



Eurofast



CYPRUS TAX CARD

2019

TAX CARD 2019 – CYPRUS

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1. Principles of Cyprus Taxation

From a Cyprus perspective, tax residency of companies is determined by the application of the management and control principle. In the absence of a formal definition with respect to the establishment of the management and control of a company in Cyprus, the definition of “place of effective management” provided by the OECD model convention is followed by the tax authorities. As such, the following parameters should be taken into account:

- The majority of the directors of the company are resident in Cyprus;
- Important company decisions are taken in Cyprus by the local directors;
- The headquarters of the company are maintained in Cyprus;
- The company has an economic substance in Cyprus.

2. Tax Incentives

Cyprus is one of the most attractive jurisdictions for holding, financing, trading and intellectual property structures. More specifically Cyprus offers:

- Low corporate taxation at the rate of 12.5%;
- Extended and exceptionally beneficial network of double tax treaties;
- Full adoption and compliance with the EU Directives;
- Unilateral tax-relief for foreign tax suffered is granted irrespective of the absence of a double tax treaty;
- Attractive intellectual property regime;
- Tax relief for group losses and losses carried forward for the next five years;
- No withholding tax on dividends, interest and royalties paid to non tax residents;
- Gains from trading and disposal of securities are tax exempt;
- Dividend income is tax exempt upon easily met conditions;
- No inheritance and gift tax;
- Attractive permanent establishment rules;
- Low personal tax rates and introduction of significant incentives for first time employment in Cyprus for highly paid non-resident individuals;
- 50% tax exemption for newcomer employees with an annual salary of at least €100,000 (applicable if certain criteria are met);
- Option for overseas pensions to be taxed at 5%;
- Favourable VAT rates for private yachts and aircrafts as low as 3.26%;

- No transfer fees for property transfers if the transaction is subject to VAT and, if not, a 50% reduction of transfer fees for all transfers;
- A government's scheme for naturalization of investors in Cyprus by exception whereby Cypriot citizenship may be acquired by non-Cypriot investors. Thus, an EU passport can be obtained, within three months, with a minimum investment of €2.5 million.
- No immovable property taxes from 1.1.2017 onwards

3. Transfer Pricing

Cyprus is renowned as a jurisdiction for holding companies. In the majority of cases, its domestic legislation allows a tax-free treatment of incoming dividends from foreign subsidiaries. It also allows the distribution of dividends to the non-resident shareholders free from withholding taxes.

Equally, from a financing perspective, any interest payments to non-residents can also effectively be free from withholding taxes. In any case, transactions between the Cypriot company and other group companies should follow transfer pricing regulations.

In Cyprus, transfer pricing regulations are fairly limited, but are expected to soon become more extensive. Specifically, as of 1 July 2017, transfer pricing rules were introduced in relation to back to back loan arrangements.

Further, in an aim and effort by Cyprus to always treat transactions between related parties in a fair way, a December 2015 tax law amendment, which is effective retroactively from 1 January 2015, was introduced in reference to the arm's length principle as codified in the tax law. As per this, a negative transfer pricing adjustment is now included within the provisions, while prior to that, the law only provided for upward adjustments in cases when transactions between related parties were not performed at arm's length.

Further on, to mitigate tax effects, in the cases of acquisitions, an important parameter that should be taken into consideration is the provisions of the relevant agreement for avoidance of double taxation (if any) between Cyprus and the country in which the subsidiary and / or parent will be located. Any additional specific issues to be considered in the case of acquisitions of Cyprus companies by foreign investors, will need to be also examined on a case by case basis, depending on industry sector involved and investor's jurisdictional origin.

4. Personal Income Tax

4.1. Personal Tax Rates

Chargeable Income (EUR)	Tax Rates	Accumulated Tax
0 – 19,500	0%	-
19,501 – 28,000	20%	1,700
28,001 – 36,300	25%	3,775
36,301 – 60,000	30%	10,885
Over 60,001	35%	

4.2 Tax Deductions

Type of expenditure	Deduction
Contributions and donations to approved charities (with receipts)	The whole amount
Expenditure incurred for the maintenance of buildings for which there is a Preservation Order in force	Up to 120 Sq m - €1,200 121 – 1,000 Sq m - €1,100 Over 1,001 Sq m - €700
Social Insurance, Provident Funds, Pensions, Life Insurance Premiums (up to 7% of the insured amount), Medical Funds (max 1% of remuneration)	Restricted to 1/6 of the chargeable income
Contributions to trade unions and professional bodies	The whole amount
Rental income	20% of income
Expenditure incurred for the acquisition of shares in an innovative business	The whole amount
Loss of current year and previous years (for individuals required to prepare audited financial statements, current year losses and losses of the previous five years only may be deducted)	The whole amount

4.3 Exemptions

Type of income	Exemption
Interest Income (other than interest income arising in the ordinary course of business activities of an individual)	The whole amount
Dividend Income	The whole amount
Profits from the sale of securities (Refer to section 7.2. for a detailed description).	The whole amount
Remuneration from any employment exercised in Cyprus by an individual who was not a resident of Cyprus before the commencement of the employment. For employments commencing during or after 2012 the exemption applies for a period of 5 years starting from the tax year following the year of commencement of the employment with the last eligible tax year being 2020. This exemption may not be claimed in addition to the immediately below mentioned 50% exemption for employment income.	The lower of: 20% of remuneration or EUR 8,550

Remuneration from any employment exercised in Cyprus by an individual who was not a resident of Cyprus before the commencement of the employment, exemption applies for a period of 10 years for employments commencing as from 1 January 2012 provided that the annual remuneration exceeds €100,000. For employments commencing as from 1 January 2015 the exemption does not apply in case the said individual was a Cyprus tax resident for 3 (or more) tax years out of the 5 tax years immediately prior to the tax year of commencement of the employment nor in the preceding tax year. This provision shall apply where the annual employment income exceeds €100,000 during the first year of employment and the Commissioner is satisfied that the decrease and subsequent increase observed in the annual income of the employee was not intended to take advantage of the 50% tax exemption.	50% of remuneration
Profits from a Permanent Establishment abroad (pertinent to conditions)	The whole amount
Remuneration received for salaried services to a non resident employer or to a permanent establishment outside the Republic for a period of over 90 days in a tax year.	The whole amount
Widows' pension	The whole amount
A lump sum received by virtue of a retirement bonus, pension or compensation for death or injury.	The whole amount
Capital sums accruing to individuals from any payments to approved funds (e.g. provident funds)	The whole amount
Profits from the sale of securities	The whole amount

5. Social Insurance Contributions

	Social Insurance Contributions	Redundancy Fund	Industrial Training Fund	Social Cohesion Fund
Self Employed	15.6%	-	-	
Employee	8.3%	-	-	
Employer	8.3%	1.2%	0.5%	2%

The maximum amounts of Social Insurance Contributions for 2019 are as follows:

	Weekly	Monthly	Annually
Weekly employees	€1,051	-	€54,648
Monthly employees	-	€4,554	€54,648

6. Corporate Taxation

The corporation tax rate applicable for all companies and other legal entities is 12.5%.

6.1 Tax Deductions

Type of expenditure	Deduction
Qualifying income from qualifying intangible assets (Note 1, 2, 3)	80% of the net income
Employers' contributions to social insurance and other approved funds	The whole amount
Interest expense incurred for the acquisition of fixed assets used in the business	The whole amount
Expenditure incurred for business entertainment purposes	The lower of: EUR 17,086 or 1% of the gross income
Donations to approved charities (with receipts)	The whole amount
Expenditure incurred for a building for which there is a Preservation Order in force	Up to 120 Sq m - €1,200 121 – 1,000 Sq m - €1,100 Over 1,001 Sq m - €700
Interest expense incurred for the direct or indirect acquisition of 100% of the share capital of a subsidiary company will be treated as deductible for income tax purposes provided that the 100% subsidiary company does not own (directly or indirectly) any assets that are not used in the business. If the subsidiary owns (directly or indirectly) assets not used in the business the interest expense deduction is restricted to the amount which relates to assets used in the business. This applies for acquisitions of subsidiaries from 1 January 2012.	The whole amount of interest expense if the subsidiary does not own (directly or indirectly) any assets not used in the business. A restricted amount of interest expense if the subsidiary owns (directly or indirectly) assets not used in the business.
Equity introduced to a company as from 1 January 2015 (new equity) in the form of paid-up share capital or share premium is eligible for an annual notional interest deduction (NID). The annual NID deduction is calculated as an interest rate on the new equity. The relevant interest rate is the yield on 10 year government bonds (as at December 31 of the prior tax year) of the country where the funds are employed in the business of the company plus a 3% premium (subject to a minimum amount which is the yield on the 10 year Cyprus government bond as at the same date plus a 3% premium). Certain anti-avoidance provisions apply.	The NID deduction cannot exceed 80% of the taxable profit derived from assets financed by new equity (as calculated prior to the NID deduction)

Notes:

- (1) The term 'Qualifying intangible assets' refer to assets that were acquired, developed or exploited by a person in the course of his business (excluding intellectual property associated with marketing) and which pertains to research and development activities for which economic ownership exists.
- (2) Additionally any expenditure of a capital nature incurred for the acquisition or development of such intangible assets may be claimed as a tax deduction in the year in which it was incurred and the immediate four following years on a straight line basis.
- (3) As at 30 June 2016, the old Cyprus IP Box Regime closed and under the transitional rules, taxpayers with intangible assets that were included in this old Cyprus IP Box Regime will continue to apply its provisions up to 30 June 2021.
- (4) In the case of insurance companies, where the corporation tax payable on taxable profit of the life insurance business is less than 1.5% of the gross premium, the difference is paid as additional corporation tax.

