



AUDIT • TAX • ADVISORY



CYPRUS
Tax Guide for Investors

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INTRODUCTION

The role of Cyprus in the international business world has increased dramatically due to the numerous benefits it has to offer; Cyprus is now considered one of the most favored jurisdictions in Europe from which to conduct international business.

Cyprus attracts investors and entrepreneurs from around the globe who aim to develop their companies, and run their international commercial and financial operations through Cyprus. These investors are involved in sectors such as high technology, research and development, tourism, commerce, real estate and business related services.

The admission of Cyprus to the European Union as full member in 2004, established Cyprus as a prestigious, stable and attractive jurisdiction. In 2008, Cyprus joined the European Monetary Union, further confirming its economic stability.

Cyprus has comprehensive double taxation agreements in force with over 40 countries and enjoys the lowest of corporation tax rates in the EU at 12,5%.

Although Cyprus is a low tax jurisdiction, is not a “tax haven”, and due to its favorable tax regime and the wide network of tax treaties it has attracted businesses from around the globe to establish International Business Companies with the purpose of carrying and monitoring their international business operations.

In Cyprus, professional business services are rendered at the highest standards. The results are high quality, cost effective consultancy services and continuous support to professionals worldwide. Therefore, many companies have chosen Cyprus as a jurisdiction to establish their business internationally.

CYPRUS TAX HIGHLIGHTS 2015

- **0% tax on Dividends received**

Dividends received by a Cyprus Company, on certain conditions, are free of tax making Cyprus the most competitive jurisdiction for holding companies.

- **0% withholding tax on Dividend payments**

Dividends payable by a Cyprus resident company to its foreign shareholders (whether a company or individual) are not subject to any withholding tax in Cyprus.

In effect, Cyprus provides full tax exception on the payment of dividends to its nonresident shareholders and has a real advantage over the other traditional holding jurisdictions.

- **Companies engaged in the trading of titles**

Trading companies in shares and other securities as identified in the law may be formed with 0% taxation on profits from this trading. No capital gains tax is payable on the sale or transfer of shares.

- **12,5% Taxation for tax resident companies**

Resident trading companies, subject to certain exceptions for holding companies, and companies trading in shares / securities pay one of the lowest taxation in Europe (12.5%) on their net profits.

- **0% taxation on profits from foreign establishment**

A resident company is not taxed on profits received from its overseas establishment, subject to certain conditions.

- **Unilateral Tax Credit Relief**

Unilateral tax credits are granted on any tax paid abroad to any foreign country, irrespective of whether Cyprus has a Double Taxation Treaty or not. In such a case the income is not taxed twice but only once.

- **Trusts**

International Cyprus Trusts may be established holding the shares or to be used as a vehicle for a tax structure – International trusts do not pay any taxation on their profits.

- **Double Tax Treaties / International Tax planning**

Access to a wide and, in many cases, particularly beneficial double tax treaty network.

- **Re-organizations**

Mergers, Takeovers and other Re-Organizations can take place within groups without tax consequence.

- **Losses**

The tax loss in Cyprus incurred during the year is carried forward and set off against future profits for a period of five years.

- **Group relief**

Group relief (set off of the loss of one company with the profit of another) is allowed provided both companies of the group are tax resident in Cyprus.

- **Controlled Foreign Company (CFC) Legislation**

Cyprus does not have Controlled Foreign Company (CFC) legislation.

- **Thin Capitalization Rules**

Cyprus tax legislation does not contain Thin Capitalization provisions, namely there are no provisions in the Law requiring the companies to maintain a particular debt to equity (particular) ratio.

- **Holding Company Financing its Group of Companies**

A holding company acting as the financing vehicle of its group of companies is considered that the interest income it receives from financing the group, is closely related to its ordinary activities and this interest income will be taxed only with income tax and not Special Defence Contribution Tax.

- **Financial Assistance**

Financial Assistance to its shareholders to purchase its own shares is now possible.

- **Withholding Taxes on Interest and Royalties**

There are no withholding taxes on payments of interest to non-residents. Any interest due to non-residents is paid free of withholding taxes from Cyprus.

There are also no withholding taxes on royalties arising from sources outside Cyprus.

- **Liquidation**

If a Cyprus holding company is liquidated and distributes its assets to its shareholders, in the case that the shareholders are non-residents of Cyprus then the distribution is done without any taxation on the non-resident shareholders.

CYPRUS HOLDING COMPANY

The role of Cyprus in the international business world has changed dramatically in recent years, and the country is now considered to be one of the most favoured jurisdictions in Europe from which to conduct business.

The island has recently joined an elite group of countries with enormous quantities of gas and petrol resources. This fact, in combination with the numerous advantages Cyprus has to offer, will secure the island's finances on one hand, and drive the country among the big players in Eurozone on the other. The attractive tax system of Cyprus, together with its EU accession and the high standard of services has helped Cyprus establish itself as an ideal business centre within the EU. The expansion of international business through Cyprus indicates the existence of clear advantages that attract both business entities and foreign private individuals.

Corporate tax rate

Cyprus has a corporate income tax rate of 12.5%. This is the lowest corporate tax rate in the European Union.

Withholding tax on Dividends Received

Dividends received by a Cyprus Holding Company from overseas subsidiaries carry zero or low withholding tax rates due to:

- Extensive Double Tax Treaty network
- EU Parent-Subsidiary Directive (zero withholding tax on dividends payments from EU subsidiaries to their EU parent Companies).

