



**COUNTRY
COMPARATIVE
GUIDES 2023**

The Legal 500 Country Comparative Guides

Cyprus

DOING BUSINESS IN

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This country-specific Q&A provides an overview of doing business in laws and regulations applicable in Cyprus.

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CYPRUS

DOING BUSINESS IN



1. Is the system of law in your jurisdiction based on civil law, common law or something else?

Cyprus is a common law jurisdiction and its justice system is based on the adversarial model. The laws applicable in Cyprus are (i) the Constitution of the Republic of Cyprus, (ii) the principles of Common Law and Equity, (iii) the Laws enacted by the House of Representatives and (iv) the EU laws.

The Constitution of the Republic of Cyprus has been amended, following the accession of the Republic of Cyprus to the European Union in 2004, so that the European law has supremacy over the Constitution and national legislation.

2. What are the different types of vehicle / legal forms through which people carry on business in your jurisdiction?

The main types of entities/vehicles, are as follows:

- limited liability company, which is most commonly formed as a private company limited by shares;
- limited by guarantee company, which is most commonly formed as charitable or a non-profit company;
- public company, which has more stringent requirements than a private limited liability company, but through which the company can offer its shares to the public;
- the partnership, where individuals jointly and severally share the profits, responsibility, debts and liability of the partnership as partners, and
- SE Company.

3. Can non-domestic entities carry on business directly in your jurisdiction, i.e.,

without having to incorporate or register an entity?

Subject to applicable laws and regulations, an overseas company may carry on business directly in Cyprus, but it must register with the Cyprus Registrar of Companies ("**Registrar**") if it has some degree of physical presence in Cyprus, such as a place of business where it carries on its business.

4. Are there any capital requirements to consider when establishing different entity types?

Pursuant to the provisions of Companies Law, Cap.113 ("**Companies Law**") limited liability companies are required to have a share capital, which can be made of cash or kind. In accordance with the provisions of Companies Law, there is no minimum amount requirement for a private limited liability company.

Unlike private limited liability companies, a public company shall have a minimum capital of €25,629.

In partnerships, there is no concept of share capital but there must be some contribution from a partner, which is known as the partner's capital. However, there is no minimum requirement of capital for registering a limited liability partnership.

5. How are the different types of vehicle established in your jurisdiction? And which is the most common entity / branch for investors to utilise?

Please see question 2 regarding the different types of vehicles.

The most common entity for investors to use is either a private company limited by shares or a public company:

- a private company limited by shares must register with a Registrar: (i) a company name,

(ii) registered address, (iii) at least one director, (iv) a secretary and (v) at least one shareholder (with a maximum of fifty shareholders).

- a public company must have: (i) at least two directors, (ii) a secretary, (iii) at least seven shareholders, and (iv) a minimum nominal value of allotted share capital of €25,629, of which each share must be paid up at least as to one-quarter of its nominal value and the whole of any premium.

6. How is the entity operated and managed, i.e., directors, officers or others? And how do they make decisions?

Private companies and public companies are managed by their directors acting as a board. Subject to the articles of association of a company, board decisions are passed by simple majority.

There are however certain decisions which must be made by shareholders at a general meeting (or by a written resolution, where applicable). Shareholder decisions are either passed by an ordinary resolution (being approved by over 50% of the shareholders) or by a special resolution (being approved by over 75% of the shareholders) pursuant to the provisions of the Companies Law and each company's articles of association.

7. Are there general requirements or restrictions relating to the appointment of (a) authorised representatives / directors or (b) shareholders, such as a requirement for a certain number, or local residency or nationality?

An individual may become a company director unless they are:

- disqualified from being a company director, pursuant to any applicable laws, regulations and/or court decisions;
- an undischarged bankrupt (unless allowed by the court);
- declared legally incapacitated; or
- under the age of 18.

Regarding the number of directors and shareholders required please see question 5 above.

Further, it is possible for another company to act as a director. There is no legal requirement for a director to

be based in Cyprus or to be a Cypriot national.

In case of private limited companies, only one member companies can have the same person appointed as director and secretary. If there are more than one shareholders, then a sole director and the secretary shall be different persons.

In accordance with the provisions of Companies Law, there are no local residency or nationality requirements placed on shareholders.

Finally, subject to certain exceptions, the authorised representatives and the secretary of a Cypriot company should be Cypriot residents in accordance with the provisions of the Law on the Regulation of Businesses Providing Administrative Services and Related Matters (196(I)/2012).

8. Apart from the creation of an entity or establishment, what other possibilities are there for expanding business operations in your jurisdiction? Can one work with trade /commercial agents, resellers and are there any specific rules to be observed?

From a corporate law perspective, there are no restrictions in expanding business operations in Cyprus. Unless specifically noted in the articles or memorandum of association, an entity or establishment is free to work with trade/commercial agents and resellers.

9. Are there any corporate governance codes or equivalent for privately owned companies or groups of companies? If so, please provide a summary of the main provisions and how they apply.

N/A

10. What are the options available when looking to provide the entity with working capital? i.e., capital injection, loans etc.

Working capital may be provided by the shareholders by subscribing for further shares in the company.

A company may also consider a loan to finance working capital loans. This could be from the shareholders, another entity within the same company group or from a third party. In addition to this the company may consider the following options: overdrafts, revolving credit facilities, debt factoring (or invoice finance), asset

refinancing, etc.