6.2 Tax Exemptions

Type of income	Deduction
Dividends received (Note 1)	The whole amount
Profits from the sale of securities (Note 2)	The whole amount
Interest received given that such interest is neither derived in the ordinary course of business nor is closely related to the ordinary course of business of the company (Note 4)	The whole amount (Note 3)
Profits of a permanent establishment abroad (Pertinent to conditions)	The whole amount
Gain relating to foreign exchange differences (forex) with the exception of forex arising from trading in foreign currencies and related derivatives.	The whole amount

Notes:

- (1) Excluding as from 1 January 2016, dividends which are tax deductible for the paying company
- (2) The term “securities” is deemed to include:
 - Ordinary shares
 - Founders’ shares
 - Preference shares
 - Options on titles
 - Debentures
 - Bonds
 - Short positions on titles
 - Futures/Forwards on titles
 - Swaps on titles
 - Depositary receipts on titles (i.e. ADRs and GDRs)
 - Rights of claim on bonds and debentures (excluding the right of interest on such products)
 - Index participations (provided they are related to securities)
 - Repurchase agreements or Repos on titles
 - Participations in companies
 - Units in open-ended or closed-ended collective investment schemes
- (3) Such interest income is subject to Special Contribution for Defence. Refer to section 8 for more details.
- (4) All interest income of Collective Investment Schemes is considered to be arising from the ordinary activities or closely related to the ordinary activities of the Scheme.

6.3 Non deductible expenses

Type of expenditure	Disallowance
Private motor vehicle expenses	The whole amount
Professional tax	The whole amount
Immovable property tax	The whole amount
Interest incurred for the acquisition of a private motor vehicle or, any other asset not used in the business	The whole amount for a period of 7 years from the purchase of the asset

6.4 Losses carried forward

- Tax loss arising in a tax year can be set-off against the taxable profit of the same company. Remaining tax losses may be carried forward and be set-off with taxable profits arising in the following five years.
- Tax loss arising in a tax year can be set-off against the taxable profit of other companies arising in the same year, provided that the companies are within the same group.
- Tax loss arising in a tax year can be set-off against the taxable profit of other companies arising in the same year, provided that the companies are within the same group (Note 1). Group is defined as:
 - One Cyprus tax resident company holding directly or indirectly at least 75% of the voting shares of another Cyprus tax resident company
 - At least 75% of both companies (voting shares) are held, directly or indirectly, by a third company
- As from 1 January 2015 interposition of a non- Cyprus tax resident company will not affect the eligibility for group relief as long as such company is tax resident of either an EU country or a country with which Cyprus has a double tax treaty or an exchange of information agreement (bilateral or multilateral).
- A partnership or a sole trader transferring a business into a company can carry forward tax losses into the company for future utilisation.

Notes:

- (1) As from 1 January 2015 a Cyprus tax resident company may also claim the tax losses of a group company which is tax resident in another EU country, provided such EU company firstly exhausts all possibilities available to utilise its losses in its country of residence or in the country of any intermediary EU holding company.

6.5 Capital allowances

Assets	Rate
Commercial buildings	3%
Flats	3%
Industrial, agricultural and hotel buildings (Note 1)	4%
Plant and machinery	10%
Furniture and fittings	10%
Motor vehicles (other than saloon cars)	20%
New Airplanes	8%
New Helicopters	8%

Personal computers (hardware)	20%
Personal computers (application software)	100% 33.33%
All tools	33.33%

Notes:

- (1) In the case of industrial and hotel buildings which are acquired during the tax years 2012 - 2016 (inclusive), an accelerated tax depreciation at the rate of 7% per annum applies.

7. Special Contribution for Defence

7.1 Special Contribution for Defence on types of income

Type of Income	Legal entities	Individuals
Interest received that is not derived in the ordinary course of business or is closely related to the ordinary course of business of the company	30%	30%
Interest received from Cyprus government savings bonds and from a provident fund	3%	3%
Dividends received from Cypriot companies	0% (1)	17%
Dividends received from abroad	0% (2)	17%
Rental income (75% of the gross rental income) - See note 3	3%	3%

Special Contribution for defence is imposed on companies tax resident in Cyprus and on individuals who are both Cyprus tax resident and Cyprus domiciled.

Notes:

- (1) Special Defence Contribution at the rate of 17% on dividends received from Cypriot companies which are declared/paid after the lapse of 4 years from the end of the year of which the profits were generated. Dividends which emanate directly or indirectly out of such dividends on which special contribution for defence was previously suffered are exempt.
- (2) The exemption of dividends received from abroad does not apply when:
- The paying company is engaged (directly or indirectly) by more than 50% in the activities leading to investment income, and
 - The tax obligation of the foreign company is substantially lower than that of the Cyprus company (i.e. 6.25%).
 - When the exemption does not apply, the dividend income is subject to special contribution for defence at the rate of 17%
 - As from 1 January 2016 this section only applies to dividends which are not deductible for tax purposes by the paying company.
 - Dividends which are deductible for tax purposes by the paying company are subject to Corporation Tax.
- (3) Rental income is also subject to corporation tax/income tax

7.2 Deemed Dividend Distribution

Type of Income	Legal Entities	Collective Investment Schemes
Deemed Dividend Distribution is forced on 70% of the adjusted profits of the company/mutual funds that remain undistributed for a period of two years from the end of the tax year they have arisen.	17%(1)	3%

Notes:

- (1) The Deemed Dividend Distribution provisions do not apply for legal entities that are directly or indirectly owned by non-Cypriot tax resident shareholders.
- (2) The cost of acquisition of plant and machinery will be deducted from the profits of the company for deemed dividend distribution purposes provided that these were acquired in the years 2012 to 2014.
- (3) When an actual dividend is paid after the deemed dividend distribution date, then if Special contribution for defence is due on such a dividend, the tax is imposed only on the amount of the actual dividend paid which is over and above the dividend that was previously deemed to have been distributed and previously suffered Special contribution for defence

8. Capital Gains Tax

8.1 Imposition of Capital Gains Tax

Type of Income	Capital Gains Tax
Applies to the gains arising from the disposal of immovable property situated in Cyprus or from the disposal of shares in companies which own immovable property in Cyprus. Capital Gains Tax is imposed on the gains that arise on disposal after the deduction of the value of the property at 1.1.1980 or the acquisition costs if the property was acquired after 1.1.1980 (as adjusted for inflation). As of 17 December 2015, gains from disposal of shares in companies that indirectly own immovable property in Cyprus by directly or indirectly holding shares in a company that owns immovable property in Cyprus, will also be subject to capital gains tax, if the value of the immovable property represents more than 50% of the value of the assets of the company whose shares are sold.	20%

8.2 Exemptions

Exemptions
Transfer by reason of death
Gifts among spouses or relatives of up to 3 rd degree
Gifts to companies by members of the family of the shareholders (the relationship must be present for at least 5 years)
Gift by a family-owned company to its shareholders given that the donated property was also acquired by the company by way of gift (the property should remain in the possession of the shareholders for at least 3 years)
Donation for charity, to charitable organisations or to the Republic

Sale or exchange of property consistent with the provisions of the Agricultural (Consolidation) Laws
Exchange of properties of equal value
Expropriation of property
Profit from the transfer of ownership of property or shares where a company reorganisation has taken place
Transfer of ownership between spouses that their marriage has been dissolved by a court order or in case of transfer of ownership between the same persons for the purpose of settling their property according to the Settlement of Property Relationships between Spouses Law
Transfer of property of a missing person under administration
Exchange of properties, provided that the whole of the gain made on the exchange has been used to acquire the other property. The gain that is not taxable is deducted from the cost of the new property, i.e. the payment of tax is deferred until the disposal of the new property
Subject to conditions, land as well as land with buildings, acquired in the period 16 July 2015 up to 31 December 2016 will be exempt from Capital Gains Tax upon its disposal.

