

BKMS GROUP

Corporate
Taxation
and Residency
in Cyprus





INTERPRETATION AND TAX BASE

“Resident in the Republic”

- When applied to a company, means a company whose **management and control** is exercised in Cyprus.
- A Cyprus tax resident company is liable to tax on its world-wide income.



CORPORATION TAX RATE

- The current corporation tax rate is 12,5%;
- Taxable income is computed by aggregating the taxable income for the tax year and by reducing this figure by allowable deductions incurred in the production of income and by any tax losses carried forward. The net figure (i.e. the taxable profit) is subject to corporation tax.



WITHHOLDING TAX RATES

- No withholding tax on dividends
- No withholding tax on interest
- No withholding tax on royalties for use of the rights outside Cyprus



TAXATION OF DIVIDENDS

- Dividend income is exempt from corporation tax but may be subject to a flat rate tax at 17%
- Dividend income received from another Cyprus tax-resident company is exempt from the flat rate tax
- Dividend income received from a non Cyprus tax-resident company is also exempt from the special flat rate tax except in two cases



TAXATION OF DIVIDENDS

Case 1

the exemption does not apply if the non-resident company paying the dividend:

- engages **directly or indirectly** by more than 50% in activities that lead to **investment income**
- and**
- the overseas tax burden on its income is **significantly lower** than the **Cyprus tax burden** (in practice less than 6,25%)



TAXATION OF DIVIDENDS

Case 2

From 1 January 2016, dividends which are tax deductible for the paying company are not considered as dividends but trading income subject to 12,5% corporation tax.



TAXATION OF INTEREST

- Gross interest income is exempt from corporation tax but is subject to a flat tax rate of 30%. However:
- Interest earned from the ordinary course of business, including interest closely connected with the carrying on of the business is considered to be ordinary business income (not interest income), taxed at the corporation tax rate of 12,5%.



NOTIONAL INTEREST DEDUCTION

- Deemed deduction or notional interest deduction (“NID”) on new capital introduced and used in the business reducing the company's taxable income

$$\text{NID} = \text{New Capital} \times \text{Reference Rate}$$

- NID should not exceed 80% of the taxable income before the application of the NID (a taxable loss cannot be created)
- The NID is deductible in the same manner as actual interest expense is deductible



NOTIONAL INTEREST DEDUCTION

New Capital:

- Means funds introduced for taking up issued share capital fully paid, including share premium (if paid)
- Shall not include amounts from the revaluation of movable or immovable property or amounts of funds existing at 31/12/2014
- Must be 'used in the business'



