

Doing Business in Cyprus



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Foreword

This publication is designed to provide information on major issues that foreign investors should consider when investing in or through Cyprus.

Cyprus has been one of the world's major financial and trading centres for more than 40 years. Many foreign investors choose Cyprus as their stepping stone for entering Europe, the Middle East, Asia and other destinations.

PKF Savvides & Co Limited was established in 1979 by Mr Frixos Savvides. After more than 43 years of development, it has grown to become one of the most reputable accounting firms in Cyprus with more than 60 professional staff providing a full range of services.

By utilising the PKF International network, we provide comprehensive services with a tailored approach to our clients of different sizes, including large international companies, small and medium enterprises (SMEs), IPO candidates, non-profit organisations and high net worth individuals, helping them in setting up their business and exploring opportunities in Cyprus and all over the world.

We look forward to cooperating with you and supporting your business to grow and achieve success in the future.



Demographic and Environmental Overview

Geography and population

Cyprus is a large island, in the eastern part of the Mediterranean with an area of 9,250 km² and an estimated population of almost one million including a large number of expatriates.

History

Cyprus has a long and diverse history. The earliest known communities date back to the invention of farming more than 10,000 years ago in settlements whose remains survive to this day.

Its geographic position literally at the crossroads of three continents has made the island host to different powers throughout the ages. Ancient sites from earlier Hellenistic, Crusader, Roman, Byzantine, Venetian, Ottoman and British rulers are dotted around the island.

Cyprus gained its independence in 1960, joined the European Union in 2004 and adopted the euro in 2008.

The strategic location of the island has played an important role in establishing Cyprus as a popular, multicultural tourist destination and an ideal business hub in the region.

The influence of British rule at the turn of the twentieth century can be found in the common law legal system, the land registry, driving on the left side and the widespread use of the English language.



Economic summary

Cyprus is considered one of the most developed economies in Europe. In 2021, the Cypriot economy grew by 5.5%. The performance was driven by the tourist and services sectors, which constituted 84% of total GDP. Other significant sectors include industrial (8%), construction (6%) and agricultural, forestry and fishing (2%).

The GDP per capita in 2021 was USD 30,663, meaning that Cyprus is the thirty-sixth largest economy globally by GDP.

The economy will be influenced in the future by the exploitation of the offshore natural gas resources discovered in recent years.

Communications and transportation

The transportation network in Cyprus comprises road, sea and air. There is a wide range of wireless communication options, including wi-fi hotspot.

Exchange controls and currency

There is no exchange control in Cyprus. The official currency in Cyprus is the euro (€).

Education and language

Greek is the language used primarily in public schools, but also English is taught everywhere throughout primary and secondary level. Catering to its diverse population, Cyprus has many reputable English-speaking primary and secondary schools, providing excellent levels of education. This means that a considerable number of students go on to meet the entry requirements for tertiary education in the UK, the EU and the US.

Cyprus has a multilingual and highly educated workforce, with the highest percentage of university graduates per capita in Europe.

Political system

The Republic of Cyprus is a presidential representative republic, where the president of Cyprus is both head of state and head of government.

Consumer Protection and Special Industries

Intellectual and industrial property rights

Intellectual property refers to the ownership by a natural or legal person of the creations of the human mind, such as an invention, design, distinctive mark and artistic works.

The protection of such intellectual property rights provides to their holders the exclusive or unique right of exploitation of their creation, as well as the right to take judicial and other measures for their protection in cases of unlawful unauthorised copying and use by third persons.

Furthermore, the protection of an enterprise's intellectual property rights may provide financial value which contributes to its profitability and further development through exclusive commercial exploitation, sale of rights, licensing their use to third party beneficiaries, as well as exploiting them as security for obtaining financing.

The Department of Registrar of Companies and Intellectual Property (Intellectual Property Section) is the body that administers the intellectual property system in Cyprus. There are four types of intellectual property rights in Cyprus: patents, trademarks, industrial designs and copyrights.

In Cyprus, intellectual property protection is provided by common law. The legislation contains the following framework:

- the Patent Law 16/8
- the Trademark Law (amended by Law No. 63/62, Law No. 69/71, Law No. 206/90)
- the Partnership and Trade Name Law
- the United Kingdom Designs Act
- the Intellectual Property Law 59/76 (amended by Law No. 63/77 and Law No. 18/93).

