

# Legal 500

## Country Comparative Guides 2024

### Cyprus

#### Tax

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

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## Cyprus: Tax

### 1. How often is tax law amended and what is the process?

Apart from implementation of EU directives, amendments to the Cyprus tax laws are generally "infrequent". It follows that taxpayers can undertake transactions with a high degree of assurance that the tax environment they anticipated at the time of a transaction will continue to apply. There is generally advance consultation with stakeholders over a period of several months before new legislation is enacted. However, the international tax landscape is changing rapidly, and Cyprus can be expected to keep up to date with international as well as OECD standards.

### 2. What are the principal administrative obligations of a taxpayer, i.e. regarding the filing of tax returns and the maintenance of records?

For income tax purposes, books and records and supporting documentation must be retained for six years after the end of the tax year to which they relate. Taxpayers are required to submit returns of income for income tax purposes once a year. If the taxpayer is a company or a self-employed individual with gross income above a certain threshold (currently at EUR 70,000), then it should keep books and records in accordance with generally accepted accounting principles that will be audited in accordance with auditing standards. With regards to the payment of income tax there is a self-assessment system, under which taxpayers must declare an estimated income and profit with the estimated tax charge for the year part-way through the tax year. The declaration must be accompanied by payment of half the estimated liability. The balance of the estimated liability is payable by the end of the tax year. This amount can always be revised should this be deemed necessary. The final tax return is submitted after the end of the tax year, together with a payment of any final balance which may be due.

See the answer to question 5 for details of due dates.

Employers are also required to submit returns of employees' pay and tax deducted under PAYE one month after the salary payment.

Special Defence Contribution, commonly known as SDC

tax, should be paid only by companies that are Cyprus tax residents and individuals who are domiciled in the Republic. SDC tax is payable on rents, passive interest income, and dividends. Subject to certain exemptions, companies making such payments must deduct SDC tax at source and account for it to the Tax Department. In the case where a taxpayer receives rents, interest, or dividends from which SDC tax has not been deducted, they must submit semi-annual returns together with a payment of the amount due. All returns and payments in respect of income tax, SDC tax and PAYE must be made online.

See the answer to question 16 for details of SDC.

Taxpayers must submit and pay any capital gains as they arise. However, Capital Gains Tax ("CGT") only applies to gains from disposals of properties that are situated in the Republic, and after utilizing the available deductions, this is generally not an issue that affects most taxpayers.

There is a separate tax system for qualifying businesses engaged in international shipping, which is outlined in the answer to question 20.

### 3. Who are the key tax authorities? How do they engage with taxpayers and how are tax issues resolved?

The Tax Department is the key regulatory authority. It resides within the Ministry of Finance and was formed in 2014 by combining the Inland Revenue Department, which administers direct taxation, and the VAT Service, which deals with indirect taxation.

Like many other governmental departments in Cyprus, routine procedures, such as the final agreement of tax returns and the issuing of assessments, can take some time, depending on the complexity of the matter in issue. Nevertheless, the department responds efficiently and constructively to inquiries. Following the rapid changes to the Tax System in 2014, substantial changes in the way the authorities deal with inquiries were introduced. For instance, advance tax rulings are available, and taxpayers may, on payment of the prescribed fee (currently at EUR 2,000), request an expedited ruling, guaranteeing a response within 21 working days provided all the necessary information is supplied.

#### 4. Are tax disputes heard by a court, tribunal or body independent of the tax authority? How long do such proceedings generally take?

Decisions of the tax authorities can be challenged by submitting an appeal to the Tax Tribunal, which is an independent body, or to the Administrative Court. The Tax Tribunal is required to reach a conclusion within a year of receiving an application, however, there are no set time limits for the Courts to adhere to. A decision of the Administrative Court and the Tax Tribunal may be the subject of an appeal to the Supreme Court.

#### 5. What are the typical deadlines for the payment of taxes? Do special rules apply to disputed amounts of tax?

The tax year in Cyprus for individuals and companies is the calendar year. Both individuals and companies must submit a provisional estimate of income, profits and tax payable for the year by 31 July of the tax year, together with a remittance of half the estimated tax payable. The estimates may be revised at any time before 31 December of the tax year and the balance of the estimated tax payable must be paid by then.

This differs for companies and individuals who are obliged to provide audited financial statements. They are required to pay the balance to tax due by 01 August following the end of the tax year. Currently a penalty of 10% is imposed if the tax paid under the provisional assessment is less than 75% of the finalized tax charge of the year. Their final tax return must be submitted by March 31 of the next year (i.e., within 15 months after the end of the year in question).

Self-employed individuals, who are exempt from the requirement to provide audited financial statements, are required to submit their final tax return for the year, with a remittance for any tax payable, by 31 July following the end of the tax year. Tax returns must be submitted electronically via the official TAXISNET system.

