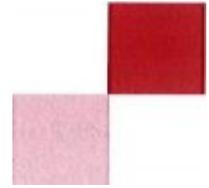


Cyprus

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1. What are the main taxes (including tax rates)?

Most taxes are levied by the central government. The tax year for companies and individuals is the calendar year. The main taxes (with rates for 2003-2004) are:

- **Capital gains tax.** This tax is charged on disposals of real property in Cyprus and shares in companies owning real property in Cyprus by Cypriot tax residents. The base date for calculating the acquisition cost of real property is 1st January, 1980 or later acquisition. The tax rate is 20% of the chargeable gain as adjusted for inflation unless the gain is already liable to corporation tax, but certain lifetime exemptions apply to individuals for the disposal of agricultural land and main residence.
- **Corporation tax.** This tax is charged on the worldwide income profits of a company's business and gains on trading investments in Cypriot real property, at 10% for local and new international companies, if the company is resident in Cyprus. A company is resident if it is managed and controlled in Cyprus. Existing international companies may, under certain conditions, be taxed at 4.25% until 2005. A non-resident company will only be taxed on its Cyprus-source income.

A company must also pay 2% of its employees' wages to a new social cohesion fund to be used to make social grants.
- **Defence levy.** Until 2002, a special contribution for the defence of the Republic of Cyprus (defence levy) was charged on all incomes, earned and unearned, and used for the defence budget. From 2003, the levy will be paid only by residents of Cyprus on unearned income, at 15% on dividends, 10% on interest and 3% on rents.
- **Employment tax.** Under a social insurance scheme, employers and employees each contribute 6.3% of an employee's earnings up to a maximum of CYP 1,785 (about US\$3,051) per month and the government pays a further 2% for private employees (4% for others) (a total tax rate of 14.6%). Self-employed persons contribute 11.6% and the government pays 4%. Voluntary contributions are levied at 13.5% on insurable income; the contributor pays 10% and the government pays 3.5%.
- **Real property tax.** An annual tax is levied on the value of real property (defined as land and buildings, trees and plantations, rivers, wells and all rights relating to land and buildings) assessed on 1st January, 1980 on registered owners. Real property is taxed progressively as follows:

 - up to CYP100.000 (about US\$170,920) is taxed at 0%;
 - the next CYP150.000 (about US\$256,380) is taxed at 0.25%;
 - the next CYP250.000 (about US\$427,300) is taxed at 0.35%; and
 - CYP500.001 (about US\$854,602) and above is taxed at 0.4%.

Real property owned by the government, local authorities, the Church or foreign countries and farmland are exempt from real property tax. Real property is also subject to municipal or village rates, sewerage fees and refuse collection charges.
- **Income tax.** This tax is charged on worldwide income received by individuals who are resident in Cyprus. A person is resident in Cyprus if he or she is in Cyprus for more than 183 days a year. Income will be progressively taxed at between 20% and 30% from a threshold of CYP9.000 (about US\$15,383) (CYP10.000 (about US\$17,092) from 1st January, 2004).

Non-resident individuals will be taxed on their Cyprus-source income.

Personal allowances and deductions have been abolished, except relief allowed for life insurance premiums and contributions to pension funds and social security and welfare funds (*see also Question 5*). Relief may also be available under a double tax treaty.
- **Property transfer fees.** This tax is payable on the transfer of real property by the buyer on either the purchase price or, under certain circumstances, on the current market value. The rates are as follows:

 - 3% up to CYP50.000 (about US\$85,460);
 - 5% between CYP50.001 (about US\$85,462) and CYP100.000 (about US\$170,920); and
 - 8% on CYP100.001 (about US\$170,922) and above.

- Stock transfer fees. This tax is payable on the sale of shares quoted on the Cyprus Stock Exchange, at the rate of 0.6% on sales by individuals and 1% on sales by legal entities.
- Value added tax (VAT). VAT is payable on:
 - the supply of goods or services in Cyprus;
 - the import of goods to Cyprus; and
 - the notional provision in Cyprus of services received from abroad, whereby professional services supplied abroad are deemed to have been supplied by the recipient who must account for VAT on them.

Any person whose turnover exceeds CYP9,000 (about US\$15,383) per annum must register for VAT. International companies are exempt from registration but may register provided they maintain an office in Cyprus. A registered person can reclaim input tax (VAT paid) on goods or services supplied to him or her except where his or her business makes exempt supplies (such as financial services). If the supply is zero-rated (for example, books and children's clothes), no VAT is chargeable but it is treated in all other respects as a taxable supply and input tax can be reclaimed. The standard rate is 15%.

DOUBLE TAX TREATIES

2. Does your country have a wide network of double tax treaties?

Cyprus has double tax treaties with 35 countries including China, India, Russia, the UK, the US and many EU and Central and Eastern European countries. It is currently negotiating an additional 23 treaties.

BRANCHES AND SUBSIDIARIES OF FOREIGN COMPANIES

3. How are branches of foreign companies trading in your country taxed?

The Cypriot branch of a foreign company will be taxed at 10% on its worldwide income if the management and control of the branch is in Cyprus. Where management and control of the branch is overseas, it is exempt from the payment of tax.

Non-resident companies are liable to corporation tax on income profits accruing or arising in Cyprus from a permanent establishment in Cyprus.

4. How are subsidiaries of foreign companies taxed in your country?

A subsidiary, whether incorporated in Cyprus or not, will only be subject to Cypriot corporation tax on its worldwide income if it is managed and controlled in Cyprus, or on income profits accruing or arising in Cyprus from a permanent establishment in Cyprus.

