

CYPRUS

TAX GUIDE FOR
INVESTMENT

/invest
Cyprus

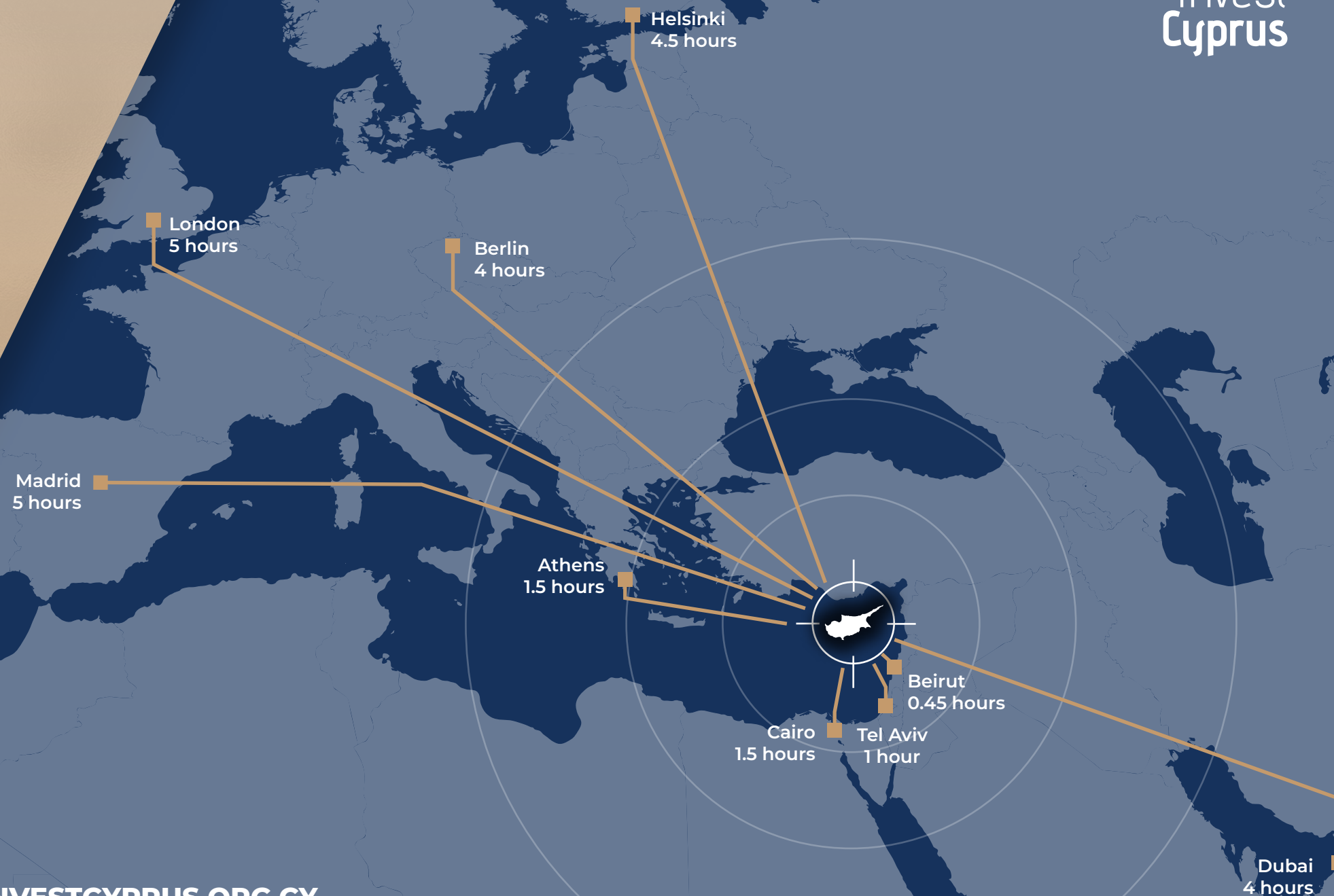


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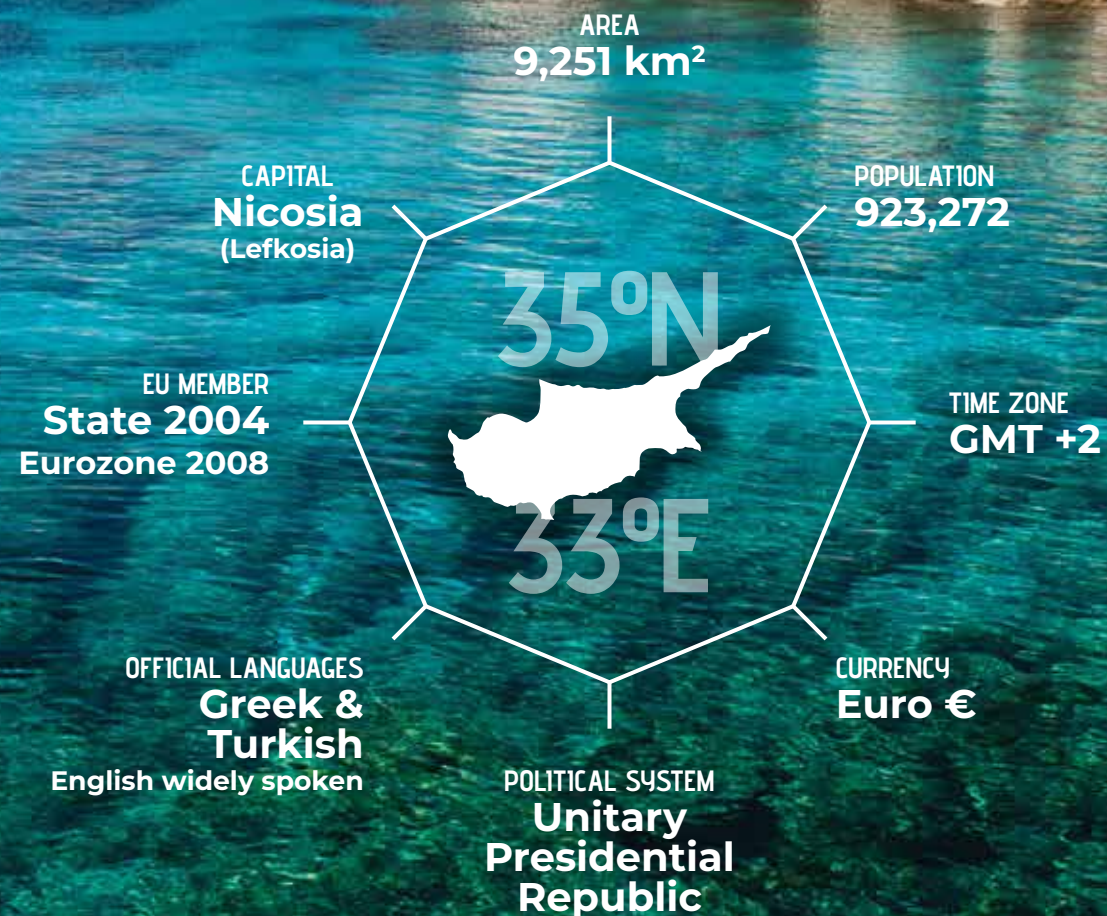
COUNTRY OVERVIEW



Cyprus is the third largest island in the Mediterranean Sea with a geostrategic location at the crux of busy shipping and air routes, conveniently linking the continents of Europe, Africa, and Asia. The island, which has a rich cultural heritage and fascinating history dating back more than 10,000 years, has developed into a modern and thriving EU economy offering both international investors and domestic businesses opportunities across a wide range of sectors. This small yet dynamic country has a strong reputation as a 'centre of excellence' for international business activities with its unique clusters of expertise and world-class service capability to support key growth sectors.

Cyprus is a business-friendly jurisdiction, with a highly skilled and multilingual workforce, where doing business is simple and efficient and quality of life is high – the ideal conditions for international businesses to invest, prosper and grow.

COUNTRY OVERVIEW



Capitalising on its competitive advantages, continuously improving the business climate and competitiveness, as well as ensuring a stable economic environment, Cyprus aims at further diversifying its economy by driving new sectors with high potential. These include sectors such as energy, start-ups and innovation and investment funds, while also further sharpening its edge in areas in which it has traditionally excelled, such as tourism, shipping, and real estate.

The country is also continuously enhancing its regulatory framework, processes and infrastructure to ensure it remains efficient and ahead of the game in today's fast-paced environment. These efforts underline its commitment to offer a high quality and unique value proposition for investors and businesses worldwide. Cyprus is a business-friendly jurisdiction, with a highly skilled and multilingual workforce, where doing business is simple and efficient and quality of life is high – the ideal conditions for international businesses to invest, prosper and grow.

