



**2014
CYPRUS
TAX BOOK**

**M.P. MULTI-COUNT SERVICES LTD
CERTIFIED PUBLIC ACCOUNTANTS**

The Cyprus tax book is intended to provide a general guide only to the subject matter and is based on taxation law as at January 2014. It should not be regarded as a basis for ascertaining the liability to tax in Specific circumstances. Professional advice should always be taken before acting on any information in the booklet.

CONTENTS

CONTENTS	PAGES
PERSONAL INCOME TAX	4-7
<u>Basis of Taxation</u>	4
<u>Tax residency</u>	4
<u>Personal tax rates</u>	4
<u>Exempt income</u>	5
<u>Allowable deductions</u>	6-7
<u>Special Contribution</u>	7
COMPANY INCOME TAX	8-10
<u>Company Definition</u>	8
<u>Basis of Taxation</u>	8
<u>Tax residents</u>	8
<u>Corporation tax rates</u>	8
<u>Exempt income</u>	9
<u>Deductions</u>	9-10
ANNUAL CAPITAL ALLOWANCES	11
LOSSES CARRIED FORWARD	12
SPECIAL CONTRIBUTION FOR DEFENCE	13-14
DEEMED DIVIDEND DISTRIBUTION	14-15
CAPITAL GAINS TAX	16-17
IMMOVABLE PROPERTY TRANSFER FEES	18
STAMP DUTY	19
VALUE ADDED TAX	20-26
<u>Imposition of Tax</u>	20
<u>Mechanics of VAT</u>	20
<u>Refund of VAT</u>	20
<u>Changes to VAT as from 1/1/2010</u>	21
<u>VAT rates and exempt supplies</u>	22
<u>Imposition of the reduced rate of 5% acquisition/construction</u>	23
<u>Grant for acquisition of first residence</u>	24
<u>Difference between zero and exempt supplies</u>	25
<u>Irrecoverable input VAT</u>	25
<u>Registration</u>	25
<u>VAT Declaration-Payment of VAT</u>	26
SOCIAL INSURANCES	27
TAX DIARY	28-29

PERSONAL INCOME TAX

BASIS OF TAXATION

Individuals who are Cyprus tax residents are subject to tax on their worldwide income, whether remitted to Cyprus or not.

Individuals who are non-Cyprus tax residents are taxed on income accrued or derived from sources in Cyprus.

TAX RESIDENCE

For Cyprus tax purposes a “Cyprus tax resident” means:

An individual who, in the year of assessment (calendar year), stays in the Republic of Cyprus for a period or periods exceeding in aggregate 183 days.

Days in and out of Cyprus are calculated as follows:

- (a) the day of departure from Cyprus is taken as a day of residence outside Cyprus
- (b) the day of arrival in Cyprus is taken as a day of residence in Cyprus
- (c) arrival in and departure from Cyprus on the same day is taken as a day of residence in Cyprus
- (d) departure from and arrival in Cyprus the same day is taken as a day of residence outside Cyprus.

PERSONAL TAX RATES FOR 2014

Taxable income	Tax rate
For every Euro to €19.500	0%
For every Euro over €19.501 to €28.000	20%
For every Euro over €28.001 to €36.300	25%
For every Euro over €36.301 to €60.000	30%
For every Euro over €60.000	35%

Foreign pension is taxed at the rate of 5%. An annual exemption of €3.420 is granted.

PERSONAL INCOME TAX

EXEMPT INCOME

Type of income	Limit
Profits on disposal of Securities*	Unrestricted
Widow pensions under the Social Insurance Law or under an approved scheme	Unrestricted
Dividend income	Unrestricted **
Interest income	Unrestricted **
Emoluments received from employment exercised in Cyprus by individuals who were non-residents of Cyprus before the commencement of employment, for a period of 3 years commencing from 1 January following the year of commencement of employment.	20% of emoluments, with a maximum of €8.550
Remuneration from any office or employment exercised in Cyprus by an individual who was not a resident of Cyprus before the commencement of his employment, for a period of 5 years for employments commencing as from 1 January 2012 if the annual remuneration exceeds €100.000.	50% of income
Remuneration from salaried services rendered outside Cyprus for more than 90 days in a tax year to a non-Cyprus resident employer or to a foreign permanent establishment of a Cyprus resident employer	Unrestricted
Capital sums received in respect of eligible life insurance policies or provident, pension and other funds	Unrestricted
Lump sum received by way of retiring gratuity, commutation of pension, death gratuity or compensation for death or injuries	Unrestricted