It is important that employers submit an employer's return each year; the deadline generally being the last calendar day of February in the year following the tax year, which is extended to May 31 if filing is done electronically.

The due date for submitting the final employee annual return is July 31 in the year following the tax year.

#### 6. Are tax authorities subject to a duty of confidentiality in respect of taxpayer data?

While complying fully with all information exchange standards, Cyprus takes taxpayer confidentiality very seriously. The Assessment and Collection of Taxes Law contains strong safeguards against inappropriate disclosure of taxpayer information and requires requests for disclosure to conform with strict requirements, ruling out so-called fishing expeditions.

#### 7. Is this jurisdiction a signatory (or does it propose to become a signatory) to the Common Reporting Standard? Does it maintain (or intend to maintain) a public register of beneficial ownership?

As an EU member, Cyprus is bound by the Directive 2014/107/EU on mandatory automatic exchange of information in the field of taxation. It is also a signatory to the Multilateral Competent Authority Agreement on the Automatic Exchange of Financial Account Information. As per Article 29 of the OECD Model Tax Treaty, information can be exchanged in three different ways: (i) via request, (ii) automatically, and/or (iii) spontaneously. Cyprus implemented the Common Reporting Standard ("CRS") from the beginning of 2016 and as of 2017 it has started exchanging information. It exchanges information both automatically, thus systematically and periodically transmitting tax information, and spontaneously, thus transmitting information presumed to be of interest.

It is broadly known that Directive 2018/822/EU amending Directive 2011/16/EU aims at increasing transparency to tackle aggressive tax planning by strengthening the rules on mandatory automatic exchange of information. The Cyprus Tax Department has published guidance regarding automatic exchange of financial account information and other information relating to the CRS. The "Guidance Notes on Automatic Exchange of Financial Account Information" published on the department's website provides detailed and comprehensive guidance on the application of international agreements as well as Cyprus' legislation on the automatic exchange of financial account information between the Republic and other tax jurisdictions.

In respect of combating money laundering, the financing of terrorist activity, and tax evasion, the 4th AML Directive obliged all EU member states to introduce a central register of the beneficial or true owners of companies, trusts, and other legal arrangements. Additionally, on 19 June 2018, the European Council issued the 5th AML

Directive, revising the provisions of the 4th AML Directive to allow for public access to the said registers.

The 5th AML Directive was transposed into Cyprus legislation through an amendment to the Prevention and Suppression of Money Laundering Activities Law of 2007 (N.188 (i)/2007) on 23 February 2021 through law N.13(I)/2021.

On 12 March 2021, the Registrar of Companies and the Official Receiver ("RoC") issued a directive (Κ.Δ.Π. 112/2021) providing guidance on the provisions of the abovementioned law in regard to the companies and other legal entities register (the "Guidance Manual"), and on 18 June 2021, the Cyprus Securities and Exchange Commission ("CySec") also issued a directive (Κ.Δ.Π. 257/2021) providing guidance on the trusts and similar legal arrangements register (the "CYTRUST Directive").

It is important to note that following the Judgement of the Court of Justice of the European Union (CJEE) in joined cases C-37/20 and C-601/20, of November 22, 2022, access to the ROC's register of beneficial owners for the general public was suspended as of the 23<sup>rd</sup> November 2022.

## 8. What are the tests for determining residence of business entities (including transparent entities)?

Individuals are automatically tax resident if they are physically present in Cyprus for more than 183 days in the tax year. Effective from 1 January 2017, if during the tax year concerned, an individual maintains a permanent establishment ("PE") in Cyprus, undertakes any business or employment in Cyprus, which continues until the end of the tax year, and is present in Cyprus for at least 60 days, then they may also become Cyprus tax residents. All three conditions must be satisfied, and additionally, the individual concerned must not be a tax resident of any other country as well as not be physically present in any other country for more than 183 days of the tax year in question.

For companies, residence is based on the locus of effective management and control. Mere registration in Cyprus is not sufficient to establish residence: the key decisions which are necessary for the conduct of the business of the company must be made in Cyprus. The Tax Department's application form for the issuance of a Tax Residency Certificate gives an indication of what are the criteria that the Tax Department considers, such as the location where the directors' and shareholders' meetings are held, where the directors are residents, and

where minutes as well as statutory and other records are kept. However, following amendment 193(I)/2021 to The Income Tax Law, as from 21 December 2021, the "incorporation test" is included along with the management and control test. Therefore, any Cyprus registered company is by default considered to be tax resident of the Republic.

## 9. Do tax authorities in this jurisdiction target cross border transactions within an international group? If so, how?

Most companies in Cyprus operate internationally and it has been our experience that the Cyprus tax authorities do not target such companies in terms of policing cross border transactions.