8.3 Lifetime exemptions for individuals (max. of EUR 85,430.00)

Lifetime Exemptions	EUR
Principal dwelling residence used by the owner exclusively for own habitation for a period of at least 5 years	85,430.00
Agricultural property	25,629.00
For any other disposal/s of immovable property	17,086.00

9. Immovable Property Tax

Immovable property tax is abolished as from 1 January 2017.

10. Land Transfer fees

Property Value	Tax Rate	Transfer Fees	Accumulated Transfer Fees
Up to €85,000	3%	€2,550	€2,550
€85,001 - €170,000	5%	€4,250	€6,800
Over €170,000	8%		

Notes:

- As of 2 December 2011 individuals who paid VAT at the time of the first acquisition of immovable property will not incur any transfer fees. For those who did not pay VAT at the time of the first acquisition of immovable property, transfer fees are reduced by 50%.
- In the case of companies' reorganizations, transfers of immovable property are not subject to transfer fees or mortgage registration fees.
- In the case of property transferred to a family company, transfer fees are refundable after five years if the property remains with the company and the shareholders remain the same.

- (4) Where there is a transfer of immovable property from a family company to its shareholders, transfers between spouses, parents and children or between relatives up to the 3rd degree, transfer fees are calculated based on the value of the property in the deed at the following rates:
- Transfer between spouses and relatives up to the 3rd degree – 0.1%
 - Transfer to child – 4%

The following rates are applicable in the case of free transfers:

- Transfer between spouses and third degree relatives – 0,1%
- From parent to child – Nil
- Transfer to trustees – €50

11. Stamp Duty

11.1 Stamp Duty provisions

- Stamp Duty is payable on a document if it relates to a property situated in Cyprus or to any matters or things to be performed or done in Cyprus, irrespective of the place where it is executed.
- Documents relating to assets situated outside Cyprus or business affairs that take place outside Cyprus are exempt from stamp duty.
- Stamp Duty is levied on a variety of commercial and legal documents such as cheques, letters of credit, receipts, customs, documents, declarations of trust, powers of attorney e.t.c at a fixed amount or may depend on the value in the document.
- Transactions under the reorganisation provisions are exempt from Stamp Duty.

The following types of documents when relating to property located in the Republic of Cyprus or to any topics / issues performed within the Republic of Cyprus, are subject to the indicated stamp duty:

- Issue of tax residency certificate by the Inland Revenue: €80
- General power of attorney: €6
- Special power of attorney: €2
- Bills of exchange : €1 (payable at sight on first demand or within 3 days from demand or sight)
- Letters of guarantee: €4
- Letters of credit: €2
- Bills of lading: €4
- Charterhire document: €18
- Estate administration document: €9

- Customs documents : €18 - €35
- Cheques: €0.05
- Receipts for amounts over €4 : €0.07
- Will €18
- Certified copies of contracts and documents €2
- Contracts with a specified consideration
- For contracts with specified consideration up to €5,000 : 0%
- For contracts with specified consideration between €5,001 - €170,000 : 0.15%
- For contracts with specified consideration over € 170,000: 0.2% with maximum at €20,000
- Contracts without a specified consideration €35

11.2 Applicable rates on commercial contracts

Contracts up to February 28 2013	Rates
Up to €170,860	0.15%
Over €170,860	0.20%
	max. duty €17,086

Contracts up from March 1 2013 onwards	Rates
Up to €5,000	0
Between €5,000 and €170,000	€1.50 for every €1,000
Over €170,000	€2.00 for every €1,000 (max. duty €20,000)

12. Cyprus International Trusts

The reform of the International Trust Law in 2012 brought Cyprus once again in the forefront of trust jurisdictions. The provisions of the legislation are as follows:

- All matters arising in relation to a Cyprus International Trust are determined in accordance with the applicable law of the Republic of Cyprus;
- The settlor and the beneficiaries must not be tax resident in Cyprus during the year preceding the year of the creation of the Cyprus International Trust;
- The powers of trustees have been extended to hold, maintain or invest in movable and immovable property in Cyprus and abroad;
- The settlor has the right to reserve many powers such as the ability to change the governing law of the trust, to revoke or amend the terms of the trust, to appoint and remove trustees and act as the protector and enforcer of the Cyprus International Trust; and
- No restrictions on the duration of the Cyprus International Trust;
- Cyprus International Trusts can be used for asset protection, estate planning, inheritance planning and tax planning.

13. Value Added Tax (VAT)

13.1 VAT rates

	Standard VAT rate	Reduced VAT rate	Reduced VAT rate	Zero rate
Rates	Standard rate of 19% [applicable as from 13 January 2014, and previously at 18% as from 14 January 2013 to 12 January 2014)	Reduced rate of 9% (8% up to 12 January 2014)	Reduced rate of 5%	Zero Rate
Goods/Services	All supplies of goods and services which are not covered by the reduced rates, the zero rate, or which are not exempted.	Restaurant and catering services, hotel accommodation, tourist lodgements, alcoholic beverages, wines, beer, soft drinks. Transportation of passengers and transportation of passengers' accompanying luggage within Cyprus by means of urban, intercity and rural taxis as well as tourist and intercity buses. Movement of passengers and their luggage in inland waters.	Supply of foodstuff, supply of prepared or unprepared foodstuff and/ or beverages or both, bottled water, supply of pharmaceutical products, and vaccines used for health care, supply of animals used for food preparation,, entryfees to theaters, festivals, concerts, museums, and similar cultural events, Books, newspapers and magazines, Entrance fees to sports events and fees for using athletic centre, Hairdressing services, Catering services from school canteens. Acquisition or construction of residence subject to some conditions. Renovation as well as repair of old private households after three years of residence.	On passengers transportation from the Republic of Cyprus to a destination outside the Republic of Cyprus, and vice versa, by means of seagoing vessels or aircrafts. On the Supply of gold to the Central Bank of the Republic of Cyprus. For the supply / repair / maitenance / modifications / chartering and hiring of: sea-going vessels used for purposes of navigation on the high seas and towards carrying of passengers after payment, or which are used for commercial, industrial or other activities. For the supply / repair / maitenance / modifications / chartering and hiring of: aircrafts which are used by airlines which are operating on reward and which are usually engaged on international routes. For the supply of services needed for the direct needs of sea going vessels and aircrafts.

Exemptions:

The distinction between zero rated and exempted supplies is that if a legal entity offers only supplies which are exempt, it is not entitled to VAT registration and to recover any VAT which is charged on the purchases it makes, neither on its expenses and/or imports.

Some exempt supplies are:

- Other supplies of real estate including land and second-hand buildings, and excluding buildings before their first use
- Banking and financial services with some exceptions
- Insurance services
- Services of hospital, medical, and dental care
- Various particular cultural and sports activities;
- Educational services for all levels of education [subject to certain conditions]. Postal services when these are offered by the Cyprus national postal authority
- Supply of management services offered to mutual funds
- Lottery tickets and betting coupons relating to football matches and horse races

VAT which is irrecoverable:

Due to specific exceptions to the general rule, the input VAT which cannot be recovered includes:

- (i) Saloon cars purchases, saloon cars imports, as well as hire of saloon cars
- (ii) Expenses for entertainment and hospitality [except when they are relating to Directors and / or employees]
- (iii) Acquisitions which are used towards making supplies which are exempt

13.2 VAT Registration

Compulsory VAT Registration
Persons making taxable supplies in excess of €15,600 during a year or if it is expected that their taxable supplies will exceed the €15,600 threshold in the following 30 days.
Persons making acquisitions of goods from Member States in excess of €10,251.61 during a year or are expected to exceed the €10,251.61 threshold in the following 30 days.
Distance sales of goods from persons in other Member States in excess of €35,000 to non VAT registered persons within the Republic.
Persons supplying intra-community services to taxable persons established in other Member States (The registration threshold is Nil.)
When there is receipt of services from abroad for which the recipient has to account for VAT through the reverse charge provisions, with registration threshold set at €15,600 for a period of 12 months.
Persons who offer zero rated supplies of good and / or services.
Persons who make an acquisition of a company on a going concern basis.

Note: When persons have turnover less than €15.600 or they make supplies that are outside the scope of VAT but for which the right to claim the amount of the related input VAT is granted, they have the option to register on a voluntary basis.

Right for registration: Any person who is trading goods and services outside the Republic of Cyprus, which would have been taxable had they been provided within Cyprus, Groups of companies, Divisions of companies.

13.3 Interest and penalties

	Interest and penalties
Late VAT registration of taxable person	€85 for every month of delay
Late submission or refusal to submit VAT return	€51 per return
Late payment of VAT by taxable person	10% of the amount due plus applicable public interest rate [see section 16.2]
Late submission of INTRASTAT declaration	€15 per return
Late submission of VIES statements	€50 per statement
Late de-registration of taxable person	€85 fixed penalty

14. Recent Developments

Restructuring of Loans

Further to the significant tax law amendments made in December 2015 regarding the restructuring of loans, in order to reduce the number of default loans, reduce bank recapitalization needs and boost the Cypriot economy, the House of Representatives voted on 6 July 2018 further amendments to the tax restructuring provisions of the Cyprus tax legislation.