Zero Tax on Dividends Received

Dividends received by a Cyprus Holding Company are tax exempted under Cyprus tax.

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 an effective tax rate of less than 6,25% on the profit distributed.

If exemption does not apply, dividend income is subject to 17% tax under Special Defence Contribution.

Tax free distribution of Dividends

Under Cyprus domestic legislation there is no withholding tax on dividends and interest paid to non-residents of Cyprus at all times.

Dividends paid by a Cyprus Company to its Cyprus Holding Company are not subject to any tax.

Dividends paid by a Cyprus Company to its Cyprus resident individual are subject to 17% Special Defence Contribution Tax.

Unilateral tax credit relief

Relief for taxes paid abroad is in the form of a tax credit if the respective income is subject to tax in Cyprus. The relief is given unilaterally irrespective of the existence of a double tax treaty. Where a treaty is in force, the treaty provisions apply if more beneficial. Where dividend income is received from a company resident in the European Union or if a tax treaty provides, an underlying tax credit is also allowed to the Cypriot recipient of the dividend against any tax payable on that income.

Sale of Shares

Any profit arising from the trade of shares in other companies is exempt from tax in Cyprus. Under local legislation "Securities" are defined as "shares, bonds debentures, founders' shares and other securities of companies or other legal person, incorporated under a law in Cyprus or abroad, including options thereon".

An exception only applies, and taxation at 20% will take place, if a profit is realized upon the sales of shares in certain (non-listed) companies owning Cyprus real estate, to the extent such profit reflects the gain from the sale of the underlying Cypriot real estate.

Intellectual Property

An 80% exemption of qualifying net IP income and capital gains upon disposal of the IP is available for Cyprus Companies.

Amortization provisions over a 5 year period (for IP rights acquired or developed post 1st January 2012) were introduced. The above incentives are available for a wide range of qualifying IP rights and the resulting effective tax rate is 2,5% or less.

Tax Losses

Trading losses are carried forward for a period of 5 years, commencing from the end of the year to which the loss relates.

Group relief is allowed for at least 75% group holdings and is applicable only on yearly results assuming claimants are Cyprus Companies and members of the same group for the whole tax year.

Additional advantages

- No CFC Legislation
- No thin capitalization rules
- Wide network of Double tax Treaties
- Full adoption of EU Directives
- Competitive fees for company formation and administration;
- Advance Tax rulings from Income Tax Office
- Low capital requirements;
- Strong legal system based on English common law;
- Well-developed infrastructure;
- Pro-business attitude of the authorities;
- Strategic geographic location

CYPRUS INTELLECTUAL PROPERTY COMPANY

The new tax regime provides for favorable tax treatment in relation to income generated from any type of intellectual property rights, patents and trademarks as well as providing for generous capital allowances for acquisition and development of such rights. For simplicity we will refer to them below with the general term of “IP Rights”.

Tax Treatment of Royalty Profits

Prior to the amendment, any income from IP Rights was taxed under the normal corporate tax rate of 12,5% on any resulting net profits. According to the new regime, 80% of “Royalty Profit” generated from such IP Rights will be exempt from corporation tax. The remaining 20% will be subject to the normal corporation tax rate of 12,5%. For the purpose of determining the “Royalty Profit” the law allows the deduction from the resulting royalty income of all expenses incurred wholly and exclusively for the production of royalty income. It is important to stress that the favorable tax treatment also covers the profit from any future sale of the IP Right. This will allow the owners of the IP Rights not only to enjoy tax benefits on the income generated from the use of such right but also provides for a tax efficient exit route in the future. The owner of the IP rights can also claimed any tax suffered abroad on the Royalty Income which is limited to the lower of the tax paid abroad or the tax derives in Cyprus on the specific Income. An example is set out below for your easy reference.

Acquisition/ Development Capital Allowances

In addition to the above, the Cyprus Company holding the IP Rights will be able to write off the capital expenditure made on the acquisition or development of such rights in the first five years of use. The company will be able to receive capital allowances of 20% straight line starting from the first year of the use of the asset as well as the subsequent four years of usage. These capital allowances are considered of course tax deductible, which makes the tax benefits of the first five years for the Cyprus Royalty Company even more attractive.

In conclusion, the effective tax rate applicable on the Cyprus Royalty Company will not be higher than a maximum of 2,5% on its Royalty Profits. The effective rate can be further reduced by the deduction of the above capital allowances.

Examples

1. Royalty Income, foreign tax claim and capital allowances

A Cyprus Company receives Royalty Income totaling to €300.000 in 2012, and has also other trading Income totaling to €200.000. The cost of the Intellectual property was €1.000.000 amortized on a 5 year basis, and there are other expenses and interest related to the IP right totaling to €50.000. The Company has paid foreign withholding taxes totaling to 5% (€15.000) on the Royalty Income. Total tax calculated as follows:

	EURO
Royalty Income	300.000
Amortization	-200.000
Expenses and interest	-50.000
Profit from royalty	50.000
Less 80% deduction on profit	-40.000
Revised profit from Royalty	10.000
Add other trading income	200.000
Profit	210.000
Tax at the rate of 12,5%	26.250
Less double tax paid abroad (10k/210K*26.250)*	-1.250
Total Tax payable	25.000

**Lower of taxes paid abroad and corporation tax derived in Cyprus on Royalty income.*

2. Sale of Intellectual Property and capital allowances

Following the example above, on 1 January 2014 the Company disposed the Intellectual Property for €2.000.000.