8 reasons

TO INVEST
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1

POSITIVE ECONOMIC OUTLOOK

- Healthy GDP growth
- One of the top ten fastest growing EU economies
- Consecutive upgrades by credit rating agencies
- Positive macroeconomic forecasts

2

ACCESS TO TALENT

- The youngest population and workforce in the EU
- Around 60% of the workforce has a tertiary degree
- Business is conducted in English and majority of Cypriots speak English
- Flourishing private education sector with English-taught programmes
- Visa-free access to EU talent
- Easy access to global talent

3

ACCESS TO MARKETS

- Full access to European markets
- Access to 40+ EU trade agreements with 70+ countries
- Eurozone member since 2008
- Geostrategic position between three continents
- Proximity to both established and emerging markets



8 reasons

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ADVANTAGEOUS REGULATORY STRUCTURE

- Closely aligned to the English Common Law legal system
- EU-approved regulatory framework
- Frequently updated to meet investors' changing needs
- Strong protection for investments and intellectual property (IP)
- Establishing a business is simple and fast

5

ATTRACTIVE TAX REGIME

- Competitive corporate tax rate at 12.5%
- Double Tax Treaty network covering 68 countries
- Access to all EU Tax Directives
- Numerous tax exemptions such as on capital gains, dividend income, gains from trading securities, and foreign exchange gains or losses are tax neutral
- Notional interest deduction for equity investment into Cypriot companies
- Attractive personal tax regime for international professionals and non-domiciled individuals
- No succession, inheritance, or immovable property taxes
- Competitive intellectual property regime and tax deductions for investment in start-ups
- Tailor-made provisions for investment funds
- Competitive Tonnage Tax for shipping companies



8 reasons

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STRONG BUSINESS SUPPORT SERVICES

- Wide range of services for ease of starting and running a business
- Vast pool of top-tier legal, accounting and corporate services providers with strong expertise in cross-border business
- Presence of the 'Big Four' and other major global firms
- Good range of Grade A office space, serviced offices and co-working spaces available in all cities

7

LOW COST OF DOING BUSINESS

- Lower labour costs for technical and professional talent than in other major EU capitals
- Among the lowest office rental rates in Europe
- Highly affordable critical business support services

8

QUALITY OF LIFE

- Pleasant Mediterranean climate and lifestyle
- Safe country with low crime rates and political stability
- Popular retirement and holiday destination
- High number of blue flag beaches and clean bathing waters



Cyprus Tax Regime Highlights

The Cyprus tax, legal and regulatory system provides an excellent framework for the operation of international and local businesses of all sizes. The country has an attractive Double Tax Treaty network currently covering 68 countries and as a member state of the European Union, investors are offered access to all EU Tax Directives.

01

One of the lowest corporate tax rates in the EU

02

Dividend income exemption based on relaxed conditions

03

Capital Gains Tax (CGT) exemption

04

No withholding tax on outgoing dividend, interest or royalty payments

05

Gains from trading in securities are tax exempt

06

Notional Interest Deduction (NID) for investment into Cypriot companies

07

A competitive Intellectual Property (IP) regime

08

Foreign Permanent Establishment (PE) profits are tax exempt

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Tailor-made provisions for the investment funds industry

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Competitive tonnage tax for shipping companies and an EU-approved open registry

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Foreign Exchange (FOREX) gains or losses are tax neutral

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Tax deductions for research and development costs

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An attractive personal tax regime for employees and non-domiciled individuals

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No succession or inheritance taxes

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No immovable property taxes

TAX REGIME HIGHLIGHTS

One of the lowest corporate tax rates in the EU

01

Corporate tax for Cyprus tax resident companies is currently imposed at the rate of 12.5% for each year of assessment on income derived from sources both within and outside Cyprus. In arriving at the taxable income, deductions on such income and exemptions must be taken into account. All relevant expenses incurred wholly and exclusively for the production of that income are deductible expenses whereas dividends (subject to relaxed conditions), capital gains or profits from the sale of shares and other securities constitute tax exempt income. Expenses that directly or indirectly relate to the production of tax-exempt income are also not tax deductible.