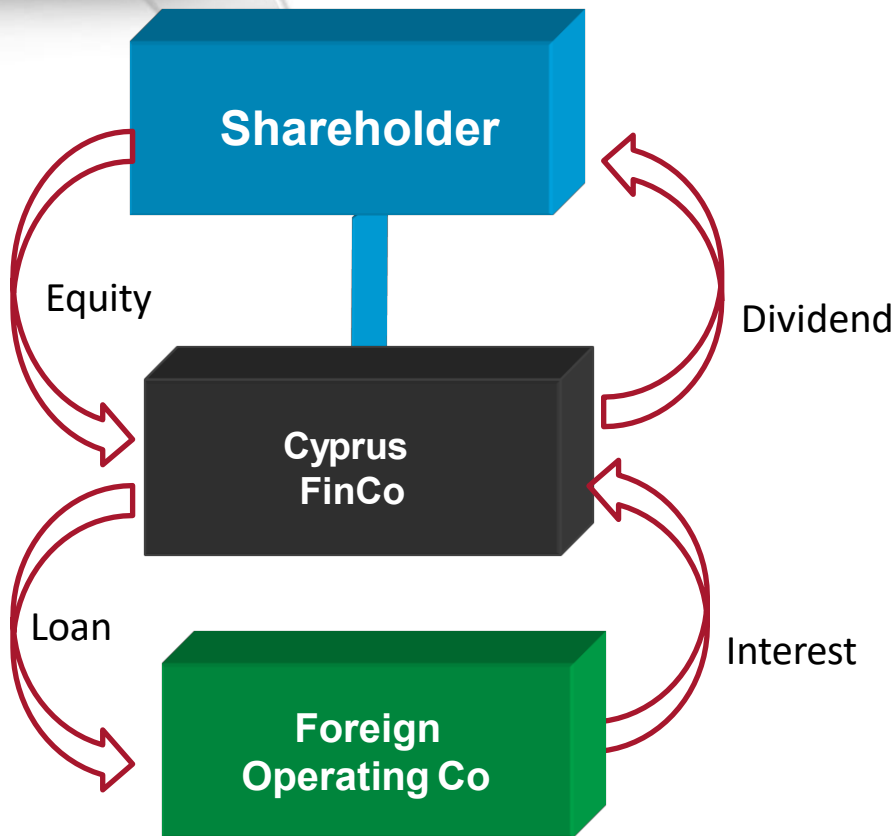
NOTIONAL INTEREST DEDUCTION

Reference Rate

- Set every year by the Department of Taxation based on certain criteria
- The minimum reference rates as set by the Department of Taxation for the tax years 2015, 2016 and 2017 are **8,037%**, **6,685%** and **6,489%**, respectively

NOTIONAL INTEREST DEDUCTION

Example



- Profits reduced in operating country
- Any WHT in foreign country can be claimed as credit against the Cyprus tax
- The taxable income could be reduced up to 80% with the NID on new equity used in the business and thus small margin taxable in Cyprus at 12,5% (effective rate 2,5%)
- No withholding taxes on payments out of Cyprus
- The above could also be applied with a Cyprus trading or a royalty company



TAXATION OF OVERSEAS PE PROFITS

Profits from a **Permanent Establishment (PE)** abroad are exempt from tax irrespective of the existence of a DTT

The exemption does not apply if the Overseas PE:

- engages **directly or indirectly** by more than 50% in activities that lead to **investment income**
and
- the overseas tax burden on its income is **significantly lower** than the **Cyprus tax burden** (in practice less than 6,25%)



TAXATION OF OVERSEAS PE PROFITS

Where the overseas branch incurs losses, these losses can be used to offset against taxable profits of the Cyprus company, in the year they are incurred.

In future however, where the overseas branch becomes profitable, such profit, up to the amount of losses previously utilised, are included in the taxable profits of the Cyprus company. Double tax relief is available on this case.



PROFIT FROM DISPOSAL OF SECURITIES

Profit or gain from the disposal of securities is **exempt** from corporation tax

- Irrespective of whether the profit or gain is of a revenue or capital nature
- “Securities” means shares, bonds, debentures, founder’s shares and other securities of companies or other legal persons, incorporated under a law in the Republic or abroad and options thereon
- The term securities does not include promissory notes, financial instruments linked to products or precious metals or foreign currencies



OTHER PROVISIONS

Group relief

- Cyprus Tax Legislation provides, under certain criteria, for companies to utilise tax losses incurred by other group companies.

Unilateral relief

- Where a Cyprus tax resident person incurs double tax on the same income in a non-treaty jurisdiction, the Cyprus Tax Legislation provides for double tax relief unilaterally.



OTHER PROVISIONS

Exit tax

- Cyprus does not have any exit taxes.



Personal Tax Residency in Cyprus

Interpretation and Tax Base

Two concepts to consider:

- ☐ Tax residency
- ☐ Domicile



PERSONAL TAX RESIDENCY IN CYPRUS

- ☐ A tax resident of Cyprus is taxed on his world-wide income;

A tax resident and domiciled of Cyprus is taxed also on dividends and interest;

- ☐ A tax resident but non domiciled of Cyprus is taxed on world-wide income but dividends and interest are exempt;
- ☐ A non Cyprus tax resident (regardless of domicile) is taxed only on Cyprus sourced income.



TAX RESIDENCY AND DOMICILE

“Resident in Cyprus”

- ❑ When applied to an individual, means an individual who is present in Cyprus for a period or periods exceeding 183 days in a tax year;
- ❑ A tax year is a calendar year.

“Domiciled in Cyprus”

Any person has at any given time either:

- a) the domicile received by him/her at birth (**‘domicile of origin’**), or
- b) the domicile (not being the same as the domicile of origin) acquired or retained by him/her by his/her own act (**‘domicile of choice’**).



TAX RESIDENCY AND DOMICILE

“Domiciled in Cyprus”

For Cyprus tax purposes, however, a non-domiciled individual will be deemed as domiciled in Cyprus if he/she has been a Cypriot tax resident for at least **17 out of the last 20 years** prior to the relevant tax year (**deemed domicile rule**).

An individual who has a **domicile of origin** in Cyprus, may still qualify as non-domiciled subject to certain conditions, namely to have not been a Cyprus tax resident for a consecutive period of 20 years.