## 10. Is there a controlled foreign corporation (CFC) regime or equivalent?

A CFC is defined as an entity or a PE 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, a Cypriot tax resident company alone, or together with its associated enterprises, holds a direct or indirect participation of more than 50% in such an entity; and
- 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 Cyprus Income Tax Law.

Cyprus has opted for Model B since it gives states the ability to 'carve out' CFCs via the thresholds provided by ATAD. 'Carving out' would apply to entities that (i) have accounting profits of less than EUR 750,000 and non-trading income of less than EUR 75,000, or (ii) have accounting profits of more than 10% of operating costs.

## 11. Is there a transfer pricing regime? Is there a "thin capitalization" regime? Is there a "safe harbour" or is it possible to obtain an advance pricing agreement?

In terms of transfer pricing, on 24 January 2022, the Cyprus Tax Department published a new "[Frequently Asked Questions](#) (FAQs)" section on its website on transfer pricing. The FAQs relate to the [Interpretative Circular 3](#) issued on 30 June 2017 (Back-to-Back

Circular). The Back-to-Back Circular applies to Cyprus tax resident companies and permanent establishments of foreign companies conducting intra-group back-to-back financing transactions and sets out requirements for the TP analysis of such transactions. The answers to the FAQs are applicable to all transactions that fall within the scope of the Back to Back Circular and relate to loan agreements concluded as at the date of the issue of the FAQs and thereof (i.e. 24 January 2022), as well as to those loan agreements which were concluded prior to that date and have not been examined by the Tax Department by that date.

Further to the above and pursuant to Article 33 of the Income Tax Law, the tax authorities can adjust taxable profits if they consider that they have been affected by transactions between related parties undertaken other than on an arm's length basis. However, on 07 July 2023, the Cypriot Tax Department issued a Circular with retrospective effect as of 01 January 2023, stating that the Comparable Uncontrolled Price (CUP) method is the most appropriate for back-to-back financing transactions. Other transfer pricing methods can only be used in exceptional cases having been pre-approved through the issuance of a tax ruling.

As from July 2017, transfer pricing rules do apply to intra-group financing arrangements. Cyprus does not currently contain a list of permissible pricing methods but has incorporated a general requirement based on the use of the arm's length standard and requires that all documentation support said standard.

On 30 June 2022, the House of Representatives of Cyprus voted on and approved amendments to the Income Tax Law and the Assessment and Collection of Taxes Law in relation to transfer pricing. The said legislative developments introduce transfer pricing rules and documentation requirements in accordance with recommendations of the Organisation for Economic Co-operation and Development on Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations.

The amendments to the Income Tax Law provide for the following:

"associated parties" is now defined as the same person or group holding a minimum of 25% participation in either the voting rights or the share capital of both companies;

transfer pricing documentation will follow OECD general guidelines;

- a Master File and Local File are to be kept,

being submitted within 60 days of the tax authorities' request;

- a Local Cyprus file will not be required provided that all controlled transactions based on the arm's length principle cumulatively amount to less than EUR 750,000 per tax year;
- electronic submission of summary information for controlled transactions for each tax year will need to be submitted along with the annual tax returns; and
- advance pricing agreements (APA) will be available (see below).

The Assessment and Collection of Taxes Law 1978 has also been amended to introduce penalties for non-compliance with transfer pricing documentation requirements.

On the 06 July 2023, the Cyprus Tax Department released a circular providing guidance to persons that are exempt from maintaining a Local Cyprus file as to minimum transfer pricing documentation required for related party controlled transactions.

The minimum transfer pricing documentation requirements for transactions not exceeding the annual EUR 750,000 threshold are as follows:

- functional analysis;
- characterization of the entity;
- selection of the most appropriate transfer pricing method; and
- benchmark study.

Furthermore, the circular provides for simplification measures for controlled transactions involving (i) back-to-back financing, (ii) financing (received or provided), and (iii) low value-added services. The simplification measures cannot be applied if internal comparables can be used.

Effective from 1 January 2019, Cyprus follows the provisions of the ATAD in respect of thin capitalization rules.

A limitation on the possibility of deducting interest has been set at 30% of taxable income before interest, taxes, depreciation, and amortization.

Taxable Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) is defined as the total of net taxable income calculated in accordance with Cypriot income tax laws increased by any 'excess' borrowing costs.

The restriction does not apply to amounts falling below

EUR 3 million per taxpayer. The restriction does not also apply to companies that do not form part of the group and do not have a related business (defined as participation of at least 25% in the share capital or participation of at least 25% in the profits).

Further, the law also excludes financial undertakings from the scope of the interest limitation rules (i.e. credit institutions, investment firms, alternative investment fund managers (AIFMs), and management companies of undertakings for collective investment in transferable securities (UCITS)).