Dividend income exemption based on relaxed conditions

02

Foreign dividends received by a Cyprus Company, will be exempt from corporate tax in Cyprus, provided that such dividend payments are not allowed as a tax deduction in the country of residency of the dividend paying company.

Further, foreign dividends may also be exempt from Special Defense Contribution (SDC) in Cyprus, if one of the following criteria is met:

- the dividend paying company derives 50% or more of its income directly or indirectly from activities which lead to active income ('active versus passive test')

OR

- the foreign tax burden on the profits of the company paying the dividend is not substantially lower than the Cypriot corporate income tax rate ('effective tax test').

If neither of the above conditions can be satisfied, dividends will be subject to SDC tax in Cyprus at the current rate of 17%.

TAX REGIME HIGHLIGHTS

Capital Gains Tax (CGT) exemption

03

Capital gains tax is only imposed on the sale of immovable property situated in Cyprus as well as on the sale of shares which are directly or indirectly held in companies (other than listed shares) in which the underlying asset is immovable property situated in Cyprus. CGT is imposed at a flat rate of 20% after allowing for indexation cost. Capital gains that arise from the disposal of immovable property held outside of Cyprus or shares in companies which may have as an underlying asset immovable property situated outside of Cyprus, are exempt from CGT.

TAX REGIME HIGHLIGHTS

No withholding tax on outgoing dividend, interest or royalty payments

04

In general, based on the domestic tax legislation, no withholding tax is imposed on dividends, interest and royalties' payments made by a Cyprus tax resident company to a non-tax resident person, irrespective of whether the recipient of the payment resides in a treaty country or not. As from 31 December 2022, Cyprus applies withholding tax on certain outbound dividend, interest and royalty payments to entities in the EU list of non-cooperative jurisdictions for tax purposes (the 'EU List' – Annex 1 to the Council conclusions on the EU list of non-cooperative jurisdictions for tax purposes).

TAX REGIME HIGHLIGHTS

Gains from trading in securities are tax exempt

05

The Cyprus legislation provides that any gain on the disposal of securities is exempt from taxation. The term 'Securities' includes but is not limited to: ordinary and preference shares, founder's shares, options on qualifying securities, debentures, bonds, short positions on qualifying securities, futures/forwards on qualifying securities, swaps on qualifying securities, depositary receipts on qualifying securities, rights of claims on bonds and debentures, index participations (only if they represent securities), repurchase agreements or Repos on qualifying securities, participations in companies and units in open-end or closed-end collective investment schemes.

TAX REGIME HIGHLIGHTS

Notional Interest Deduction (NID) for investment into Cypriot companies

06

A Notional Interest Deduction (NID) will be granted for new capital introduced in a Cyprus tax resident company and used in the business for the production of income. The NID will be calculated using a 'reference interest' rate which is equal to the yield of the 10-year governmental bond (as at 31 December of the prior tax year) of the country in which the new equity is invested, increased by 5%. A Cyprus company may elect as to whether or not to claim the entire amount of the NID, or part of it, as a tax deduction. The NID will not be available if the Cyprus company is in a tax loss position, nor can it exceed 80% of the taxable profits arising as a result of the newly introduced capital, in a specific tax year.

07

TAX REGIME HIGHLIGHTS

A competitive Intellectual Property (IP) regime

The IP regime applies to 'qualifying' intangible assets. Broadly defined 'qualifying' intangible assets are assets which were acquired, developed, or exploited by a person in the course of carrying on a business and which constitute intellectual property, other than marketing related intellectual property associated with promotion (marketing), and which are the result of research and development activities, including an intangible asset for which there is only economic ownership.

In calculating the taxable profit, an 80% deemed deduction applies to the qualifying profit from the exploitation of such qualifying intangible assets.

Qualifying profits are calculated in accordance with the nexus approach:

$$\text{Qualifying Profits: } \frac{(QE + UE)}{OE} \times OI$$

QE: Qualifying Expenditure on the qualifying intangible asset

UE: Up-lift Expenditure

OE: Overall Expenditure on the qualifying intangible asset

OI: Overall Income which derives from the qualifying intangible asset

Capital gains arising from the disposal of a qualifying asset are fully exempt from income tax. The taxpayer may choose to forego the whole or part of the deduction in each year of assessment. Where the calculation of qualifying profits results in a loss, only 20% of this loss may be carried forward or group relieved. The capital cost of any qualifying intangible asset is tax deductible as a capital allowance over the useful life of the IP, not to exceed 20 years.