Income Tax Rates



TAX RATES

The Income tax rates for individuals are:

➤ Up to €19.500	0%
➤ From €19.501 to €28.000	20%
➤ From €28.001 to €36.300	25%
➤ From €36.301 to €60.000	30%
➤ Above €60.000	35%



Income subject to income tax



INCOME SUBJECT TO INCOME TAX

Income subject to personal income tax for Cyprus tax resident individuals

- ☐ World-wide income, including
 - ☐ Employment income (including director fees/remuneration);
 - ☐ Rental income;
 - ☐ Pensions (subject to conditions);
 - ☐ Any amounts of income payable in accordance with a court decision or in accordance with a term included in a will or agreement as well as an annuity.



Social Insurance Contributions



SOCIAL INSURANCE CONTRIBUTIONS

- ☐ The social security system in Cyprus is designed to provide benefits for unemployment, sickness, medical care, maternity, retirement, disability, death and various other events;
- ☐ The social insurance scheme is financed by contributions paid by the employer and the insured person. The main governing legislation is the Social Insurance Law;
- ☐ Social security contributions are payable on emoluments paid for services rendered in Cyprus.



SOCIAL INSURANCE CONTRIBUTIONS

Employer contributions are payable as follows:

<u>Fund</u>	<u>Rate (%)</u>
Social Insurance Fund	7.8
Redundancy Fund	1.2
Training Development Fund	0.5
Social Cohesion Fund	2.0

The maximum amount of monthly earnings on which the contributions are payable for the year 2016 is €4,533. The amount of the contributions to Social Cohesion Fund is calculated on the total emoluments with no upper limit.



SOCIAL INSURANCE CONTRIBUTIONS

Employees must contribute 7.8% of their salary up to a monthly ceiling of €4,533 (for 2016) to the Social Insurance Fund.

Self-employed individuals must contribute 14.6% on a notional income determined by the Ministry of Labour and Social Securities which varies according to the trade or profession of the self-employed individual.

Pensioners do not have to contribute to the social insurance scheme.



Main Exemptions and Deductions



MAIN EXEMPTIONS AND DEDUCTIONS

Employment income – 50% exemption

- ☐ 50% of remuneration is exempted from tax for an individual who was resident outside Cyprus before the commencement of the employment;
- ☐ Applies for 10 years starting from the first year of employment provided that the individual should not have been a Cyprus tax resident for at least 3 out of the last 5 years immediately prior to the year of employment and he/she should not have been a Cyprus tax resident in the last year immediately prior to the year of commencement of the employment.



MAIN EXEMPTIONS AND DEDUCTIONS

Employment income – 50% exemption

- ❑ The 50% tax exemption will be granted in any tax year in which the annual employment income of the qualifying individual exceeds €100,000, regardless if in a year during the 10-year period the employment income falls below €100,000;
- ❑ The 50% tax exemption applies 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.



MAIN EXEMPTIONS AND DEDUCTIONS

Employment income – 20% exemption

- ❑ 20% of the remuneration or €8,550 (whichever is the lower) of the remuneration from any office or employment of an individual who was resident outside Cyprus before the commencement of the employment.
- ❑ This exemption applies for a period of 5 years starting from the 1 January of the year following the year in which the employment in Cyprus commenced. It applies for tax years up to 2020 and is then abolished.



MAIN EXEMPTIONS AND DEDUCTIONS

Employment income – 90-day rule

- ☐ The whole remuneration from the rendering outside Cyprus of salaried services to a non - resident employer or to a permanent establishment outside the Republic of a resident employer for a total aggregate period in the year of assessment of more than 90 days is exempt from taxation.



MAIN EXEMPTIONS AND DEDUCTIONS

Overseas pension income

- ❑ Overseas pension income:
 - either
 - First €3.420 exempt , rest taxed at a flat rate of 5% or
 - Taxed under normal rates

The choice can be made every tax year



MAIN EXEMPTIONS AND DEDUCTIONS

Profit from disposal of securities

Profits or gains from the disposal of securities are exempt from tax.

The term securities **does not** include **promissory notes, financial instruments linked to products/commodities/loans or precious metals or foreign currencies.**

Those are **taxed** under the normal income tax rates.



MAIN EXEMPTIONS AND DEDUCTIONS

Dividend & Interest Income

☐ Dividend and Interest income

Exempt from income tax and special contribution for defence if received by Cyprus tax residents who are also non domiciled of Cyprus.