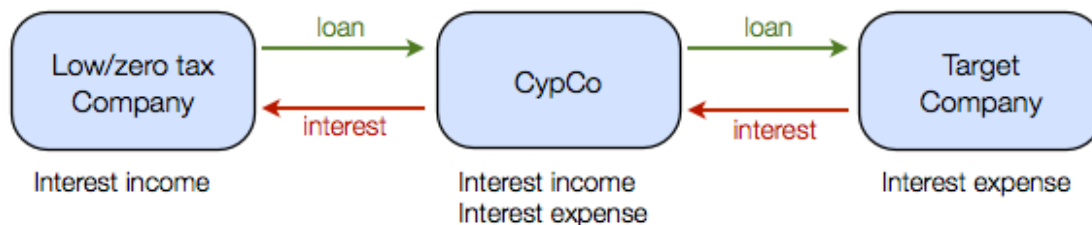
Computation:

	EURO
Sales price	2.000.000
Cost of IP right (carrying amount) (€1m less €400k amortization claimed)	-600.000
Commissions	-100.000
Profit	1.300.000
Less 80% deduction on profit	-1.040.000
Profit to be taxed	260.000

CYPRUS FINANCING COMPANY

A Cyprus Private Company can be incorporated and be used for financing activities i.e. receive and grant loans. Such companies may take advantage of the Cyprus Double Tax Treaties by providing loans in countries where withholding tax on interest is low or nil.

The use of Cyprus companies for group finance is extremely attractive. Interest payments to the Cyprus Financing Company are tax deductible in the country of the borrower reducing the overall corporation tax liability. Choosing the right international jurisdiction for the use of double tax treaties can reduce or eliminate withholding taxes on interest payments.



These structures are particularly attractive for investment into high-tax countries where, local rules permitting, high debt structures are widely used.

Important features of the tax system beneficial to Cyprus (Group) Finance are the following:

- Interest income taxed in Cyprus at low corporation tax rate of 12,5%.
- Absence (under a Double Tax Treaty or the Interest and Royalty Directive) of interest withholding tax. If a Cyprus holding company is financed in the form of loans by its non-resident parent company, or by its non- resident individual shareholder, it will make the interest payments to the non-resident individual or company gross, without any tax deducted.
- Low overall tax burden.
- Cyprus has transposed into Cypriot Law the EU Interest & Royalties Directive. Cyprus has a wide treaty network.

- Absence of interest withholding tax in connection with interest paid on loan financing, irrespective of jurisdiction or the absence of a DTT (even for interest payments to offshore jurisdictions).
- Low level of “margin” required by tax authorities. The Cyprus tax authorities will accept the below mentioned interest margins:

Loan amount	Interest margin
Up to Euro- 50 million	0,35%
Between Euro 50-200 million	0,25%
In excess of Euro 200 million	0,125%

Conditions to be met for the use of Cyprus companies for group finance:

- The loans must be made between associated parties.
- Back-to-back financing - the above spreads are applied by the Cyprus Tax Authorities only in cases where a back-to-back relationship can be demonstrated. In other words, the above tax advantages apply when full matching of the amounts borrowed and granted.
- The ultimate shareholders of all companies involved must be non-tax residents in the Republic.
- The loans borrowed and lent can be either interest free or interest bearing.
- The time interval between the date the company receives a loan and the date it grants a loan must not exceed six months.
- If the loan received by a company is settled or written off before settlement of the loan granted or vice versa, the transaction is considered as being outside the scope of these provisions as from the date of settlement or write off.

CYPRUS INVESTMENT FIRMS

The Investment Firms Act of 2002 (the “Act”) provides the legal framework for the provision of investment services as well as for the registration, regulation of operations and supervision of CIFs.

The Investment Services and Activities Regulated Markets Law of 2007 - Law 144(I)/2007, provides the optimal legal framework for potential investors to consider Cyprus as the ideal jurisdiction for permanent establishment of their business.

The Law came into force on 1st November 2007, replacing the old Investment Firms Law of 2002 and implementing the provisions of the EU’s Markets in Financial Instruments Directive (MiFID) into the domestic law.

The implementation of this new legal framework makes Cyprus an attractive place for establishing a Cyprus Investment Firm (CIF), offering investors and businesses a “single passport” to provide investment services across the European Union (EU).

With the lowest corporate tax rate in the EU, a sophisticated services industry and a highly developed infrastructure, Cyprus is fast gaining a competitive position within the global financial services industry. The Cyprus Investment Firm is indeed considered a valuable vehicle used by the international investor for investment activities within the EU or outside the EU.

Investment services include any of the following services:

- Reception and transmission, on behalf of investors, of orders in relation to one or more financial instruments as these are defined in the Act
- Execution of such order (above), other than for own account
- Dealing in financial instruments for own account
- Managing of investment portfolios in accordance with mandates given by investors where such portfolios include one or more financial instruments
- Underwriting in respect of issues of financial instruments as these are defined in the Act

Non-core services include any of the following services:

- Safekeeping and administration in relation to one or more financial instruments
- Safe custody services
- Granting of credits or loans to clients to enable them to carry out transactions in one or more financial instruments, where the firm granting the credit or loan is involved in the transaction
- Advice to undertakings on capital structure, industrial strategy and related matters and advice and services relating to mergers and acquisitions
- Services connected to underwriting

- Investment advice concerning one or more financial instruments
- Foreign-exchange services where these are connected with the provision of investment services

CIFs must be licensed by the Cyprus Securities & Exchange Commission, which is the relevant regulatory and supervisory authority (www.cysec.gov.cy).