TAX REGIME HIGHLIGHTS

Foreign Permanent Establishment (PE) profits are tax exempt

Based on the Cyprus tax legislation, any profits of a foreign PE of a Cyprus tax resident company are exempt from corporate tax in Cyprus if one of the following two conditions is satisfied:

The PE must not engage more than 50%, directly or indirectly, in activities which lead to passive income (active versus passive test)

OR

The foreign tax burden imposed at the level of the PE is not substantially lower than the tax burden in Cyprus (effective tax test).

In addition, any losses from a foreign PE of a Cyprus Company abroad may be offset against profits of the Cyprus Company for the same year subject to recapturing of future PE profits up to the amount of losses previously utilised.

Election to tax the profits of a foreign PE in Cyprus

Cyprus tax resident companies may elect to tax the profits of their foreign PEs in Cyprus in accordance with the provisions of the Cyprus tax legislation. Further, a credit for any foreign taxes imposed on the foreign PE's profits will be afforded in Cyprus, up to the amount of the Cyprus tax payable on such foreign PE's profits. Where there is no double tax treaty, the relief is given unilaterally by Cyprus.

08

Tailor-made provisions for the investment fund industry

09

Cyprus tax resident Alternative Investment Funds (AIFs) and Undertakings for Collective Investments in Transferable Securities (UCITs) are liable to tax or not depending on their legal status (i.e. transparent or not).

- Most income realised by a Cyprus tax resident fund is tax free (e.g. dividend income and capital gains)
- No Permanent Establishment (PE) is created in Cyprus for investors as a result of investing in Cyprus funds that are transparent from a legal point of view
- No subscription tax on net assets of a fund
- No tax on disposal of shares/units by the unit holders upon exit by sale or redemption
- No tax on income arising from trading in securities (including units in Cyprus funds)
- Services provided by the investment manager of the fund are not subject to VAT
- Tax resident fund managers, upon election, are taxed at the flat rate of 8% on the performance linked element of the manager's reward (carried interest) with minimum tax liability of €10,000 per annum

TAX REGIME HIGHLIGHTS

Competitive tonnage tax for shipping companies and an EU-approved open registry

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Cyprus has a tonnage tax system which is fully endorsed by the EU and allows shipping companies to opt to be taxed on the net tonnage of the fleet they operate (Tonnage Tax System – TTS), rather than corporate tax, which they would otherwise have to pay. Under certain conditions the TTS applies also to tug boats, dredgers and cable layers. Cyprus has a competitive European Union approved ‘Open Registry’ and the TTS allows for mixed activities subject to tonnage tax, and to corporation tax. The tonnage tax system covers ship ownership, ship management and ship chartering.

TAX REGIME HIGHLIGHTS

Foreign Exchange (FOREX) gains or losses are tax neutral

11

FOREX gains or losses will be tax exempt/not tax allowable accordingly, irrespective of whether such gains/losses are realised or unrealised. The exemption will not apply to companies that are trading in currencies and currency derivatives.

Tax deduction for research and development costs

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Expenditure for scientific research and for research and development of revenue nature, as recognised by international accounting standards, incurred by a person that carries on business and has the economic ownership of the intangible asset which arises, or it is possible to arise, from incurring such expenditure are deductible for Cyprus tax purposes. An additional 20% deduction applies in years 2022, 2023 and 2024 (cannot be claimed in parallel with the 80% IP deduction).

Tax deduction for investment into start-ups

13

Expenditure incurred by a person, who is an independent investor, either directly or indirectly for risk finance investment in an innovative small and medium-sized enterprise, are allowable deductions from the taxable income of that person.

The allowable amount is restricted (i) for physical persons to 20%, 35% or 50% of the amount invested, depending on the characteristics of the investment and (ii) for legal persons to 30% of the amount invested if the investments are financed from own funds. The allowable amount should not exceed 50% of the taxable income. The tax deduction is subject to a yearly cap of €150,000. The unutilised amount can be carried forward and claimed in the next five (5) years, subject to the above-mentioned restrictions. The Cyprus Tax Authorities may refuse to allow the deduction, if the investor does not retain the investment in the innovative small and medium-sized enterprise for minimum period of three years. The tax deduction is currently available up to 31 December 2026.