A new Article 33C was also incorporated into the Income Tax Law via the afore-mentioned amendment, which provides a taxpayer the right to submit to the commissioner of taxation an application for an APA in relation to their specific controlled transactions that are either in progress or to be carried out in the future. The details on the process of submitting and processing an APA application may be determined by regulations issued by the Council of Ministers. Further, the commissioner of taxation may, by notification published in the *Official Gazette of the Republic*, determine more specific content of the APA.

Cyprus has established a robust transfer pricing regime. From 1 January 2022, Cyprus tax resident persons and permanent establishments (PEs) of non-Cyprus tax resident entities engaging in domestic and/or cross-border controlled transactions are required to prepare a Transfer Pricing Documentation File on an annual basis. This file consists of both a 'Master File' and a 'Cyprus Local File,' aligned closely with the OECD Transfer Pricing Guidelines.

Exemptions to these requirements exist. For instance, only Cyprus tax resident entities that are the ultimate or surrogate parent entities of a multinational enterprise (MNE) group subject to country-by-country (CbC) reporting are required to prepare and maintain a Master File. For the Local File, exemptions apply if the arm's-length value of controlled transactions is less than EUR 5 million annually for financial transactions or EUR 1 million annually for other types of transactions, such as the sale/purchase of goods, provision/receipt of services, and licensing of intellectual property.

For those required to prepare a Cyprus Local File, the documentation must undergo a quality review by a certified auditor in Cyprus, particularly for transactions that exceed the exemption thresholds. The Transfer Pricing Documentation File, including both the Master File and Local File, must be prepared and reviewed by the annual deadline for filing the Income Tax Return. While

the file may be maintained in electronic or paper format and preferably in English, the Cyprus Tax Department (CTD) may request a Greek translation if necessary. Upon request, the documentation must be submitted to the CTD within 60 days, with penalties imposed for non-compliance.

In addition to the Transfer Pricing Documentation File, a Summary Table must be prepared annually. This table discloses details about each controlled transaction, including the names and tax identification codes of related parties, the arm's-length values per transaction category, and whether transfer pricing documentation and a Quality Review have been completed.

For transactions below the exemption thresholds, taxpayers are required to maintain Minimum Transfer Pricing Documentation to support the arm's-length nature of their transactions. The Cyprus Tax Department also offers Simplification Measures, or safe harbour rates, for specific types of controlled transactions, such as financing and low value-adding services (LVA). These measures include predetermined minimum returns for loans and specific markups for LVA, making compliance more straightforward for certain transactions. However, these simplification measures cannot be applied if reliable internal comparables (i.e., comparable transactions with unrelated parties) are available.

Additionally, Cyprus has implemented thin capitalization rules in line with the Anti-Tax Avoidance Directive (ATAD) since 1 January 2019. Interest deductions are capped at 30% of taxable EBITDA, although exceptions exist for borrowing costs below EUR 3 million and for companies that are not part of a group.

Furthermore, Cyprus allows taxpayers to apply for Advance Pricing Agreements (APAs) under Article 33C of the Income Tax Law. These agreements provide certainty on the transfer pricing treatment of specific controlled transactions, ensuring compliance and reducing the risk of disputes with tax authorities.

Overall, the transfer pricing regime in Cyprus is well-structured and closely aligned with international standards, particularly the OECD guidelines and EU regulations, ensuring that transactions are conducted at arm's length and properly documented.

## 12. Is there a general anti-avoidance rule (GAAR) and, if so, how is it enforced by tax authorities (e.g. in negotiations, litigation)?

In relation to GAARs, Cyprus has already incorporated the

anti-avoidance provisions of the PSD GAAR into domestic law (effective as from 1 January 2016). It gave the tax authorities the power to disregard artificial or fictitious transactions and to withhold the corporate tax exemption on dividends received by companies in Cyprus from elsewhere in the EU if the dividend is treated as a tax-deductible expense in the accounts of the company paying it (so-called "hybrid mismatches"); such dividends will instead be taxed as normal business income at 12.5%.

On 05 April 2019, the House of Representatives approved legislation implementing the EU Anti-tax Avoidance Directive (2016/1164/EC) in Cyprus with the aim of improving the resilience of the internal market against cross-border tax avoidance practices.

The provisions relating to interest deductibility, controlled foreign company (CFC) rules and the general anti-abuse rules (GAARs) came into effect on 1 January 2019.

Transactions that are not carried out for valid commercial reasons will give rise to tax liability, which will be calculated in accordance with the Income Tax Law. Cyprus already incorporates within its tax legislation numerous anti-abuse rules. It is expected that relevant articles within the legislation will be amended and enhanced to provide greater and specific powers to the Tax Department to disregard non-genuine arrangements, which have no valid commercial reason that reflect economic reality. Notably, the GAAR will apply only to corporate transactions.

On the 22 January 2020, the MLI along with the positions of Cyprus and an explanatory statement, were published in the Official Gazette of the Republic. Cyprus approved the minimum actions as prescribed by the MLI to include Action 7 (Treaty Abuse).