CYPRUS LICENSED FX COMPANY

Being a member of the EU, Cyprus is in full compliance and duly harmonized with the EU Markets in Financial Instruments Directive (MiFID) has established Cyprus as favourable jurisdiction for licenced Forex businesses.

A Cyprus Forex Company is granted a Cyprus Investment Firm (CIF) license by the responsible regulatory body “Cyprus Securities and Exchange Commission” (CySec).
(refer to Cyprus Investment Firms page 11).

Capital Requirements

- Forex Brokerage Firms providing only advice and order transmissions require a share capital of EUR 50.000.
- Forex Brokerage Firms operating only as Broker / Agent require a share capital of EUR 125.000.
- Forex Brokerage Firms providing all services and handling third party funds require a share capital of EUR 730.000.

Main requirements

- Fully fledged office in Cyprus
- At least on local Director
- Proper internal controls procedures
- Capital requirement as above

PERMANENT CYPRUS RESIDENCY

PERMANENT RESIDENCE PERMIT CATEGORY F

REGULATION 5(F) OF THE ALIENS AND IMMIGRATION REGULATIONS

This permit is granted to NON EU nationals, who possess and have fully and freely at their disposal a secured annual income, high enough to give them a decent living in Cyprus without having to engage in any business, trade or profession. This income must come from legal sources from abroad. For instance, it may derive from pensions, permanent deposits, business activities, ownership of companies, shares.

According to the provisions of the Law the minimum annual income required is **€9,568.17** for a single applicant and **€4,613.22** for every **dependent person**. However, the Civil Registry and Migration Department may demand **additional income if deemed necessary**. Each case/ application is judged on its merits and the Immigration Authorities have discretionary powers so as to ensure and examine the **stability** and **sufficiency** of annual income. The possession of a solid amount of money, deposited in one of the banks of Cyprus appears to facilitate the application.

According to the decision of the **Council of Ministers**, the applications of persons who have acquired by purchase a residential home property for **no lower than €300,000** will receive **favourable treatment**.

The examination of the application may take approximately 8 months.

FAST-TRACK PROCEDURE FOR GRANTING PERMANENT RESIDENCE PERMIT

REGULATION 6(2) OF THE ALIENS AND IMMIGRATION REGULATIONS

REQUIREMENTS:

1. PROPERTY:

- A property must be purchased in Cyprus
- The Vendor must be the Developer, as a resale is not permitted
- The Purchase Price must be at least €300,000 (not including VAT) & at least €200,000 (not including VAT) should be settled
- Evidence of transfer of €200,000 (not including VAT) from abroad must be provided
- Contract of Sale must be deposited at the Land Registry

2. BANK DEPOSIT:

A bank deposit of €30,000 in a Cypriot Bank, blocked for at least 3 years is necessary. It must be proven that this amount was transferred to Cyprus from abroad.

3. INCOME:

1. Income must be created abroad, not in Cyprus
2. The applicant should prove at least €30,000 of income for himself plus €5,000 for each dependent
3. It should derive from legal sources such as salary, rent, pension, interests, dividends, etc.

PERIOD OF EXAMINATION OF THE APPLICATION

The examination of the application may take between 2-3 months, provided that:

1. All requirements are satisfied
2. There are no reasons of rejection due to their criminal records (after the research of the Ministry of Interior) or public order

The Permits may be obtained by all family members simultaneously. Family members are considered to be the husband/wife of the applicant and any dependents.

IMMIGRATION PERMIT - REQUIRED DOCUMENTS/ CERTIFICATES:

1. Copy of valid passport.
2. 3 photos
3. Copy of valid temporary residence permit (if the applicant resides in Cyprus).
4. Curriculum Vitae (including academic qualifications).
5. Statements of deposits in a Cypriot Bank account, of a minimum capital of €30.000 (original) & Bank Confirmation that the aforementioned amount has been reserved/ blocked for a period of the 3 following years. (if applicable)
6. Declaration of a secured annual income of a capital of €30.000 at least, from sources other than employment in Cyprus (original documents and affidavit). The necessary annual income is increased by €5.000 for each dependent person.
7. Title of ownership or contract of sale of a built property in Cyprus of a minimum market value of €300.000 (original or true copy). If the title of ownership has not been obtained yet, the applicant must submit the contract of sale duly stamped by the Stamps Commissioner and the Department of Lands & Surveys and proof of payment for at least €200,000.

8. Official Statement by the applicant that he/she does not intend to work or be engaged in any form of business in Cyprus.
9. Health Insurance Policy.
10. Criminal Record Certificate (if the applicant resides abroad, the certificate must be issued from his country of origin, and submitted with an official and certified translation into Greek or English).
11. Marriage Certificate (official and certified translation - if applicable).
12. Children's Birth Certificates (official and certified translation - if applicable).

Note: It is at the Immigration's discretion to request additional documents at any stage.

CYPRUS CITIZENSHIP PROGRAM

SCHEME FOR NATURALISATION OF INVESTORS IN CYPRUS BY EXCEPTION on the basis of subsection (2) of section 111A of the Civil Registry Laws of 2002-2013

A non-Cypriot citizen, who meets one of the following economic criteria (A), either personally or through a company/ companies in which he/ she participates as a shareholder - proportionally based on the percentage of participation, or even as a high-ranking senior manager of a company/ companies that meets one of economic criteria (A), may apply for the acquisition of the Cypriot citizenship through Naturalization by exception.