11. What are the processes for returning proceeds from entities? i.e., dividends, returns of capital, loans etc.

Generally, companies are bound by strict maintenance of capital rules and only subject to certain exceptions, can return value to their shareholders. As set out below, private companies can return value to their shareholders in several ways.

Dividends

The most common method of a company returning value to its shareholders is by the declaration of a dividend. A dividend is a distribution of a company's post-tax profits to its shareholders. It is important for a company to have sufficient distributable profits that are justified by reference to relevant accounts for the company to be able to lawfully pay a dividend.

Dividends paid out by a company are either in the form of a final dividend (*dividends paid once a year calculated after the annual accounts have been drawn up*) or an interim dividend (*dividends paid at any time throughout the year calculated before the company's annual earnings have been determined*).

Checking the company's articles of association before recommending or declaring a dividend is of ultimate importance, as they usually contain express provisions regarding dividends. Subject to any restrictions in the articles of association, directors can generally resolve to pay interim dividends. Final dividends shall be recommended by directors but declared by the shareholders of the company.

The directors should have regard to their common law and equitable duties, and their statutory duties under Companies Law before paying a dividend. Company directors are under a common law duty to safeguard the company's assets and must also consider the company's future financial requirements before recommending or declaring dividends.

Share Buybacks

A private limited company in Cyprus cannot buy and hold its own shares.

Public companies can acquire their own shares if authorised by their articles of association and subject to certain conditions as per the provisions of Companies Law, such as, inter alia, (i) securing corporate approvals, (ii) maintaining the share percentages prescribed by law,

and (iii) ensuring that the consideration is paid out of realised and non-distributed profits.

Redeemable Preference Shares

Despite that a private limited liability company cannot buy back its own shares, shares may be redeemed if such shares were issued as redeemable preference shares ("RPS"). RPS are shares issued in the share capital of a company with the intention that those will be redeemed or shall have the right to be redeemed at the option of the issuing company or the holder of the RPS in exchange for cash or a fresh issue of shares, subject to (i) the redemption provisions agreed upon the issuance of the RPS, (ii) the relevant mechanics provided under the company's articles of association and (iii) the relevant provisions of Companies Law.

Capital reductions

A reduction of capital occurs where a company reduces the amount of its share capital. Companies Law gives the right to a company to reduce its capital when certain requirements are satisfied. It needs to be allowed through the company's articles of association and be approved through a special resolution. The company must then submit a court application to receive the court's approval for the proposed reduction of share capital before proceeding with the reduction.

Bonus issue

A bonus issue is an issue of new shares (bonus shares) by a company to holders of existing shares in the company, generally in proportion to their existing holdings. No payment is required from shareholders as the bonus shares are paid up using the company's existing profits or reserves. The articles of association shall be reviewed before a company can carry out a bonus issue, to ensure that the directors have authority to capitalise the relevant profits or reserves and issue bonus shares. The directors' authority to capitalise profits or reserves and issue bonus shares is usually subject to the approval of shareholders by ordinary resolution.

Loans

It is also possible for a company to loan cash to its shareholders. The terms of such a loan should be closely examined to ensure they do not give rise to any tax or legal issues.

12. Are specific voting requirements / percentages required for specific

decisions?

Please see *question 6* regarding relevant percentages.

Corporate actions that require a special resolution (i.e. being approved by over 75% of the shareholders) in accordance with Companies Law, *inter alia*, include:

- amending the company's memorandum and articles of association;
- changing the company's name;
- approving a reduction of share capital or share premium account;
- approving buy-back of shares in public companies; and
- approving a members' voluntary liquidation.

13. Are shareholders authorised to issue binding instructions to the management? Are these rules the same for all entities? What are the consequences and limitations?

In addition to any matters that shall be decided by the shareholders of a company pursuant to the provisions of Companies Law, directors must immediately convene an

extraordinary general meeting of the company if requested by:

- Members of the company holding at least 10% of the paid-up capital of the company.
- For companies with no share capital, members representing at least 10% of the total voting rights of all shareholders.
- For listed companies in a regulated market, members representing at least 5% of the total voting rights of all shareholders.

Additionally, companies' articles of association usually provide for shareholders' reserved matters, where such matters shall be decided by the shareholders.

14. What are the core employment law protection rules in your country (e.g., discrimination, minimum wage, dismissal etc.)?

We have set out below a summary of the core employment law rights and protections that employees benefit from in Cyprus. This is not exhaustive but covers core areas.