In effect the new amendments give the right to the borrower / guarantor to dispose any of his property in the open market to a non-related party and remit the proceeds to the relevant Credit institution in order to reduce or settle his credit facilities or loans or liabilities and still be entitled to the favourable provisions of the tax legislation. The tax legislation with regards to the restructuring of loans is applicable up to 31 December 2019.

We note that the referred to amendments relate to the following tax laws:

- the (Corporate) Income Tax Law;
- the Capital Gains Tax Law;
- the Special Contribution to the Defence Fund Law;
- the Stamp Duty Law;
- the Department of Lands and Surveys (Fees and Charges) Law.

Cyprus issues announcement on Country-by-Country Reporting obligations related to CbCR exchange relationships

Introduction of a number of anti-avoidance provisions which give the right to the Tax Commissioner to refuse tax neutral re-organisations if the Commissioner is:

- (i) Not satisfied that there were genuine commercial or financial reasons for such re-organisation and
- (ii) If he can demonstrate that the main purpose of the re-organisation is the reduction, avoidance or deferment of payment of taxes.

In practice, the Commissioner can deny a tax neutral re-organisation if he judges that the main purpose or one of the main purposes of the re-organisation was:

- (i) The avoidance, decrease, or postponement of the payment of tax, or
 - (ii) The direct or indirect allocation of an entity's assets to a person without settling the corresponding tax, or as a means of decreasing/postponing that corresponding tax.
- Immovable property taxes are abolished as of 1 January 2017.
 - Transfer pricing legislation came into effect as of 1 July 2017 with respect to back-to-back financing arrangements, whilst legislation for other transactions is also expected to be announced.
 - As from 1 July 2016 new rules apply for taxpayers wishing to obtain benefit under the so called "IP Box Regime".

15. Share Acquisition

General comments

By an acquisition of shares, no direct taxes are triggered for the buyer. For institutions where the relevant share purchase agreement is found to be subject to stamp duty in Cyprus, the tax obligation rests with the buyer unless the contract provides otherwise. Of course, a contract is exempt from stamp duty when the acquisition is affected as a result of company re-organisation.

The stamp duty is:

- For sums €1-€5.000: Nil
- For sums 5.001-€170.000: 1.5‰
- For sums exceeding 170.000: 2‰ capped at a maximum of €20,000.

Tax Attributes

(Restrictions on use following change in control, including discussion of what constitutes a change giving rise to restriction)

According to Cyprus Tax Law, expenses may be deducted if they have been incurred wholly and exclusively to produce income. In line with this, interest paid on a loan that has been used or will be used by the company for trading purposes or for the acquisition of trading fixed assets is fully deductible.

Also, following an amendment to the Cyprus Law in 2012, any interest expense relating to the acquisitions of shares after 1 January 2012, may be deducted from taxable income on the provision that the acquired company is directly or indirectly wholly acquired, i.e. 100% shareholding, and the acquired company holds assets which are all used for business purposes.

On the other hand, any other interest income not classified as part of trading or related to company's trading activities may not be treated as a deductible expense.

Overall, under the Cyprus tax law, it is not permitted to deduct any interest expenses relating to the acquisition of a non-business asset. Additionally, after the lapse of seven years from the date of purchase of an asset, the Cyprus Tax Office ceases disallowing any interest as it considers the debt on the acquisition of the asset as paid. Interest limitation rules in accordance with the Anti-Tax Avoidance Directive are expected to come in effect within the time frames set by the European Union.

Tax Grouping

There are provisions for group relief whereby the current year's trading losses of a Cyprus company can be transferred to be set off against taxable profits of another Cyprus company provided both companies were members of the same group for the whole year of consideration. As of 1 January 2015, a Cyprus tax resident company may also claim the tax losses of a group company that is tax resident in another EU member state, provided such EU company firstly exhausts all possibilities available to utilise its losses in its EU member state of residence or in the EU member state of any intermediary EU holding company. For VAT purposes, two or more companies belonging to the same group of companies may have group registration (a group exists where one company controls the others, or one person controls them all).

Tax losses incurred in any one year that cannot be wholly offset against other income may be carried forward for five years and set off against profits resulting in subsequent years. However, according to the Law, losses incurred by a company cannot be carried forward if:

Within any three-year period, there is a change in the ownership of the shares of a company and a substantial change in the nature of the business of the company (a significant change can be interpreted as a drastic change in the types of activities offered by a company - i.e. originally sells computers and then commences trading in pharmaceuticals) At any time since, the scale of the company's activities has diminished or has become negligible and before any substantial reactivation of the business there is a change in the ownership of the company's shares.

Surrendering of losses

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

Definition of a group

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

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

Set-off of group loss

Group companies may be a mixture of resident or non-resident companies, provided the non-resident company owns at least 75% of the resident company. As from 1 January 2015, the group loss relief provisions are extended to cases where a subsidiary company which is tax resident in another EU member state, can surrender its taxable losses to another group member company tax resident in Cyprus, provided the subsidiary has exhausted all the means of surrendering or carrying forward the losses in its member state of residence, or to any intermediary holding company.

Tax Free Reorganizations

Cyprus has implemented the provisions of the EU Merger Directive in its national income tax legislation, enabling tax-neutral re-organisations. According to Cyprus Tax Law, the transfer of assets and liabilities in the course of re-organisation does not give rise to any taxable profits at the level of the transferring company. Accumulated losses of the transferring company moved to the receiving company may be off-set and the relevant provisions for the consolidation of losses are applied. Equally profits derived at the level of the receiving company as a result of the cancellation of its participation in the transferring company do not give rise to any taxable obligations. The issue of shares in the receiving company to the shareholder of the transferring company in consideration of shares in the transferring company does not give rise to any taxation on the gains or losses at the level of the shareholder. In order to qualify for tax exemption, the corporate re-organisation should not involve a cash payment exceeding 10% of the nominal value of the shares.

As of 1 January 2016, new anti-abuse and anti-avoidance provisions in the Cyprus Legislation took effect, maintaining and safeguarding the tax neutrality for bona fide transactions.

Any type of re-organisation does not bear any tax implication in Cyprus, provided that a valid commercial reason for the re-organisation exists. Specifically:

- Assets transferred in a scheme of re-organisation do not give rise to any taxation to the transferring company
- Any accumulated losses of the transferring company are transferred to the receiving company and the provisions of section 13 regarding set-off or carry forward of losses apply accordingly

- No capital gains tax is payable as a result of a transfer of chargeable assets (immovable property or shares in company holding immovable property) until a subsequent sale of the immovable property. In the case of such a subsequent sale, the original base cost will be used to determine the tax payable
- Stamp duty is avoided in case of transactions involved in an approved re-organisation scheme
- Land transfer fees are not due on transfers of immovable property from one company to another, under an approved re-organisation scheme.
- Mortgage fees are not due in case a mortgage is transferred from one company to another under an approved re-organisation scheme.

Anti-avoidance provisions for reorganizations

A reorganization would only be eligible to qualify as tax-free, where the Commissioner is satisfied that such a reorganization has real commercial or financial purpose.

The Tax Commissioner may not exempt from tax, any profits arising from a reorganization, where, in his judgment, the main purpose or one of the main purposes of such a reorganization is the reduction, avoidance or deferment of payment of taxes or the direct or indirect transfer of any assets owned by a business without the payment or reduction or delay of payment of the taxes due.

The Commissioner may request supporting evidence, if, in his judgment, he considers it necessary in order to establish the purpose of the reorganization. In any case though, the Commissioner's decision not to grant the relevant tax exemptions due to reorganization should be fully justified. Such a decision can in anyway be objected in accordance with the relevant provisions of the Assessment and Collection of Taxes Law.

Should the Commissioner decide to approve the tax exemptions available due to re-organization, he may still enforce conditions in relation to:

- The number of shares which will be issued as a result of the re-organization; and
- The period for which the issued shares must be held by the recipient, which cannot exceed 3 years

Any shares listed in an approved stock exchange and any shares transferred due to hereditary succession are exempt from the holding period limitation. In case the conditions set by the Commissioner are not satisfied, then the reorganization would not qualify under the tax-free reorganization provisions of the Law and any tax initially not due would be considered as payable.

These anti-avoidance provisions apply as from 1 January 2016.