Article 7 contains a general anti-abuse rule based on the principal purpose of transactions or arrangements (PPT). It also contains an option to supplement the PPT with a simplified limitation on benefits (LOB) provision. Most signatories to the MLI, including Cyprus, have opted for the PPT clause only. Cyprus has not made any notification as regards the adoption of the LOB provision.

The PPT effectively acts to deny treaty benefits if it is determined that the main reason of an arrangement or transaction was to obtain the treaty benefit. Persons to whom a treaty benefit is denied under the PPT may still be able to claim a treaty benefit, if, they can establish that obtaining the benefit would be in line with the object and purpose of a specific treaty provision (objective test).

Cyprus has chosen to apply Article 7(4) of the MLI in cases where the competent authority determines that such benefits would have been granted in the absence of the transaction or arrangement.

It should be noted that, as of yet, there are no relevant court decisions in Cyprus in the context of the PSD GAAR.

### **13. Is there a digital services tax? If so, is there an intention to withdraw or amend it once a multilateral solution is in place?**

There is no digital services tax in Cyprus.

### **14. Have any of the OECD BEPS recommendations, including the OECD's recent two-pillar solution to address the tax challenges arising from digitalisation of the economy, been implemented or are any planned to be implemented?**

For many years Cyprus tax policy has been based on offering an internationally competitive tax environment that is fully compliant with international best practice and the highest standards of transparency and fairness. In line with this commitment, Cyprus revised its intellectual box regime in 2016 to comply with the modified nexus approach put forward by the OECD. The OECD BEPS Action Plan focuses on 15 key areas to ensure that profits are taxed where value is created, dealing with issues relating to the coherence of tax rules, substance of business arrangements and transactions as well as the transparency of information disclosed to the tax authorities by the taxpayers.

Cyprus is also one of the initial 68 signatories to the MLI. New and updated double tax agreements are aligned with the latest OECD standards. In 2017 new transfer pricing rules were introduced for financing transactions involving connected parties in line with the relevant BEPS actions.

On 5 April 2019, the House of Representatives approved legislation implementing ATAD in Cyprus with the aim of improving the internal market's ability to deal with cross-border tax avoidance practices.

ATAD contains five legally binding anti-abuse measures, which all Member States must apply. The measures are the following:

- introduction of controlled foreign company (CFC) rules (Action 3);
- the switch-over rule (Action 2);

- introduction of exit taxes;
- interest limitation (Action 4); and
- introduction of the general anti-abuse rule (GAAR) (Action 6).

The provisions relating to interest deductibility rules, CFCs and GAAR, as included in ATAD, entered into force on 1 January 2019. On 3 July 2020, the remaining two amendments for full implementation of ATAD were published in the Official Gazette of the Republic: the first concerns the introduction of an exit tax regime (ATAD I), which applies retroactively from 1 January 2020; and the second is related to hybrid mismatches (ATAD II), which focuses on Action 2, and also applies retroactively from 1 January 2021. The so-called reverse hybrid mismatches rules have been applicable since 1 January 2022.

At a company level, corporation tax is expected to increase from 12,5% to 15% following Pillar 2 proposals.

## 15. How has the OECD BEPS program impacted tax policies?

The policy of successive Cyprus governments over the years has been to provide a competitive tax environment that is fully compliant with international best practice. Cyprus has always been an early complier with OECD and other international initiatives. We expect that policy to continue.

## 16. Does the tax system broadly follow the OECD Model i.e. does it have taxation of: a) business profits, b) employment income and pensions, c) VAT (or other indirect tax), d) savings income and royalties, e) income from land, f) capital gains, g) stamp and/or capital duties? If so, what are the current rates and how are they applied?

The Cyprus tax system is fully compliant with OECD and EU norms. As regards the various categories of income:

**Business profits.** Business profits of companies, adjusted for various disallowances and exemptions, are subject to tax at 12.5%. Notional interest deduction can reduce the tax to 2,5% if certain criteria apply. The intellectual property box regime gives greatly reduced rates of tax on income and gains from qualifying assets.

**Employment income and pensions.** For individuals, the first EUR 19,500 of annual taxable income (which includes business profits, income from employment and pensions) net of allowable deductions is free of tax; the next EUR 8,500 is subject to tax at 20%; the next EUR

8,300 at 25%; the next EUR 23,700 at 30% and any amount above EUR 60,000 at 35%. Exemptions are available on earnings from employment in the initial years of residence. For each tax year, there is a 50% deduction available to expatriates who earn employment income more than EUR 55,000 annually or a 20% deduction available to expatriates earning below EUR 55,000. Additionally, the first EUR 19,500 per year of Cyprus-source widow's or widower's pension is free of tax and tax is payable on the balance at 20%. The first EUR 3,420 per year of foreign source pension income is free of tax and tax is payable on the balance at 5%. The taxpayer may opt from year to year to be taxed on the standard basis if this would be beneficial for them.