*The term "Securities" is defined as shares, bonds, debentures, founders' shares and other securities of companies or other legal persons, incorporated in Cyprus or abroad and options thereon. A circular has been issued by the Tax Authorities in 2008 further clarifying what is included in the term Securities. According to the circular the term includes, among others, options on Securities, short positions on Securities, futures/forwards on Securities, swaps on Securities, depositary receipts on Securities (ADRs, GDRs), rights of claim on bonds and debentures (rights on interest of these instruments are not included), index participations only if they result on Securities, repurchase agreements or Repos on Securities, units in open-end or close-end collective investment schemes). The circular also clarifies specific types of participation in foreign entities which are considered as Securities.

** Such dividends and interest income is subject to Special Contribution for Defence.

PERSONAL INCOME TAX

ALLOWABLE DEDUCTIONS

Description	Amount permitted
Life insurance premiums, contributions to the social insurance fund and to approved provident, pension, medical or other funds	1/6 of the taxable income before this allowance is deducted and for life insurances 7% of the insured amount
Annual contributions to trade unions or professional bodies	100%
Donations to approved charitable institutions	100%
Rental income if the rented property is a building	20% of gross rental income
All expenses incurred wholly and exclusively for the production of income	100%
Expenses relating to private saloon cars, such as fuel, maintenance costs etc	NIL
Expenditure for the maintenance of buildings under preservation order	Up to €1.200, €1.100 or €700 per square meter (depending on the size of the building)
Interest on capital used to acquire rented properties	100%

ALLOWABLE DEDUCTIONS –CONTINUED

Life insurance policies, in respect to the life of the claimant's spouse, which were in existence up to the 31 December 2002 and for which the claimant was receiving a tax allowance, will continue to be deductible by the claimant

In the event of cancellation of a life insurance contract within 6 years from the date it was entered into, part of the life insurance premiums already given as an allowance will be taxable as follows:-

Cancellation within 3 years 30%

Cancellation between 4 to 6 years 20%

Special Contribution

The following Special Contributions are payable according to monthly income for 2014:

Gross monthly emoluments from employment / pension €	Government and semigovernment employees and pensioners	Private sector employees, selfemployed individuals and private sector pensioners (2) (3) (4)
0 – 1.500	nil	nil
1.501 – 2.500	2,5%(1)	2,5%
2.501 – 3.500	3,0%(1)	3,0%
Over 3.500	3,5%(1)	3,5%

Notes:

1. The Special Contribution rate becomes 3%, 3,5% and 4% respectively for highly ranked civil service officials/ employees within their respective scale.
2. In the case of private sector employed individuals and private sector pensions the Special Contribution relates to services rendered in Cyprus. In the case of self-employed individuals the Special Contribution relates to any business carried on in Cyprus.
3. For private sector employed individuals the Special Contribution does not apply, inter alia, on retirement gratuities, on payments from approved provident funds, on remuneration of the crew of qualifying ships and on reimbursements of business expenses.
4. In the case of private sector employed individuals the recipient of the remuneration is liable for half the Special Contribution

COMPANY DEFINITION

“company” has the meaning given to this term by the Companies Law and includes any body with or without legal personality, or public corporate body, as well as every company, fraternity or society of persons, with or without legal personality, including any comparable company incorporated or registered outside the Republic and a company listed in the First Schedule but it does not include a partnership.

BASIS OF TAXATION

All companies tax resident of Cyprus are taxed on all 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.