MAIN EXEMPTIONS AND DEDUCTIONS

Rental Income

- ❑ Rental income received by a Cyprus tax resident but non-domiciled
 - Taxable under personal income tax;
 - 20% allowance can be claimed every year on the gross rental income;
 - 3% capital allowances (wear and tear allowance) can be claimed on the cost of acquisition of the property, depending on the construction date;



MAIN EXEMPTIONS AND DEDUCTIONS

Rental Income

- ❑ Rental income received by a Cyprus tax resident but non-domiciled
 - Interest payable on mortgages used to acquire the rented property can be claimed;
 - Tax credit can be claimed against the Cyprus tax for any foreign tax paid on the rental income up to the amount of the Cyprus tax;



OTHER CONSIDERATIONS

Immovable property tax

- ☐ Immovable property tax is abolished as from 1 January 2017;
- ☐ Immaterial municipality taxes apply on immovable property held in Cyprus;



OTHER CONSIDERATIONS

Land Transfer Fees

Land transfer fees are paid on the transfer of immovable property located in Cyprus as follows:

€	%
0 - 85.000	3
85.000 - 170.000	5
170.000 and over	8

Currently a 50% exemption on the above rates is provided in specific cases.



OTHER CONSIDERATIONS

- ☐ **Inheritance tax**

Cyprus abolished inheritance tax on 31/12/1999.

- ☐ **Wealth tax**

Cyprus has no wealth taxes other than on immovable property situated in Cyprus.