Right / Protection	Details
National Minimum Wage	The main legislation is the Minimum Wages Law, Cap.183. On the 2nd of September 2023, the Minimum Wage Order of 2022 was published and as of 1st January 2023, the national minimum wage, subject to relevant exceptions and/or requirements, in Cyprus is as follows: Full time employees: €885 gross and after six months of continuous employment at the same employer, the minimum wage increases to €940 gross. Part time employees: The wage is calculated proportionately to the usual full time weekly hours of the employees in that undertaking or with reference to the general working hours for that industry, as such was in place on the 2nd of September 2022. For example, if the full-time employees in an undertaking work 38 hours per week, a part time employee working 19 hours (38/2=19) per week will be entitled to 50% of the respective minimum wage.
Holiday	Employees are entitled to 4 weeks of paid holiday each year (a minimum of 20 days for those working 5 days a week and a minimum of 24 days for those working 6 days a week).
Working Hours	The working hours in Cyprus are set to 40 hours a week, and the employee may work an additional 5 hours a week overtime. Opt-out agreements may be agreed between the parties.
Rest Periods	Unless an exemption applies, employees are entitled to the following rest periods: • 11 hours' uninterrupted rest per day; • 24 hours' uninterrupted rest per week (or 48 hours' uninterrupted rest per fortnight); and • a rest break of 15 minutes when working more than six hours per day. Where exemptions apply, compensatory rest will usually have to be given.
Deductions from Salary	There is the possibility of deductions provided in a collective agreement or a general agreement between employment organisations and representatives of employees (for the employees to which it applies). The right of deduction with the consent of the employee is only valid when the consent of the employee is: • in writing, and • signed. Such consents must be kept by the employer in a registry for a period not exceeding 6 years.
Pension rights	People are entitled to a statutory pension if: • they have reached the age of 65 years; • at the age of 65 or thereafter they satisfy the residency conditions and/or specific social contributions, and • they are not entitled, from any other source, to a pension or other similar payment which has a monthly value equal to or greater than the monthly rate of the statutory pension.
Discrimination	Employees are protected against discrimination on the basis of the following protected characteristics: • age; • disability; • pregnancy and maternity; • race; • religion or belief; • sex; and • sexual orientation.
Maternity Leave / Pay	Maternity allowance is paid to insured employees, self-employed and voluntarily insured women working for a Cypriot employer overseas who are expecting a child or who, with their husband, have adopted a child, for the first 12 years after the child's birth or who have got a child through surrogacy. The benefit is paid for a period of 18 weeks starting between the ninth and second weeks preceding the week of the expected birth or for a period of 16 weeks in the case of adoption or for a period of 14 weeks in the case of surrogate mothers starting 2 weeks before the expected week of confinement. In the case of a second or subsequent child, the period of 18 weeks is increased by 4 or 8 weeks respectively. In the case of a multiple birth, the period of 18 weeks is increased by 4 weeks for each child. In the case of getting a child through surrogacy, the benefit is paid for a period of 18 weeks starting 2 weeks before the expected week of confinement or from the week of the real confinement, according to the choice of the claimant.
Paternity Leave	Paternity allowance is paid to all insured employees and self-employed as well as voluntarily insured men working for a Cypriot employer overseas, whose spouse gave birth or who have adopted a child or who have got a child through surrogacy. The benefit is paid for a period of 2 consecutive weeks between the week of confinement and the following 16 weeks or between the week of confinement and the termination of maternity leave in the case of a multiple birth for natural fathers or between the week of adoption and the following 16 weeks in the case of adoption.
Parental Leave	Subject to relevant conditions, any employed parent is entitled to parental leave of 18 weeks for each child. This right is increased to 23 weeks for a widow parent or single parent (whether due to loss of parental care or non-recognition of the child by the other parent). There is no obligation on the employer to make any payments during the period of absence, unless otherwise provided in the employment contract, or other document or it is a custom or common practice for either full or partial payment. Nevertheless, a parental grant for 8 out of the 18 (or 23) weeks of parental leave is provided by social insurance, subject to the parent having completed 12 months of work within the last 24 months. Until the 1st of August 2024, the payment right is only for 6 weeks.
Carers Leave	Employees are entitled to carers leave for a period of 5 working days per year, to provide personal care or support to a child, mother, father, husband, wife, civil partner or a person who cohabits with the employee who has the need of significant care or support for serious medical reason.
Force Majeure Leave	Employees are entitled to be absent from work for a period of 7 working days per year with no pay for force majeure reasons connected to emergency family reasons related to sickness or accident which constitute taking care of a person by the employee necessary.
Flexible Working Arrangements	Employees have the right to request flexible working arrangements and adjust their working patterns, including through the use of remote working arrangements, flexible working schedules, or reduced hours. The period of the flexible working arrangements is determined between the employer and the employee. The conditions for the request of flexible working arrangements are as follows: 1. the employee is a parent of a child up to 8 years old or a person providing personal care or support to a relative or a person with whom the employee cohabits and who needs significant care or support for serious medical reason, and/or 1. 6 months of prior continuous employment by the same employer.
Statutory sick pay	Under Cyprus law, no payment is made for the first three days of sick leave by the Ministry of Labour, Welfare and Social Insurance. An employee who is absent for more than three consecutive days is entitled to file a claim for receiving a sick leave payment which is a percentage of his/her salary by the Social Insurance Fund (not by the employer). To be eligible for sick pay, a person must not be receiving full salary during the period of sickness, must have at least 26 weeks of insurance, paid contributions on earnings of at least 26 times the weekly basic insurance coverage earnings, and paid or credited earnings contributions of at least 20 times the weekly basic insurance coverage earnings in the last year.
Statutory Notice Periods	The following notice periods must be given by the employer to its employee: • From 26 weeks to 51 weeks' service: one week's notice. • From 52 weeks to 103 weeks' service: two weeks' notice. • From 104 weeks to 155 weeks' service: four weeks' notice. • From 156 weeks to 207 weeks' service: five weeks' notice. • From 208 weeks to 259 weeks' service: six weeks' notice. • From 260 weeks to 311 weeks' service: seven weeks' notice. • From 312 weeks' service or more: eight weeks' notice. The following notice periods must be given by the employee to its employer: • From 26 weeks to 51 weeks' service: one week's notice. • From 52 weeks to 259 weeks' service: two weeks' notice. • From 260 weeks' service or more: three weeks' notice If the contract of employment provides for a longer period of notice, then the contractual notice period will prevail over the statutory minimum notice period.
Unfair dismissal	Every employee in Cyprus is protected by a statutory right not to be dismissed unfairly. If an employee has been dismissed for no good reason, then such a dismissal can be considered as unfair which may entitle the dismissed employee to a compensation by his/her employer and such compensation may be calculated in accordance with the provisions of relevant law. Dismissal is considered unfair unless the employer proves one of the following grounds: unsatisfactory performance (other than temporary incapacity due to illness, injury or childbirth), redundancy, force majeure, act of war, civil commotion or natural disaster, termination at the end of a fixed-term contract, employee reaching normal retirement age, conduct leading to the immediate dismissal of the employee and conduct making it clear that the relationship between employer and employee cannot reasonably be continued, the commission of serious disciplinary or criminal offences, obscene behaviour or repeated violation or ignorance of employment rules. In case of unfair dismissal, an employee must submit a labour dispute action, with the Labour Court of the district of his/her employment, within 12 months from the day of the dismissal. Failing to abide the limitation period rules will result to a time barred action.
Statutory Redundancy Payment	An employee, who has been continuously employed by the same employer for at least 104 weeks, he/she is entitled to redundancy compensation from the Surplus Personnel Fund (funded by the employer's contributions) when they are made redundant. The redundancy allowance varies according to age, the length of service and pay.
Statement of particulars	Cyprus labour law does not specifically require employment contracts in written form, however it does require employers to provide employees with specific information about the terms of their employment within one month of commencement of employment.