Transfer taxes on share transfers (including mechanisms for disclosure and collection)

Stamp duty at nominal rates is payable on a variety of legal documents and may apply in the case of a transfer of shares. Specifically, stamp duty is governed by the Stamp Duty Law (19/1963), within which article 4 (1) provides that the documents specifically presented in its first schedule are subject to stamp duty if these documents concern property situated in the Republic of Cyprus, as well as matters or things to be performed or done in Cyprus, irrespective of the place of execution of such documents. Agreements for the purchase of shares in a Cypriot company, which are executed in Cyprus, are not required to be stamped in Cyprus, and it is also the actual practice of the Stamp Duty Commissioner to exclude and exempt such documents from stamp duty. Further, not required to be stamped in Cyprus are:

- (i) Instruments of transfer of shares in a Cypriot company which are executed in Cyprus.
- (ii) Agreements for the purchase of the shares in a foreign company which are executed in Cyprus, and
- (iii) Instrument for the transfer of shares in a foreign company which are executed in Cyprus.

Stock Purchase Advantages

- Opportunities to increase tax basis of assets or other attributes in a stock acquisition

There is no fiscal advantage in Cyprus in re-investing proceeds from a sale. The proceeds from the sale of shares are generally exempt from tax, and as such, no tax obligations are anticipated to arise, while gains deriving from the sale of assets would be taxed accordingly.

- Opportunities for entities to finalize their tax exposures prior to acquisition (e.g. “tax clearance certificates)

Entities can request a tax clearance certificate from the Tax Authorities in order to ensure that all their tax obligations have been met during the year.

16. Asset Acquisition

General comments

During the acquisition of immovable property, the buyer is liable for a transfer fee. Transfer taxes range from 3% to 8%, depending on the value of the property. The tax is:

- 3% on amounts up to €85,000 of the sale price or market value
- 5% on amounts between €85,001 and €170,000
- 8% on any amount exceeding €170,000

The above transfer fees are reduced by 50% in case the purchase of immovable property is not subject to VAT.

Immovable Property Tax is abolished as of 1 January 2017. Until the tax year 2016, the owner of immovable property situated in Cyprus was liable to pay an annual immovable property tax which was calculated on the market value of the property as at 1 January 1980, at the varying rates, which applied per owner and not per property. Again, the agreement for the acquisition of immovable property or any other asset may also be subject to stamp duty in Cyprus. Stamp duty is imposed on contracts relating to assets located in or “things” to be done in Cyprus. If the provisions of a re-organisation are applied, as defined under Cypriot law (which is in line with the provisions of the EU Merger Directive), such a purchase can be tax neutral. Depending on the nature of the assets transfer fees may apply. The purchase of a company’s assets – unlike the purchase of shares – may be subject to VAT, which is currently rated at 19%. In terms of utilisation of tax losses, tax losses are not available for set-off in the case of a share deal and given that profits from the sale of shares are generally exempt from tax. In the case of a taxable sale of immovable property, any losses realised may be set off against similar profits that may arise in the future. The same principle applies to gains and losses resulting from the sale of other assets – where gains are taxable, the deductibility of losses may be allowed.

Purchase Price Allocation

Evaluation of assets can be effected via an independent valuation. Any increase or decrease in the value of assets is reflected accordingly.

The increase in value is recorded as a capital reserve. Generally, there is no tax obligation with respect to that reserve. However, depending on the nature of the assets, corporation tax or capital gains tax may be imposed in the case of sale.

Tax Attributes

According to Cyprus Tax Legislation, a capital gains tax at the rate of 20% may be triggered by the sale of shares in companies that derive their value from real estate situated in Cyprus, unless these are first acquired between 16 July 2015 and 31 December 2016. In the case though that capital gains tax is impossible, possible application of a Double Taxation Treaty (DTT) should be considered, especially when the treaty includes favourable provisions for the taxation of capital gains. Capital gains tax will be triggered only when such shares derive their value from real estate situated in Cyprus. The capital gains tax is not extended to immovable property situated outside Cyprus. Therefore, when a Cypriot company acquires a foreign subsidiary owning real estate situated outside Cyprus, and in turn sells the shares of that subsidiary, no taxes should be triggered in Cyprus. In some cases, DTT allows for the taxation of such gains at the level of the subsidiary. Acquisition of real estate property by non-Cypriot residents, other than those coming from EU countries, requires the approval of the Ministry of Interior, a process which takes between one and four months. In the case of a transfer of immovable property, applicable transfer taxes are a liability of the buyer. Transfer taxes are rated between 3% and 8% (whilst certain discounts and exemptions exist). It should also be noted that as of 1 January 2017 immovable property taxes in Cyprus have been abolished.

Capital Gains Tax is imposed (when the disposal is not subject to income tax) on gains from disposal of immovable property situated in Cyprus including shares of companies not listed on a recognised Stock Exchange which own immovable property situated in Cyprus, at the flat rate of 20%.

Furthermore, per a recent amendment to the relevant law, as from 17 December 2015 the definition of 'property' is extended so that Capital Gains Tax is also levied on sale of shares which directly or indirectly participate in other companies that in turn hold immovable property in Cyprus, on the provision that at least 50% of the market value of the shares that are sold is derived from that Cyprus immovable property.

Additionally, a favorable exemption is also in place as from July 2015, as per which gains derived from the sale of immovable property is 100% exempted from Capital Gains Tax when:

- They were/will be acquired between the day the new law came into effect being 16 July 2015, up to 31 December 2016 inclusively, and
- They were acquired from an independent non-related party at market value, via an ordinary purchase / purchase agreement, and not through: a donation, or gift, neither by way of exchange, trade nor in a way of settlement of debt, and the sale must not be related to any foreclosure agreement either. No special treatment for gains arising in M&A context.

Tax Free Reorganizations

Cyprus has implemented the provisions of the EU Merger Directive in its national income tax legislation, enabling tax-neutral re-organisations. According to Cyprus Tax Law, the transfer of assets and liabilities in the course of re-organisation does not give rise to any taxable profits at the level of the transferring company. Accumulated losses of the transferring company moved to the receiving company may be off-set and the relevant provisions for the consolidation of losses are applied. Equally profits derived at the level of the receiving company as a result of the cancellation of its participation in the transferring company do not give rise to any taxable obligations. The issue of shares in the receiving company to the shareholder of the transferring company in consideration of shares in the transferring company does not give rise to any taxation on the gains or losses at the level of the shareholder. In order to qualify for tax exemption, the corporate re-organisation should not involve a cash payment exceeding 10% of the nominal value of the shares.

As of 1 January 2016, new anti-abuse and anti-avoidance provisions in the Cyprus Legislation took effect, maintaining and safeguarding the tax neutrality for bona fide transactions.

Any type of re-organisation does not bear any tax implication in Cyprus, provided that a valid commercial reason for the re-organisation exists. Specifically:

- (1) Assets transferred in a scheme of re-organisation do not give rise to any taxation to the transferring company
- (2) Any accumulated losses of the transferring company are transferred to the receiving company and the provisions of section 13 regarding set-off or carry forward of losses apply accordingly
- (3) No capital gains tax is payable as a result of a transfer of chargeable assets (immovable property or shares in company holding immovable property) until a subsequent sale of the immovable property. In the case of such a subsequent sale, the original base cost will be used to determine the tax payable
- (4) Stamp duty is avoided in case of transactions involved in an approved re-organisation scheme
- (5) Land transfer fees are not due on transfers of immovable property from one company to another, under an approved re-organisation scheme.
- (6) Mortgage fees are not due in case a mortgage is transferred from one company to another under an approved re-organisation scheme.

Anti-avoidance provisions for reorganizations

A reorganization would only be eligible to qualify as tax-free, where the Commissioner is satisfied that such a reorganization has real commercial or financial purpose.

The Tax Commissioner may not exempt from tax, any profits arising from a reorganization, where, in his judgment, the main purpose or one of the main purposes of such a reorganization is the reduction, avoidance or deferment of payment of taxes or the direct or indirect transfer of any assets owned by a business without the payment or reduction or delay of payment of the taxes due.

The Commissioner may request supporting evidence, if, in his judgment, he considers necessary, to establish the purpose of the reorganization. In any case though, the Commissioner's decision not to grant the relevant tax exemptions due to reorganization should be fully justified. Such a decision can in anyway be objected in accordance with the relevant provisions of the Assessment and Collection of Taxes Law.

Should the Commissioner decide to approve the tax exemptions available due to re-organization, he may still enforce conditions in relation to:

- The number of shares which will be issued as a result of the re-organization; and
- The period for which the issued shares must be held by the recipient, which cannot exceed 3 years

Any shares listed in an approved stock exchange and any shares transferred due to hereditary succession are exempt from the holding period limitation. In case the conditions set by the Commissioner are not satisfied, then the reorganization would not qualify under the tax-free reorganization provisions of the Law and any tax initially not due would be considered as payable.

These anti-avoidance provisions apply as from 1 January 2016.

Depreciation & Amortization

Goodwill is not subject to amortization. Since Cyprus applies International Financial Reporting Standards (IFRS), goodwill is tested for impairment (comparing recoverability with the carrying amounts) annually or whenever there is an indication of a possible reduction in value.