SECONDED EMPLOYEES

5. How are employees of foreign companies that are seconded to your country from abroad taxed?

An employee of a foreign company seconded to Cyprus from abroad for a period or periods exceeding 183 days a year will be treated as a Cypriot resident for tax purposes and will be liable to Cypriot income tax on his or her worldwide income (*see Question 1*).

Income arising from services provided by a Cypriot tax resident to a foreign permanent establishment of his or her resident employer or to a non-resident employer outside Cyprus will be exempt from Cypriot income tax providing that the aggregate period of his or her visits abroad is not less than 90 days in a year.

The emoluments of a tax resident employee, who was resident outside Cyprus before the start of his or her employment, arising from Cyprus are eligible for annual tax relief of 20% or CYP5,000 (about US\$8,546), whichever is the lower, for a period of three years from the 1st January following the year in which the employment starts.

DIVIDENDS, INTEREST AND ROYALTIES

6. How are dividends paid by a company that is tax resident in your country to a foreign shareholder taxed?

Dividends paid by a company that is tax resident in Cyprus to a shareholder are not subject to a non-resident withholding tax, defence levy or any other tax (*see Question 7*).

7. How are dividends received from a foreign company taxed in the hands of a tax resident parent company?

Dividends received by a resident parent company from a non-resident subsidiary company are exempt from the defence levy if the shareholding in the latter is at least 1%. This is in accordance with the EC Parent Subsidiary Directive. The exemption does not apply if:

- Investment income exceeds 50% of the paying company's activities; and
- The foreign tax burden on the income of the paying company is substantially lower than the Cypriot tax burden.

Relief or credit may be available under the double tax treaties for dividends that have already been taxed abroad.

8. How is interest paid by a company that is tax resident in your country to a foreign company taxed? Are interest payments tax deductible?

Interest paid by a company that is tax resident in Cyprus to a foreign company is not subject to a withholding tax. Such interest payments are tax deductible.

9. How are intellectual property royalties paid by a company that is tax resident in your country to a foreign company taxed?

Intellectual property royalties paid by a company that is tax resident in Cyprus to a foreign company are liable to a 10% withholding tax, subject to relief under any applicable double tax treaty. If the rights are used outside Cyprus, no withholding tax applies.

GROUPS

10. Are there any grouping rules relating to trading losses?

Yes, losses can be surrendered by one Cypriot group company to another providing that both companies are resident in Cyprus and there is a 75% group relationship. A group relationship exists where one company is a subsidiary of the other or both are subsidiaries of a third, and they hold at least 75% of the voting shares and are beneficially entitled to at least 75% of the income and assets of the subsidiary on liquidation (group relief). The losses may be offset against the total income of the claimant company. Losses incurred abroad, whether from a permanent establishment or not, may only be offset against other income of the company and any unrelieved losses may be offset against future income.

11. Are there any grouping rules relating to capital gains?

No, there are no grouping rules relating to capital gains.

12. Are there any circumstances in which profits of an overseas subsidiary could be attributed to a parent company in your country?

No, there are no circumstances in which profits of a foreign subsidiary could be attributed to a parent company that is tax resident in Cyprus.

TRANSFER PRICING

13. Does your country have transfer pricing rules?

Yes, Cyprus has incorporated into its tax law the EC convention on the adjustment of profits of associated enterprises (90/436/EC).

Under the arm's length principles, profit that would have accrued to a business but did not as a result of the following conditions may be included in the profit of that business and taxed accordingly:

- Where a Cypriot business participates directly or indirectly in the management, control or capital of a business of another person, or of two or more businesses; and
- Conditions are made or imposed between the two businesses in their commercial or financial relations which differ from those which would be made between independent businesses.

ACQUISITIONS AND DISPOSALS

14. Are transfer taxes payable on the sale of shares in a private company or its underlying assets? What are the applicable rates?

Stamp duty is payable by the buyer on the sale of shares in a private company or its underlying assets, either on a sliding scale based on the monetary consideration or as a fixed sum if there is no such consideration.

If real property is among the assets sold, property transfer fees will also be payable by the buyer (*see Question 1*).

15. Can transfer taxes be reduced or avoided?

No, transfer taxes cannot be reduced or avoided.

16. Are capital gains taxes potentially payable on the sale of shares or assets? What are the applicable rates?

Capital gains tax is not payable on the sale of shares of companies listed on the Cyprus Stock Exchange.

Capital gains tax is potentially payable on the sale of real property in Cyprus and shares in companies owning real property in Cyprus by persons resident in Cyprus. The tax rate is 20%, unless the gains are already liable for corporation tax and certain exemptions apply (*see Question 1*).

17. Is there any way of reducing or avoiding liability to capital gains taxes on a disposal?

"Rollover" relief is available in the case of a company merger or acquisition if the proceeds of the sale of real property used as a business asset are utilised towards the purchase price of other

real property of higher value. The taxes are deferred until the sale of the second property.

18. Are any other taxes potentially payable on the sale of shares or assets?

VAT at the rate of 15% is payable on the sale by registered persons of all assets except real property.

19. Is goodwill arising on an acquisition tax deductible?

No, goodwill arising on an acquisition is not tax deductible. However, income or corporation tax is chargeable on the sale price of goodwill, reduced by its acquisition cost.

IMPORTS AND EXPORTS

20. How are imports and exports taxed?

Imports. Imports are subject to customs duty, excise duty and VAT payable at the point of importation. Different rates apply according to whether the goods come from inside or outside the EU. Some goods, for example, plant and machinery, are exempt. Cypriot international business entities currently receive preferential treatment.

Exports. Exports are considered as traded inside Cyprus. They are subject to VAT but are generally zero-rated.

INTERNET TRANSACTIONS

21. Are there any specific tax rules relating to internet transactions?

No, there are no specific tax rules relating to internet transactions.

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