TAX RESIDENTS

Companies are considered as residents of Cyprus if they are managed and controlled in Cyprus. Companies not managed and controlled in Cyprus are not considered as residents of Cyprus. The following factors will be important in deciding where management and control is located:

- The place where board meetings are held
- The place where strategic decisions are taken
- The place where the majority of the board of directors reside
- The maintenance of an office from which the company operates
- The place from where the bank accounts are operated

CORPORATION TAX RATES

Companies other than public corporate bodies	12,5%
Public corporate bodies	25%
Insurance companies	Minimum tax 1.5% of Gross amount of premiums

COMPANY TAXATION

EXEMPT INCOME

Type of income	Limit
Dividend income	100%
Profits from the sale of securities	100%
Interest not arising from the ordinary activities or closely related to the ordinary activities of the company	100%
Profits of a permanent establishment abroad, under certain conditions	100%

DEDUCTIONS

Type of income	Amount permitted
Interest expense incurred for the direct or indirect acquisition of 100% of the share capital of a subsidiary company will be treated as deductible for income tax purposes provided that the 100% subsidiary company does not own (directly or indirectly) any assets that are not used in the business. If the subsidiary owns (directly or indirectly) assets not used in the business the interest expense deduction is restricted to the amount which relates to assets used in the business. This applies for acquisitions of subsidiaries from 1 January 2012.and	The whole amount of interest expense if the subsidiary does not own (directly or indirectly) any assets not used in the business. A restricted amount of interest expense if the subsidiary owns (directly or indirectly) assets not used in the business.
80% of the net royalty income from owned intangible assets as well as 80% of the net profit emanating from the disposal of intangible assets 'intangible assets' includes copyrights, patents and trademarks. Additionally any expenditure of a capital nature incurred for the acquisition or development of such intangible assets may be claimed as a tax deduction in the year in which it was incurred and the immediate four following years on a straight line basis.	80%

DEDUCTIONS-CONTINUED

Type of income	Amount permitted
Employer's contributions to social insurance and approved funds on employees' salaries	100%
Donations to any approved charitable institution	100%
Expenditure for the maintenance of buildings under 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	1% of turnover up to a maximum of €17,086
Expenses incurred wholly and exclusively in earning the income of the business	100%
Expenses relating to private saloon cars, such as fuel, maintenance costs etc	0%
Interest attributable to the acquisition of assets not used in the business.	0%
Interest attributable to private saloon cars used in the business.	NIL for the first 7 years and 100% thereafter
Expenditure for the acquisition of patent rights, or intellectual property rights	100%
Interest incurred on the acquisition of a fixed asset which is used in the business. Shares and other securities are not considered as assets used in the business, therefore any interest expense incurred for the acquisition of such assets is not deductible.	100%
Expenditure incurred for the repair of buildings, machinery, installations and commercial transport means	100%
Interest paid in respect of buildings let out	100%

ANNUAL WEAR AND TEAR ALLOWANCES

The annual straight-line tax wear and tear allowances which are calculated on the acquisition cost of fixed assets, are as follows:

	Rate
Buildings	
Commercial buildings and flats	3%
Industrial, agricultural, hotels, tourist villages, tourist projects such as golf courses and camping places, tourist apartments and villas	4%
Huts, sheds, metallic frame of greenhouses	10%
Timber frame of greenhouses	33 1/3%
Situated in the buffer zone or Turkish occupied area	7%
Machinery and equipment	
General	10%
Furniture and fittings	10%
Farming, animal husbandry	15%
Computer hardware and operating software	20%
Vehicles	
Private saloon cars	Nil
Taxis, trucks, dumpers, buses, minibus over 8 persons, pick-up, vans and motorcycles	20%
Tractors, excavators, trenches, cranes, bulldozers	25%
Ships	
Sailing vessels, lighters	4,5%
Steamers, tugs, trawlers	6%
Ship motor launches	12,5%
Second-hand vessels	By special agreement
Second-hand cargo and passenger ships and additions thereon	Remaining useful life
New cargo ships	8%
New passenger ships	6%
Loose tools	
Loose tools	33 1/3%
Video tapes of video clubs	
Video tapes of video clubs	50%
Application software	
Cost of acquisition in excess of CY£1.000	33 1/3%
Cost of acquisition lower than CY£1.000	100%

LOSSES CARRIED FORWARD

LOSSES CARRIED FORWARD

The tax loss incurred during a tax year and which cannot be set off against other income, is carried forward subject to conditions and set off against the profits of the next five years.