For impairment testing, goodwill is allocated to the relevant cash-generating unit (the lowest level within the entity for internal management purposes) and this cash-generating unit

is tested for impairment. Impairment loss on goodwill cannot be carried back. The goodwill is treated as a fixed asset and, as such, gains are excluded from tax.

17. Acquisition Vehicles

A purchaser making use of a Cyprus acquisition vehicle in order to execute an acquisition for cash can fund the vehicle with debt, equity, or hybrid instruments that combine the characteristics of debt and equity together. Further after, as a general rule, in order to ascertain a physical or legal person's chargeable income, only the outgoings and expenses which are wholly and exclusively incurred by such a person in the production of taxable income can be allowed to be deducted.

The Cyprus Value Added Tax Law is fully harmonised with the EU Sixth Directive. In particular, the transfer of a business as a going concern is outside the scope of VAT, provided certain conditions are met. The actual end-result of such transfer needs to be that a new owner is established who will be operating the business as such. Therefore, the mere sale of assets does not constitute in itself a transfer of a business as a going concern. While in the case that land and buildings are sold, it is advised that professional consultancy is requested.

As for the sale of shares, it is specifically listed as an exempt transaction in the Cyprus VAT law via Schedule Seven, Table B of the relevant legislation. On this note, as sales of shares is categorised as 'exempt', no [input] VAT tax incurred on related costs, such as professional fees, is eligible to be recovered. Yet, following the European Court of Justice [ECJ] decision to *Kretztechnik AG v Finanzamt Linz* (Case C-465/03), input VAT tax incurred in relation to the issue of shares instead, can be generally recoverable. Specifically, if a buyer issues shares in consideration of an acquisition, some or even all of the VAT attributable to the corresponding share issue can be considered recoverable.

18. Acquisition Financing

Equity (most favorable jurisdictions for holding equity, reasons for such, and substance required)

In 2015, Cyprus introduced Notional Interest Deduction ('NID') in its tax law, which relates to a notional interest deduction on new equity which can be set against taxable income generated by the company as a result of the funds from the new equity. NID is equal to the interest yield of the 10-year government bond yield of the country in which the new equity is invested increased by 3% (the minimum rate being the yield of the Cyprus 10-year government bond increased by 3%). The bond yield rates to be used are those of December 31 of the year preceding the

assessment year. The notional interest to be deducted cannot exceed 80% of the taxable income of the company for the year before the deduction of this notional interest.

Standard means for accomplishing “debt-pushdowns” in the context of acquisitions

With a properly designed tax structure, debt push-down can be easily achieved. Cyprus Companies Law specifically provides for the prohibition on financial assistance given by a company whether directly or indirectly, for the purchase or subscription of its own, or its holding company’s shares. In line with this, in a transaction with multiple dealings, share acquisition financing may not be linked to debt push-down, given that this may be treated as an indirect financial assistance.

However, express exclusions from the scope of this provision are included in the Law. The application of the provisions of EU Merger Directive incorporated into Cyprus Law may prove to be beneficial in achieving debt push-down. An intermediary company may be incorporated in order to acquire the target. The intermediary company can subsequently be merged with the target company.

To implement this plan, proper advice should be sought. Especially considering the latest tax developments, which outlined “substantial activity” as a core element for tax free re-organisations. Generally, if the structure and the transaction have sufficient underlying substance, any risks of avoiding taxation are effectively minimised. Deferment of the debt (i.e. debt to be carried forward by postponing the payment of liability to the future) is also possible, allowing allocation of obligations.

From a Cypriot perspective, any losses that would have been subject to tax if they were to be gains may be off-set against other sources of income in the same tax year. When the income is not sufficient, the losses may be carried forward and off-set against profits in subsequent years. In the case of change of ownership of a company, as well as change in the nature of the activities of a company, previous losses may not be carried forward and used by the new owners. A company may also surrender tax losses to another company from the same group (specific criteria exist for group loss relief involving foreign entities).

19. Foreign Operations of a Domestic Target

Profits from permanent establishment abroad are exempted from income tax law.

20. Post-Acquisition Integration Considerations

Intellectual property (licensing, transfers, etc.)

The Cyprus patent box is fully in line with the recommendations of Action 5 of the Organisation for Economic Co-operation and Development (OECD). Under the patent box, qualifying intangible assets refer to assets that were acquired, developed or exploited by a person in the course of his business (excluding intellectual property associated with marketing) and which pertains to research and development activities for which economic ownership exists. Specifically, these assets include patents as defined in the Patents Law Computer Software.

New rules

As from 1 July 2016 new rules apply for taxpayers wishing to obtain benefit under the so called “IP Box Regime”. The rules and conditions, which are applicable for assets which are developed after 1 July 2016, are summarized below.

Qualifying intangible assets

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

These assets are:

- Patents as defined in the Patents Law
- Computer software
- Other IP assets which are legally protected and they fall under one of the following:

> Utility models, intellectual property assets which provide protection to plants and genetic material, orphan drug designations and extensions of protections for patents;

> Non-obvious, useful, and novel, where the person which utilizes them in furtherance of a business does not generate annual gross revenues exceeding €7,500,000 (in case of a group of companies not exceeding €50,000,000), which are certified as such by an Appropriate Authority in Cyprus or abroad.

Business names (including brands), trademarks, image rights and other intellectual property rights used to market products and services are not considered as qualifying intangible assets.

Qualifying expenditure

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

Qualifying expenditure includes, but is not limited to, the following:

- Wages and salaries;
- Direct costs;
- General expenses relating to installations used for research and development;
- Expenses for supplies related to research and development activities;
- Costs associated with research and development that has been outsourced to non-related person;

But do not include:

- Cost for the acquisition of intangible assets
- Interest paid or payable
- Costs relating to the acquisition or construction of immovable property
- Amounts paid or payable directly or indirectly to a related person to conduct research and development activities, regardless of whether these amounts relate to cost sharing agreement
- Costs which cannot be proved directly connected to a specific eligible intangible asset

An up-lift expenditure will be added to the above costs, which means the lower of:

- 30% of the eligible costs, or
- The total amount of the cost of acquisition and outsourcing to related parties for research and development in relation to the eligible intangible asset.

Qualifying income

“Qualifying income” means the proportion of the overall income corresponding to the fraction of the qualifying expenditure plus the uplift expenditure over the total expenditure incurred for the qualifying intangible asset.

Income includes, but is not limited to the following:

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

Overall Profit

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

Direct costs include:

- All direct and indirect costs incurred in earning the income from the qualifying intangible asset.
- The amortization of the cost of the intangible.
- Notional interest on equity contributed to finance the development of the qualifying intangible asset.

Calculation of taxable profit

80% of the overall profit derived from the qualifying intangible asset is treated as deductible expense. Every year the taxpayer may elect not to claim the whole or part of this allowance. In the case of a resulting loss, only 20% of the loss can be surrendered to other group companies or be carried forward to subsequent years.

Accounting Records

Any person who claims benefit under the above regime is obliged to maintain proper books of account and records of income and expenses for each intangible asset.

Assets which do not qualify for the transitional provisions for the IP Box regime.

The cost of acquiring an intangible assets which does not qualify for the transitional provisions and which asset is used in furtherance of the business of the person can be amortized over the period of the useful life of the asset in accordance with accepted accounting principles with the maximum period being 20 years. In the case of sale of this intangible then a balancing statement must be prepared, the same way that such statement is calculated for fixed assets. Goodwill does not qualify for amortization.

Transitional arrangements for IP Box regime for assets acquired by 31 December 2015

The existing IP Box regime (which was introduced in Cyprus in 2012) covers intangible assets which are defined in the Patents Law, the Trade Marks Law and the Intellectual Property Rights Law. Effectively, it provides for an exemption from taxation of 80% of the gross income from the use of the intangible, i.e. after deducting from the total revenues all direct costs (including interest and the amortization of the cost of the intangible over 5 years).

In the case of a resulting loss, only 20% of the loss can be surrendered to other group companies or be carried forward to subsequent years. There are transitional provisions for persons who have entered the existing IP Box regime, which enables them to continue claiming the benefit until 30 June 2021 with respect to intangible assets which:

- Were acquired before 2 January, 2016; or
- Were acquired directly or indirectly from a related person during the period from 2 January 2016 until 30 June 2016 and which assets at the time of their acquisition were benefiting under the IP Box regime or under a similar scheme for intangible assets in another state; or
- Were acquired from an unrelated person or developed during the period from 2 January 2016 until 30 June 2016.

21. OECD BEPS Considerations

A number of changes have already been introduced in Cyprus as a result of the OECD BEPS Actions. In regard to Plans 6 and 15, Cyprus signed the multilateral instrument on 7 June 2017.