15. On what basis can an employee be dismissed in your country, what process must be followed and what are the associated costs? Does this differ for collective dismissals and if so, how?

Dismissal is considered unfair, unless the employer proves one of the grounds stated above. Please see question 14 above on Unfair Dismissal.

Associated Costs

The costs of a dismissal will depend on the reason for the dismissal. Potential costs may include:

- Notice Pay (see above); and
- Redundancy Pay (see above).

Collective dismissals

Pursuant to the provisions of Collective Dismissals Law of 2001 (Law 28(I)/2001); The Collective Redundancies (Amendment) Law of 2018 (Law 161 (I) / 2018), as amended from time to time, 'collective dismissals' means dismissals effected by an employer, for one or more reasons not related to the individual workers concerned, where the number of dismissals over a period of 30 days is:

- At least 10 for companies employing 21 to 99 employees;
- At least 10% of total workforce for companies employing 100 to 299 employees;
- At least 30 for companies employing 300 or more employees.

The employer must have completed the consultations with the employees' representatives before he/she notifies the relevant authority on the intention to proceed to collective dismissals, since he/she must provide information to the relevant authority also on the outcome of these consultations. Collective dismissals can take effect the earliest 30 days after the relevant authority has been notified.

16. Does your jurisdiction have a system of employee representation / participation (e.g., works councils, co-determined supervisory boards, trade unions etc.)? Are there entities which are exempt from the corresponding regulations?

The right of association, including the right to form and to join trade unions in workplaces, is safeguarded by Article 21 of the Cyprus Constitution. It includes the right

for the workforce to decide who will represent them in the workplace, without any kind of input, interference or compulsion from or by the owners or employers.

Matters concerning collective negotiations, collective agreements, the settlement of disputes, the conditions governing the calling of strikes and the imposition of lockouts are regulated by the Labour Relations Code of 1977. Even though the Code is a voluntary agreement, it is highly respected by the social partners, and they very rarely fail to adhere to its provisions.

17. Is there a system governing anti-bribery or anti-corruption or similar? Does this system extend to nondomestic constellations, i.e., have extraterritorial reach?

The main body involved in investigating bribery and corruption allegations and complaints is the police, which cooperates with specialist financial intelligence units such as the Unit for Combating Money Laundering ("MOKAS"). The Office of the Attorney General examines the findings of the police and decides whether a case should be heard by a court. The Audit Office of the Republic may also refer incidents of bribery and corruption to the Attorney General for investigation. Some of the main laws, as amended from time to time, establishing the legal framework against bribery and corruption are as follows:

- The Prevention of Corruption Law, Cap 161
- The Civil Servants Law, Law 1 of 1990
- The Criminal Code, Cap 154
- The Law Ratifying the Criminal Law Convention on Corruption, Law 23(III) of 2000
- The Political Parties Law, Law 175(I) of 2012
- The Law on the Illicit Enrichment of Public Officials and Officers, Law 51(I) of 2004
- The Law on the Establishment and Operation of an Independent Authority Against Corruption (19(I)/2022)

18. What, if any, are the laws relating to economic crime? If such laws exist, is there an obligation to report economic crimes to the relevant authorities?

Please see question 17.

Additionally, the Prevention and Suppression of Money Laundering Activities Law (L58(I)/2010) provides provisions in relation to reporting money laundering to relevant authorities.

19. How is money laundering and terrorist financing regulated in your jurisdiction?

The main regulation which considers money laundering and terrorist financing in Cyprus, is the Prevention and Suppression of Money Laundering Activities Laws of 2007 to 2019 (the "**Law**") which has also implemented the European Union Directive 2015/849 of the European Parliament, as amended from time to time, into domestic legislation.

The Law provides that the Central bank of Cyprus ("**CBC**") is the competent authority for the enforcement of the provisions of the legislation in relation to the financial activities of entities supervised by the CBC, which include credit, payment, electronic money, currency exchange, leasing and credit acquiring institutions.