Moreover, as Cyprus is a member state of the European Union and a member of the World Intellectual Property Organization, the country is also subject to the following international regulations:

- Paris Convention for the Protection of Industrial Property
- Berne Convention for the Protection of Literary and Artistic Works
- International Copyright Law.

Patents

The patent is a form of protection for new inventions, for example innovative products or procedures or an improvement of a product's way of operation or of its production method. An invention is patentable if it is new, it involves an inventive step and is capable of industrial application.

An invention is new if it does not form part of an earlier technique; that is, it does not include anything that has been put, in any way, at the disposal of the public anywhere in the world before the application date or the priority date. An invention is considered to involve an inventive step if it is not obvious to an expert in the relevant technology sector that it arises from the aforementioned earlier technique. An invention is considered as susceptible of industrial application when it can be manufactured or used in any industrial sector, including crafts, agriculture, fish farming and services.

The following are not regarded as 'inventions' and consequently no patent would be granted in relation to them:

- discoveries, scientific theories and mathematical methods;
- aesthetic creations;
- schemes, rules and methods for performing mental activities, playing games or performing economic activities, and computer programs;
- presentations of information;
- biotechnological invention limited to certain plant varieties or animal breeds;
- biological methods for the production of plants or animals:
 - the human body, the simple discovery of one of its individual elements, including the gene sequence;
 - methods for cloning human beings;
 - methods for modifying the germ line genetic identity of human beings;
 - uses of human embryos for industrial or commercial purposes;
 - methods for modifying the genetic identity of animals, which is likely to cause them suffering without any substantial human or animal medical benefit and animals produced by such methods.

Patents fall under the regulations of the Cypriot Patents Law that was last amended in April 1998. The Law has established an independent authority where both national and international patents can be registered – the Register of Patents of Cyprus. The Register publishes the patents in the Official Gazette and keeps records of all patents registered with it. The Law also states that Cypriot patents must be renewed on an annual basis and are protected for 20 years subject to paying the renewal charge. The Law also enabled compulsory licensing for patents in Cyprus.

Trademarks

A trademark is a sign capable of distinguishing the goods or services of one enterprise from those of other enterprises. A trademark may be a letter, word or combination of words or numerals, but can also consist of drawings, symbols, three-dimensional features (shapes and packaging of goods), non-visible signs (sounds or fragrances) or colour shades used as distinguishing features.

Trademarks fall under the regulations of the Trade Marks Law. Cypriot trademarks can be registered only if they are genuine and must be registered with the Trade Marks Registrar. Trademarks are protected for seven years after the registration and then renewal is available every 14 years.

Before proceeding with the application for registration of a national or an international trademark, it is advisable that the interested party examines whether the proposed mark meets certain prerequisites. A national trademark provides protection only in the Republic of Cyprus, whereas an international trademark provides protection in more than 120 countries on the basis of the Madrid System.

Industrial design

An industrial design constitutes the ornamental aspect of an article. It may consist of three-dimensional features, such as the shape of an article, or two-dimensional features, such as patterns, lines or colour.

It is noted that natural products, ideas, sounds, music and scents do not constitute designs or models.

An industrial design needs to meet certain characteristics in order to be eligible for protection; most importantly, it must be new and unique. A design is considered to be new if it is not known to the public already and unique when the outline, shape, colours, form and decoration applied to the design create a different impression to an informed user to that of a design already known to the public. Moreover, an industrial design must not conflict with law or morality.

The duration of protection of industrial designs in Cyprus is for a maximum period of 25 years provided that the renewal fees are paid.

Copyright

Copyright is an automatic right which protects, among others, literary, audio-visual, musical, theatrical, architectural and other artistic works, movies, databases, sound recordings, broadcasts, publications of previously unpublished works and computer programs.

Copyright is protected by the Cypriot Right of Intellectual Property Law 59/76, as amended by the Laws 63/77 and 18/93. Copyright protection applies to residents, legal entities registered in Cyprus and foreigners that reside in the country. According to the international conventions on intellectual property that Cyprus has signed, foreign creations are also recognised. Copyright is protected during the author's life and also 50 years after his or her death. However, certain intellectual works can be protected for lesser periods of time.

