**TAXATION**

**TAX** [**INFORMATION**](http://www.kassinopoullos.com/taxation.aspx) **2014 Personal Income Tax**

Taxation of Individuals depends on their Resident status.

* Tax Residents are liable to tax on their worldwide income. (Worldwide income earned within and outside Cyprus.)
* Non Tax Residents are liable to tax only on income earned within Cyprus.

**Resident's Definition**

Cyprus residents are individuals who are residents for a period exceeding 183 days in a year of assessment. The computation of residence days in Cyprus is based on the following principles:

* A day of departure from Cyprus is considered as a day outside the republic.
* A day of arrival in Cyprus is considered as a day in the republic.

|  |
| --- |
| **Personal Tax Rates (Year 2014)**  |
| Taxable Income (€) | Tax Rate (%) | Accumulated Tax (€) |
| 0 – 19,500 | - | - |
| 19501 – 28,000 | 20 | 1,700 |
| 28,001 – 36,300 | 25 | 3,775 |
| 36,301 – 60,000ABOVE 60,000 | 3035 |  10,885 |

|  |
| --- |
| **Pensions Received From Abroad** |
| Taxable Pensions (€) | Tax Rate |
| Up to 3,420 | Nil |
| Over 3,420 | 5% |

**Tax Exemptions**

|  |  |
| --- | --- |
|  | **Limit of Exemption** |
| Interest income | All |
| Dividends income | All |
| Lump sum received in the form of bonus on retirement, on computation of pension, as a bonus on death or as compensation on death or personal injury  | All |
| Capital sum received from insurance or approved provident funds | All |
| Profits from the disposal of securities | All |
| Widow pensions | All |
| Individuals who were not Cypriot residents before the commencement of their employment are allowed after the first year an exemption of 20% of their emoluments with maximum amount C£5000 annually. This exemption can be used for 3 years commencing from the 1st January following the first year of employment. | All |
| Remuneration from salaried services rendered outside Cyprus for more than 90 days in a tax year to a non-Cyprus resident employer or to a foreign permanent establishment of a Cyprus resident employer. | All |
| Deposits with Housing Finance Corporation (The exemption only applies to deposit schemes, which existed as at 30 April 2003)  | 40% of the amount deposited. The deposited amount cannot exceed 25% of a person's total income.  |

**Tax Deductions**

**The following are deducted from income:**

|  |  |
| --- | --- |
| Contributions to trade unions or professional bodies | All |
| Contributions to trade unions or professional bodies | All |
| Loss of current year and previous years, but not loss incurred due to donations or contributions | All |
| Donations to approved charity foundations (with receipts) | All |
| Rental income | 20% of gross rental income |
| Expenditure incurred for the maintenance of listed buildings for which there has to be either a Preservation order or certificate by the Minister of Interior that the expenses are in respect of preservation [work](http://www.kassinopoullos.com/taxation.aspx) for restoring the building | Up to €1,200, €1,100 or 700 per square meter (depending on the size of the [building](http://www.kassinopoullos.com/taxation.aspx)) |
| Social Insurance, provident fund, medical fund, pension fund contributions and life insurance premiums (the allowable annual life insurance premium is restricted to 7 per cent of the insured amount) | The total amount of deduction is restricted to 1/6 of taxable income |

**CORPORATION TAX**

**Basis of Taxation**

Companies that are Tax Residents in Cyprus are liable to tax on their worldwide income, which is received both in Cyprus and abroad. For companies, which are non-tax residents, but carry out business activities through a permanent establishment in Cyprus, are liable to tax only on the income derived in Cyprus.

Companies are considered as Cyprus Tax Residents provided that they are managed and controlled in Cyprus.

