



Cyprus **Tax** Guide
for Investment

www.investcyprus.org.cy



An international business & Investment Centre

Cyprus is a modern, cosmopolitan and transparent business centre offering opportunities for investment across a wide range of sectors. Cyprus is committed to offering a high quality, duly regulated service and unique set of competitive advantages that ensure the best possible experience for investors and businesspeople worldwide.

Apart from continuously improving the business climate, increasing competitiveness and ensuring a stable and robust economic environment, Cyprus aims at further diversifying its economy by developing new sectors with high potential, such as energy, start-ups and innovation and investment funds, while enhancing its edge in areas in which it has traditionally excelled such as tourism, real estate and shipping.

Top Reasons to Invest in Cyprus

Positive economic outlook

- Robust GDP growth
- One of the fastest growing EU economies
- Consecutive upgrades by credit rating agencies
- Positive macroeconomic forecasts

Access to talent

- The youngest population & workforce in the EU
- 55% of the workforce has a tertiary degree
- Businesses in Cyprus operate in English and 73% of Cypriots speak English
- Booming private education sector with English taught programmes
- Visa-free access to European talent
- Easy access to global talent

Access to markets

- Full access to European markets
- Access to 40+ EU trade agreements
- A member of the Eurozone since 2008
 - Geostrategic position
- Proximity & easy access to major markets

Excellent regulatory structure

- The legal system is closely aligned to the English common law legal system
- Frequently updated to meet investors' changing needs
- Strong protection for investment & intellectual property (IP)
 - Establishing a business is simple and fast

Strong business support services

- Wide range of services make starting & running a business easy
- 700+ registered accounting firms including all major global firms
- 2,700+ registered lawyers and 160 law firms
- A range of serviced offices & co-working spaces
- High availability of modern and affordable office space in all cities

Low cost of doing business

- Lower labour costs for technical and professional talents than in other major EU capitals
- Among the lowest office rental rates in Europe
- Highly affordable critical business support services

Quality of life

- One of the best climates worldwide
- Top 5 safest country in the world (Value Penguin 2015)
- Top 4 best retirement destination globally (Knight Frank 2016)
- Most blue flag beaches per capita in the EU (Eurostat)
- Best island economy 2017/2018 lifestyle & human capital (fDi magazine)



Tax Highlights

The Cyprus tax, legal and regulatory system provides an excellent framework for the operation of international and local businesses of all sizes.

Cyprus Tax Highlights

- One of the lowest corporate tax rates in the European Union at 12.5%
- An attractive Double Tax Treaty network covering more than 60 countries
- As a member state of the European Union, investors are offered access to all EU Tax Directives
- Dividend income exemption based on relaxed conditions
- Capital gains tax exemption (except for real estate situated in Cyprus)
- No withholding tax on outgoing dividend, interest or royalty payments
- Gains from trading in securities are tax exempt
- Notional interest deduction available for equity investment into Cypriot companies
- A competitive Intellectual Property regime (in line with the Nexus approach)
- Option for foreign Permanent Establishment profits to be tax exempt
- Tailor-made provisions for the investment funds industry
- Competitive Tonnage Tax for Shipping companies and an approved EU open registry
- Foreign Exchange gains or losses are tax neutral
- An attractive personal tax regime for international professionals and non-domiciled individuals
- Tax deductions for investment into start-ups
- No succession or inheritance taxes
- No immovable property tax.

1. One of the lowest Corporate Tax Rates in the EU

Corporate tax for Cyprus tax resident companies is currently imposed at the rate of 12.5% for each year of assessment on income derived from sources both within and outside Cyprus. In arriving at the taxable income, deductions on such income and exemptions must be taken into account.

All relevant expenses incurred wholly and exclusively for the production of that income are deductible expenses whereas dividends (subject to relaxed conditions), capital gains or profits from the sale of shares and other securities constitute tax exempt income. Expenses that directly or indirectly relate to tax exempt income are also not tax deductible.

2. Dividend income exemption based on relaxed conditions

Foreign dividends received by a Cyprus Company, will be exempt from Income Tax in Cyprus, provided that such dividend payments are not allowed as a tax deduction in the country of residency of the dividend paying company.

Further, foreign dividends may also be exempt from Special Defense Contribution (SDC) in Cyprus, if one of the following criteria is met:

- a. the dividend paying company derives 50% or more of its income directly or indirectly from activities which lead to active income ("active versus passive test") or
- b. the foreign tax burden on the profits of the company paying the dividend is not substantially lower than the Cypriot corporate income tax rate ("effective tax test").

If neither of the above conditions can be satisfied, dividends will be subject to SDC tax in Cyprus at the current rate of 17%.

3. Capital Gains Tax (CGT)

Capital gains tax is only imposed on the sale of immovable property situated in Cyprus as well as on the sale of shares which are directly or indirectly held in companies (other than listed shares) in which the underlying asset is immovable property situated in Cyprus. CGT is imposed at a flat rate of 20% after allowing for indexation cost.

Capital gains that arise from the disposal of immovable property held outside of Cyprus or shares in companies which may have as an underlying asset immovable property situated outside of Cyprus, are exempt from CGT.