- ☐ **Gift tax**

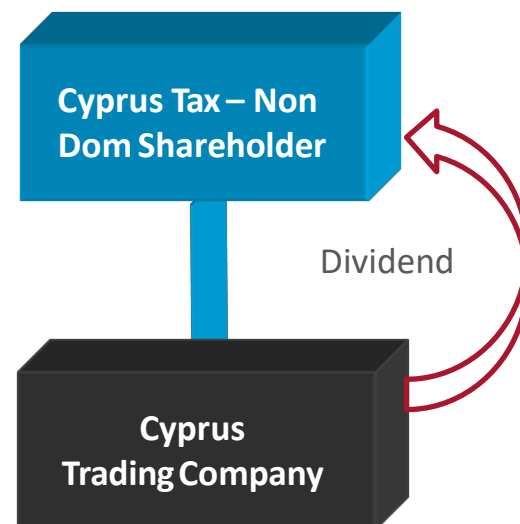
Cyprus does not tax gifts



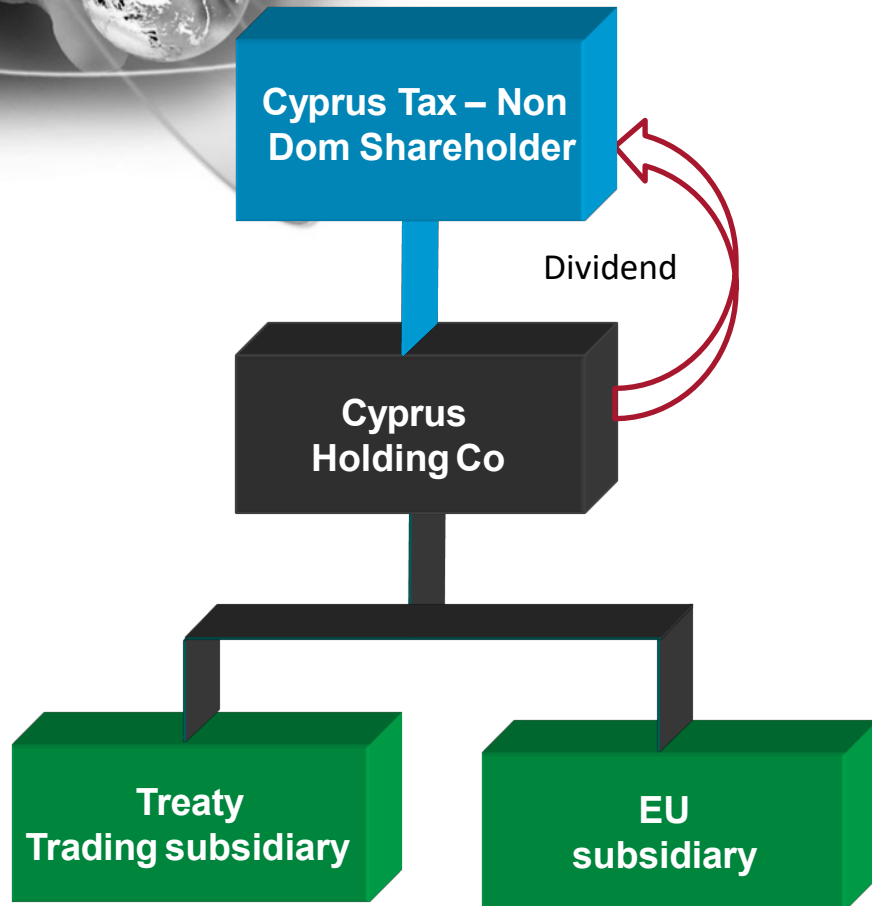
SOME TAX PLANNING IDEAS BY USING A CYPRUS TAX RESIDENT COMPANY

- No taxation on dividends
- Cyprus corporate tax at 12,5%

Cyprus Trading Company



SOME TAX PLANNING IDEAS BY USING A CYPRUS TAX RESIDENT COMPANY

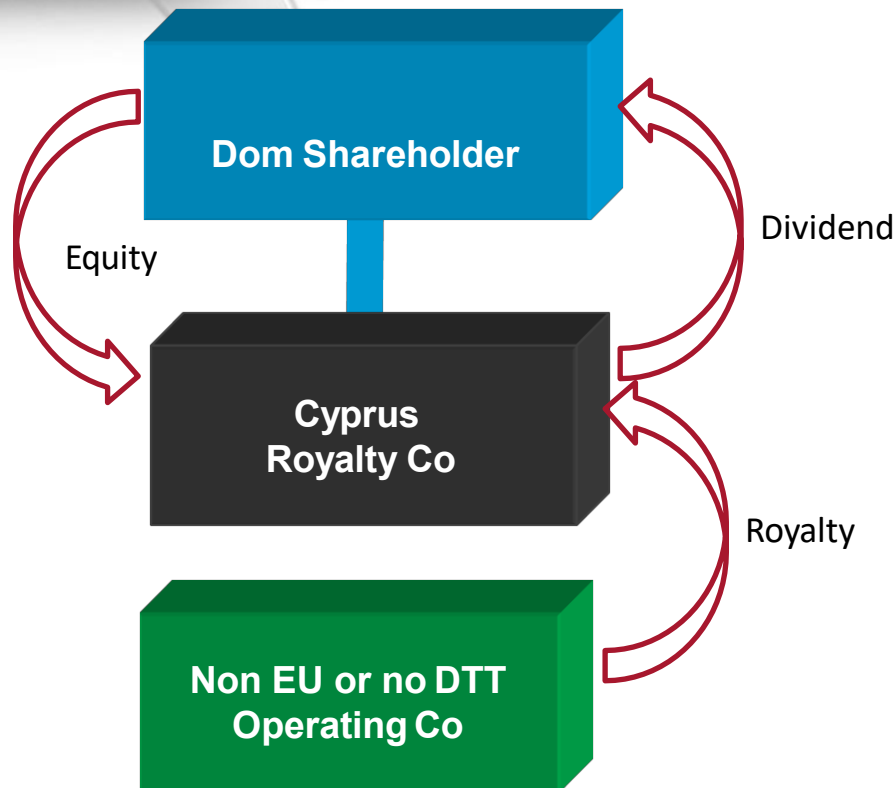


Holding Company

- ✓ dividend exempt from tax (subject to conditions)
- ✓ No tax on dividend payments to Cyprus tax but non-domiciled shareholders
- ✓ Wide Cyprus DTT network
- ✓ EU Parent Subsidiary Directive
- ✓ Result = 0% tax in Cyprus

SOME TAX PLANNING IDEAS BY USING A CYPRUS TAX RESIDENT COMPANY

Royalty Company



- Profits reduced in operating country
- Use of treaty network
- Credit relief in Cyprus for WHT in operating country if any
- The **royalty income** could be reduced with the NID on new equity used in the business and thus small margin taxable in Cyprus at 12,5% (effective rate 2,5% where the 80% deduction is used in full)
- No withholding taxes on payments to Cyprus tax resident and non-domiciled shareholders



How the relevant income will be taxed
if the individual becomes a Cyprus tax
resident and non-domiciled?