The current year loss of one company can be set off against the profit of another provided the companies are Cyprus tax resident companies of a group.

Group is defined as:

- (a) One company holding at least 75% of the shares of the other company.
- (b) 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.

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:

	Tax rates	
	Individuals	Legal entities
Dividend income from Cyprus resident companies	17% ¹	Nil ¹
Dividend income from non-Cyprus resident companies	17%	NIL ²
Interest income arising from the ordinary activities or closely related to the ordinary activities of the business	NIL ³	NIL ³
Other interest	30% ⁴	30% ⁴
Rental income (reduced by 25%)	3%	3%
Profits of semi-government organisations	N/A ⁴⁺⁵	3% ⁴⁺⁵

Notes:

1 Dividends declared by a Cyprus tax resident company to another Cyprus tax resident company after the lapse of four years from the end of the year in which the profits were generated are subject to 17% defence contribution. Dividends which emanate directly or indirectly out of such dividends on which special contribution for defence was previously suffered are exempt.

2 Dividend income from abroad is exempt from defence fund contribution.

This 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 burden in Cyprus. The tax authorities have clarified through a circular that

“Significantly lower” means a tax burden rate below 5%

When the exemption does not apply, the dividend income is subject to special contribution for defence at the rate of 17%.

3. Such interest income is subject to personal income tax / corporation tax.

4. Interest income from Cyprus government savings bonds and development bonds and all interest earned by a provident fund is subject to special contribution for defence at the rate 3% (instead of 30%).

In the case where the total income of an individual (including interest) does not exceed €12.000 in a tax year, then the rate is reduced to 3%.

SPECIAL CONTRIBUTION FOR DEFENCE

When the tenant is a Cyprus company, partnership, the state or local authority Special contribution for defence on rental income is withheld at source and is payable at the end of the month following the month in which it was withheld. In all other cases the special contribution for the defence on rental income is payable by the landlord in 6 monthly intervals on 30 June and 31 December each year.

For interest and dividends paid to Cyprus tax residents any defence due is withheld at source and is payable at the end of the month following the month in which they were paid.

However, special contribution for defence on dividends, interest and rental income from abroad is payable in 6 month intervals on 30 June and 31 December each year.

5. Rental income is also subject to personal income tax / corporation tax. Foreign taxes paid can also be credited against the defence tax liability.

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 (net of corporation tax, special defence contribution, capital gains tax and foreign taxes and 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 (3% on deemed dividend distribution of Collective Investment Schemes)
- Deemed distribution is reduced with payments of actual dividends which have already been paid during the relevant year or paid during the two following 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 dividend paid over and above the dividend that was previously deemed to had been distributed.

Disposal of assets to shareholder at less than market value

When a company disposes of an asset to an individual shareholder or a relative of his up to second degree or his spouse for a consideration less than its market value, the difference between the consideration and the market value will be deemed to have been distributed as a dividend to the shareholder. This provision, does not apply for assets originally gifted to the company by an individual shareholder or a relative of his up to second degree or his spouse.

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% (3% for Collective Investment Schemes).

This provision does not apply in the case of dissolution under a Reorganisation.

Reduction of capital

In the case of a reduction of capital of a company, any amounts paid or due to the shareholders over and above the paid up share capital will be considered as dividends distributed subject to special defence contribution at the rate of 17% (20% for 2013) after deducting any amounts which have been deemed as distributable profits.

The above provisions apply only to the extent that the ultimate shareholders (direct or indirect) are Cyprus tax resident individuals.

The redemption of units or shares in a Collective Investment Scheme is not subject to the above provisions.

CAPITAL GAINS TAX

Capital Gains Tax is imposed (when the disposal is not subject to income tax) at the rate of 20% on gains from the disposal of immovable property situated in Cyprus including gains from the disposal of shares in companies which own such immovable property, excluding shares listed on any recognised stock exchange.

DETERMINATION OF CAPITAL GAINS TAX

Liability is confined to gains accruing since 1 January 1980.

