

## 2020 CORPORATE TAX GUIDE FOR CYPRUS

There are significant benefits from a proper and effective tax planning. Our people possess the knowledge and expertise to assist you identify such benefits. We are next to you to share know-how and innovative specialized solutions to support you for structuring your operations in a tax efficient way.

This publication aims at providing a general description of the tax system in Cyprus. The tax information contained is based on the tax legislation and practice as at January 2013.

A full and detailed description of the tax system is not the aim of this booklet nor could it be covered in a brief publication of this kind. Consequently, this publication should only be used as a source of general information and it cannot substitute proper professional advice.

Please do not hesitate to contact us for any additional information and assistance.

### 1. Basis of Taxation

All companies tax resident of Cyprus are taxed on their income accrued or derived from all sources in Cyprus and abroad. A non-Cyprus tax resident company is taxed on income accrued or derived from a business activity which is carried out through a permanent establishment in Cyprus and on certain income arising from sources in Cyprus.

A company is resident of Cyprus if it is managed and controlled in Cyprus i.e. the AGM takes place in Cyprus, decision making is done in Cyprus, the majority of the Board of Directors are Cyprus Resident.

The corporation tax rate is 12,5% applicable on the profits of a Cyprus Company. However, this can be reduced with tax planning techniques

### 2. Exemptions

Type of Income	Exemption Limit
Profit from the sale of securities	Whole Amount
Dividends	Whole Amount
Interest not arising from the ordinary activities or closely related to the ordinary activities of the company	Whole Amount
Profits of a permanent establishment abroad, under certain conditions	Whole Amount
Gains relating to foreign exchange differences (forex) with the exception of forex arising from trading in foreign currencies and related derivatives	Whole Amount
Profits from the production of films, series and other related audiovisual programs	The lower of 35% of the eligible expenditure and 50% of the taxable income. Any restriction may be carried forward for 5 years

### 3. Tax Deductions

All expenses incurred wholly and exclusively in earning the income of the company including:

Type of expense	Exemption Limit
Donations to approved charities(with receipts)	Whole Amount
Employer's contributions to social insurance and approved funds on employees' salaries	Whole Amount
Any expenditure incurred for the maintenance of a building in respect of which there is a Preservation Order	Up to €700, €1.100 or €1.200 per square meter (depending on the size of the building)
Entertainment expenses for business purposes	Lower of €17.086 or 1% of the gross income of the business
Interest incurred for the acquisition of a fixed asset used in the business	Whole Amount
Interest incurred for the acquisition of shares in a wholly owned subsidiary which does not own any assets which are not used in business	Whole Amount
Special Contribution on salaries for the years 2012 and 2013	Whole Amount
Net profit from the exploitation of the intellectual property rights by a Cyprus resident company.	80%

<b>But not including:</b>	
Expenses of a private motor vehicle	Whole Amount
Interest applicable to the cost of acquiring a private motor vehicle, irrespective of its use and to the cost of acquiring any other asset not used in the business	Whole amount for 7 years
Immovable property tax	Whole Amount
Salaries for which social security funds or other funds are not paid	Whole Amount
Any expenditure that is not supported by invoices and receipts or other supporting evidence according to relevant regulations	Whole Amount

### 4. Registration of the companies with the tax authorities

Companies which are incorporated or registered or become tax resident in Cyprus should register with the tax authorities and obtain a tax identification code within 60 days from their incorporation or registration or from the date that they become tax residents in Cyprus.

### 5. Obligation to submit the tax return electronically (registration with TAXISNET)

Taxable persons have an obligation to submit their tax returns via electronic means or other means approved by the Director of the Income Tax Office, who announced that will only accept submission of the tax returns for the years 2010 onwards only via TAXISNET (submitted electronically).

## 6. Obligation to update accounting records

The accounting records of a business should be updated within four months from the date a transaction was incurred.

## 7. Losses carried forward

The tax loss incurred during a year and which cannot be set off against other income is carried forward and set off against future taxable profits for a period of 5 years.

The current year loss of one company can be set off against the taxable profit of another company provided that both companies are Cyprus tax resident companies of the same Group.

Group is defined as:

- One company holding at least 75% of the shares of the other company.
- At least 75% of the voting shares of the companies are held by another company.

A partnership or a sole trader transferring business into a company can carry forward tax losses into the company for future utilisation.

Losses from a permanent establishment abroad can be set off with profits of the company in Cyprus. Subsequent profits of the permanent establishment abroad are taxable up to the amount of losses allowed.

## 8. Reorganisations

Transfers of assets and liabilities between companies can be effected without tax consequences within the framework of a reorganisation and tax losses can be carried forward by the receiving entity.

Reorganisations include:

- ✓ mergers
- ✓ demergers
- ✓ partial divisions
- ✓ transfer of assets
- ✓ exchange of shares
- ✓ transfer of registered office

## 9. Capital allowances on intangibles

Capital allowances on intangibles developed or acquired after 1 January 2012 has been set at 20% of the cost of acquisition.