PRACTICAL APPLICATION

- For the individual to become a Cyprus tax resident, he must physically be present in Cyprus for more than 183 days in a tax year.
- If the individual will become a Cyprus tax resident, and since he does not have a domicile of origin from Cyprus, he will be considered as a Cyprus non domiciled.
- Consequently any dividends and interest to be received from anywhere in the world should be exempt from Cyprus taxation for at least 17 years;
- However, withholding taxes may apply in the source country;



PRACTICAL APPLICATION

- Any rental income to be received should be exempt from special contribution for defence for at least 17 years; However, withholding taxes may apply in the source country;

The rental income though should be subject to personal income tax (after deducting specific expenses and allowances);

- Tax credit is available for any taxes paid abroad against any personal income tax, provided that the relevant supporting documentation is in place and in Greek or English language;



PRACTICAL APPLICATION

- 20% or €8,550 (whichever is the lower) of any remuneration to be received from any office or employment exercised in Cyprus will be exempt from income tax until 2020. This exemption will apply the year following the year of employment.
- In case the remuneration from employment will exceed €100,000 a 50% tax exemption will be granted. This exemption will apply for 10 years.
- In case the individual will be rendering outside Cyprus salaried services to a non - resident employer or to a permanent establishment outside Cyprus of a resident employer for a total aggregate period in the year of assessment of more than 90 days, those salaries will be exempt from taxation.



PRACTICAL APPLICATION

- Any profit relating to the disposal of **shares** and **bonds** or any other financial instruments linked to equities should be exempt from taxation;
- Any profit relating to the disposal of immovable property located outside Cyprus should be exempt from taxation in Cyprus (although such profit may be subject to tax in the country where the immovable property is located);
- Social insurance contributions are only imposed on salary services and, therefore, if no salaries will be received from the individual no social insurance contributions will be payable;



PRACTICAL APPLICATION

- Transfer fees may be applicable on the acquisition of a property in Cyprus;
- Immovable property tax is abolished from 1 January 2017;



SUMMARY OF CYPRUS TAX BENEFITS APPLIED TO TAX RESIDENTS BUT NON-DOMICILED

Sources of Income*	Cyprus
Dividends	Exempt
Interest	Exempt
Rent	Taxable but allowances and tax credits apply
Profit from disposal of shares/bonds/equity instruments	Exempt
Owning of a foreign immovable property	Exempt
Disposal of a foreign immovable property	Exempt

*Income to be received from a resident but non domiciled individual

**Based on publicly available information



DISCLAIMER

The conclusions and recommendations contained in this report are based on our understanding of the facts, assumptions, information and documents provided to us and mentioned herein and the current tax laws and tax regulations in effect as of the date of this report. If the facts and assumptions are incorrect or change or the tax laws and regulations are amended, the conclusions and recommendations would likewise be subject to change. We assume no obligation to update the report for any future changes in tax laws, regulations, or other interpretations and do not intend to do so.

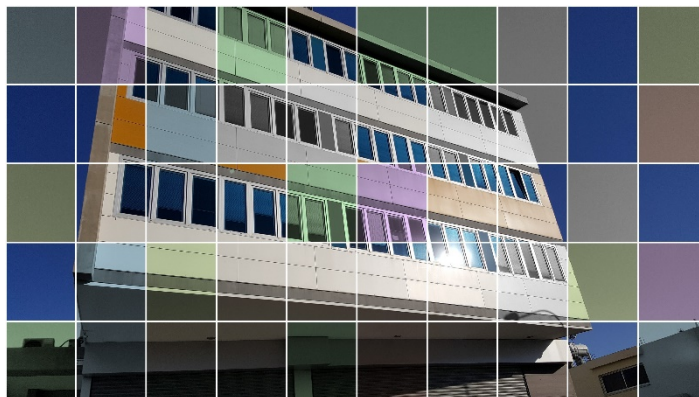
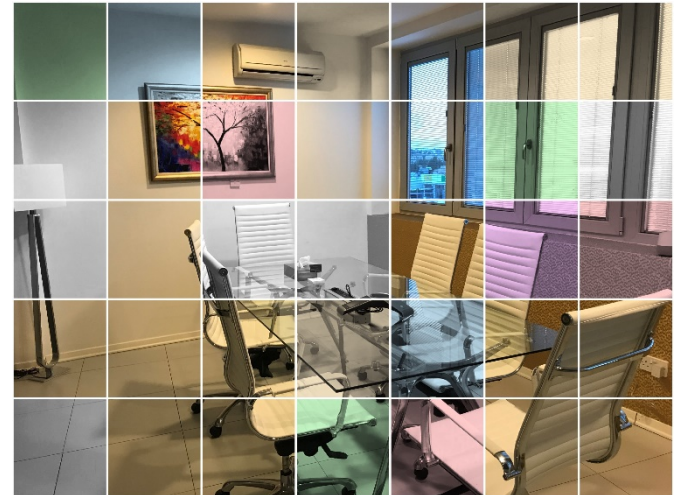
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