An attractive personal tax regime for employees and non-domiciled individuals

Personal income tax rates in Cyprus

The taxable income arising for individuals (residents and non-tax residents) will be subject to the following income tax rates:

Chargeable Income (€)	Tax Rate (%)
0 - 19,500	0
19,501 - 28,000	20
28,001 - 36,300	25
36,301 - 60,000	30
60,000+	35

Tax Residency in Cyprus

The 183 Days Rule:

Cyprus has adopted a residency-based system of taxation, whereby physical presence in Cyprus exceeding 183 days in a tax year (1st January to 31st December) will constitute tax residency for an individual. Consequently, if the individual is physically present in Cyprus for less than 183 days in a tax year s/he will be regarded to be a non-tax resident of Cyprus in that tax year.

The 60 Days Rule: The Cyprus tax residency rules also provide that an individual who does not stay in any other country, for one or more periods exceeding in aggregate 183 days in the same tax year and is not tax resident in any other country for the same year, is deemed to be a resident of Cyprus in that tax year, if all of the following conditions are met:

- the individual stays in Cyprus for at least 60 days in the tax year
- the individual exercises any business in Cyprus and/or is employed in Cyprus and/or holds an office with a Cyprus tax resident company at any time during the tax year
- the individual maintains (by owning or leasing) a permanent home in Cyprus

The law is further amended to clarify that an individual that cumulatively meets all the above conditions shall not be treated as a Cyprus tax resident in the tax year if during that year the exercise of any kind of business in Cyprus and/or employment in Cyprus and/or holding of an office with a tax resident person in Cyprus is terminated.

An attractive personal tax regime for employees and non-domiciled individuals (cont.)

Domicile rules in Cyprus

Based on the Special Defense Contribution (SDC) legislation, the following persons should not be considered to be domiciled in Cyprus:

- An individual who has a domicile of origin outside of Cyprus
OR
- An individual having a domicile of origin in Cyprus but who has not been a Cyprus tax resident for a consecutive period of at least 20 years as from 16.7.2015
OR
- An individual with a domicile of origin in Cyprus who has taken up a domicile of choice outside of Cyprus and has not been a Cyprus tax resident for a consecutive period of 20 years prior to the year of taking up tax residency in Cyprus.

The individual's non-domicile status in Cyprus will be used up or expire in the instance where the individual remains a Cyprus tax resident for at least 17 out of the last 20 years, whereby, s/he will be considered to be deemed a Cyprus-domiciled individual for tax purposes.

Cyprus tax residents who are considered as non domiciled in Cyprus will be exempt from SDC tax on dividends, interest, and rental income, irrespective of the origin of the relevant income (i.e. from sources within Cyprus or abroad).

Concessions available to expatriates

- The lower of 20% or €8,550 of the emoluments from first employment exercised in Cyprus by an individual who for three (3) consecutive years immediately before commencement of employment in Cyprus was employed outside Cyprus to a non-tax resident employer, is exempted from tax. The exemption applies from the 1st of January from the year following the year of commencement of such employment and is granted for a maximum period of seven (7) years.
- 50% of the gross emoluments are allowed to be deducted from employment income for individuals that were not tax residents of Cyprus for a period of at least 15 consecutive years prior to the commencement of their first employment in Cyprus. This deduction applies when income exceeds €55,000 p.a. and is allowed for a maximum period of 17 years, commencing from the year of first employment in Cyprus. The exemption is given to an individual, who exercises salaried services in Cyprus either to an employer resident in Cyprus or to a non-resident employer.