The costs that are deducted from gross proceeds on the disposal of immovable property are its market value at 1 January 1980, or the costs of acquisition and improvements of the property, if made after 1 January 1980, as adjusted for inflation up to the date of disposal on the basis of the consumer price index in Cyprus.

Expenses that are related to the acquisition and disposal of immovable property are also deducted, subject to certain conditions e.g transfer fees, legal expenses etc.

LIFE TIME TAX FREE CAPITAL GAINS

Individuals are entitled, only once in their life, and not for every disposal, to deduct the capital gain on the following:

Disposal of private residence (under certain conditions)	€85.430
Disposal of agricultural land by a farmer	€25.629
Any other disposal of immovable property	€17.086
Deductions based on a combination of the above are restricted to a maximum amount of €85.430	

EXCEPTIONS

- transfers on death
- gifts between spouses and relatives up to third degree
- gifts to family companies provided the shareholders continue to be members of the family for five years after the date of transfer
- gifts by a family company, of which all shareholders are members of the same family, to any of its shareholders, provided that the property gifted had itself been acquired by the company by way of gift. In case of subsequent disposal the donee cannot use his life time exemption if he disposes of the property before the lapse of at least three years from the date of transfer of the property to his/her name.
- gifts to approved charitable institutions or a local authority for educational, or other charitable purpose
- disposal of property under the Compulsory Acquisition Law
- gifts to the Republic of Cyprus
- where the 1.1.1980 indexed value (or the indexed cost of acquisition if later) of the property given under an exchange of property is less than the sales proceeds value of the property received, the gain reinvested in the property received is exempt
- exchange or disposal of immovable property under the agricultural land (consolidation) laws
- gain on disposal of shares which are listed on any recognised stock exchange
- transfers of shares as a result of company reorganisations

IMMOVABLE PROPERTY TRANSFER FEES

The following fees are payable for the registration of a transfer of property to the name of the purchaser in the Land Registry Office books.

Value of property	Transfer fee rate	Accumulated tax
Up to €85.430	3%	€2.563
€85.430-€170.860	5%	€4.272
Over €170.860	8%	

- in the case of a transfer of property to a family company, the fees are refundable after five years if the property remains with the company and no person other than the donor or his/her close relatives (spouse or relatives up to the third degree of kindred) who were shareholders at the time of the transfer or other close relatives, has become shareholder

- in the case of property transferred from a family company to one of its members, provided that there is no consideration, the fees are calculated on the assessed value written on the title deed (i.e. on values of year 1907) as follows:

To a spouse	8%
To a child	4%
To a relative up to the third degree	8%

- in the case of company reorganisations, transfers of immovable property are not subject to transfer fees

STAMP DUTY

Amount of duty	
Contracts and transfer of shares and debentures	
Up to €170.860	1.5‰
Over €170.860	2‰
Contracts with no fixed sum	€34.17
Transfer of shares and debentures with no fixed sum	€8.54
Powers of attorney	
General	€5.13
Limited	€1.71
Certified copies of contracts and documents	€1.71
Other documents	
Receipts for sums from €3,42 - €34,17	3 cents
Receipts for sums over €34.17	7 cents
Cheques	5 cents
Bills of exchange (payable within three days on demand or at sight)	85 cents
Letters of credit	€1.71
Certified copies of contracts and documents	€1.71
Letters of guarantee	€3.42
Bills of lading	€1.71
Charter party (deed between ship owner for hire of ship and delivery of cargo)	€17,09

Exemptions

- transactions made in the course of a company reorganisation
- transactions relating to any property situated outside the Republic or to any matter or thing to be performed or done outside the Republic, irrespective of the place where it is executed

IMPOSITION OF VAT

VAT is imposed by a person who is, or should be, registered for VAT (a taxable person) in the course of furtherance of a business on:

- (a) every taxable supply of goods and services made within Cyprus, other than an exempt supply
- (b) the acquisition of any goods in Cyprus from other European Union member states, and
- (c) the importation of goods from countries outside the European Union.

MECHANICS OF VAT

Taxable persons charge VAT on their taxable supplies (output tax) and are charged with VAT on goods or services which they receive (input tax). VAT returns showing the output tax and input tax must normally be submitted every three months.