A copyright is acquired automatically, without the need to file the work or submit an application, and the exploitation right can be exercised automatically.

The prerequisites for the protection of copyright in the Republic of Cyprus are the following:

- the work is original;
- the work was first published in the Republic of Cyprus or was erected within the territory of the Republic of Cyprus or has been incorporated in a building that is located in the territory of the Republic of Cyprus;
- the beneficiary or any of the beneficiaries is a natural person and citizen of the European Union or a legal person incorporated in the European Union.

The duration of protection for copyright is different for each type of work, as follows:

- For scientific, literary, musical, artistic works and original databases the duration is for 70 years from the death of the creator or of the last of the co-creators. For musical compositions, 70 years from the death of the last surviving among the lyricist and the composer.
- For films, it is 70 years from the death of the last surviving among the producer, the main director, the scriptwriter, the dialogue writer and the music composer (irrespective of whether they are co-creators).
- For sound recordings, it is 50 years after material fixation. If the recording has been lawfully published during this period, 70 years from the date of the first lawful publication.
- For broadcasting programmes, 50 years from the date of making the programme, the broadcasting of which can be either wired or wireless.
- For publication of unpublished works, 25 years from the time the work was lawfully published or presented to the public for the first time.
- For non-original databases, 15 years from the completion of the database creation.
- For interpretations and executions, 50 years from the date of interpretation or execution.



Consumer protection

The Consumer Protection Law of 2021 (Law 112(I)/2021) which was passed by the House of Representatives on 12 May 2021 (referred to hereafter as 'the Law'), is the new consumer protection legislation in Cyprus. The new legislation has brought about significant changes to the previous regime, strengthening the rights of consumers.

The Law provides the necessary tools to the Consumer Protection Service (CPS) to impose sanctions and administrative fines to businesses who are in violation of the provisions of the Law. It is expected that the passing of the new legislation will strengthen the level of protection for the consumer and also ensure the smooth operation of the market.

Some of the key changes brought about by the Law are summarised below:

- Establishment of administrative fines for all violations of the provisions of the Law; the fine becomes payable upon imposition.
- The CPS is provided with several new powers, such as:
 - to proceed with the issue of a restraining order, so as to eliminate any infringement (e.g. the immediate withdrawal of a misleading advertisement)
 - to oblige a trader, such as internet service providers, to remove content or restrict access to the online platform (link) containing misleading practices.
- The exercise of a hierarchical appeal before the Minister of Commerce must now take place within 30 days from the notification of the decision to the offender, with the obligation to issue a decision within 90 days, to avoid lengthy delays.
- Prior to the introduction of the Law, no remedy was provided to a consumer, even if the CPS concluded that a violation of rights existed. Following the introduction of the Law, a consumer has the right to file a lawsuit for restoration or redress, for damages suffered, in case of violation of the Law.
- Obstructing the CPS from conducting its checks or providing false information during the checks constitutes a criminal offence.
- Both the original price and the new reduced price must be indicated during a sale/discount period.
- Service businesses are obliged to display a price list indicating the prices of the basic services offered.
- The Law establishes a two-year warranty on new products. If a trader offers an additional commercial guarantee, this should be done in writing or electronically, so that the consumer is informed as to the content of the guarantee and its duration.
- The seller has the obligation to inform the consumer in writing about the store's return and change or exchange policy as well as the right to a legal guarantee.
- The seller has the obligation to accept defective returned products one year after the sale of the product (as opposed to six months which was the previous period), without the consumer having to prove that the defect is not caused by his or her own misuse.
- The period during which the product is in the possession of the seller for repair purposes is excluded from the duration of the legal guarantee.

In conclusion, the Consumer Protection Law 2021 is a progressive consumer-friendly statutory regime which adequately harmonises the national law with EU law since the requirements of Regulation (EU) 2017/2394 are satisfied. Additionally, it provides important protection to consumer rights and consolidates various other legislation.