**Corporation Tax Rates**

|  |  |
| --- | --- |
| **Profits (C£)** | **Rates(%)** |
| Semi-government organisations | 25 |
| All companies | 12.5 |

**Tax Exemptions**

|  |  |
| --- | --- |
| Dividends received (The international business units who continue with the previous tax regime (4.25%) are liable to tax on dividends received)  | All |
| Interest derived not from the ordinary activities or from closely related activities of the company  | All |
| Profits from the disposal of securities | All |
| Profits from permanent establishments abroad (Under certain conditions)  | All |

**Tax Deductions**

The following expenses are deducted from the income of the company:

|  |  |
| --- | --- |
|  | **Limit** |
| Expenses incurred wholly and exclusively in earning the income of the company | All |
| Donations to approved charities (with receipts) | All |
| Employer's annual contributions to approved funds concerning employees' salaries | All |
| Expenditure incurred for the maintenance of listed buildings for which there has to be either a Preservation order or certificate by the Minister of Interior that the expenses are in respect of preservation work for restoring the building | Up to€700, €1100 or €1200 per square meter depending on the size of the building |
| Bad debts incurred(Provided all the procedures required have been followed) | All |
| Entertaining expenses incurred for business purposes | Lower of €27,086 and 1% of gross revenues |

The following expenses are not deducted from companies' income:

* Expenses of a private saloon car (i.e. petrol, maintenance costs etc).
* Interest attributable to acquiring private saloon cars, and to assets not used in the business is not deductible for 7 years. After 7 years this interest will be deductible for tax purposes.

**Tax Losses**

Tax losses can be offset against profits from other activities. If in the same year there are no profits from other activities, tax losses can be carried forward and set off against taxable income without time limit. This provision is applicable for all losses incurred from 1997 tax year onwards.

A partnership or a sole trader transferring business into a company can carry forward tax losses into the company and offset it with future profits.

A company in Cyprus can set off losses from a permanent establishment abroad against profits from the company in Cyprus. Any subsequent profits of the permanent establishment abroad should be taxed in Cyprus to the extent of the allowable losses, which were set off.

Group Loss Relief

Group loss relief is the offsetting of the tax loss of one company in the group with the taxable income of another company in the same group. Group loss relief is allowed if both companies are tax residents in Cyprus.

Group of companies exist when:

* A company is holding 75% of the voting rights of the other company, or
* Both the companies are 75% owned by a third company.

Conditions that should be met for utilisation of group loss relief:

* The companies have been members of the group for the whole tax year.
* Tax losses can only be offset with tax profits of the same year.

**Reorganisations**

Within the framework of reorganisation transfers of assets and liabilities between companies can be effected without any tax consequences.

Reorganisations are defined as

* mergers
* demergers
* transfer of assets in exchange of shares and
* exchange of shares

**Wear and Tear Allowance Rates**

Wear and tear allowances are estimated as a percentage on the cost of acquisition of fixed assets and are deducted from the taxable income of a company.

|  |  |
| --- | --- |
| **Categories** | **Percentages of Allowance (%)** |
| **Machinery and Equipment** |
| Machinery and Equipment | 10 |
| Furniture and fittings | 10 |
| Industrial carpets | 10 |
| Televisions and video | 10 |
| Farming, animal husbandry | 15 |
| Computer hardware and operation software | 20 |
| **Vehicle** |
| Saloon cars | Nil |
| Vans, taxis, trucks, buses, pick-up and motorcycles | 20 |
| Tractors, excavators, bulldozers | 25 |
| **Loose Tools** |
| Loose tools | 33 1/3 |
| Video tapes of video clubs | 50 |
| **Buildings** |
| Commercial buildings | 3 |
| Industrial, agricultural, hotels, tourist villages, tourist apartments | 4 |
| Flats | 3 |
| Metallic greenhouse structures | 10 |
| Wooden greenhouse structures | 33 1/3 |
| **Application software** |
| Cost of acquisition in excess of C£1000 | 33 1/3 |
| Cost of acquisition lower than C£1000 | 100 |
|  |  |
| **Ships** |
| Sailing vessels lighters | 4.5 |
| Steamers, tugs, trawlers | 6 |
| Motor launches | 12.5 |
| Second hand vessels | By Special Agreement |
| New passenger ships | 6 |
| New cargo ships | 8 |
| Second hand vessels | Over their useful economic lives |

 **International Business Units (IBU)**

As of 1st of January 2003, Cyprus International Business Entities are subject to corporate tax rate of 10%.