If output tax in a VAT period exceeds total input tax, a payment has to be made to the state 40 days from the end of the VAT period. If input tax exceeds output tax a repayment is due from the state.

Immediate refund of excess input VAT can be obtained in the following cases:

- a period of three years has elapsed from the date the VAT became refundable input VAT which cannot be set off against output VAT until the last VAT period of the year which follows the year in which the VAT period in which the credit was created falls
- the input VAT relates to zero rated transactions
- the input VAT relates to the purchase of capital assets of the company
- the input VAT relates to transactions which are outside the scope of VAT but would have been subject to VAT had they been carried out within Cyprus
- the input VAT relates to exempt financial and insurance services provided to non EU resident clients (services for which the right to recover the related input VAT is granted)

For intra-community acquisition of goods (with the exception of goods subject to excise duty) the trader does not pay VAT on receipt of the goods in Cyprus but instead accounts for VAT using the acquisition accounting method. This involves a simple accounting entry in the books of the business whereby it self-charges VAT and at the same time claims it back, provided it relates to supplies for which the right to recover input VAT is granted, thereby creating no cost to the business.

In cases the acquisition relates to a transaction for which the right to recover the input VAT is not granted, the trader must pay the VAT that corresponds to the acquisition.

Changes to the VAT as from 1 January 2010

As from 1 January 2010 significant changes came into effect in the EU and Cyprus VAT legislation in the following areas:

- Changes in the country of taxation of services provided between businesses established in two different EU Member States (B2B)
- Changes in the country of taxation of services, supplied to consumers (B2C)
- Changes in the time of supply of services for which VAT is due by the recipient
- Procedure for refund of VAT paid in another Member State (MS)
- Additional compliance obligation for electronic submission of the monthly VIES return for services subject to VAT in another EU MS through the reverse charge provisions.

In addition to the above, as from 1 January 2011 changes came into effect in the EU and Cypriot VAT legislation with regards to the country of taxation of cultural, artistic, sporting, scientific, educational, entertainment and similar services including services of organisers of such activities, supplied between businesses (B2B).

The above services, up to 31 December 2010 were subject to VAT in the country where those activities were physically carried out.

As from 1 January 2011, only admission to such activities is subject to VAT in the country where the activities are physically carried out. Services, other than the admission to such events, are subject to VAT in the country where the recipient of the services has established his business.

As from 1 January 2013 the long-term hiring of means of transport to non-taxable persons (i.e. to individuals or legal persons who are not engaged in business activities) is subject to VAT at the place where the customer is established or has his permanent address or usually resides.

However, in case the hiring refers to the hiring of a pleasure boats, the place of taxation for VAT purposes is the place where the pleasure boat is actually put at the disposal of the customer, so long as the service is provided by the supplier from his place of business or from his fixed establishment situated at the place where the pleasure boat is actually put at the disposal of the customer.

Up to 31 December 2012 the above services were subject to VAT at the place where the service provider has established his business.

VAT rates

The legislation provides for the following four tax rates:

- Zero rate (0%)
- Reduced rate of five per cent (5%)
- Reduced rate of eight per cent (8% up to 12 January 2014 and 9% as from 13 January 2014)
- Standard rate (15% up to 29 February 2012, 17% from 1 March 2012 up to 13 January 2013, 18% from 14 January 2013 to 12 January 2014 and 19% as from 13 January 2014)

Exempt supplies

Exemptions

Certain goods or services are exempt from VAT. They include:

- the letting of immovable property (the letting of immovable property with the right of purchase is not exempt);
- most banking and financial services and insurance services;
- most hospital, medical and dental care services;
- certain cultural educational and sports activities;
- supplies of real estate (except supply of new buildings before their first use) including supplies of land and of second-hand buildings;
- postal services provided by the national postal authority;
- lottery tickets and betting coupons for football and horse racing;
- management services provided to mutual funds

Imposition of the reduced rate of 5% on the acquisition and/or construction of residences for use as the primary and permanent place of residence.

The reduced rate of 5% applies to contracts that have been concluded from 1 October 2011 onwards provided they relate to the acquisition and/or construction of residences to be used as the primary and permanent place of residence for the next 10 years.