A high-ranking senior manager may apply, provided that he/she receives such a remuneration that generates for the Republic tax revenue of at least €100,000 for a three year period and provided that this tax has already been paid or prepaid.

The applicant should have concluded the necessary investments during the three years preceding the date of the application and must retain the said investments for a period of at least three years since the date of the Naturalization.

In addition, the applicant must fulfill the Terms and Conditions set out in Part B.

In the case where, following a periodic inspection, it has been ascertained that any condition is being circumvented, the Naturalization may be revoked.

A. CRITERIA

A.1 Investment in government bonds:

The applicant must have purchased state bonds of the Republic of Cyprus of at least €5,0 million.

or

A.2 Investment in financial assets of Cypriot companies or Cypriot organizations:

The applicant must have purchased financial assets of Cypriot companies or Cypriot organizations (bonds/ securities/ debentures registered and issued in the Republic of Cyprus) of at least €5,0 million.

It is noted that these financial assets can be purchased either at issuance, or subsequently by the market.

or

A.3 Investment in real estate, land development and infrastructure projects:

The applicant must have made an investment of at least € 5,0 million for the purchase or construction of buildings or for the construction of other land development projects (residential or commercial developments, developments in the tourism sector or other infrastructure projects).

or

A.4 Purchase or creation or participation in Cypriot businesses or companies:

The applicant must have made an investment of at least € 5,0 million in the purchase, creation or participation in businesses or companies, that are based and operating in the Republic. These businesses or companies should evidently have a tangible presence in Cyprus and employ at least five (5) Cypriot citizens.

It is noted that the mandatory conversion of deposits into shares is included in this criterion.

or

A.5 Deposits in Cypriot banks:

The applicant must have personal fixed term deposits for three years in Cypriot banks or deposits of privately owned companies or trusts (in which he/she is the beneficiary owner) in the Republic of Cyprus of at least €5,0 million

or

A.6 Combination of the aforementioned criteria A.1 (Investment in government bonds), A.2 (Investment in financial assets of Cypriot companies or organizations), A.3 (Investment in real estate, land development and infrastructure projects), A.4 (Purchase or creation or participation in Cypriot businesses or companies) και A.5 (Deposits in Cypriot banks):

The applicant is required to have a combination of the above amounting to at least €5,0 million.

or

A.7 Persons whose deposits with the Popular Bank Public Company Ltd have been impaired due to the measures implemented after the 15th March 2013:

The applicant has incurred an impairment in deposits amounting to a total of at least €3,0 million.

In the case where the applicant has incurred an impairment in his/her deposits under €3,0 million he/she may apply, having made an additional investment through the criteria A.1 (Investment in Government bonds), A.2 (Investment in financial assets of Cypriot companies or Cypriot organizations), A3 (Investment in real estate, land development or infrastructure projects), A.4 (Purchase or creation or participation in Cypriot businesses and companies) and A.5 (Deposits in Cypriot Banks) for the balance of the required amount of the aforementioned criteria.

or

A.8 Major Collective Investments:

The Council of Ministers shall have the right on special occasions, to reduce the above criteria (A.1 (Investment in Government Bonds), A.2 (Investment in financial assets of Cypriot companies or Cypriot organizations), A.3 (Investment in real estate, land development or infrastructure projects) and A.4 (Purchase or creation or participation in Cypriot businesses and companies):

- I. To €2,5 millions for investors, who demonstrably participate in a special collective investment scheme, provided that the total value of the investment is at least €12,5 millions.
- II. To €2,0 millions for investors who demonstrably participate in a special collective investment scheme, provided that the total value of the investment is more than €12.5 millions. It is noted that this present provision (I), will be in force until the 1st of June 2014.

In addition, it is noted that for the above mentioned provisions (I) and (II), the investment for the Criteria A1 until A4 may be realized through a different salesman/ provider (physical or legal entity).

B.TERMS AND CONDITIONS

1. Clean Criminal Record: the applicant must have a clean criminal record. Furthermore, his name must not be included on the list of persons whose property is ordered to be frozen within the boundaries of the European Union.
2. Residence in the Republic of Cyprus: In all cases listed in Part A, the applicant must hold a permanent privately-owned residence in the Republic of Cyprus, the purchase price of which must be at least €500.000, plus V.A.T.

It is noted that members of the same family, which apply separately as investors, can collectively acquire a residence, provided that the total value of this home-property covers the amount of € 500.000 per each applicant.

C. SUBMISSION OF DOCUMENTS

In order to examine any applications the submission of the form (M127) and of the following is required:

1. Clean Criminal Record:

Certificate of Clean Criminal Record from the country of origin and the country of residence (if it differs).

2. Residence in the Republic of Cyprus:

(a) Contract of Sale.

(b) Title Deeds/ Receipt for lodging the contract with the Lands and Surveys Department

(c) Receipts for paying the agreed purchase price

(d) Copy of the wire transfer in the Cypriot commercial banking institution in the name of the seller or the seller's company

As for the investment Criteria the following are required, depending on the case:

(a) Certificate of Registration of the company/ companies by the Registrar of Companies

(b) Certificate of shareholders by the Registrar of Companies or certificates evidencing that the applicant is the beneficiary owner of the company/ companies

(c) Audited Accounts of the company (or companies) for the last three years preceding the year of the application

(d) If the applicant is a high-ranking senior manager the submission of the employment contract and the receipt from the Department of Inland Revenue is additionally required.