## 10. Annual Wear & Tear Allowances

The following allowances which are given as a percentage on the cost of acquisition are deducted from the chargeable income:

Type of Asset	Allowances %
<b>Plant &amp; Machinery</b>	
Plant and machinery(1)	10
Furniture and fittings	10
Televisions and videos	10
Industrial carpets	10
Boreholes	10
Machinery and tools used in an agricultural business	15
Computer hardware and operating systems	20
Application software	33 1/3
Expenditure on application software less than €1.709, is written off in the year of acquisition	100
Commercial motor vehicles	20
Motor cycles	20
Excavators, tractors, bulldozers, self-propelled loaders and drums for petrol companies	25
<b>Buildings</b>	
Commercial buildings	3
Industrial, agricultural and hotel buildings (2,3)	4
Flats	3
Metallic greenhouse structures	10
Wooden greenhouse structures	33 1/3
<b>Boats</b>	
Sailing vessels	4.5
Steamers, tugs and fishing boats	6
Shipmotor launches	12.5
New cargo vessels	8
New passenger vessels	6
Used cargo/passenger vessels	Over their useful lifes
<b>Tools</b>	
Tools in general	33 1/3
Videotapes property of video clubs	50

Notes:

- (1) the rate of capital allowances for any plant and machinery purchased in the tax years 2012 - 2018 has been set at 20% unless the rate of capital allowances on such assets is higher;
- (2) for industrial and hotel buildings purchased in the tax years 2012 - 2018, the capital allowances rate is 7%.
- (3) for agricultural and livestock production purchased in the tax years 2017 – 2018, the capital allowances rate is 7%

## 11. Special type of companies

### A. Shipping companies

No income tax is payable on the profits earned or dividends paid by a Cyprus shipping company which owns ships under the Cyprus flag and operates in international waters (including chartering), or on the salaries of officers and crew of such ships.

The exemption also applies to the bare boat charterer of a vessel flying the Cyprus flag under parallel registration.

Local or international ship management and crew management businesses (corporated or unincorporated) have the option to be taxed either at the rate of 4,25% or at rates equal to 25% of the rates used to calculate tonnage tax of vessels under management which are registered outside Cyprus. If no election is made tonnage tax will be imposed. The election is made annually by 30 November of the previous year. All of the above provisions are currently under review by the European Union.

### B. Insurance companies

Profits of insurance companies are liable to corporation tax similar to all other companies except in the case where the corporation tax payable on taxable profit of life insurance business is less than 1,5% on gross premium. In this case the difference is paid as additional corporation tax.

## 12. Special Contribution for Defence

Special contribution for defence is imposed on income earned by Cyprus tax residents. Non-tax residents are exempt from special contribution for defence. It is charged at the rates shown in the table below:

	<b>Tax Rate Individuals</b>	<b>Tax Rate Companies</b>
Dividend income from Cyprus resident companies	17 (Note 4)	Nil (Note 2)
Dividend income from non-Cyprus resident companies	17 (Note 4)	Nil (Note 1)
Interest income arising from the ordinary activities or closely related to the ordinary activities of the business	Nil (Note 3)	Nil (Note 3)
Other interest	30 (Note 4)	30 (Note 4)
Rental income (reduced by 25%)	3 (Note 4 & 5)	3 (Note 4 & 5)

### Notes

- The exemption does not apply if:
  - more than 50% of the paying company's activities result directly or indirectly in investment income and

- the foreign tax is significantly lower than the tax rate payable in Cyprus. The tax authorities have clarified through a circular that “significantly lower” means an effective tax rate of less than 6,25% on the profit distributed

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 also does not apply to dividends which are deductible for tax purposes by the paying company. In such cases, dividends are subject to corporation tax and not Special Contribution for Defence

2. Dividends received by a Cyprus tax resident company from other Cyprus tax resident companies are exempt, subject to certain anti-avoidance provisions
3. Such interest income is subject to personal income tax / corporation tax
4. Interest income from savings bonds and development bonds and all interest earned by a provident fund is subject to special contribution for defence at 3% (instead of 30%).
5. Rental income is also subject to personal income tax / corporation tax

### 13. Deemed dividend distribution

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

- ✓ 70% of accounting profits (after some adjustments) are deemed to have been distributed.
- ✓ 17% special contribution for defence is imposed on deemed dividend distribution applicable to shareholders who are residents of Cyprus.
- ✓ Deemed distribution is reduced with payments of actual dividends which have already been paid during the two years from the profits of the relevant year.

When an actual dividend is paid after the deemed dividend distribution, then special contribution for defence is imposed only on the additional dividend paid not previously subject to deemed dividend distribution. In case of two tier structures of Cyprus companies (parent with subsidiary) owned by non resident shareholders, defence contribution paid by the subsidiary on deemed distribution may be claimed back by the non resident shareholder upon receipt of an actual dividend

### 14. Company dissolution

The cumulative profits of the last five years prior to the company’s dissolution, which have not been distributed or deemed to have been distributed, will be considered as distributed on dissolution and will be subject to special contribution for defence at the rate of 17%. This provision does not apply in the case of dissolution under a Reorganisation.

### 15. Reduction of capital

In the case of a reduction of capital of a company, any amounts paid or due to the shareholders up to the amount of the undistributed taxable income of any tax year calculated before the deduction of losses from prior years, will be considered as dividends distributed subject to special defence contribution at 17% after deducting any amounts which have been deemed as distributable profits. The above provisions do not apply where the shareholders are non residents in Cyprus.

## ABOUT BKMS

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**BKMS Limited**  
201 Strovolos Avenue  
Off. 201-202, 2nd Floor  
2049 Nicosia, Cyprus  
info@bkmsgroup.com  
Tel. +357 – 22 265 360  
Fax. +357 – 22 265 361  
info@bkmsgroup.com  
www.bkmsgroup.com

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