The national centre for reporting suspicious transactions and other relevant information concerning money laundering and terrorist financing, is MOKAS at the Attorney General's office.

20. Are there rules regulating compliance in the supply chain (for example comparable to the UK Modern Slavery Act, the Dutch wet kinderarbeid, the French loi de vigilance)?

Further to European legislation and international conventions that Cyprus is a party, domestic legislation provides the following, without been an exhaustive list:

Slavery and Servitude

Provisions related to slavery are found in the Constitution at article 10(1) which declares that no person shall be held in slavery. Article 8 of Law on the Prevention, Fighting against Trafficking in and Exploitation of Human Beings and Protection of Victims also makes slavery through the specified means a prohibited form of labour exploitation.

Forced Labour

Provisions related to forced labour are found in the Constitution which prohibits forced labour at article 10(2). Article 8 of the Law on the Prevention, Fighting against Trafficking in and Exploitation of Human Beings and Protection of Victims also makes forced work or services a prohibited form of labour exploitation.

Human Trafficking

Provisions related to trafficking in persons are found in

the Law on the Prevention, Fighting against Trafficking in and Exploitation of Human Beings and Protection of Victims which prohibits trafficking under article 6.

21. Please describe the requirements to prepare, audit, approve and disclose annual accounts / annual financial statements in your jurisdiction.

Every company is under an obligation to file every year an annual return with the Registrar. This annual return is accompanied by the audited financial statements of the company which were presented at the annual general meeting of the company. Failure on the part of the Company to file its annual returns together with the audited financial statements could result in the dissolution of the Company by the Registrar by means of a strike off of the company's name from the register of companies maintained by the Registrar as a defunct company.

Therefore, a company must prepare every year audited financial statements in compliance with the IFRS standards and it is imperative that the company appoints an audit firm in Cyprus for this particular purpose.

22. Please detail any corporate / company secretarial annual compliance requirements?

Under the corporate compliance regulations imposed by the Companies Law, all companies must (i) keep records on all the minutes of the proceedings and annual general meeting of the company's shareholders, (ii) maintain a corporate register, including a UBO registry (*please see question 24 below*). These records shall be kept at the company's registered office.

23. Is there a requirement for annual meetings of shareholders, or other stakeholders, to be held? If so, what matters need to be considered and approved at the annual shareholder meeting?

Every company must hold a general meeting in each calendar year as its annual general meeting. Not more than 15 months must pass between the date of one annual general meeting and the next.

The convening of the first annual general meeting must be held within 18 months of incorporation of the

company.

24. Are there any reporting / notification / disclosure requirements on beneficial ownership / ultimate beneficial owners (UBO) of entities? If yes, please briefly describe these requirements.

In early 2021, the Cyprus government transposed the 5th EU Anti-Money Laundering (AML) Directive into Cyprus legislation, amending the Law for the Prevention and Suppression of Money Laundering Activities. Consequently, all companies and other legal entities that are incorporated or registered in the Republic of Cyprus are now obliged to identify and record onto the Beneficial Ownership (BO) Register all relevant information about their beneficial ownership.

Definition of Beneficial Owner

In accordance with the law, a beneficial owner is defined as any natural person(s) who ultimately owns or controls the Obligated Entity and/or the natural person(s) on whose behalf a transaction or activity is being conducted and includes at least:

a) **for corporate entities:** the natural person(s) who ultimately owns or controls a legal entity through direct or indirect ownership of a sufficient percentage of the shares or voting rights or ownership interest in that entity, including through bearer shareholdings, or through control via other means.

A shareholding of 25% plus one share or an ownership interest of more than 25% in the customer held by a natural person shall be an indication of direct ownership.

b) **for trusts:** the settlor; the trustee(s); the protector, if any; the beneficiaries, or where the individuals benefiting from the legal arrangement or entity have yet to be determined, the class of persons in whose main interest the legal arrangement or entity is set up or operates and any other natural person exercising ultimate control over the trust by means of direct or indirect ownership or by other means.

c) for legal entities such as foundations and legal arrangements similar to trusts: the natural person(s) holding equivalent or similar positions to those referred to in point (b) above.

Obligated entities

Entities considered as "obliged entities" are the following:

a) Companies incorporated or registered under the Companies Law Cap.113;

b) European Public limited liability Companies, and

c) Partnerships.

The Directive does not apply to the following entities:

a) Companies listed on a regulated market that is subject to disclosure requirements consistent with EU law

b) Companies whose directors submitted an application for strike off pursuant to Article 327 (2A) (a) of the Companies Law, prior to the commencement of the Directive (12 March 2021)

c) Companies whose liquidation has been enacted before the commencement of the Directive (12 March 2021)

d) Overseas companies (branches).

25. What main taxes are businesses subject to in your jurisdiction, and on what are they levied (usually profits), and at what rate?

Corporation Tax

The corporate tax rate is 12.5%.

Special Contribution for the Defence of the Republic ("SDC")

SDC is levied on certain types of income received by or credited to Cypriot tax resident companies. The rate of SDC depends on the source of the income, the key rates being:

- 3% (on 75% of gross rental income from immovable property)
- 17% (on dividends received – in certain rare cases)
- 30% (on interest not generated in or connected with the ordinary course of the business).

Value Added Tax ("VAT")

The supply of goods and provision of services in Cyprus is subject to VAT at 19%. However, there are a number of categories of goods and services that attract VAT at lower rates or are even exempt from VAT.