For IBU who had the option to continue with the previous tax regime (4.25%) for the years 2003, 2004 and 2005, provided that they had income or commercial activity in 2001, the following provisions do not apply during the transitional period when computing the taxable income:

* Exemption of 50% on interest income
* Exemption for dividend received from abroad
* Exemption from disposal of securities
* Group relief for losses
* Expenses for reorganisations
* Losses that can be carried forward start from year 2001 onwards and not from 1997
* In the absence of double tax treaty no credit of foreign taxes can be given
* The defence fund provisions for contributions do not apply

**Insurance Companies**

Insurance companies are liable to tax like any other companies. But in the case where the corporation tax payable is less than 1.5% of the gross insurance premiums, insurance companies must pay the difference as additional corporation tax.

**Shipping Companies**

* Profits or Dividends payable by a shipping company registered in Cyprus, which owns ships registered on the Department of Merchant Shipping in Cyprus and operates in International waters are exempted from income tax.
* Ship management companies providing services to vessels under other flags have a choice to be either:
a) taxed at 4.25% on profits or
b) pay tonnage tax at the rate of 25%
* The salaries of officers and crew of a ship under the Cyprus flag, which operates in international waters, are exempted from income tax.

**SPECIAL CONTRIBUTIONS FOR DEFENCE**

The special contribution for defence applies only to income earned by Cyprus Tax residents. Non Tax residents are exempt from special contribution for defence.

|  |  |  |
| --- | --- | --- |
| **Type of Income** | **Individuals %** | **Tax Rates Companies** |
| Dividends from companies resident in Cyprus | 20 | Nil |
| Dividend from overseas companies | 20 | Nil or 20% (Note 1) |
| Interest derived in the normal course of business of the company (considered to be profit) | Nil | Nil |
| Interest received | 30 (Note 2) | 30 |
| Profit of semi-governmental | N/A | 3 |
| Rent received (less 25%) | 3 | 3 |
| Interest from Government saving, Certificates, Government bonds, Approved provident funds | 3 | N/A |

***Notes***

Dividend income from abroad is exempt from defence fund contribution provided that the company receiving the dividend owns directly at least 1% of the shares of the company paying the dividend. The exemption does not apply if:

* the company paying the dividend engages directly or indirectly more than 50% of its activities that give rise to an investment income and
* The foreign tax is under 5%

A 20% special contribution is payable when the exemption is not applicable.

For an individual whose total income (including interest) does not exceed C£7,000 in a taxable year, the rate is reduced to 3%. Interest income from savings and development bonds of the Cyprus government and all interest earned by a provident fund is subject to special contribution for defence at 3% (instead of 10%).

Dividends received from companies before the 31 December 2002, which according to the legislation in force at that time it was net of 20% withholding tax, and not distributed as dividends up to 31 December 2002, can be distributed within six years from the date of their receipt without any further tax deduction.

In the case of interest and dividends received gross any defence due is payable at the end of the following month from the one in which they were received.

Special contribution for defence on trading profits and rental income is payable in 6 monthly intervals on 30 June and 31 December each year.

International business companies electing to be taxed at the rate of 4.25% for the years 2003, 2004 and 2005 will not be subject to defence fund contributions on any income arising on the three year transitional period.

Foreign taxes paid can be credited against the defence tax liability.

**Deemed Dividend Distribution**

If a Cyprus resident company does not distribute a dividend within two years from the end of the tax year then:

* 70% of accounting profits (after adjustments) are deemed to have been distributed.
* 20% special contribution for defence is imposed on deemed dividend distribution applicable to shareholders that are residents of Cyprus.
* Deemed distribution is reduced with payments of actual dividends, which have already been paid during the two years following the year in which the profits relate to.

When an actual dividend is paid after the deemed dividend distribution, then special contribution for defence is imposed only on the additional dividend paid.

The deemed dividend distribution applies to accounting profits starting from the year 2003 onwards.