4. No withholding tax on outgoing dividend, interest or royalty payments

Based on the domestic tax legislation, no withholding tax is imposed on dividends, interest and royalties payments made by a Cyprus tax resident company to a non-tax resident person, irrespective of whether the recipient of the payment resides in a treaty country or not.





5. Gains from trading in securities are tax exempt

The Cyprus legislation provides that any gain on the disposal of securities is exempt from taxation.

The term 'Securities' includes but is not limited to: ordinary and preference shares, founder's shares, options on qualifying securities, debentures, bonds, short positions on qualifying securities, futures/forwards on qualifying securities, swaps on qualifying securities, depositary receipts on qualifying securities, rights of claims on bonds and debentures, index participations (only if they represent titles), repurchase agreements or Repos on qualifying securities, participations in companies and units in open-end or closed-end collective investment schemes.

6. Notional Interest Deduction (NID) for investment into Cypriot companies

A Notional Interest Deduction (NID) will be granted for new capital introduced in a Cyprus tax resident company and used in the business for the production of income.

The NID will be calculated using a 'reference interest' rate which is equal to the yield of the 10-year governmental bond of the country in which the new equity is invested or the yield of the 10-year Cyprus governmental bond, whichever is the highest, increased by 3%.

A Cyprus company may elect as to whether or not to claim the entire amount of the NID, or part of it, as a tax deduction. The NID will not be available if the Cyprus company is in a loss position nor can it exceed 80% of the profits arising as a result of the newly introduced capital, in a specific tax year.

7. A competitive Intellectual Property (IP) regime

The IP regime applies to 'qualifying' intangible assets. Broadly defined 'qualifying' intangible assets are assets which were acquired, developed or exploited by a person in the course of carrying on a business and which constitute intellectual property, other than marketing related intellectual property associated with promotion (marketing) and which are the result of research and development activities, including an intangible asset for which there is only economic ownership.

In calculating the taxable profit, an 80% deemed deduction applies to the qualifying profit from the exploitation of such qualifying intangible assets.

Qualifying profits are calculated in accordance with the nexus approach:

$$\text{Overall Income} \times \left[\frac{\text{Qualifying Expenditure} + \text{Uplift Expenditure}}{\text{Overall Expenditure}} \right]$$

Capital gains arising from the disposal of a qualifying asset are fully exempt from income tax.

The taxpayer may choose to forego the whole or part of the deduction in each year of assessment. Where the calculation of qualifying profits results in a loss, only 20% of this loss may be carried forward or group relieved.

The capital cost of any qualifying intangible asset is tax deductible as a capital allowance over the useful life of the IP, not to exceed 20 years.



8. Foreign Permanent Establishment (PE) profits are tax exempt

Based on the Cyprus tax legislation, any profits of a foreign PE of a Cyprus tax resident company are exempt from corporate tax in Cyprus if one of the following two conditions is satisfied:

- 1) The PE must not engage more than 50%, directly or indirectly, in activities which lead to passive income (active versus passive test) or
- 2) The foreign tax burden imposed at the level of the PE is not substantially lower than the tax burden in Cyprus (effective tax test).

In addition, any losses from a foreign PE of a Cyprus Company abroad may be offset against profits of the Cyprus Company for the same year subject to recapturing of future PE profits up to the amount of losses previously utilised.

Election to tax the profits of a foreign PE in Cyprus

Cyprus tax resident companies may elect to tax the profits of their foreign PEs in Cyprus in accordance with the provisions of the Cyprus tax legislation. Further, a credit for any foreign taxes imposed on the foreign PE's profits will be afforded in Cyprus, up to the amount of the Cyprus tax payable on such foreign PE's profits. Where there is no double tax treaty, the relief is given unilaterally by Cyprus, even if no election is made.

9. Tailor-made provisions for the investment fund industry

Tax provisions for the fund industry

Cyprus tax resident Alternative Investment Funds (AIFs) and Undertakings for Collective Investments in Transferable Securities (UCITs) are liable to tax or not depending on their legal status (i.e. transparent or not)

- Most income realised by a Cyprus tax resident Fund is tax free (e.g. dividend income and capital gains)

- No Permanent Establishment (PE) is created in Cyprus for investors as a result of investing in Cyprus funds that are transparent from a legal point of view
- No subscription tax on net assets of a fund
- No tax on disposal of shares/units by the unit holders upon exit by sale or redemption
- No tax on income arising from trading in securities
- Services provided by the Investment Manager of the fund are not subject to VAT
- Tax resident Fund Managers are taxed at the flat rate of 10% on the performance linked element of the manager's reward (carried interest)

10. Competitive Tonnage Tax for Shipping companies and an approved EU open registry

Cyprus has a tonnage tax system which is fully endorsed by the EU and allows shipping companies to opt to be taxed on the net tonnage of the fleet they operate (Tonnage Tax System – TTS), rather than corporate tax, which they would otherwise have to pay. Under certain conditions the TTS applies also to tug boats, dredgers and cable layers.

Cyprus has a competitive European Union approved "Open Registry" and the TTS allows for mixed activities subject to tonnage tax, and to corporation tax. The tonnage tax system covers ship ownership, ship management and ship chartering.

