative fines or imprisonment.
5. Interest is imposed at the rate of 5% per annum from the due date. Furthermore, in case of late payment of the tax due, a penalty of 5% is imposed on the tax due.
6. In case any of the two instalments of the provisional tax assessment is not paid within 30 days from the due date, interest at the rate of 5% per annum is imposed. In addition, in case of a delay in payment, a penalty of 5% is imposed on the tax due.

7. Interest is imposed at the rate of 5% per annum from the due date. Furthermore, in case of late payment of the tax due, a penalty of 5% is imposed on the tax due and an additional penalty of 5% is also imposed if the tax due remains unpaid for more than 2 months from the relevant deadline (or from the period prescribed by a notice issued by the Tax Commissioner).
8. A penalty of 10% is imposed on the final tax assessment, if the provisional tax paid is less than 75% of the final liability for the year.
9. Late payment results in the imposition of interest at 5% per annum from the due date and an additional penalty of 1% per month.
10. Late payment results in the imposition of a penalty of 3% for each month of delay. The total amount of the penalty cannot exceed 27% of the amount due.
11. Late registration with the Tax Department results in the imposition of an administrative fine of €100.
12. Late communication of changes to the Tax Department results in the imposition of an administrative fine of €100.
13. Late submission of a VAT return results in the imposition of an administrative fine of €100.
14. Late payment of the VAT is subject to a flat penalty of 10% on the VAT amount due and interest at the rate of 5% per annum.
15. Late submission of an Intrastat form is subject to an administrative fine of €15.
16. Late submission of a VIES return is subject to an administrative fine of €50.
17. The penalties for non-reporting, delayed reporting, filing of inaccurate or incomplete or misleading information, failure/delay in notifying other intermediaries or the relevant taxpayer and failure to provide any requested information to the Tax Department range from €1.000 to €20.000, depending on the offence.
18. The penalties for non-reporting or filing of inaccurate or incomplete or misleading information range from €1.000 to €5.000, depending on the offence.





About Baker Tilly International

We are proud to be a member of the Baker Tilly network, where our membership provides a global reach to our national presence.

Our members of staff make it their business to know and understand their clients' long-term ambitions, anticipating and responding to challenges as their clients pursue opportunities.

All 125 independent firms come together across four geographic areas to share their knowledge, where this business approach allows us to deliver exceptional results to clients globally.

Now, for tomorrow for our clients

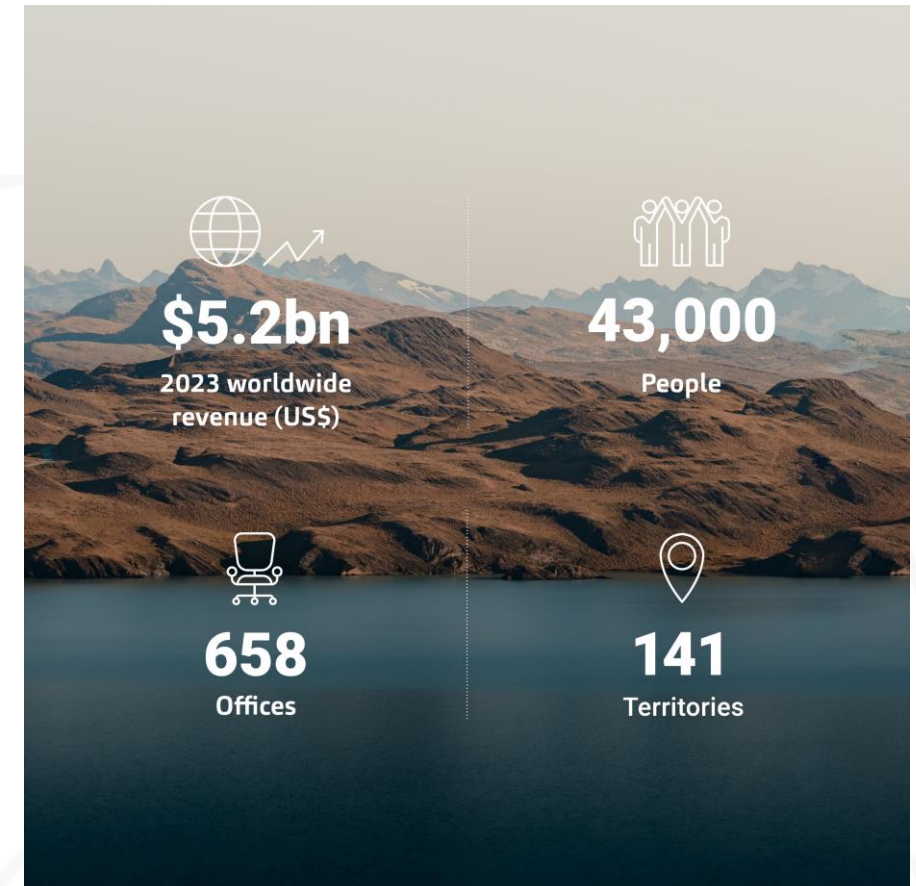
We create meaningful experiences with our clients to solve their most pressing problems and seize new opportunities.