Specialised industries

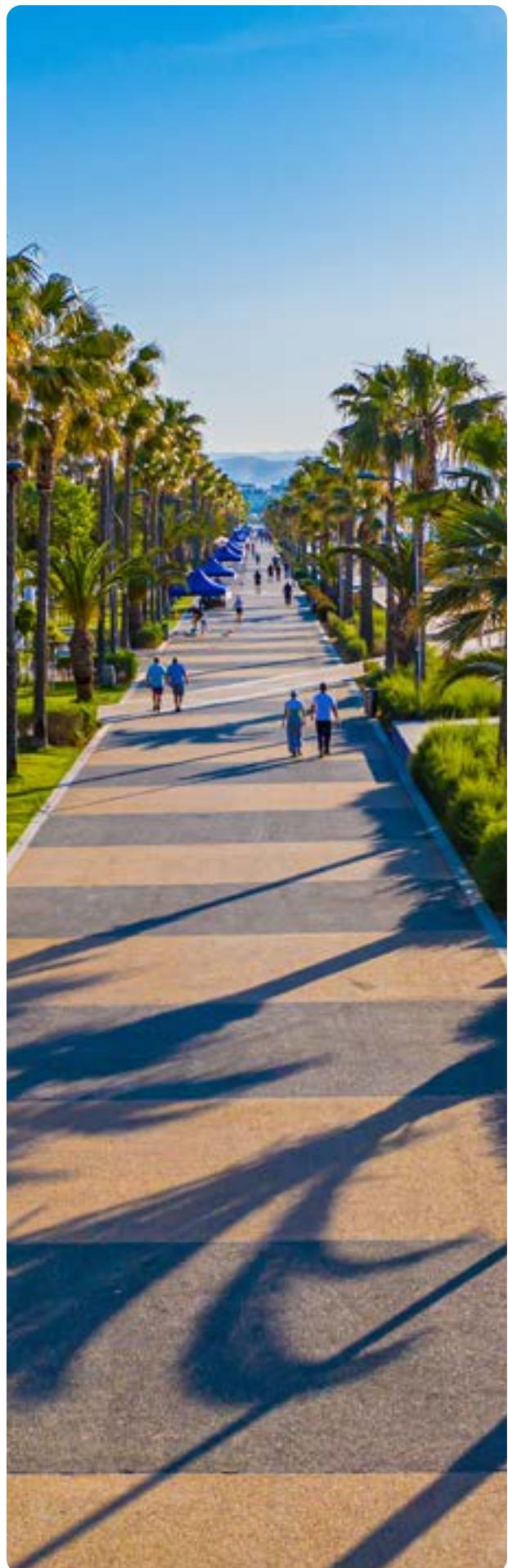
Some industries and sectors which are enjoying considerable growth and may constitute investment opportunities in Cyprus include the following:

- investment funds
- shipping
- renewable energy
- information and communication technology (ICT)
- filming
- tourism and hospitality
- Cyprus investment firms (CIF)
- insurance.

The key features which make Cyprus an attractive investment proposition can be summarised as follows:

- Access to talent
 - well-educated, multilingual local talent
 - highly skilled tech-savvy workforce
 - professionals with international business experience
 - visa-free access to the European labour market
 - fast and easy access to the international talent pool.
- Access to market
 - geostrategic location between three continents
 - full access to the European single market
 - access to 40+ EU trade agreements
 - proximity and easy access to high growth markets
 - ideal site as sandbox for testing innovative solutions.
- Excellent regulatory structure
 - closely aligned to the English common law legal system
 - full compliance with EU and international laws and regulations
 - strong protection for investment and intellectual property
 - simple and easy company filing requirements
 - transparency and reliability in best business practices.

- Strong business ecosystem
 - wide network of financial and professional services
 - 3,900+ registered accountants and 700+ accounting firms
 - 2,700+ registered lawyers and 160+ law firms
 - a range of serviced offices and co-working spaces
 - access to national and EU funding for innovation and entrepreneurship.
- Low cost of doing business
 - labour costs for tech talent below EU average
 - office rental costs amongst the lowest in Europe
 - competitive prices for commercial real estate
 - low set-up costs for establishing a company and low operation fees
 - cost-effective, high quality business support services.
- Attractive and transparent tax regime
 - one of the lowest corporate tax rates in the EU at 12.5%
 - growing double tax treaty network with more than 65 countries
 - competitive IP regime in line with the nexus approach
 - notional interest deduction for equity investment into Cypriot companies
 - no withholding tax on outgoing dividend, interest or royalty payments
 - attractive personal tax regime for new tax residents and non-doms.