Capital Gains Tax

Subject to certain exceptions (including transfers on death and transfers due to reorganisations), capital gains tax of 20% is imposed on the appreciation (as adjusted for inflation) in the value of disposed-of immovable property situated in Cyprus or shares in private companies holding immovable property in Cyprus, directly or indirectly (subject to conditions for indirect ownership).

0,4% Contribution

A contribution of 0,4% is imposed on the consideration of the direct/indirect (through shares – subject to conditions) sale of immovable property in the Republic and is payable by the seller.

26. Are there any particular incentive regimes that make your jurisdiction attractive to businesses from a tax perspective (e.g. tax holidays, incentive regimes, employee schemes, or other?)

Substantial incentives are currently in place to boost foreign investment and the development of the local innovation and start-up ecosystem. All incentives are approved and are in line with EU and OECD policy. Some key regimes are set-out below on a high-level basis:

IP Box

80% of the profits qualifying for the regime (including royalty fees, software license fees, embedded income, trading profit on disposal), arising in relation to qualifying assets (e.g. patents, software etc.) are exempt from tax. The IP box incentive is commensurate to the degree of R&D undertaken by a Cyprus tax-resident company or permanent establishment (or subcontracted to third parties).

With a corporate tax rate of 12.5%, this can result in an effective tax rate of as low as 2.5%.

R&D Superdeduction

For R&D expenses incurred during the years 2022, 2023 and 2024, including expenses of a capital nature, companies can enjoy an additional tax deduction of 20%.

The R&D superdeduction cannot be claimed at the same time with the IP Regime, although it can be claimed at the same time with the NID Regime.

Other IP-related incentives

No exit taxes apply to the transfer of an IP (of capital nature) outside of Cyprus. Further, no corporation tax is

levied on the non-trading (i.e. of capital nature) disposal of an IP. No balancing statement requirement exists for disposals of IPs (as opposed to other fixed assets).

The Cyprus Registrar of Companies and Intellectual Property has reduced its search and examination fee for national patents from EUR2,488 to EUR480 until the end of 2023, with the possibility of renewing this arrangement.

Notional interest deduction (NID)

Cyprus tax-resident companies or permanent establishments are entitled to a NID on new equity, which is effectively a tax-allowable deduction against the taxable profits of the company.

The NID is calculated by multiplying the "new equity" held and used by the business in the carrying on of its activities, with the "reference interest rate". "New equity" is the equity introduced in the business (in cash or in kind), in the form of issued share capital and share premium (provided that these are fully paid). The reference rate is the yield of the 10-year government bond (as at 31 December of the year preceding the tax year the NID is claimed) of the country where the new equity is employed/invested plus 5%.

The NID granted on new equity cannot exceed 80% of the taxable profit arising from assets or activities financed via new equity, as calculated before allowing the NID. This may result into a minimum tax effective rate of 2,5% of the taxable profit.

It is noted that the IP box regime can be claimed together with the NID regime, yielding an effective tax rate of as low as 2,1%.

Investment in Innovative SMEs

A qualifying individual that makes an investment in an innovative SME may deduct the costs of the investment from his/her taxable income, subject to the following limitations (and further conditions):

- Percentage limit: The tax deduction is limited to 50% of the investor's taxable income in the year in which the investment is made.
- Annual limit: The total deductible amount may not exceed EUR150,000 per year.

Any amount that can not be deducted in the year of the investment it may be deducted in the five years following the year of investment, subject to the restrictions mentioned above.

Film Incentives

Production companies may benefit from a number of incentives when filming in Cyprus.

Qualifying production categories include, amongst others, films (including animation), television series or miniseries, documentaries for theatrical or television release, animation (digital or analogue), television research programmes and natural history.

Investment Funds

Various incentives are available to investment funds (as well as their investors and employees), including the following:

- Option of 8% flat rate taxation on performance-based variable remuneration (carried interest) for certain management employees.
- Interest received by open and closed end collective investment schemes is considered 'active' interest income and taxed only at 12,5% corporate tax (no defence tax).
- Each compartment of AIF or UCITS, although legally is not treated as a separate entity, for tax purposes, would be treated as a separate person (i.e. separate taxpayer).

Shipping Industry

The Tonnage Tax System (TTS) is available to any owner, charterer or ship manager who owns, charters or manages a qualifying ship in a qualifying shipping activity. It is an alternative tax system based on tonnage instead of profit.

Employment exemptions

Generous exemptions are available to attract foreign talent. Subject to conditions, a 50% exemption of employment income applies to annual employment income that exceeds EUR55.000 or a 20% exemption is available if the annual employment income is below €55.000 (up to a deduction of EUR8.550 per year).

Non-domicile rules for individuals

Non-domiciled tax-resident individuals are not subject to SDC on rent, dividend and passive interest.

No withholding taxes (WHT)

Non-resident shareholders enjoy exemption from WHT for any amounts paid as dividends and/or interest. The same applies for any royalties paid from Cyprus with regards to intellectual property exploited outside Cyprus.

However, as from 31/12/22, Cyprus levies WHT on

dividends, interest and royalty payments to non-Cyprus tax resident companies which are tax residents in a jurisdiction on EU's list of non-cooperative jurisdictions for tax purposes or incorporated/registered in such a jurisdiction without being tax-resident anywhere.