Any other document that might be requested either by the Ministry of Interior, or by the Ministry of Finance.

Furthermore, depending on the case, the following are required:

1. Investment in Government bonds

(a) Receipts from the Treasury of the Republic of Cyprus for the purchase of the Government bonds.

2. Investment in financial assets of Cypriot companies or Cypriot organizations

(a) Title/titles and other documents regarding the financial assets.

(b) Copy of the wire transfer in the Cypriot commercial banking institution in the name of the company or the organization

3. Investment in real estate, land development or infrastructure projects

(a) Contract of sale.

(b) Title Deeds/ Receipt for lodging the contract with the Lands and Surveys Department

(c) Receipts for paying the agreed purchase price

(d) Copy of the wire transfer in the Cypriot commercial banking institution in the name of the seller or the seller's company

4. Purchase or creation or participation in Cypriot businesses and companies

(a) Contract of sale.

- (b) Receipts for paying the agreed purchase price
- (c) Certificate of shareholders by the Registrar of Companies or certificates evidencing that the applicant is the beneficiary owner of the company/ companies
- (d) Copy of the wire transfer in the Cypriot commercial banking institution in the name of the company or the organization
- (e) Confirmation from the Social Insurance Department as to the insurable income of the Cypriot employees in the company
- (f) Confirmation from the Inland Revenues Department as to the taxable income of the Cypriot employees in the companies or businesses that the applicant invested in.

5. Deposits in Cypriot banks

- (a) Confirmation from Cypriot banks as to the fixed term deposits for three years of the applicant or the companies in which he is the beneficiary owner or of the trust in which he is the beneficiary owner
- (b) Copy of the wire transfer in the Cypriot commercial banking institution

6. Impairment of deposits in the Popular Bank

- (a) Confirmation as to the level and the time of the impairment of the deposits
- (b) In the case of deposits of companies of which the applicant is the beneficiary owner, the Certificate of Registration of the Company by the Registrar of Companies and/or any other evidence, along with a declaration from the trustee of the funds confirming the beneficial owner is to be attached

None of the above affect the absolute discretion of the Council of Ministers in taking a Decision.

CYPRUS DOUBLE TAX TREATIES

The list below shows the double taxation treaties Cyprus has concluded. Under Cyprus legislation there is no withholding tax on dividends and interest paid to non-residents of Cyprus at all times thus the treaty rates shown below are not applicable.

All rates are in percentages.

Country	Dividends %		Rights %		Interests %	
	Income in Cyprus	Payments from Cyprus	Income in Cyprus	Payments from Cyprus	Income in Cyprus	Payments from Cyprus
Armenia	0 (17)	0	5	0	5	0
Austria	10	10	0	0	0	0
Belarus	5 (18)	5 (18)	5	5	5	5
Belgium	10	10	10	10	0	0
Bulgaria	0	0	0	0	0	0
Canada	5	15	10	10 (8)	15	15 (11)
China	10	10	10	10	10	10
CIS	0	0	0	0	0	0
Czech Republic	10	10	5	5 (9)	10	10 (12)
Denmark	10	10 (1)	0	0	10	10 (13)
Egypt	15	15	10	10	15	15
Estonia	0	0	0	0	0	0
Finland	5 (19)	5 (19)	0	0	0	0
France	10	10 (2)	0	0 (10)	10	10 (13)
Germany	15	15 (3)	0	0 (10)	10	10 (12)
Greece	25	25	0	0	10	10
Hungary	5 (1)	nil	0	0	10	10 (12)
India	15	15 (2)	15	15	10	10 (12)
Ireland	0	0	0	0 (10)	0	0
Italy	15	0	0	0	10	10
Kuwait	10	10	5	5 (9)	10	10 (12)
Lebanon	5	5	5	5	0	0
Malta	(4)	15	10	10	10	10
Mauritius	0	0	0	0	0	0
Moldova	5 (20)	5 (20)	5	5	5	5
Montenegro (21)	10	10	10	10	10	10
Norway	0	0 (5)	0	0	0	0
Poland	10	10	5	5	10	10
Portugal	10	10	10	10	10	10
Qatar	0	0	0	0	5 (22)	5 (22)
Romania	10	10	5	5 (9)	10	10 (12)
Russia	5/10	5/10	0	0	0	0
San Marino	0	0	0	0	0	0
Serbia (21)	10	10	10	10	10	10
Seychelles	0	0	0	0	5	5

Country	Dividends %		Rights %		Interests %	
	Income in Cyprus	Payments from Cyprus	Income in Cyprus	Payments from Cyprus	Income in Cyprus	Payments from Cyprus
Singapore	0	0	10 (23, 24)	10 (23, 24)	10	10
Slovakia	10	10	5	5 (9)	10	10 (12)
South Africa	0	0	0	0	0	0
Sweden	15	10 (1)	0	0	10	10 (12)
Syria	0	0 (1)	15	15 (16)	10	10
Thailand	10	10	10	10	5/10/15	5/10/15
United Kingdom	15	0(6)	0	0 (10)	10	10
U.S.A	5	0 (7)	0	0	10	10 (14)
Yugoslavia	10	10	10	10	10	10