Legal Framework and Reporting Requirements for Business

The Companies Law (chapter 113) requires that every company keeps accounting and other records to sufficiently explain the transactions and financial position of the company and enable preparation of financial statements showing a true and fair view of the company to be conveniently and properly audited.

Financial reporting standards

International Financial Reporting Standards as adopted by the European Union ('EU IFRS') constitute the local generally accepted accounting principles (GAAP) in Cyprus and also form the basis for the computation of taxable income. Therefore, Cyprus-registered entities need to maintain only one set of financial statements for both financial reporting and tax purposes, based on a reporting framework widely accepted by investors, financiers and analysts across the globe.

Accounting and record-keeping

The directors of every Cypriot company are responsible for the maintenance of adequate and sufficient accounting records that must be compiled annually into proper financial statements in accordance with International Financial Reporting Standards. Where applicable, companies must prepare consolidated financial statements.

Audit

Cypriot companies are obligated by either the Companies Law or the tax legislation to have their financial statements audited by an auditor licensed in Cyprus in accordance with International Standards on Auditing on a yearly basis. The usual year end in Cyprus is 31 December.

Tax compliance and other annual submissions

According to the Cypriot tax legislation, all resident companies are required to submit an income tax return annually.

Additionally, an annual return accompanied by financial statements must be submitted to the Registrar of Companies.

Anti-money laundering (AML)

The Prevention and Suppression of Money Laundering Activities Law (L58(I)/2020) provides provisions in relation to reporting money laundering to relevant authorities.

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

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

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

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



Forms of Business Organisations

Cypriot structures

The following types of business structures may be established in Cyprus:

- Limited company

This is also known as a company limited by shares. It has a maximum number of 50 shareholders and public subscription to its shares or debentures is not permitted. Any person can start and register a private company because a single shareholder is acceptable. It is the most commonly used entity in Cyprus.

- Company limited by guarantee

A company limited by guarantee is usually a charitable or a non-profit company.

- Branch of overseas companies

Any foreign company has the right to open a branch in Cyprus. During its first month of establishment it is required to file with the Registrar of Companies a certified copy of the memorandum and articles of association, a list of all directors and secretary and the name and address of its Cypriot representatives.

- Public company

A public company must have at least seven shareholders and at least two directors. The minimum share capital is EUR 25,630 and its shares can be offered to the public.

- General partnership

Partnerships in Cyprus are subject to the Partnerships and Business Names Law. They must be registered with the Registrar of Partnerships within one month of formation, providing their name, purposes and place of business. Foreigners are also allowed to participate in Cypriot general partnerships.

Profits of the partnership are shared jointly and severally between the partners. Similarly, each partner is jointly and severally liable for the debts and obligations of the partnership.

- Limited partnership

Limited partnerships in Cyprus comprise of one or more general partners with unlimited liability. The rest of the partners have limited liability.

- Sole proprietorship

Sole proprietorships are also governed by the Partnerships and Business Names Law. Sole proprietors run a business on their own with or without employees. A sole proprietor will have unlimited liability for his or her debts.

- Trusts

There are three types of trust that can be registered in Cyprus: a local trust where both settlor and beneficiaries are residents of Cyprus; an offshore trust which is the same as a local trust except the beneficiaries have to be non-residents and all the trust's activities are outside Cyprus; and an international trust where both settlor and beneficiaries are non-residents, but one trustee has to be Cypriot.

Setting up a Cypriot company

The company incorporation process in Cyprus is straightforward and the main steps are as follows:

1. **Name of the company**

Common practice has shown that at least two alternative names are needed in order to save time in the event that the Registrar of Companies rejects one of the proposed names.

2. **Objects of the company**

Cypriot companies must have a memorandum and articles of association, specifying the activities of the company (known as the objects clause).