**VAT.** The standard rate of VAT is 19%. Reduced rates of 0%, 5% and 9% apply to certain suppliers.

**Savings interest and royalties.** Passive interest and dividends received by individuals who are both resident and domiciled in Cyprus are subject to SDC tax at rates of 17% respectively. Individuals who are resident but not domiciled in Cyprus are exempt from SDC tax on interest, rental income (only subject to income tax) and dividends. Passive interest received by Cyprus-resident companies is subject to SDC tax at 17%. Dividends received by Cyprus-resident companies from another Cyprus-resident company (and those received from overseas – see 23 below) are not subject to income tax or SDC tax. Royalties are treated as trading income.

**Income from land.** Rent is treated as trading income for income tax purposes after deducting capital allowances and any other attributable expenses to the income such as interest expense for the acquisition of the asset. A further 20% allowance is given on the gross rent received by individuals. Rent received by companies, and by individuals who are both resident and domiciled in Cyprus, are subject to SDC tax at an effective rate of 2.25%.

**Capital Gains.** The only gains subject to CGT are gains on disposal of immovable property that is located in Cyprus and on disposal of shares in companies not listed on a recognised stock exchange, to the extent that those shares directly or indirectly derive their value from immovable property located in Cyprus. All other gains are exempt.

**Stamp duty** is payable on contracts relating to property or business in Cyprus. For transactions with a consideration up to EUR 5,000, no stamp duty is payable; for transactions with a consideration between EUR 5,000 and EUR 170,000, stamp duty is EUR 1.50 for every EUR 1,000, and for transactions with a consideration in excess of



EUR 170,000, stamp duty is EUR 2 for every EUR 1,000. The maximum stamp duty payable on a contract is capped at EUR 20,000. As of 18 December 2018 the obligation to pay capital duty of 0.6% of the authorized capital or on any subsequent increase on in the share capital, has been abolished. Instead, a notional interest deduction against profits for corporate income tax purposes is available for new capital introduced into Cyprus companies and PEs. This can reduce the tax liability of the Cyprus company by up to 80%.

**Inheritance tax** is not applicable

**GHS contribution.** The healthcare system in Cyprus changed with the introduction of the publicly funded General Health Service ("GHS") in 2019. GHS is a full-coverage healthcare program for all citizens of Cyprus. This new system promises to give people a choice between the services of any doctor or other healthcare professional in the private or public sector in return for a compulsory contribution to the GHS. The contribution rates vary according to the contributor and are currently set as follows:

<b>Contribution Rate payable:</b>	<b>Full implementation (as of 01/03/2020)</b>
Employees	2.65%
Employers	2.90%
Self-employed individuals	4.00%
Pensioners	2.65%
Officers	2.65%
Natural/legal person responsible for remuneration of Officers	2.90%
Income Earners	2.65%
The Republic	4.70%

### 17. Is business tax levied on, broadly, the revenue profits of a business computed in accordance with accounting principles?

The charge to tax is based on profits computed according to International Financial Reporting Standards, adjusted to reflect exempt income and disallowable expenditure according to the Income Tax Law.

### 18. Are common business vehicles such as companies, partnerships and trusts recognised as taxable entities or are they tax transparent?

While Cyprus recognises a wide range of business structures, including all of the above, only natural and

legal persons (individuals, companies and their branches and PEs as well as foundations) are treated as taxable entities. Partnerships and trusts are treated as transparent for tax purposes and the income is assessed on the partners and the beneficiaries, respectively. Funds are also tax transparent.

### 19. Is liability to business taxation based on tax residence or registration? If so, what are the tests?

See the answer to question 8.

### 20. Are there any favourable taxation regimes for particular areas (e.g. enterprise zones) or sectors (e.g. financial services)?

#### Tonnage Tax

The Merchant Shipping (Fees and Taxing Provisions) Law of 2010, commonly known as the Tonnage Tax Law, provides shipowners, ship managers and charters that qualify under the said law in relation to qualifying ships (as defined in the law) engaged in qualifying shipping activities (as defined in the law) the possibility to be taxed on the basis of the tonnage of the vessel (not all gains nor all activities can fall within the tonnage tax system). It should be noted that following the Government's negotiations with the EU, the tonnage tax system of Cyprus has been prolonged until 31 December 2029, giving effect to the Decision of the European Commission dated 16 December 2019 to prolong the Cyprus tonnage tax system and to approve it as being in line with the relevant EU policy and community guidelines on state aid to maritime transport.

#### Film and audio-visual production industry

In September 2017, the Cyprus government approved an initiative to encourage the development of the film and audio-visual production industry in Cyprus by means of grants, tax incentives, and other assistance.