Notes

1. 15% if paid to a company holding a percentage of 25% or less of the share capital.
2. 15% if paid to a company holding a percentage of 10% or less of the share capital.
3. 10% if paid to a company holding less than 25% of the share capital of the company paying it. However, in the case when the German Corporate Tax provides for the taxation for distributed profits is lower than that in the non-distributed profits and the difference between the rates is 15% or more, the tax withheld increases from 10% to 27%. In all other cases the rate is 15%.
4. Withholding of tax shall not exceed the tax imposed on profits on which dividends were paid.
5. 5% if paid to a company controlling fewer than 50% of the voting rights.
6. If paid to company controlling under 10% of the voting rights, is entitled to the return of the additional deducted ACT in the UK (if it controls more than 10% of the voting rights then it is not entitled to any return).
7. 15% if paid to a company controlling under 10% of the voting rights.
8. Zero for the production of literary, theatrical, musical or artistic work.
9. Zero for the production of literary, theatrical or scientific work the film and the television rights.
10. 5% for films and television rights.
11. Zero if paid to the government or for export guaranty.
12. Zero if paid to the government of another country.
13. Zero if paid to the government of another country in respect to bank loans related to the sale on credit of any industrial, commercial or scientific equipment or any goods.
14. Zero if paid to a government, bank or financial institution.
15. Zero if the rights are related to literary, artistic or scientific work, including films, television or radio productions.
16. 10% for rights on the use of literary, artistic or scientific work including film productions for the cinema or for television or a radio station.
17. A rate of 5% if a dividend is paid by a company in which the investor has invested less than €150.000
18. No WHT for interest on deposits with banking institutions.
19. A rate of 15% applies if received by a company controlling less than 10% of the voting power on the paying company and in all cases if received by an individual.
20. This rate applies if received by a company (excluding partnerships) that hold directly 25% of the shares. A rate of 10% applies in all other cases.
21. Serbia and Montenegro apply the Yugoslavia – Cyprus Treaty
22. Applies to any consideration for the use of, of the right to use, any copyright of literary, artistic or scientific work (including cinematograph films and films, tapes or discs for radio or television broadcasting), computer software, any patent, trademark, design or model, plan, secret formula or process, or for information concerning industrial, commercial, or scientific experience.
23. Zero if paid to the government/Central Bank/ Public Authority of the other state
24. A rate of 7% if paid to a bank or financial institution

New legislation for encouraging economic activity and attracting foreign direct investment

On 16 July 2015 the House of Representatives of Cyprus approved a number of changes to tax legislation aimed at encouraging economic activity and attracting foreign direct investment. The changes purport to encourage international investors (high net worth individual investors, groups and high earning employees) to enhance corporate substance and improve the tax efficiency of their international operations by working and residing in Cyprus.

Amendments to tax legislation stipulated below and marked with an asterisk (*) signify that they have not been passed yet, nevertheless, are expected to be approved and passed by the House of Representatives in September 2015.

1. Notional interest deduction (“NID”) on equity Companies will be entitled to a NID on ‘New Equity’ contributed and paid to Cypriot companies from 2015 onwards.

“New Equity” means any equity, introduced in the business on or after 1 January 2015 in the form of issued share capital and share premium. It does not include amounts that have been capitalized and which are the result of a revaluation of movable or immovable property.

The NID will be calculated based on the ‘New Equity’ and a ‘Reference Interest Rate’. The Reference Interest Rate will be based on the 10 year government bond yield of the Country in which the new equity is invested in, plus 3% (a minimum rate applies).

The NID granted in any tax year cannot exceed 80% of the taxable income. In the event of losses, the NID will not be available. Effectively, this means the NID cannot create taxable losses to be carried forward. The legislation includes specific anti abuse provisions and is effective from 1 January 2015.

2*. Foreign exchange gains or losses are tax neutral as of 1 January 2015

Foreign exchange (forex) gains or losses will no longer affect the tax computation irrespective of the assets or liabilities creating these forex results or whether these are realized or unrealized. Simply put, any forex gains will not be taxable and any forex losses will not be deductible.

An exception to this applies to companies specifically trading in FX currencies, FX currency options and derivatives

3*. Implementation of the amendments made to the EU parent subsidiary directive

In order for the Cypriot Income Tax law to be harmonized with the amended EU Parent-Subsidiary Directive, the previously unconditional exemption of dividend income from corporate income tax on dividends received by a Cyprus company will not be available as of 1 January 2016 if the relevant dividend received by a Cyprus tax resident company is allowed as a tax deduction in the jurisdiction of the foreign paying company.

The restriction of this exemption will also apply in the case that an arrangement has been put in place to take advantage of this exemption without real economic substance. The dividend income which falls within the above criteria and hence does not enjoy the Income Tax exemption will be treated as trading income and will be subject to 12.5% income tax in Cyprus. It will not be subject to special defence contribution (SDC).

4*. The right for **arm's length adjustments** granted to the Commissioner of Inland Revenue for imposition of deemed income is now extended so now if the counterparty is another Cypriot entity, the equal and opposite expense is granted in that respect as an adjustment. This allows in essence transfer pricing downward adjustments subject to conditions. It will become effective as of 1 January 2015.

5*. The scope of application of the **group relief loss provisions** has now been amended to allow for surrendering of losses by EU member state companies to its Cyprus group companies, subject to conditions. This amendment to the legislation brings it in line with the court decisions of the ECJ on this matter. It is effective as from 1 January 2015.

6*. Reserving tax neutrality of reorganizations for bona fide transactions General anti-abuse provisions are now introduced in relation to company reorganizations.