3. **Share capital**

There is no minimum level for the issued and paid-up capital of a Cypriot company. However, it is common for a Cypriot company to have share capital of at least EUR 1,000.

4. **Shareholders**

There must be at least one shareholder.

5. **Directors**

Management and control of a company in Cyprus must be demonstrated in order to determine the tax status of the company. It is common practice for the majority of the directors to be Cypriot residents. There must be a minimum of one director.

6. **Company secretary and registered office address**

Every company must have a secretary and a registered office address in Cyprus.

Labour Law

Employees' rights

Employees working in Cyprus are covered by Cypriot employment laws.

Some of the most important aspects covered by labour laws are as follows:

1. Minimum wage

Minimum wages are governed by a special law. The minimum wage is set annually by the government in consultation with social partners.

2. Discrimination

All employees are protected against discrimination in particular for age, race, disability, pregnancy, religion, sex and other.

3. Holiday

Employees are entitled to a minimum number of days' holiday (20 days at least per year).

4. Working hours

The typical working hours are 40 hours per week but different agreements may be in place between employer and employee.

5. Protection against dismissal

Every employee in Cyprus is protected against unfair dismissal. If this happens then the employee may be entitled to compensation which is calculated in accordance with the provisions of the relevant law.

6. Statutory redundancy payment

An employee who has been working for the same employer for at least 104 weeks is entitled to redundancy compensation from the Surplus Personnel Fund.

7. Illness and injury

Employers are not legally obliged to pay any sick leave for their employees. Employees are entitled to statutory sick leave benefit from social insurance. Under the law, no payment of the benefit is made for the first three days of sickness though in practice employers often cover the first three days.



8. Public holidays

Employers in the private sector normally follow the public holiday scheme although they are not obliged to do so by law.

9. Maternity leave and paternity rights

Normally pregnant women are allowed 18 consecutive weeks of maternity leave.

Paternity law provides the employee with the right to two consecutive weeks of paternity leave.

10. Safety regulations

Employers are obliged to ensure the health and safety of their workforce.

Employers must take measures in respect of first aid, firefighting and evacuation of workers.

11. GDPR regulations

Under GDPR employers must comply with all the principles that apply to the processing of personal data. Accordingly, employees enjoy enhanced data protection rights.

12. Retirement and pension

An employee can retire and receive an old-age pension from the age of 65, provided that the employee has paid sufficient social insurance contributions.

13. Notice periods

The notice period under the termination of employment law depends on the length of service and must be given in writing to the employee.

The following notice periods must be given by the employer:

- 26 to 52 weeks' service – one week
- 52 to 104 weeks' service – two weeks
- 104 to 156 weeks' service – four weeks
- 156 to 208 weeks' service – five weeks
- 208 to 260 weeks' service – six weeks
- 260 to 312 weeks' service – seven weeks
- 312 and more weeks' service – eight weeks

The following notice periods must be given by the employee to the employer:

- 26 to 51 weeks' service – one week
- 52 to 259 weeks' service – two weeks
- 260 or more weeks' service – three weeks

Visas and work and residence permits

Nationals of EU or EEA member states do not need permission to enter or work in Cyprus but must make an application to obtain a registration certificate prior to any employment in Cyprus. Family members and dependants of citizens of EU/EEA members states generally enjoy the same rights.

Third country nationals require visas to work or live in Cyprus. Visa requirements are in line with EU regulations. The maximum period for third party nationals to work in Cyprus is generally four years, but this can vary from case to case (farming and agricultural, highly skilled workers, etc.).

The terms and conditions of employment must be the same for all individuals irrespective of whether they are foreign or Cypriot nationals.



Tax Compliance and Other

Over the past 30 years, Cyprus has developed into one of the most favourable places for international business. A low tax regime combined with its excellent geographical position and infrastructure were the key factors for its success.

The local tax framework creates a sophisticated low tax jurisdiction that rapidly became the jurisdiction of choice for international investors and the premier financial centre for the set-up and operation of holding companies for the purpose of holding participations around the world.