**CAPITAL GAINS TAX**

Capital gains tax is charged at the rate of 20% on gains arising from the disposal of immovable property located in Cyprus or the disposal of shares of companies which own immovable property in Cyprus. Gains from the sale of shares listed on a recognised stock exchange are excluded from capital gains tax.

**Determination of Capital Gain**

The taxable gain is the result of the difference between sale proceeds and the original cost of property plus improvements cost. The total cost of property should be adjusted to include inflation from the date of acquisition (earlier date 01/01/1980) to the date of disposal. Inflation can be estimated through the Cyprus consumer price index.

|  |  |
| --- | --- |
| **Example** | (€**)** |
| Selling price 31/12/2004 | 90,000 |
| Cost of acquisition 01/01/1988 | (40,000) |
| Inflation (01/01/1998 - 31/12/2004) (C£40,000 x 83.88%) | (33,552) |
| Taxable profit | 16,448 |

**Exempt Disposals**

* Transfer by reason of death
* Gifts between relatives (up to 3rd degree of relation)
* Gifts to approved charitable institutions and the Government
* Transfer by reason of reorganisation
* Expropriations
* Exchange of sale of land according with Agricultural law
* Exchange of properties. The gain made on this exchange is used to acquire another property. That gain which is non-taxable is deducted from the cost of the new property.
* Gift to family companies. This is exempt only if the shareholders of the company are and continue to be members of the donor's family for at least five years.
* Gifts from family companies to their shareholders. This is exempt provided the company originally acquired the property by way of gift. If the shareholder disposes the property gifted by the company during the next three years from the gift date the exemption will not be available.

**Exemptions Available to Individuals**

|  |
| --- |
| (€**)** |
| Gains from the disposal of any property | 17,086 |
| Gains from the disposal of agricultural land by a farmer | 25,629 |
| Gains from the disposal of primary residence | 85,430 |

***Note***

The exemption of €17,086 applies even if the property was purchased during the same year or any other year.

The €85,430 exemption applies only if the residence was owned and used by the owner as his primary residence for a period of at least five years. The five-year period does not need to be continuous, but the total use of the primary residence less any length of time that was absent from the primary residence should amount to five years.

These exemptions are only entitled once.

If an individual is entitled of more than one of these exemptions the amount is limited to €85,430.

**VALUE ADDED TAX**

**Definition**

Value added tax is imposed on the provision of goods and services in Cyprus, on the acquisition of goods from the European Union and on the importation of goods into Cyprus.

Taxable persons charge VAT on their taxable supplies (output VAT) and are charged VAT on goods or services received (input VAT).

If input tax > output tax = repayment is due from the state.
If output tax > input tax = payment has to be made to the state.

**Registration**

Registration is compulsory for business:

* with a turnover > €15,377 , or acquisitions in Cyprus from member states >€ 10,251 or making distance sales (sales from a person established in another member State) >€ 34,172 during the 12 preceding months.
* if there are reasonable grounds for believing that in a period of thirty days then beginning the thresholds as stated above will be exceeded.

Businesses that do not exceed the above thresholds have the option to register if they wish to do so.

VAT Payment/Return of VAT

VAT returns must be submitted quarterly. The payment of VAT must be made within 40 days from the end of each quarter.

**VAT Rates**

Legislation provides for these tax rates.

* Zero rate (0%)
* Reduced rate (5%,9%)
* Standard rate (19%)

Zero Rated Goods and Services (0%)

* Supplies to other member states of the European Union
* Exports
* Foods
* Medicines
* International air and sea transport
* Commission received from abroad for exportation goods

Reduced Rate in Goods and Services (5%)

* Funeral Services and supply of coffins
* Road sweeping, garbage collection and recycling
* Services of outdoors, composers, artist, and critics of works of art
* Supply of fertilisers
* Supply of animal feeding stuffs
* Supply of seeds
* Supply of live animals used for the preparation of foods
* Non-bottled water
* Newspaper and magazines
* Books
* Various equipments used by handicapped persons
* Ice-cream, yoghurt and similar products
* Salted or spicy products made from cereals or potato or potato substitute
* Dry nuts salted, roasted or spicy
* Gas
* Transfers of persons and luggage by urban and rural area buses