In case the authorities consider that a reorganization is not carried out for valid commercial reasons which reflect economic reality, but instead, they are of the opinion that the main reason is to avoid, reduce or defer tax, then they have the statutory right to refuse granting the exemptions.

Furthermore, in order for the tax authorities to safeguard the bona fide nature of the reorganization, they may impose conditions in relation to the number of shares to be issued by the receiving company as well as request that the shares issued in the course of reorganization be kept by the receiving company for a maximum period of 3 years. It will become effective as of 1 January 2015.

7*. Limitation of losses carried forward on IP activities

According to the IP box regime introduced in 2012, an 80% deemed deduction is available on the net profit generated from the business use or disposal of a qualifying IP asset.

However, the law did not explicitly include a corresponding limitation in case the IP activities were loss making for tax purposes.

From now on, this provision is fine-tuned to state that only 20% of the resulting loss will be allowed, a provision that will be effective as of 1 January 2015.

Amendments for Individuals

1*. The **personal tax exemption** for high earners which is already available (since 1 January 2012) is now granted for 10 years instead of 5 years.

Individuals taking up tax residency in Cyprus and earning over €100.000 annually employment income, enjoy 50% exemption from personal income tax. Certain conditions apply to be eligible for this exemption.

The 50% exemption will not be available to individuals that were Cyprus tax residents for a period of 3 out of 5 years preceding the year of employment.

Further, the exemption will not be available to individuals that were Cyprus tax residents in the year preceding the year of commencing their employment.

The income tax law also provides for a 20% exemption for remuneration from employment in Cyprus subject to a maximum exemption of €8.500. This exemption applies for a period of 3 years starting from the tax year following the commencement of employment. For employments which commenced during or after 2012, the 3 year period is extended to 5 years and the last year for which it will be available is 2020. The bill provides those eligible for the 50% exemption cannot claim the 20% exemption.

This amendment to the legislation is expected to encourage the relocation to Cyprus of senior management to enhance business substance of Cyprus operations. It will become effective as of 1 January 2015.

2*. Payment of **special contribution for defence (SCD) on Income for non-domiciled individuals** is abolished.

Defence tax is payable on dividends, interest and rental income.

Individuals who are considered to be “non-domiciled” in Cyprus (subject to criteria defined in the legislation), would be exempt from payment of SCD tax on dividends, interest and rental income (whether actual or deemed), regardless of whether such income is derived from sources within Cyprus and regardless of whether such income is remitted to a bank account or economically used in Cyprus, even if they are tax residents of Cyprus. Several anti-abuse provisions are also included in the legislation to eliminate cases of tax avoidance.

The term “domiciled in Cyprus” is defined in the law as an individual who has a domicile of origin in accordance with the Wills and Succession Law.

An individual can be considered as domiciled in Cyprus either (i) by domicile of origin or (ii) by domicile of choice, as defined by the Wills and Succession Law of Cyprus.

An individual who has domicile of origin in Cyprus can still be considered not to be “domiciled” in Cyprus for this purpose under certain conditions.

Notwithstanding the above, an individual who has been a tax resident of Cyprus for at least 17 out of the last 20 years prior to the tax year will be deemed to be “domiciled in Cyprus” and as such be subject to SDC regardless of his/her domicile of origin.

The rules regarding non-domiciled individuals are effective starting as of 16 July 2015, and are expected to encourage the relocation to Cyprus of high net worth individuals.

General Tax Amendments

1*. Broadening of the **definition of ‘Republic of Cyprus’** in the Income Tax legislation to include all activities carried out within the Exclusive Economic Zone (“EEZ”) of Cyprus.

2*. **Extending the accelerated annual capital allowances** for fixed asset expenditure (plant and machinery 20% and industrial and hotel buildings 7%) which have already been in place for tax years 2012-2014, are now extended to years 2015 and 2016.

3*. **Anti-avoidance provisions for postponement of deemed dividend distribution arising** from artificial structures (arrangements with no real trading or economic substance).

4*. Giving the statutory right to the tax authorities to impose an **administrative fee for the issuance of tax rulings**.

5*. **Local authorities will no longer be exempted from taxation of rental income**, as it creates an unfair advantage against other entities which are operating in the same industry.

Changes Related to Immovable Property

1. Capital gains tax

(a) Capital gains from sale of shares in property companies

Currently, Capital Gains Tax is charged on disposal of immovable property located in Cyprus or on disposal of shares of companies, which own immovable property located in Cyprus.

Under the proposed legislation, gains from the sale of shares in companies which indirectly own immovable property in Cyprus by holding shares in a company, which own immovable property located in Cyprus will also be subject to capital gains tax. This will apply only in case the value of the immovable property represents more than 50% of the value of the company whose shares are sold.

(b) Exemption from capital gains tax related to properties acquired until 31 December 2016. With this proposed amendment any gains on disposal of properties acquired between the date on which the provision comes in to effect and 31 December 2016, will be completely exempt from capital gains tax.

2*. Immovable property tax law

(a) Abolition of the immovable property levy payable to municipalities.

The municipality and community levy payable to the municipalities will be abolished.

(b) Immovable property tax law. A new Immovable property tax law will be introduced which provides for the imposition of tax based on a single tax rate of 1‰ on the value of the property based on the latest general valuation by the Department of Lands and Surveys (currently that of 31 December 2013).

3. Land registry fees

(a) For transfers of immovable property to be effected until 31 December 2016 the transfer fees will be reduced by 50%

(b) No land transfer fees will be paid on transfer of immovable property from parents to children

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