11. Foreign Exchange (FOREX) gains or losses are tax neutral

FOREX gains or losses will be tax exempt/not tax allowable accordingly, irrespective of whether such gains/losses are realised or unrealised. (The exemption will not apply to companies that are trading in currencies and currency derivatives).

12. An attractive personal tax regime for international professionals and non-domiciled individuals

Personal income tax rates in Cyprus

The net taxable income arising for individuals (residents and non-tax residents) will be subject to the following income tax rates for tax year 2017-2018:

Chargeable Income (€)	Tax Rate (%)
0 - 19,500	0
19,501 - 28,000	20
28,001 - 36,300	25
36,301 - 60,000	30
Over 60,000	35

Tax Residency in Cyprus

Cyprus has adopted a residency-based system of taxation, whereby physical presence in Cyprus exceeding 183 days in a tax year (1st January to 31st December) will constitute tax residency for an individual. Consequently, if the individual is physically present in Cyprus for less than 183 days in a tax year s/he will be regarded to be a non-tax resident of Cyprus in that tax year.

The above tax residency rule has been amended to also provide that an individual who does not stay in any other country, for one or more periods exceeding in aggregate 183 days in the same tax year and is not tax resident in any other country for the same year, is deemed to be a resident of Cyprus in that tax year, if all of the following conditions are met:

- (i) the individual stays in Cyprus for at least 60 days in the tax year,
- (ii) the individual exercises any business in Cyprus and/or is employed in Cyprus and/or holds an office with a Cyprus tax resident company at any time during the tax year,
- (iii) the individual maintains (by owning or leasing) a permanent home in Cyprus.

The law is further amended to clarify that an individual that cumulatively meets all the above conditions shall not be treated as a Cyprus tax resident in the tax year, if during that year the exercise of any kind of business in Cyprus and/or employment in Cyprus and/or holding of an office with a tax resident person in Cyprus is terminated.

Domicile rules in Cyprus

Based on the Special Defense Contribution (SDC) legislation, the following persons should not be considered to be domiciled in Cyprus:

- An individual who has a domicile of origin other than Cyprus and has not been a Cyprus tax resident for at least 17 out of 20 consecutive years or
- An individual having a domicile of origin in Cyprus but who has not been a Cyprus tax resident for a consecutive period of at least 20 years as from 16/7/2015 or
- An individual with a domicile of origin in Cyprus who has taken up a domicile of choice outside of Cyprus and has not been a Cyprus tax resident for a consecutive period of 20 years prior to the year of taking up tax residency in Cyprus.

The individual's non-domicile status in Cyprus will be used up or expire in the instance where the individual remains a Cyprus tax resident for at least 17 out of the last 20 years, whereby, s/he will be considered to be deemed a Cyprus-domiciled individual for tax purposes.

Concessions available to expatriates

- The lower of 20% or €8,550 of the emoluments from any employment, which is exercised in Cyprus by an individual who was not resident of Cyprus before taking up employment in Cyprus is exempted from tax and applies from the 1st January from the year following the year of commencement of such employment. This exemption applies until year 2020 with regard to employment that commenced from 2012 onwards for a maximum period of five (5) years.

- 50% of the gross emoluments are allowed to be deducted from taxable income for individuals that were not tax residents of Cyprus prior to the commencement of their employment in Cyprus. This deduction applies when income exceeds €100,000 p.a. and is allowed for a period of ten (10) years, commencing from the date of employment. The exemption is not given to an individual, who was a tax resident in any three of five years preceding the year of employment and to an individual, who was resident in the year preceding the year of commencement of employment.

13. Tax deduction for investing in startups

Investments which are undertaken by a physical person, who is an independent investor, which are directly or indirectly related to the acquisition of shares in an innovative small and medium-sized enterprise, are allowable deductions from the taxable income of that person.

The allowable amount is restricted to 50% of the taxable income with a yearly cap of €150,000. The unutilised amount can be carried forward and claimed in the next five (5) years, subject to the above mentioned restrictions.

The Cyprus Tax Authorities may refuse to allow the deduction, if the investor does not retain the investment in the innovative small and medium-sized enterprise for minimum period of three years.

14. No succession or inheritance taxes

There are no inheritance and gift taxes in Cyprus.

15. No immovable property taxes

There is no real estate tax on immovable property located in Cyprus.





About Invest Cyprus

Businesses and individuals considering investment into Cyprus have a partner on the ground at all stages of the investment cycle. **Invest Cyprus** is the government's dedicated partner responsible for attracting and facilitating Foreign Direct Investment (FDI) in key economic sectors.

Being the lead agent in establishing Cyprus as a world-class investment destination, **Invest Cyprus** proactively promotes the enhancement of the country's competitive environment, advocating reform and maximising FDI, for the economic and social benefit of Cyprus. In close collaboration with all government authorities, public institutions and the private sector, **Invest Cyprus** is the investor's first point of contact.

Invest Cyprus is a member of the World Association of Investment Promotion Agencies (WAIPA) and the Mediterranean Investment Network, ANIMA.

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