Reduced Rate in Goods and Services (9%)

* Transfers of persons and luggage inland by urban and rural area taxis or by tourism, excursion or intercity buses
* Local transport of passengers by sea
* Hotel accommodation fees
* Supplies of goods in the course of catering except alcoholic drinks, which are standard rated
* Hotel accommodation fees (as of 1/1/2006 increased to 8%)
* Supplies of goods in the course of catering except alcoholic drinks, which are standard rated (as of 1/1/2006 increased to 8%)

**Exemption**

Certain goods and services are exempt from VAT, for example:

* Rent
* Medical Services
* Insurance and financial Services
* Disposal of immovable property

For the sales of buildings for which an application was filed at the Town of Planning and Housing Department after the 1st May 2004 for the issue of building license are subject to standard rated VAT. For the purchase of buildings that is to be used as first residence and for which an application was filed for the issue of building licence after the 1st May 2004, a government grant is available (see section for government grant for the purchase of new property).

Also, the sales of buildings for which an application was filled for the issue of Planning Permission after the 1 May 2004 are subject to standard rated VAT.

Difference between Zero Rating and Exemption

Businesses that make exempt supplies are not entitled to recover VAT with which they have been charged on their purchases, expenses or imports (VAT input).

Irrecoverable Input VAT

Input VAT cannot be recovered in the following cases:

* Sale of exempt supplies
* Purchase, import or hire of saloon cars
* Directors' housing expenses
* Entertainment and hospitality expenses (except expenses relating to employees and directors)

**TAX DIARY**

End of the following month

Payment of tax deducted from employees’ salary (PAYE).

31st January

* Payment of defence fund for deemed distribution.

30th April

* Submission of individuals' personal returns (IRI) for the previous year
* Submission of the payroll list (IR7) for the previous year by the employers
* Payment of the first instalment of premium tax for life insurance companies

30th June

* Payment of the first instalment for the special contribution for defence for the first six months of the current year

1st August

* Submission of provisional tax declaration (IR6) and payment of the first instalment of provisional tax for the current year
* Payment of previous year final corporation tax under the self-assessment method
* Payment of Income Tax for the previous year based on the assessment raised by the commissioner of Income Tax

31st August

* Payment of the second instalment of premium tax for life insurance companies

30th September

* Payment of provisional tax second instalment for the current year
* Payment of immovable property tax for the current year

31st December

* Submission of previous year accounts and tax returns (IR4)
* Payment of provisional tax third instalment for the current year
* Payment of the second instalment of special contribution of defence for the last six months of the current year
* Payment of premium tax for the insurance companies - third and last instalment for the current year

**Penalties**

If the deadlines mentioned above are not followed, an annual interest of 9% in addition to a penalty charge depending on the circumstances will apply.

**INHERITANCE TAX**

Inheritance tax has been abolished on 1st January 2000. The executor of the estate should submit a statement of assets and liabilities of the deceased to the tax authorities within six months from the date of death.

**TRANSFER FEES BY THE DEPARTMENT OF LAND AND SURVEYS**

The following table shows the fees payable in the case of a transfer of property:

|  |  |  |
| --- | --- | --- |
| **Value of Property (**€**)** | **Transfer Fee (%)** | **Accumulated Tax** |
| Up to 85,430 | 3 | 2563 |
| 85,431-170860 | 5 | 6835 |
| Over 170,860 | 8 |  |

**Family transfers**

If an immovable property is transferred to a family company, the transfer fees are refundable in five years if:

* The immovable property remains in the company.
* No change was made in the company's shareholders.

If an immovable property is transferred from a family company to the shareholders or their relatives up to a third degree relation the following fees are payable:

* 8% on the value of the property if the transfer is made to the wife of a shareholder.
* 4% on the value of the property if the transfer is made to the child of a shareholder.
* 8% on the value of the property if the transfer is made to a relative of a shareholder.