For contracts concluded up to 30 September 2011 for the acquisition and/or construction of residences for use as the primary and permanent place of residence, the eligible person must apply for a grant.

The reduced rate of 5% applies for the first 200 square meters of residences of total covered area of up to 275 square meters. In the case of families with more than 3 children the allowable total covered area increases by 15 square meters per additional child beyond the three children.

The reduced rate is imposed only after obtaining a certified confirmation from the VAT Commissioner.

The eligible person must submit an application on a special form, issued by the VAT Commissioner, which will state that the house will be used as the primary and permanent place of residence. The applicant must attach a number of documents supporting the ownership rights on the property and evidencing the fact that the property will be used as the primary and permanent place of residence.

The documents supporting the ownership of the property must be submitted together with the application. The documents supporting the fact that the residence will be used as the primary and permanent place of residence (copy of telephone, water supply or electricity bill or of municipal taxes) must be submitted within six months from the date on which the eligible person acquires possession of the residence.

A person who ceases to use the residence as his primary and permanent place of residence before the lapse of the 10 year period must notify the VAT Commissioner, within thirty days of ceasing to use the residence, and pay the difference resulting from the application of the reduced and the standard rate of VAT attributable to the remaining period of 10 years for which the property will not be used as the main and primary place of residence.

Persons who make a false statement to benefit from the reduced rate are required by law to pay the difference of the additional VAT due.

Furthermore, the legislation provides that such persons are guilty of a criminal offence and, upon conviction, are liable to a fine, not exceeding twice the amount of the VAT due, or imprisonment up to 3 years or may be subject to both sentences.

Grant for acquisition of first residence

The grant is given to eligible persons for the construction, or purchase or transfer of a new residence which is used as the main and primary place of residence. The grant applies for contracts concluded up to 30 September 2011.

The application for the grant is submitted to the Ministry of Finance, in relation to residences for which an application has been submitted for the issue of a planning permission after the 1 May 2004. Persons entitled to this grant are individuals who are citizens of the Republic of Cyprus or of any other EU Member State, who reside permanently in the Republic of Cyprus and who have reached the age of 18 at the time of application. The grant is given for residences whose total covered area does not exceed 250 m².

The level of the grant is limited to 130 m² (extended for families with four and more children) and depends on the type of the property and on whether the house was constructed or purchased. The relevant legislation provides that the level of the grant will be adjusted annually for the increase in the Retail Price Index.

Difference between zero rate and exempt supplies

The difference between zero rate and exempt supplies is that businesses that make exempt supplies are not entitled to recover the VAT charged on their purchases, expenses or imports.

Irrecoverable input VAT

As an exception to the general rule, input VAT cannot be recovered in a number of cases which include the following:

- acquisitions used for making exempt supplies;
- purchase, import or hire of saloon cars;
- entertainment and hospitality expenses (except those relating to employees and directors);
- housing expenses of directors

Registration

Registration is compulsory for businesses with (a) turnover subject to VAT in excess of €15.600 during the 12 preceding months or (b) expected turnover subject to VAT in excess of €15.600 within the next 30 days.

Businesses with turnover of less than €15.600 or with supplies that are outside the scope of VAT but for which the right to claim the amount of the related input VAT is granted, have the option to register on a voluntary basis.

An obligation for registration also arises for businesses which make acquisition of goods from other EU Member States in excess of €10.251,61 during any calendar year. In addition as from 1 January 2010 an obligation for VAT registration arises for businesses engaged in the supply of intra-community services for which the recipient must account for VAT under the reverse charge provisions. Furthermore an obligation for VAT registration arises for businesses carrying out economic activities from the receipt of services from abroad for which an obligation to account for Cyprus VAT under the reverse charge provision exists subject to the registration threshold of €15.600 per any consecutive 12 month period. No registration threshold exists for the provision of intra-community supplies of services.

Exempted products and services, and disposals of items of capital nature are not taken into account for determining annual turnover for registration purposes. Registration is effected by completing the appropriate application form.