General incentives

Certain income sources are exempt from tax:

- Dividend income (subject to conditions)
- Profits from disposal of shares, bonds and other financial instruments, including units of an Alternative Investment Fund (AIF) and Open-Ended Undertaking for Collective Investment (UCITs)
- Foreign exchange (FX) gains, except those arising from trading in FX
- Profits attributed to Permanent Establishments abroad (subject to conditions)

27. Are there any impediments / tax charges that typically apply to the inflow or outflow of capital to and from your jurisdiction (e.g., withholding taxes, exchange controls, capital controls, etc.)?

There are no exchange control regulations. Cyprus nationals and non-Cyprus nationals can hold and manage assets and liabilities in any foreign currency.

As from 31/12/22, Cyprus levies WHT on dividends, interest and royalty payments to non-Cyprus tax resident companies which are tax residents in a jurisdiction on EU's list of non-cooperative jurisdictions for tax purposes or incorporated/registered in such a jurisdiction without being tax-resident anywhere.

Otherwise, no WHT is levied on dividends, interest and royalty payments (if exploitation of the IPs takes place outside Cyprus).

28. Are there any significant transfer taxes, stamp duties, etc. to be taken into consideration?

Stamp Duty

Stamp duty is payable on any agreement which relates to any property situated in Cyprus or to any matter or thing to be performed or done therein, irrespective of the place where it is executed.

Applicable Rates

Stamp duty rates depend on the contract value, as follows:

- EUR1 to EUR5,000: 0%
- EUR5,001 to EUR170,000: 0,15%
- Over EUR170,000: 0,2% up to a maximum of EUR20,000.
- Unspecified contract value: EUR35.

Property Transfer Fees

Transfer of the ownership right from the seller to the buyer is accompanied by property registration tax paid by the buyer to the state.

Applicable Rates

Transfer fee amounts depend on the contract value, as follows:

- Up to EUR85,000: 3%
- EUR85,001 to EUR170,000: 5%
- Over EUR170,000: 8%

The Cyprus Parliament announced the abolishment or reduction of the property transfer fees on, inter alia, the following cases that are currently applicable:

- Total exemption from transfer fees, if the transfer relates to a transaction that is subject to VAT.
- In case a transaction is not subject to VAT (e.g resale property), the legislation provides an exemption of 50% on the amount of transfer fees.

Capital Gains Tax (CGT)

Please see question 25 above.

29. Are there any public takeover rules?

The primary source of legislation relating to public M&A transactions in the Republic of Cyprus is the Law to Make Provision for Public Takeover Bids for the Acquisition of Securities of Companies and Related Matters, Law 41(I)/2009 ("Takeover Law").

The competent authority responsible for the supervision and application of the provisions of the Takeover Law is the Cyprus Securities and Exchange Commission (CySEC). CySEC also retains the authority to issue directives for supplementing and/or clarifying any provisions of the Takeover Law. To the present date, CySEC has issued four directives, which complement the provisions of the Takeover Law.

Other applicable laws and regulations in relation to M&A transactions are the following:

- Companies Law.
- Cyprus Securities and Stock Exchange Law, Law 14(I) of 1993 as amended.
- Market Abuse Law, Law 102(I) 2016.
- Transparency Requirements in relation to information about issuers whose securities are admitted to trading on a regulated market Law, Law 190(I) of 2007 as amended.

30. Is there a merger control regime and is it mandatory / how does it broadly work?

The Control of Concentrations Between Undertakings, Law 83(I) of 2014 ("Merger Control Law"), is the statute regulating the control of concentrations between undertakings in Cyprus.

Enforcement of the Merger Control Law rests with the Commission for the Protection of Competition (**CPC**). The CPC has overall responsibility for implementing the Law and is the competent authority for the control of concentrations. The CPC is empowered under the Law to declare a concentration as compatible or incompatible with the functioning of competition in the market. The investigation and procedural aspects relating to notifications of concentrations are performed by the civil service of the CPC (the **Service**).

The Law applies to concentrations between undertakings resulting in a change of control on a lasting basis. A concentration of undertakings shall be deemed to arise where a change of control on a lasting basis results from:

- merger of two or more previously independent undertakings or parts of undertakings, or
- acquisition, by one or more persons already controlling at least one undertaking, or by one or more undertakings, of direct or indirect control of the whole or parts of one or more other undertakings, whether by purchase of securities or assets, by contract, or by any other means; or
- the creation of a joint venture that performs all functions of an autonomous economic entity on a lasting basis.

The Law only requires notifications of concentrations of major importance. A concentration of undertakings is deemed to be of major importance and therefore meets the jurisdictional thresholds if:

- the aggregate turnover achieved by at least two of the undertakings concerned exceeds, in relation to each one of them, €3.5 million; and
- at least two of the undertakings concerned achieve a turnover in Cyprus; and
- at least €3.5 million of the aggregate turnover of all undertakings concerned (taken together) is achieved in Cyprus.

31. Is there an obligation to negotiate in good faith?

Under Cyprus law, there is no express obligation on parties to negotiate in good faith. Nevertheless, there are several doctrines/principles developed and introduced to respective legislation in response to demonstrated problems of unfairness and lack of good faith, such as, *inter alia*, (i) duress, (ii) fraud, (iii) mistake, (iv) undue influence, (v) misrepresentation, etc.

32. What protections do employees benefit from when their employer is being acquired, for example, are there employee and / or employee representatives' information and consultation or co-determination obligations, and what process must be followed? Do these obligations differ depending on whether an asset or share deal is undertaken?