Main tax features of a Cypriot tax resident company (CTRC)

A CTRC features the following tax and other advantages:

1. Full exemption from tax on dividend income received from participations

Dividends received by a Cyprus holding company from overseas participations will be exempt from tax provided that:

- a. the overseas company paying the dividend engages directly or indirectly in more than 50% on activities which give rise to non-investment income; or
- b. the foreign tax burden on the income of the paying company is not significantly lower than the Cyprus tax burden of the company receiving the dividend.

The term 'significantly lower' means less than 50% of the corporate tax rate in Cyprus i.e. lower than 6.25%. Dividends are not considered investment income if they are derived directly or indirectly from trading subsidiaries.

2. No withholding tax on distribution of profits

No withholding tax on dividends to non-residents (individual or body corporate) irrespective of the country of residence or the existence of a double tax treaty unless the recipient shareholder is registered in a jurisdiction which is non-cooperative with the EU, in which case withholding tax of 17% is imposed on the payment.

3. Full exemption from capital gains tax and income tax on the disposal of securities

Full exemption from tax on gains from the disposal of securities (shares, debentures, units of open-ended and close-ended collective investment schemes, etc.) regardless of whether the disposal is capital or revenue in nature.

Therefore, the disposal of shares held in a subsidiary by a CTRC has no Cypriot tax effects (assuming no immovable property is held in Cyprus).

4. Low tax rate

The corporation tax rate is 12.5%, one of the lowest within the European Union.

5. No capital gains or income tax on the liquidation of participations

The liquidation of participations held by Cyprus holding companies does not give rise to any taxes in Cyprus.

6. No capital gains tax or income tax on the disposal of the shares of a CTRC

The disposal of the shares of the CTRC (which does not hold any immovable property in Cyprus) will not result in any taxes in Cyprus irrespective of the provisions of a double tax treaty.

7. Reduced withholding tax on dividends received from treaty countries

Cyprus maintains an extensive and expanding double tax treaty network with over 60 countries that can be used by the investor to minimise the tax burden.

8. Unilateral tax credit

Regardless of whether a tax treaty is present, unilateral tax credit is applied for taxes paid abroad if the income is subject to tax in Cyprus. Treaty provisions may be applied if they are more beneficial than the tax credit.

9. EU Parent-Subsidiary Directive

According to the provisions of the Directive, any payment of dividends from one member state to another is free of withholding tax provided the required conditions are satisfied under the local legislation of the member state.

10. Minimum holding period

There is no minimum period of holding participations in order to be eligible for either the tax exemption on dividend income or the tax exemption on the disposal of shares.

11. Interest income

Interest income arising as a result of ordinary activities is taxed like any other 'trading' income at 12.5%. Other non-trading interest is tax at 30%.

12. Reorganisation provisions

Transactions that are defined as 'reorganisations', involving companies resident in the Republic and/or non-residents of the Republic, are exempt from corporation tax and capital gains tax as well as transfer fees.

Mergers, divisions and transfers of assets in exchange for shares are considered reorganisations.

13. Group loss relief

Offsetting of losses between group companies will be granted only where the surrendering company and the claimant company are part of the same group for the whole of the tax year and the interest participation rate between the two companies is more than 75%.

Where a subsidiary company is incorporated by its parent company during a specific tax year, the subsidiary company will be considered as being a member of the group for the whole tax year and therefore will be able to claim group relief for that tax year.

Income from intangible assets/IP box regime

The following tax incentives are available with respect to income from intangible assets:

- The cost of acquisition or development of the intellectual property is amortised equally for a period of five years, giving a 20% taxable allowance each year.
- The existing IP box regime grants deductions under a formula with a maximum tax deduction of up to 80% of the profit deriving from either royalty income (including compensation for improper use) or the sale of qualifying intellectual property, leaving only 20% of the net profit being taxed.
- Qualifying IP includes, *inter alia*, computer software and patents but not trademarks and goodwill.

Foreign source income

Dividends from overseas companies are taxed if the companies paying the dividend have activities which generate more than 50% investment income and their country of residence imposes corporation tax at a rate less than 6.25%. Both criteria must apply in order for the tax to be charged.