15

No succession or inheritance taxes

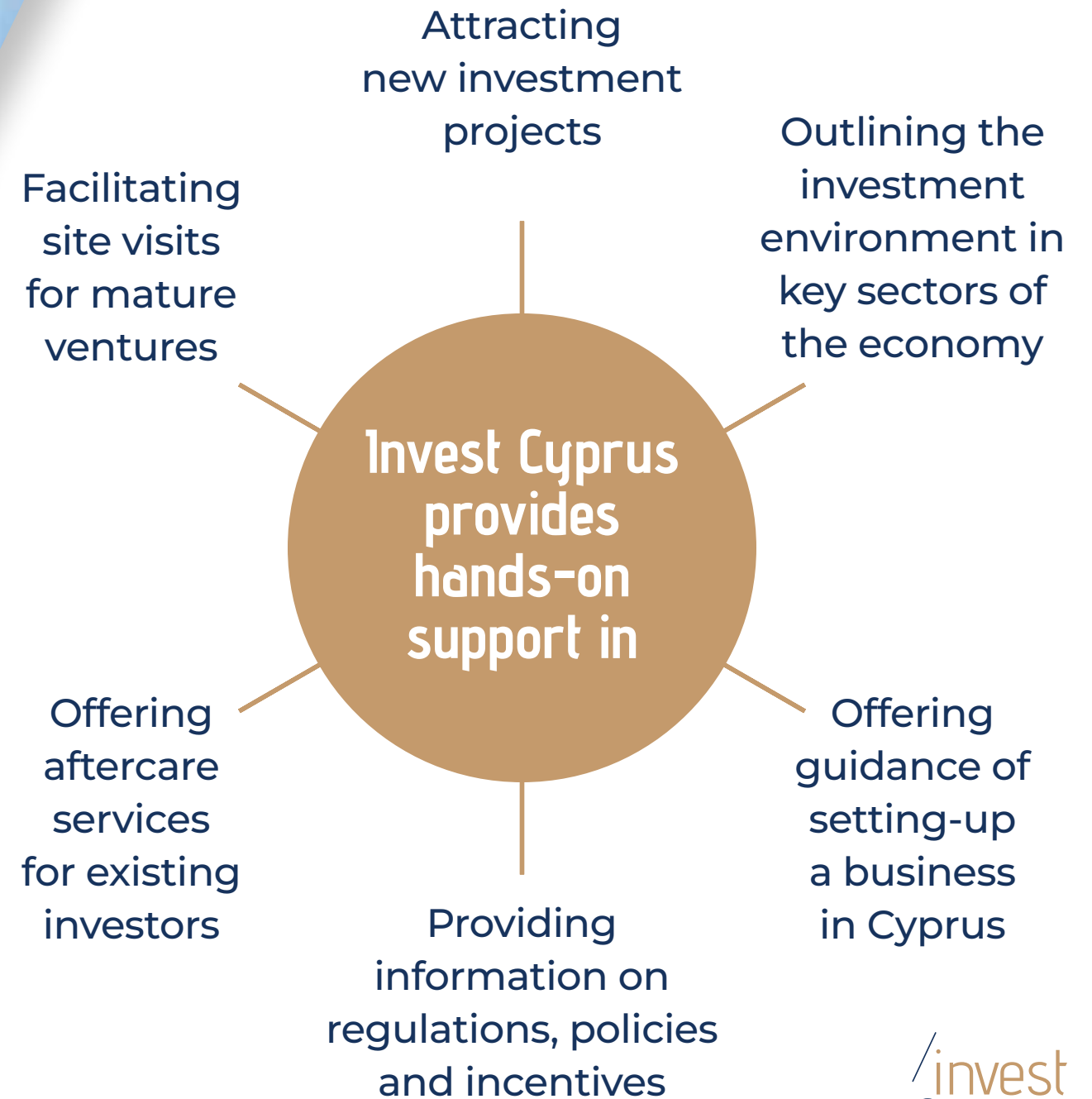
There are no inheritance and gift taxes in Cyprus.

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No immovable property taxes

There is no real estate tax on immovable property located in Cyprus.

What we can do for you



About Invest Cyprus

International Memberships



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Invest Cyprus (Cyprus Investment Promotion Agency) is the investment authority of the Government of Cyprus dedicated to attract and facilitate foreign direct investment (FDI) into the country. In close collaboration with all governmental authorities and public institutions, as well as the private sector, Invest Cyprus is the country's lead agent in establishing Cyprus as a world-class destination for international business activity and investments. Invest Cyprus' mandate is to raise awareness of Cyprus as a destination for FDI across the globe, providing certainty around all aspects of operating a business in Cyprus and supporting potential investors in developing their business case for investment into the country.



Disclaimer

The information available in this guide intends to provide a general introduction to the business environment in Cyprus, and every reasonable effort is being made to ensure its accuracy and timely amendment. In no circumstances shall the Cyprus Investment Promotion Agency (CIPA) be legally bound as a result of any information contained in this guide. Updated information can be found at all times on the website of Cyprus Investment Promotion Agency, at www.investcyprus.org.cy