VALUE ADDED TAX

VAT declaration - payment/refund of VAT

VAT returns must be submitted quarterly and the payment of the VAT must be made by the 10th day of the second month that follows the month in which the tax period ends.

VAT registered persons have the right to request for a different filing period. Approval of the VAT authorities is required. The VAT Commissioner also has the right to request from a taxable person to file his VAT returns for a different period.

Where in a quarter input tax is higher than output tax, the difference is refunded or is transferred to the next VAT quarters.

Thresholds and penalties	
	Amount in Euro (€)
Registration threshold (taxable supplies in Cyprus)	15.600
Registration threshold for distance sales (sale of goods to persons not subject to VAT registration in Cyprus, by suppliers resident in another EU Member State)	35.000
Registration threshold for acquisition of goods in Cyprus from suppliers resident in another EU Member States	10.251,61
Registration threshold for intra-community supply of services	No threshold
Registration threshold for receipt of services from abroad for which the recipient must account for VAT under the reverse charge provisions	15.600
Penalty for late submission of VAT return	51 for each return
Penalty for omission to keep books and records for a period of 7 years	341
PenalPenalty for late submission of corrective VIES return	50 for each return
Penalty for late submission of corrective VIES return	15 for each return
Omission to submit the VIES return constitutes a criminal offence with a maximum penalty of	850
Penalty for late registration with the VAT authorities	85 per month of delay

SOCIAL INSURANCES

Rates			
Fund	Percentage of earnings		
	Employer	Employee	Self-employed
Social Insurance Fund	7,8%	7,8%	14,6%
Redundancy Fund	1,2%		
Training Development Fund	0,5%		
Social cohesion fund	2,0%		
Total	11,5%	7,8%	14,6%

Social insurance contributions are restricted to a maximum amount that is increased annually.

The maximum amount that applies for 2014 & 2013 is €54.396 (weekly €1.046/monthly €4.533).

Voluntary registration

Any person may apply for a certificate of voluntary insurance if he has his usual residence in Cyprus and works outside of Cyprus, in the service of a Cypriot employer. For the purposes of this provision, "Cypriot employer" means an employer who resides or has a business place in Cyprus or a legal person registered in Cyprus, or a legal person in which a Cypriot citizen or legal person registered in Cyprus has a substantial participation".

End of each month

- Payment of tax deducted from employees salary (PAYE) in the preceding month
- Payment of special contribution for defence withheld on payments of dividends, interest or rents (when the tenant is a company, partnership, the state or local authority) made to Cyprus tax residents in the preceding month
- Payment of tax withheld in the preceding month on payments to non- Cyprus residents

31 January

- Submission of declaration of deemed dividend distribution (IR623) for the year ended 31 December 2012

31 March

- Electronic submission of the 2012 corporation tax return (IR4) for accounting periods ending on 31 December 2012
- Electronic submission of the 2012 income tax return of physical persons preparing audited financial statements (2).

30 April

- Payment of premium tax for life insurance companies - first instalment for 2014

30 June

- Payment of special contribution for defence for the first six months of 2014 on rents and on dividends or interest from sources outside Cyprus

31 July

- Electronic submission by employers of the total 2013 payroll (Form IR7)
- Submission of the 2014 provisional tax return and payment of the first instalment.
- Electronic submission of 2013 personal tax returns of individuals whose incomes do not include income from a trade/business, rents, dividends, interest, royalties nor income relating to trading goodwill.

1 August

- Payment of 2013 final corporation tax under the self-assessment method
- Payment of 2013 personal income tax under the self assessment method by individuals preparing audited financial statements

31 August

- Payment of premium tax for life insurance companies – second instalment for 2014
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30 September

- Submission of 2013 personal tax returns of individuals not required to prepare audited financial statements but whose incomes include income from a trade/business, rents, dividends, interest, royalties or income relating to trading goodwill and payment of tax via the self- assessment method.
- Payment of immovable property tax for 2014

31 December

- Payment of provisional tax – second and last instalment for 2014
- Payment of special contribution for defence for the last six months of 2014 on rents and on dividends or interest from sources outside Cyprus
- Payment of premium tax for life insurance companies - third and last instalment for 2014