Law 139(I) of 2018, which took effect on 11 December 2018, amends the Income Tax Law to provide tax exemption of income from production of films and audio-visual media in accordance with the government's programme.

The amending law adds a new sub-paragraph to Article 8 of the Income Tax Law providing up to 50% exemption from tax of income derived from production of films, series and other relevant audio-visual programmes as

described in the government programme. The deduction is limited to 35% of the eligible costs approved by the competent authority implementing the programme. Any restriction on the exemption resulting from the limitation to 35% of costs can be recovered over the next five years. No exemption is available if the taxpayer has received a grant under the programme.

In addition, small enterprises as defined in Article 17 of Regulation (EU) 651/2014 may claim an annual deduction of 20% of the cost of cinematographic infrastructure and technological equipment providing it is used in Cyprus for at least five years. Medium-sized enterprises may claim an annual deduction of 10% of such costs.

## 21. Are there any special tax regimes for intellectual property, such as patent box?

In May 2012, Cyprus introduced a package of incentives and tax exemptions relating to investment in intellectual property rights, commonly known as an IP box. This combines the lowest rate of tax (effectively less than 2.5%) with the widest range of qualifying assets and the fewest restrictions compared to other countries' IP boxes.

Following the adoption of the modified nexus approach under Action 5 of the G20/OECD BEPS project the IP box regime applies to a more limited range of assets than previously. New arrangements for intellectual property assets have been developed as from 01 July 2016.

As a result, qualifying assets are restricted to patents, software and other IP assets that are legally protected. Intellectual property rights used to market products and services, such as business names, brands, trademarks and image rights, do not fall within the definition of qualifying assets.

Relief is geared to the cost incurred by the taxpayer in developing the intellectual property through its research and development activities. Costs of purchase of intangible assets, interest, costs relating to the acquisition or construction of immovable property and amounts paid, or payable directly or indirectly, to a related person are excluded from the definition of qualifying expenditure.

Unlike under the original scheme, 80% of the "qualifying profit" rather than a general 80% on "accounting profit" is granted as an additional deduction.

Nevertheless, the IP Box Regime continues to provide considerable tax savings, and companies that joined the

scheme before June 2016 can look forward to benefiting from substantial savings until mid-2021.

## 22. Is fiscal consolidation permitted? Are groups of companies recognised for tax purposes and, if so, are there any jurisdictional limitations on what can constitute a tax group? Is there a group contribution system or can losses otherwise be relieved across group companies?

Trading losses incurred by one member of a group of companies may be offset against trading profits of another group company by way of group relief, provided that the losses and profits accrued in the same year of assessment and both companies were members of the same group for the whole of the tax year concerned.

A subsidiary that is formed during a tax year (as opposed to an existing company that is acquired) is treated as being a member of the group for the whole tax year. Two companies are deemed to be members of a group if one is the 75% subsidiary of the other or both are 75% subsidiaries of a third company. A '75% subsidiary' means holding at least 75% of the voting shares with beneficial entitlement to at least 75% of the income and 75% of the assets on liquidation.

Until 2015, group loss relief was available only for losses incurred by Cyprus tax resident companies. In order to align the loss relief provisions with the decision of the European Court of Justice in the Marks & Spencer case<sup>1</sup>, the law was amended in 2015 so that a subsidiary company, which is tax resident in another EU member state, can surrender its taxable losses to another group member company that is tax resident in Cyprus, provided the subsidiary has exhausted all means of surrendering or carrying forward the losses in its member state of residence, or, to any intermediate holding company.

The amount of taxable losses that may be surrendered is calculated on the basis of the Cyprus tax laws. Similarly, subsidiaries residing in countries with which Cyprus has a double tax agreement or, an agreement to exchange tax information with, may also surrender losses in the same way.

1 – Judgement: C-446/03, Marks & Spencer

## 23. Are there any withholding taxes?

There are no withholding taxes on dividends or interest paid to non-residents. Royalties, or similar payments, to a non-resident for intellectual or industrial property rights

are liable to withholding tax only if they are for the use of the rights within Cyprus: no tax need be withheld if the rights are used exclusively outside Cyprus. The rate of withholding tax for use of general intellectual or industrial property rights within Cyprus is 10%; royalty payments made to non-residents in respect of films shown in Cyprus are subject to withholding tax at 5% of the gross amount. In either case, the payment is subject to relief under any applicable double taxation treaty.

### Dividends

From 31 December 2022, dividends paid to companies that are tax resident, incorporated or registered in a country included in the EU list of non-cooperative jurisdictions on tax matters will be subject to a withholding tax of 17% if any of the following conditions are met:

- the company has more than 50% of the voting rights of the Cyprus resident company issuing the dividend;
- the company owns more than 50% of the capital of the Cyprus resident company issuing the dividend; or
- the company is entitled to receive more than 50% of the profits generated by the Cyprus resident company.

No withholding tax will be imposed on dividends paid on securities that are listed on a recognised stock exchange.