**Note**

In the case of reorganisations of companies involving the transfer of immovable property the transfers concerned are not subject to fees.

**IMMOVABLE PROPERTY TAX**

The immovable property tax is imposed on the market value of the immovable property on 1st January 1980 and applies to the immovable property of the taxpayer on 1st January every year. The immovable property tax is paid on 30 September each year.

**Tax rates**

|  |  |  |
| --- | --- | --- |
| **Value of Property(** €) | **Rate (%)** | **Accumulated Tax** |
| Up to 120,000 | Nil | Nil |
| 120,001 – 170,000 | 4 | 200 |
| 170,001 – 300,000 | 5 | 850 |
| 300,001- 500,000 | 6 | 2050 |
| 500,001-800,000 | 7 | 4150 |
| 300,001-500,000 | 8 |  |

 **Exemptions**

* Public cemeteries
* Public schools
* Public hospitals
* Immovable property owned by the Republic
* Churches and other religious buildings
* Foreign Embassies and consulates
* Listed buildings under a Preservation Order
* Charity houses
* Agricultural land (no buildings)
* Common use areas
* Occupied or inaccessible areas

**STAMP DUTIES**

Transactions falling under the scope of reorganisations are exempt from stamp duty. Additionally, any contracts that relate to assets located abroad or business transactions, which take place abroad, are exempt from stamp duties. The following table shows the fees paid on certain documents.

Type of documents

|  |  |
| --- | --- |
| **Document** | **Euros/Cents** |
| Cheques | 3 cents |
| Receipts for sums from Î3.4 - Î34 | 2 cents |
| Receipts for sums over Î34 | 4 cents |
| Letter of guarantee | Î3.40 |
| Letter of credit | Î1.70 |
| Bills of exchange (payable within three days on demand or sight) | 50 cents |
| Bills of lading | Î3.42 |
| Charter party | Î1.71 |
| Power of attorney |  |
| - general | Î5 |
| - limited | Î1.71 |
| Certified copies of contracts and documents | Î1.71 |
| Contracts |  |
| - up to Î171,000 | Î2.56 per thousand |
| - over Î171,000 | Î3.42 per thousand up to a maximum of Î17.100 |
| - with no fixed sum | Î34.2 |
| Customs declaration documents | Î17-Î34.2 |
| Registration of a limited liability company |  |
| - authorised share capital | €102.52 plus 0.6% on the authorised share capital |
| - Issued share capital | There is no stamp duty payable if the shares are issued at nominal value. In the case the shares are issued at a premium a €17.09 flat duty applies. |
| Subsequent increases |  |
| - authorised share capital | 0.6% on the additional share capital |
| - Issued share capital |  €17,09 flat duty on every issue, whether shares are issued at nominal or at a premium value |

**GOVERNMENT GRANTS FOR THE PURCHASE OF NEW PROPERTY**

Individuals purchasing property in Cyprus, provided that it will be used as first residence, are eligible for a government grant. Individuals entitled for the grants are:

* At least of 18 years of age
* Citizens of the Cyprus republic or any EU member state and
* Does not use any other residence as first and permanent place of residence

The grant is subject to the following conditions:

* The application for the issue of building license was filed at the Town of Planning and Housing Department after the 1st May 2004
* The residence is to be used for the first time as primary and permanent place to stay and
* The property should not exceed 250m2

**SOCIAL INSURANCE CONTRIBUTIONS**

**Analysis of contributions**

|  |  |
| --- | --- |
| **Categories** |  |
| **Social Insurance Fund %**  | **Social Cohesion Fund %** | **Redundancy Fund %** | **Industrial Fund %** | **Holiday Fund %** | **Total Contr. %** |  |
| Employer 7.8 | 2.0 | 1.2 | 0.5 | 8.0 | 19.5 |  |
| Employee 7.8 | - | - | - | - | 7.8 |  |
| Self Employed | 13.6 | - | - | - | - | 12.6 |

**Employees**

The maximum salary amount on which social insurance contributions are estimated is:

* for weekly employees **(** €1025 per week )
* for monthly employees **(** €4,442 per week)