Our relationships with clients are genuine. We understand their world today and provide insights that shape their tomorrow.

Network members collaborate seamlessly to serve our clients across the globe.

The Baker Tilly network has a total combined fee income of US\$5.26bn for the year ending 31 December 2023,.

Global headcount has increased to 43,000 people working out of 658 offices worldwide.



Baker Tilly South East Europe

Our Offices

CYPRUS

Nicosia

Corner Hatzopoulou &
30 Griva Digheni Avenue
1066 Nicosia, Cyprus
T: +357 22458500
F: +357 22751648
info@bakertilly.com.cy
www.bakertilly.com.cy

ROMANIA

Bucharest

42 Pipera Street,
Globalworth Plaza,
7th Floor, 2nd Sector,
020112 Bucharest, Romania
T: +40 21 3156100
F: +40 21 3156102
info@bakertilly.ro
www.bakertilly.ro

MOLDOVA

Chisinau

65 Stefan cel Mare și Sfânt
Blvd.
7th Floor, Office 715
2001 Chisinau, Moldova
T: +373 22 543434
F: +373 22 260134
info@bakertilly.md
www.bakertilly.md

CYPRUS

Limassol

249, 28th October street,
Lophitis Business Centre I
Ground floor, 3035,
Limassol, Cyprus
T: +357 25 591515
F: +357 25591545
limassol@bakertilly.com.cy
www.bakertilly.com.cy

BULGARIA

Sofia

5 Stara Planina Str.,
5th & 6th Floor,
1000 Sofia, Bulgaria
T: +359 2 9580980
F: +359 2 8592139
info@bakertilly.bg
www.bakertilly.bg

GREECE

Athens

Patmou & Olympou
15123 Marousi,
Athens Greece
T: +30 215 5006060
F: +30 215 5006061
info@bakertilly.gr
www.bakertilly.gr

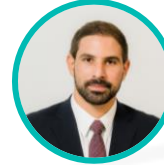
BULGARIA

Blagoevgrad

1 Stefan Stambolov Str.,
1st floor, 2700
Blagoevgrad, Bulgaria
T: +359 2 9580980
F: +359 2 8592139
info@bakertilly.bg
www.bakertilly.bg

Baker Tilly South East Europe

Our Tax Experts



Savvas M. Klitou
Regional Managing Partner &
Head of Tax Services
s.klitou@bakertilly.com.cy



Valentinos G. Pavlides
Director, Tax Services – Transfer Pricing
Services
v.pavlides@bakertilly.com.cy



Andreas Papagavriel
Director, Direct and Indirect
Tax Services
A.Papagavriel@bakertilly.com.cy



Argyris Emmanuel
Manager, Transfer Pricing Services
A.Emmanuel@bakertilly.com.cy



Elena V. Chrysostomou
Manager, Tax Services
E.Chrysostomou@bakertilly.com.cy

©2025 Baker Tilly in Cyprus. All rights reserved. Baker Tilly in Cyprus is an independent member of Baker Tilly International. Baker Tilly International Limited is an English company. Baker Tilly International provides no professional services to clients. Each member firm is a separate and independent legal entity and each describes itself as such. Baker Tilly in Cyprus is not Baker Tilly International's agent and does not have the authority to bind Baker Tilly International or act on Baker Tilly International's behalf. None of Baker Tilly International, Baker Tilly in Cyprus, nor any of the other member firms of Baker Tilly International has any liability for each other's acts or omissions. The name Baker Tilly and its associated logo is used under licence from Baker Tilly International Limited.