### Interest

From 31 December 2022, passive interest received by or credited to a company that is tax resident, incorporated or registered in a country included in the EU list of non-cooperative jurisdictions on tax matters will be subject to a withholding tax of 17%.

Interest payments made by an individual will not be subject to withholding tax and interest received or credited to a non-resident company will also be exempted if it relates to securities listed on a recognised stock exchange.

### Royalties

From 31 December 2022, a company that is tax resident, incorporated or registered in a country included in the EU list of non-cooperative jurisdictions on tax matters will be subject to a withholding tax of 10% on the income received from the exercise of rights granted for use outside of Cyprus.

## 24. Are there any environmental taxes payable by businesses?

There are no explicit environmental taxes applicable for businesses at present, however, plans for a carbon tax among other are being discussed.

## 25. Is dividend income received from resident and/or non-resident companies taxable?

### Test 1: Corporation tax at 12.5% if the foreign dividend is of a hybrid nature

Dividends earned by a Cyprus tax resident company are indeed generally exempt from Cyprus corporate tax with the exception of hybrids as summarized below.

With the introduction of anti-hybrid rules, dividends earned by Cyprus tax resident companies from foreign sources are subject to corporation tax at 12.5% if the dividend earned carries hybrid characteristics – i.e., a mismatch between the definition of income earned (dividend) and the item paid (interest). Assuming that all foreign dividends are non-hybrids then they are exempt from Cyprus corporate tax.

### Test 2: SDC at 17%

Assuming the dividend is of a non-hybrid nature, then one must examine whether such dividends are taxable under SDC at 17%. Such taxability would apply if BOTH of the below applied:

- the foreign paying out entity pays tax at a rate lower than 6.25%; AND
- the foreign entity (directly and indirectly) carried out passive (non-business) activities.

## 26. What are the advantages and disadvantages offered by your jurisdiction to an international group seeking to relocate activities?

Cyprus provides an ideal base for businesses from all over the world wishing to establish a base in the EU. It is strategically located at the crossroads of three continents, it has a well-developed business infrastructure as well as a business-friendly low-tax regime with a wide network of double taxation agreements. It also offers a high quality of life, low operating costs, and substantial tax exemptions (including a 50 per cent income tax exemption for the first 17 years of residence for expatriates earning above EUR 55,000 per year).

There are further advantages for businesses relocating from the UK, which stem from the fact that Cyprus used to be a British colony. A significant part of the whole legal, financial, and administrative infrastructure is very similar to that in the UK. Cyprus law is based on UK Common Law and many existing laws have their origins in English Law as amended by EU Law. Furthermore, this is coupled with the fact that English is very widely spoken and is the lingua franca of business.

### Business Facilitation Unit (BFU) in Cyprus

The Business Facilitation Unit (BFU) in Cyprus was established by the Cypriot government as part of its broader efforts to attract foreign investment and improve the ease of doing business in the country. Launched in October 2021, the BFU is designed to support and streamline the process for foreign companies and investors looking to establish or expand their operations in Cyprus. The BFU acts as a one-stop shop for businesses, providing a centralized service to handle various administrative and regulatory requirements.

#### Key Functions of the BFU:

1. **Company Registration:** Assists with the quick and efficient registration of new companies in Cyprus, including guidance on legal and regulatory compliance.
2. **Work and Residence Permits:** Facilitates the issuance of work and residence permits for foreign employees, including the fast-tracking of applications for highly skilled workers.
3. **Tax and Legal Guidance:** Offers advice on Cyprus's tax regime and legal framework, helping businesses navigate the local business environment.
4. **Connection to Government Agencies:** Serves

as a liaison between businesses and various government departments, streamlining interactions and reducing bureaucratic hurdles.

5. **Sector-Specific Support:** Provides specialized assistance to companies in priority sectors such as technology, financial services, shipping, and energy.

#### Advantages of the BFU:

1. **Streamlined Processes:** The BFU simplifies and accelerates the process of setting up and expanding businesses in Cyprus, reducing administrative burdens and delays.
2. **Centralized Services:** By serving as a one-stop shop, the BFU offers businesses a single point of contact for multiple services, making it easier to navigate the requirements of different government agencies.
3. **Attraction of Foreign Investment:** The BFU's support and facilitation services are designed to make Cyprus more attractive to foreign investors, helping to boost economic growth and job creation.
4. **Enhanced Access to Resources:** Businesses have better access to government resources, support, and information, allowing them to make informed decisions and take advantage of incentives and opportunities.
5. **Support for Skilled Migration:** The fast-tracking of work and residence permits helps companies attract and retain top international talent, essential for sectors that rely on skilled professionals.

Overall, the BFU enhances Cyprus's reputation as a business-friendly destination, promoting it as an ideal location for international companies looking to establish a presence in the European Union.

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