Avoidance Directive

2019 will be the first year in which the Cyprus tax authorities have to deal with the new provisions for interest on back-to-back inter-company loans, which took effect on July 1, 2017.

This follows a quiet 2018 for new tax developments in Cyprus. New double taxation agreements were concluded with Saudi Arabia and Andorra, and a revised agreement was concluded with the U.K., and re-revised before the year was out. New or revised agreements with Luxembourg, Mauritius and San Marino, which had been signed in earlier years, entered into force during 2018 and took effect from the beginning of 2019.

Implementation of ATAD

Draft legislation has been published to implement the Anti-Tax Avoidance Directive (_ATAD_) and is expected to be enacted early in the New Year, with most provisions taking retrospective effect from the beginning of the 2019 tax year.

22. Other tax Considerations

Management Incentives

Employees relocating to Cyprus have two tax incentives. Namely:

50% exemption of the remuneration exceeding EUR100.000 per annum derived from any office or employment exercised in Cyprus by an individual who was tax resident outside Cyprus prior to the commencement of employment. This exemption applies for the first ten years of employment. The 50% is not available to an individual whose employment commenced on or after 1 January 2015, if such an individual was:

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

An exemption equal to the lower of (a) 20% and (b) EUR8.550 of the remuneration derived from any office or employment

exercised in Cyprus by an individual who was resident outside Cyprus before the commencement of his employment. This exemption applies for a period of five years commencing from 1 January following the year of commencement of employment (provided the employment started during or after 2012). This exemption applies for tax years up to 2020.

It is not possible to obtain benefit under both exemptions.

In regard to the sale of a company, any profit arising on the disposal is exempt from taxation in Cyprus, provided that the titles disposed fall within the definition of a title as included in the relevant Circular issued by the Cyprus tax authorities.

Substance Requirements for Recipients

Maintenance of sufficient level of taxation is of very high importance. Economic substance is needed not only for obtaining tax residency certificates, but also for application of double tax treaties used for cross-border transactions.

Each structure would require a distinctive approach and a differing focus on corresponding relevant matters required for each. However, as an all-purpose note, the following are some common characteristics of substance for Cyprus companies, namely, holding structures; qualified personnel, director; real physical presence in Cyprus, whether through an owned distinct office or via leasing space a serviced business center; owning at least one bank account maintained with a Cyprus bank, and operated by a Cypriot member of the Board of Directors; maintaining proper accounting books and records in Cyprus, and preparing timely annual Audited Financial Statements, submitting promptly all annual tax returns, and settling promptly all relevant tax amounts due; diversification of investments held by Holding co; public listing; and other characteristics determined case-by-case.

Tax Rulings & Clearances

If an entity wishes to confirm a tax treatment with the Tax Authorities, can request a tax ruling, which will include a detailed description of the company's case. This costs approximately €1.000 and can reach up to €2.000 if an urgent response is needed.

23. Tax Diary 2019

Submission deadlines			
31 Jan 2019	Submission of Deemed Dividend Distribution (IR623) for the year ended 31 December 2016		
31 Mar 2019	Electronic submission of the 2017 corporation tax return (IR4) for accounting periods ending on 31 December 2017 (IR4). Electronic submission of the 2017 income tax return of physical persons preparing audited financial statements (Note 2).		
30 Apr 2019	Payment of premium tax for life insurance companies - first instalment for 2019. Non-electronic submission of 2018 personal tax returns of individuals whose incomes do not include income from a trade/business, rents, dividends, interest, royalties nor income relating to trading goodwill (Note 1).	Submission of personal tax returns of salaried individuals with gross income over €19,500 for 2015.	
30 Jun 2019	Payment of special contribution for defence for the first six months of 2019 on rents if such tax is not withheld at source by tenant and on dividends or interest from sources outside Cyprus. Payment of 2018 personal income tax under the self assessment method by individuals not preparing audited financial statements (2). Non-electronic submission of 2018 personal tax returns of individuals not required to prepare audited financial statements but whose incomes include income from a trade/business, rents, dividends, interest, royalties or income relating to trading goodwill (1) (2).	Submission of personal return of self employed individuals (without accounting/ audit obligations) with gross income over €19,500 for 2015.	

31 Jul 2019	<p>Submission of the 2019 provisional tax return and payment of the first installment.</p> <p>Electronic submission of 2018 personal tax returns of individuals whose incomes do not include income from a trade/business, rents, dividends, interest, royalties nor income relating to trading goodwill (1).</p>	Electronic submission of personal tax returns by salaried individuals with gross income over €19,500 for 2018.	
01 Aug 2019	<p>Payment of the final corporation tax for 2018</p> <p>Payment of 2018 personal income tax under the self assessment method by individuals preparing audited financial statements (2).</p>		
31 Aug 2019	Payment of premium tax for life insurance companies – second installment for 2019.		
30 Sep 2019	Electronic submission of 2018 personal tax returns of individuals not required to prepare audited financial statements but whose incomes include income from a trade/business, rents, dividends, interest, royalties or income relating to trading goodwill (1) (2).	Electronic submission of income tax return and payment by self employed individuals (without accounting/ audit obligations) for 2017.	

31 Dec 2019	<p>Submission of revised provisional tax declaration and payment of the second instalment for 2019. Payment of Special Defence Contribution for the second 6 months of 2019 Payment of provisional tax - second and last installment for 2019.</p> <p>Payment of special contribution for defence for the last six months of 2019 on rents if such tax is not withheld at source by tenant and on dividends or interest from sources outside Cyprus.</p> <p>Payment of premium tax for life insurance companies - third and last installment for 2019.</p>		
End of the following month	<p>P.A.Y.E deducted from employees' salaries.</p> <p>Payment of tax withheld in the preceding month on payments to non-Cyprus residents</p> <p>Payment of special contribution for defence withheld on payments of dividends, interest or rents (when the tenant is a company, partnership, the state or local authority) made to Cyprus tax residents in the preceding month</p>	<p>Special Contribution for Defence withheld on payments of dividend, interest and rents.</p> <p>IR-7 (monthly)</p>	<p>Payment of Social Security Contributions for employees.</p>

Notes:

- (1) Physical persons are required to submit personal tax returns only when their gross income exceeds €19.500.
- (2) A physical person is obliged to submit audited financial statements if his/her turnover exceeds €70.000 annually.

24. Administrative penalties

24.1 Interest and penalties

Administrative penalties amounting to €100 or €200 may be imposed in cases of late submission or non submission of a notice/return by the prescribed deadlines. A 5% fixed penalty is imposed on the late settlement of tax liabilities.

24.2 Interest rates for late settlement of tax obligations

These are the Public interest rates for late tax payments and are set by the Cyprus Ministry of Finance via a decree, and from there on they are applicable yearly.

The rate for 2019 is set at 2%.

Period	Rate
Up to 31.12.2006	9%
01.01.2007 – 31.12.2009	8%
01.01.2010 – 31.12.2010	5.35%
01.01.2011 – 31.12.2012	5%
01.01.2013 – 31.12.2013	4.75%
01.01.2014 – 31.12.2014	4.50%
01.01.2015 – 31.12.2015	4%
01.01.2016 – 31.12.2016	4%
01.01.2017 – 31.12.2017	3.5%
01.01.2018 – 31.12.2018	3.5%
01.01.2019 – 31.12.2019	2%

25. Double Tax Treaties

The majority of Cyprus' tax treaties follow closely the treaty developed by the Organization of Economic Cooperation and Development (OECD). Changes are made only to reflect the different tax systems of Cyprus and each treaty partner individually.

Treaties in force & withholding tax rates on inbound payments to Cyprus:

Double Tax Treaty Table - Cyprus			
Country	Dividends [1]	Interest [2]	Royalties
Armenia	0/5	5	5
Austria	10	0	0
Azerbaijan*	0	0	0
Bahrain	0	0	0
Barbados	0	0	0
Belarus	5/10/15	5	5
Belgium	10/15	0/10	0
Bulgaria	5/10	0/7	10
Canada	15	0/15	0/10 [1]
China	10	10	10
Czech Republic	0/5	0	0/10 [1]
Denmark	0/15	0	0
Egypt	15	15	10
Estonia	0	0	0
Ethiopia	5	5	5
Finland	5/15	0	0
France	10/15	0/10	0/5 [1]
Germany	5/15	0	0
Georgia	0	0	0
Greece	25	10	0/5 [1]
Guernsey	0	0	0
Hungary	5/15	0/10	0
Iceland	5/10	0	5
India	10/15	0/10	15
Iran	5/10	5	6
Ireland	0	0	0/5 [1]
Italy	15	10	0
Jersey	0	0	0
Kuwait	0	0	5 [1]
Kyrgyzstan*	0	0	0
Latvia	0/10	0/10	0/10
Lebanon	5	5	0
Lithuania	0/5	0	5
Luxembourg	0/5	0	5
Malta	0	10	10

Mauritius	0	0	0
Moldova	5/10	5	5
Montenegro**	10	10	10
Norway	0/15	0	0
Poland	0/5	0/5 [1]	5
Portugal	10	10	10
Qatar	0	0	5
Romania	10	0/10[1]	0/5 [1]
Russia	5/10 [3]	0	0
San Marino	0	0	0
Serbia**	10	10	10
Seychelles	0	0	5
Singapore	0	0/7/10 [1]	10
Slovak Republic***	10	0/10	0/5 [1]
Slovenia	5	5	5
South Africa	5/10	0	0
Sweden	5/15	0/10	0
Switzerland	0/15	0	0
Syria	0/15	0/10 [1]	10/15 [1]
Tajikistan*	0	0	0
Thailand	10	10/15 [1]	5/10/15 [1]
Turkmenistan*	0	0	0
Ukraine	5/15 [1]	2	5/10
United Kingdom	0/15 [1]	10	0/5
USA	5/15 [1]	0/10 [1]	0
Uzbekistan*	0	0	0

Notes:

[1]. Reduced rate(s) specified applies under specific circumstances.