The Anti-Avoidance Tax Directive (ATAD) provisions have been transposed into domestic tax legislation regarding controlled foreign company (CFC) rules. From 1 January 2019, an overseas entity or permanent establishment whose profits are not subject to tax or are exempt from tax in Cyprus, is treated as a CFC where the following conditions are met:

- In the case of an entity, the taxpayer by itself, or together with its associated enterprises, holds a direct or indirect participation of more than 50% of the voting rights, owns directly or indirectly more than 50% of the capital or is entitled to receive more than 50% of the profits of that entity; and
- The actual corporate tax paid by the entity or permanent establishment on its profits is lower than 50% of the corporate tax that would have been charged on the entity or permanent establishment under the applicable corporate tax system of Cyprus.



Where an entity or permanent establishment is treated as a CFC, Cyprus shall include in the tax base the non-distributed income of the entity or the income of the permanent establishment which is derived from the following categories:

- interest or any other income generated by financial assets;
- royalties or any other income generated from intellectual property;
- dividends and income from the disposal of shares;
- income from financial leasing;
- income from insurance, banking and other financial activities;
- income from invoicing companies earning sales and services income from goods and services purchased from and sold to associated enterprises, adding no or little economic value.

The CFC rules are subject to certain exemptions.

Common uses of a Cypriot holding company

Cypriot holding companies are commonly used as intermediaries, especially in the following circumstances:

- For international or domestic groups investing outside Cyprus that aim to remit dividend income. Such dividends are usually tax exempt in Cyprus.
- To hold subsidiaries that may be disposed of in the future. Such disposals are not taxable in Cyprus.
- To benefit from and utilise the favourable conditions of the Cypriot double tax treaty network.
- To have the ability to achieve a tax-free unwind of the holding company at any point in the future.

Reporting requirements/tax compliance and other annual submissions

According to Cypriot tax legislation, all resident companies are required to submit an income tax return annually.

Other annual reporting tax requirements include the employer's return, listing all emoluments of employees, as well as dividend declarations to the registered shareholders.

Personal tax

A person who is resident in Cyprus for 183 days or more in aggregate during the tax year is deemed to be tax resident.

A person who is resident in Cyprus for more than 60 days and does not spend more than 183 days in another country has the option to become a Cypriot tax resident.

All individuals who are tax residents of the Republic are taxed on their worldwide income. Non-resident individuals are taxed on income derived from Cyprus only. Income tax is payable on assessable income less allowable deductions. Assessable income includes income from employment, rent, interest and profits from trade and business or professions.

Allowable expenses include social insurance, national health contributions and pension contributions.

Individuals taking up employment in the Republic who were non-resident prior to employment are entitled to an allowance of 20% of remuneration up to a maximum of EUR 8,543 for a period of ten years. Individuals with annual remuneration in excess of EUR 55,000 are entitled to an increased allowance of up to 50% for a period of 17 years, without a maximum ceiling. Salaried services rendered abroad for a total period of more than 90 days to a non-resident employer or at a permanent establishment abroad of a resident employer are exempt from income tax.

Pensions receivable from abroad by a resident in respect of services rendered outside Cyprus are still taxed at 5%, after deduction of the first EUR 3,417 if the individual elects to do so.

The current tax rates are as follows:

Taxable income (EUR)	Normal 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

Other taxes

Contributions to the social insurance fund are paid on the salaries of resident employees. The total amount paid by an employer can vary from 12 to 14% of the gross salary. The employee pays a further 8.3%. Employers contribute a further 2.90% and employees 2.65% to the National Health Scheme (NHS). The maximum salary on which contributions are paid is currently EUR 4,840 per month and for the NHS EUR 180,000 per annum.

Value added tax (VAT)

VAT is generally imposed on taxable supplies of goods and services and undeveloped land for business purposes at the standard rate of 19%.

Certain supplies of goods and services are charged at the reduced rates of 5%–9%; others are zero-rated, notably ship management services. Some supplies of goods and services are exempt from VAT: specifically, financial services, health and welfare, insurance and education.

The annual VAT registration threshold is EUR 15,600.

Cyprus has adopted the provisions of the EU Directive 2008/8/EC effective from 1 January 2010. Exports of goods or provision of services to non-EU or to EU VAT registered persons are subject to 0%.



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