Why Cyprus

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Why Cyprus

- Modern tax regime acceptable by the European Union
- One of the lowest corporate tax rate in Europe of 12,5%
- Exemption on dividends
- Exemption of withholding tax
- Exemption on capital gains tax
- Wide treaty network and use of EU Directives
- Added commercial value and monetary benefits due to ability to register for VAT
- International business center

Tax incentives

Some of the main incentives are as follows:

(a) low corporation tax of rates at 12,5%

(b) non-resident entities are only taxed on their Cyprus-sourced income

(c) no withholding tax on payments to non-residents

(d) restructuring legislation in line with the EU Merger Directive extending to companies in non-EU countries.

(e) VAT rate of 18% (19% as from 13 January 2014)

(f) profit from sale of securities is exempt

Cyprus Corporate Tax Rates

Cyprus corporation tax rate is 12,5% for Companies.

A Cyprus resident company is subject to corporation tax on its worldwide income. Non-resident companies are subject to corporation tax only on profits derived in the Republic. Resident companies are those companies whose management and control is exercised from Cyprus.

Capital Gains Tax

Gains in respect of the sale of immovable property situated in Cyprus (including shares of a company whose assets include such immovable property) are subject to Capital Gains Tax. Both residents and non residents are subject to capital gains tax if they own immovable property in Cyprus. The applicable rate on the taxable income is 20%. No tax is levied in respect of immovable property situated abroad. No tax is levied on capital gains in respect of profits on disposal of shares of companies (other the ones which own immovable property).

Branches managed and controlled from Cyprus are taxed as a resident company.

Certain benefits such as use of cars for private purposes, rent, school fees etc are considered as benefits in kind and taxed accordingly.

Determination of Taxable income

Resident companies pay taxes on their net taxable profits. These are determined by pooling their worldwide income and deducting allowable expenses, charges and capital allowances. Non-resident companies pay taxes on their Cyprus-sourced income only.

Capital Allowances

Annual wear and tear allowances are allowed on various assets including plant and machinery; fixtures and fittings; commercial vehicles; hotels; commercial buildings; industrial buildings; computer hardware and software; and loose tools. Allowances range from 3% to 33% per annum. No capital allowances are given for saloon cars.

Depreciation

Depreciation included in the financial statements of entities is disallowed for tax purposes, as capital allowances are given instead. For accounting purposes, depreciation rates applied are those which write-off the assets over their useful life.

Capital Gains and Losses

Capital gains are computed separately and do not form part of the annual taxable income for corporation tax purposes. Indexation allowance is available for the determination of the taxable gains and losses. Capital losses can be offset against capital gains for the same fiscal year.

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Dividends

Dividends receivable are exempt from tax.

The exemption (i.e. no tax) will not apply only when:

a) more than 50% of the foreign paying company's activities result directly or indirectly in investment income, and
b) the foreign tax is significantly lower than the tax burden in Cyprus, i.e. less than 5%.

When the exemption does not apply, the dividend income is subject to special contribution for defence at that rate of 20%.

Interest Deduction

Interest expense is deductible if the borrowing is wholly and exclusively for the purposes of producing income. Interest paid to a connected party is a deductible expense.

Losses

Tax losses could have been carried forward until their final write off.

However, according to the Amendment effective from 21 December 2012, as from the tax year 2012 onwards, the chargeable income of each year can be set off against the tax losses of the five previous years only. This means that the chargeable income of year 2012 can only be set off with the tax losses of 2007 to 2011.

Losses from overseas activities can be set off against chargeable income for the year and can be carried forward.

The loss from a permanent establishment abroad is set off first against profits from other permanent establishments aboard for the same year. The remaining loss is set off with the chargeable profit from the other activities of the same year and can be surrendered to other companies of the Group. Any amount of such losses not set off in a year can be carried forward to the following five years to be set off first against profits from permanent establishments abroad and then against other activities.

If, within any period of three years, there is both a change in the beneficial ownership of a company and a major change in the nature of trade and, at any time before the change of ownership the activities in the trade become small or negligible, then no trading losses incurred prior to the change in ownership are allowed.

Foreign Tax Relief

Foreign tax paid on income of a Cyprus resident company is credited against the Cyprus tax, subject to Double Tax treaty conditions. In the absence of a tax treaty, the tax paid in a non-treaty country is normally allowed as a deductible expense. Tax paid is credited only if a similar concession is given to Cyprus companies in that particular country. The foreign tax relief cannot exceed the Cyprus tax on these profits.

Corporate Groups

Group loss relief is available to a group of Cyprus resident companies in relation to current year losses. The current year loss of one company can be set-off against the profits of another within the same tax year provided that both are within the same group. Two companies will be considered within the same group if one company holds 75% of the voting share capital or distributable profits of the other, or both companies are 75% subsidiaries of a third company. The 75% rule must be in existence within the whole tax year.

Related Parties Transactions

Transactions between related parties do not need to be adjusted for tax purposes as long as they are on 'an arm's length' basis.

Withholding Taxes

Resident companies must withhold taxes on certain royalty payments depending on the rates provided in any tax treaty. Cyprus has entered into double tax treaties with over 40 countries. Non-resident companies have no obligation to withhold taxes on any payments they make.

Resident companies withhold special contributions to the defense fund of the Republic on dividends paid to resident individuals at the rate of 20%. Dividends paid to nonresident shareholders are not subject to withholding tax.

Interest income is subject to a withholding contribution to the defense fund of 15% (10% up to 30 August 2011). If interest is received from abroad, such income is assessed as above at 15%.

Where interest is considered as profit close to the ordinary activities of the company, then such type of income is considered as trading profit and not interest. Hence it is not subject to defense contribution. Examples include financing and insurance companies etc.

Deemed Distribution

Companies which do not distribute 70% of their profits after tax, as defined by the Special Contribution for the Defence of the Republic Law, during the two years after the end of the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividend. Special contribution for defence at 20% for the tax years 2012 and 2013 and 17% for 2014 and thereafter (in 2011 the rate was 15% up to 30 August 2011and 17% thereafter) will be payable on such deemed dividend to the extent that the owners (individuals and companies) at the end of the period of two years from the end of the year of assessment to which the profits refer are Cyprus tax residents. The amount of this deemed dividend distribution is reduced by any actual dividend paid out of the profits of the relevant year at any time. This special contribution for defence is paid by the company for the account of the shareholders.

Disclaimer

The above information is only a brief description of the provisions of the relevant Law up to the date of publication of this Memo and in no way is exhaustive. Further professional advice should be sought for each particular case. Our firm does not accept any responsibility for any loss or damage occurring by acting on the basis of this information.

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