[2]. Exemptions granted for certain types of interest are not considered in this column.

[3]. A rate of 10% on dividends if paid by a company in which the beneficial owner has invested less than EUR 100.000 in the share capital of the company paying the dividend.

* Application of the Treaty between the Republic of Cyprus and the USSR.

** Application of the Treaty between the Republic of Cyprus and Yugoslavia.

*** Application of the Treaty between the Republic of Cyprus and Czechoslovakia.

26. Foreign Account Tax Compliance Act (FATCA)

Cyprus signed a FATCA Agreement with the US Treasury in December 2014. FATCA is a US tax legislation which aims to impede the non-tax compliance by US tax payers holding foreign bank accounts and/or substantial interests in foreign entities by ensuring full reporting of foreign financial assets held by US tax-payers.

27. Tax Due Diligence Checklist

The following Tax Due Diligence Checklist is most applicable in terms of tax due diligence required by a client. This checklist can be modified for use in the tax due diligence work required by a client (company or an individual) when requesting for a tax services/consulting from our firm.

Not all of the procedures listed will be applicable to every situation and should be modified and tailored to meet the specific needs of each situation. This is not an all-inclusive list as we may be requesting additional items during our due diligence process.

Procedure	Comments	Date	Complete
1) Planning			
a. Determine scope of tax engagement			
i. Determine Current structure/owners of business (group structure chart including all entities by full legal name, jurisdiction of incorporation and tax residence, entity type, class of shares and ownership percentages)			
ii. Determine type of the service we are going to provide			
iii. Gain an understanding of the business (this provides an initial understanding of the complexity of expected tax methods used by the business)			
b. Client acceptance procedures according to firm's policy (AML procedures should be completed)			
c. Details of risk rating that the company/person			
d. Determine confidentiality of engagement (What information will be shared with the seller and how will exposures be communicated to buyer/seller?)			
e. Prepare fee estimate and engagement letter			
f. Determine if analysis of tax impact of structuring considerations should be a separate engagement from the tax due diligence investigation			
g. Determine the timing of the investigation, place of review, timing of interviews or phone conversations, and the due date of the tax reporting			
2) International Taxation			
a. Determine type of entity we are servicing			
b. Determine if prior transactions of firm being acquired were executed properly			

Procedure	Comments	Date	Complete
c. Determine return filing profile and open tax years			
i. Determine reporting year (calendar-year or fiscal-year)			
ii. Determine if all returns have been properly filed on time or, if not, have extensions been properly requested			
iii. Determine open tax years (based on statute of limitations)			
d. Determine accounting methods used by entity			
e. Examine current estimated tax calculation or tax accounting accruals			
f. Examine significant permanent items as well as temporary items that will reverse			
g. Examine related-party transactions			
h. Examine tax credits and other carryforwards			
i. Consider and examine recent IRS examinations/audits, examinations/audits in progress, notices, and other correspondence			
j. Collect and examine all other relevant documents and correspondence			
k. [Multinationals with turnover >€750m] Confirmation whether a CbC notification has been made to HMRC and when this was made. Please provide a copy of the CbC			
3) Country/Local Taxation			
a. Determine which tax returns/forms need to be filed for country income, franchise, and sales and use taxes in each state in which the entity does business			
b. Consider country income tax filings and withholding			
i. Review all open tax years (statute of limitations for returns in most states is four years; statute for each state should be determined)			
ii. Are estimated tax payments on time from the entity? Is withholding being properly taken and remitted?			
iii. Consider and examine recent examinations/audits, examinations/audits in progress, and related correspondence			

Procedure	Comments	Date	Complete
<p>c. Details of any transactions with related parties (e.g. directors, shareholders, group companies) including:</p> <p>1) Detailed description of the calculation of the pricing of intercompany transactions (e.g. loans, rental agreements, head office costs, IP etc.)</p> <p>2) Copies of any transfer pricing studies or APAs</p> <p>3) Nature and location of the key value drivers in the business</p> <p>4) Nature and location of any IP</p> <p>5) The entity which bears the entrepreneurial risks and rewards</p> <p>6) Location of the management of customer relationships</p> <p>7) Description of known exposures with respect to transfer pricing, including a description of any transfer pricing issues that have been the subject of correspondence with taxing jurisdictions and the status of these issues or a description of how they were resolved</p>			
d. Consider country sales and use tax			
i. Review country sales and use tax for all open years (consider using sampling if there is a large volume of documentation)			
ii. Examine country sales tax nexus (this is much more easily triggered than for income tax)			
iii. Review sales tax exemption certificates for customers (make sure they are properly completed and signed)			
iv. Review equipment purchases			
v. Consider and examine recent examinations/audits, examinations/audits in progress, and related correspondence			
vi. Compare amounts reported on depreciation schedules, or other asset documentation, and inquire about discrepancies			
vii. Review tax payments to ensure timely payments of taxes due			
f. Consider real property taxes			
i. Review property tax statements for prior (3) years			

Procedure	Comments	Date	Complete
ii. Review real property taxes information provided publicly (typically online)			
iii. Compare amounts reported to depreciation schedules, or other asset documentation, and inquire about discrepancies			
iv. Review tax payments to ensure timely payments of taxes due			
g. Consider unclaimed property			
i. Review recent unclaimed property filings			
ii. Determine and review the company's policies for identifying and removing unclaimed property			
4) Payroll/Compensation Related Taxation			
a. Consider payroll taxes and withholding			
i. Review payroll tax filings			
ii. Review country's payroll registers for proper calculation of payroll, taxes, and withholding			
iii. Review location of employees to ensure that the filings are made in all countries where required			
iv. Review the use of contract labor and whether those individuals should be classified as employees			
v. Review payroll tax liabilities and inquire about liabilities that remain unpaid after 30 days			
vi. Consider and examine recent examinations/audits, examinations/audits in progress, notices, and other related correspondence			
b. Consider retirement and benefit plans			
i. Determine which types of plans are offered by the company including when it was adopted, IRS approvals, and dates amended			
ii. Review plan documents and trust agreements for compliance			
iii. Review tax filings for prior (3) years			
iv. Review discrimination testing and results of compliance			
v. Review liabilities and inquire about liabilities that remain unpaid after the due date			
vi. Consider and examine recent examinations/audits, examinations/audits in progress, notices, and other related correspondence			

Procedure	Comments	Date	Complete
c. Consider and examine any stock option plans			
5) International Taxation			
a. Determine permanent establishment in foreign jurisdictions			
b. Determine if entity is filing all required returns in foreign jurisdictions where appropriate			
c. Determine required reporting of foreign ownership and activity on Cyprus income tax return			
d. Consider foreign tax withholding			
e. Consider transfer pricing			
f. Consider and examine recent return examinations/audits, examinations/audits in progress, notices, or other correspondence from foreign tax jurisdictions			
6) VAT			
a. Details of the VAT registration status of the [CY entities] [and details of any VAT grouping arrangements. If applicable, a copy of the VAT group certificate which shows the list of members.]			
i. Details of any registrations for VAT or similar tax anywhere other than the country of incorporation of each entity.			
ii. Confirmation whether all VAT returns and other VAT filings (e.g. EC Sales Lists and Intrastat Supplementary Declarations) have been submitted, and all payments have been made, within the statutory time limits for the past four years. Details of any VAT returns and/or VAT payments not submitted to relevant authorities by the relevant deadline over the past four years.			
iii. Details of any VAT audits, assessments, penalties, interest, or surcharge liability notices received in the past four years or known to be pending.			
iv. Details of the type and nature of all supplies made and how these are treated for VAT purposes (e.g. standard rated, zero-rated, exempt, outside the scope).			
v. [Services] Details of how services are treated if supplied to a customer belonging in another EU member state who has not provided a VAT registration number.			



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Published May 2019