Share sale

There are no specific employee rights / protections relating to a share sale (other than the ordinary employment law rights / protections). From an employee relations perspective, it is best practice to inform the employees about the sale and related information so that they understand the rationale for the sale and to alleviate any concerns about the potential impact of the sale.

Automatic transfer of employees

Both the transferor and transferee must notify and consult either the employees affected by the transfer and/or their representatives. Before employees are transferred to the new employer, it is advisable that the relevant government departments are notified, although this is not a legal requirement.

Protection against dismissal

A transfer cannot in itself constitute grounds for the

dismissal of an employee by either the transferor or the transferee. However, there is a right to dismiss due to economic, technical or organisational reasons that require changes to the workforce. Essentially, lawful dismissals can arise in cases where the business transfer results in redundancies.

If the employment contract or employment relationship is terminated due to the transfer or because the transfer involves a substantial change to the terms of employment that are to the employee's detriment, the employer will be deemed responsible for the termination of the contract/employment relationship.

Harmonisation of employment terms

All rights and duties of the transferor stemming from the employment contract or employment relationship as it exists at the date of the transfer must be transferred to the transferee. The transferee must retain the same terms that have been agreed on in any collective agreement, in the same way as was done by the transferor, for the remainder of the term of the collective agreement and for at least one year after the transfer. Employees do not retain the rights that they had with the transferor concerning old age and disability benefits, plus any rights to supplementary occupational retirement benefits except for those provided by the Social Insurance Law.

33. Please detail any foreign direct investment restrictions, controls or requirements? For example, please detail any limitations, notifications and / or approvals required for corporate acquisitions.

As part of the general Cypriot policy of attracting foreign investment, subject to certain exceptions, the Cypriot Government has fully liberalised direct investment by foreign nationals, with the only exception being certain regulated and/or strategic areas or industries.

In general, EU nationals have no restrictions on ownership and investment in Cyprus. Similarly, subject to the above. Foreign non-EU nationals are equally free to invest and acquire up to 100% of the share capital in Cypriot companies.

There is no restriction on the acquisition and ownership of real estate in Cyprus by EU nationals. However, there are certain restrictions for foreign non-EU owners or entities.

Finally, following Russia's unprovoked invasion of

Ukraine, the Cypriot government has imposed sanctions on specific Russian individuals and Russian owned entities. The sanctions by the Cypriot government are in accordance to European Regulations and the sanctions imposed on Russia by the European Union.

34. Does your jurisdiction have any exchange control requirements?

There are currently no exchange controls, capital controls or similar restrictions in force in Cyprus. However, in line with other EU member states, there is a requirement for travellers to Cyprus to declare on arrival any cash amount exceeding EUR10,000.

35. What are the most common ways to wind up / liquidate / dissolve an entity in your jurisdiction? Please provide a brief explanation of the process.

Members' Voluntary Liquidation

A company may only be liquidated:

- when the period, if any, fixed for the duration of the company by the articles expires, or the event, if any, occurs, on the occurrence of which the articles provide that the company is to be dissolved, and the company in general meeting has passed a resolution requiring the company to be wound up voluntarily;
- if the company resolves by special resolution that the company be wound up voluntarily;
- if the company resolves by extraordinary resolution to the effect that it cannot by reason of its liabilities continue its business, and that it is advisable to wind up.

A members' voluntary liquidation starts with a statutory declaration (usually referred to as a declaration of solvency) by the directors (or a majority of them if there are more than two) that, having enquired fully into the affairs of the company, they consider that the company will be able to pay its debts in full within a maximum of 12 months. The statutory declaration must be made within five weeks before the date of the proposed resolution to wind-up and delivered to the Registrar of Companies before the date of the proposed resolution to wind-up.

Creditors' voluntary Liquidation

Creditors' voluntary liquidation is used to distribute the available assets of an insolvent company among the creditors and bring the company's existence to an end.

The first step in a creditors' voluntary liquidation is the convening of separate meetings of members and creditors:

Members' meeting. The purpose of the members' meeting is to pass a resolution to wind-up the company and appoint a liquidator.

Creditors' meeting. The purpose of the creditors' meeting is to:

- present creditors with a statement of the company's financial position and a list of creditors' claims;
- nominate a liquidator to act in place of the liquidator appointed by the members, or approve the liquidator appointed by the members;
- if the creditors wish they may appoint a committee of inspection of up to five persons to assist and oversee the liquidator and fix his/her remuneration.

Compulsory Liquidation (by an order of the Court)

In contrast to the voluntary liquidation proceedings,

which are 'internally' initiated, a compulsory liquidation is ordered by the court by virtue of a court order issued in the course of an application filed to that end by the company, a creditor, a contributor or any other interested party, among others, in case the company has by special resolution resolved that it shall be wound up by the Court, in case there default in pursuing any of its statutory liabilities and/or commitments or in case the company is unable to pay its debts.

Strike-off

The strike-off of a company from the Companies' Registry constitutes an alternative way through which a company is dissolved, available to dormant companies and/or companies the businesses and/or operations of which have been ceased and which (companies) have no longer any assets or liabilities and do not intend to carry on any business and/or in the future. In fact, the strike off constitutes an administrative procedure, effected, among others, through the communication of a notice or series of notices from the Registrar to a company or of a letter-request from a company to the Registrar, directly leading to the strike off of the company's name from the registry as held by the Registrar.

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