



Tax Facts

2023 - Cyprus



knowing you.

Income Tax - Individuals

Tax residency

An individual is considered as a Cyprus tax-resident provided that he/she remains for more than 183 days or at least 60 days in the Republic following certain conditions.

Personal Income Tax rates

Taxable Income	Tax Rate	Amount of tax	Accumulated tax
€	%	€	€
0-19,500	0	0	0
19,501-28,000	20	1,700	1,700
28,001-36,300	25	2,075	3,775
36,301-60,000	30	7,110	10,885
Over 60,001	35		

Notes:

- (1) Physical persons are required to submit personal tax return when their gross annual income is above €19.500 (applies for the tax form of 2022)
- (2) A physical person is obliged to submit audited financial statements if his/her turnover exceeds €70.000 annually.

Income

Exemption

Dividends

ALL

Interest (investing activities)

ALL

First employment in Cyprus
(*new rules applied from 26/07/2022*)

20% or 50% of total remuneration

Remuneration earned 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 (PE) of a Cyprus resident employer

ALL

Profits from the sale of securities

ALL

Foreign exchange (FX) gains with the exception of arising from ordinary activities

ALL

Lump sum received as retiring gratuity, commutation of pension, death amount gratuity or as consolidated compensation for death or injury

ALL

Expenses	Deduction
Subscriptions to trade unions and/or professional bodies	ALL
Expenses for letting of buildings	20% of gross rental income
Interest on acquisition of building for rental purposes	ALL
Contributions to Social Insurance, N.H.S., provident fund, medical fund (max. 1,5% of remuneration), pension fund and life insurance premiums (max. 7% of the insured amount)	restricted to 1/5 of the net taxable income before these allowances
Expenditure for the maintenance of preserved buildings (subject to conditions)	Depends on the size of the building
Donations to political parties (subject to conditions)	Up to €50,000

Corporation Tax - Companies

Tax residency

A company is tax resident in the Republic if it is managed and controlled from the Republic or it is incorporated or registered in Cyprus but is managed and controlled from outside Cyprus, as long as the company is not considered a tax resident of any other country (applies from 31 December 2022).

Tax rate on taxable profits: 12.5%

Income	Exemption
Profit from the sale of titles	ALL
Dividends*	ALL
Interest not arising from the ordinary activities of the company	ALL
Profits of a foreign permanent establishment (PE) **	ALL (under certain conditions)
Foreign exchange (FX) gains with the exception of arising from company's ordinary activities	ALL

* As from 1 January 2016, dividends which are tax deductible for the paying company are not exempt.

** As from 1 July 2016, taxpayers may elect to tax the profits of the foreign PE and granting tax credit for the foreign taxes incurred on those foreign PE's profits.

Allowable expense - Incentives

- Interest expense incurred for the direct or indirect acquisition of 100% of the share capital of a subsidiary company (subject to conditions).
- Equity introduced to a company as from 1 January 2015 (new equity) in the form of paid-up share capital or share premium may be eligible for an annual notional interest deduction (NID). Deduction cannot exceed 80% of taxable profit derived from the assets financed by the new equity.
- Profits from exploitation and/or disposal of intellectual property rights under the new IP regime (80% deemed deduction to the net profit using the modified nexus fraction).
- Shipping companies for operation in international waters under tonnage tax regime of qualifying ship-owners, charterers and ship managers, from the operation of qualifying community ships.

Special defense contribution (SDC)

Special contribution for defence is only imposed on Cyprus tax residents and Cyprus domiciled individuals (after 16 July 2015). Non – domiciled individuals will be exempt from paying SDC on rental/interest or dividend income irrespective of whether the income is derived, remitted, or used in Cyprus.

	Companies	Individuals
Dividend income from Cyprus resident companies	0% (1)	17%
Dividend income from non-Cyprus tax resident companies	0% (2)	17%
Interest received by an individual from Government Savings Certificates, Government Bonds and Corporate Bonds	0%	3%
Other Interest Income (“passive”)	30%	30%
Gross rental income (reduced by 25%)	3%	3%

Notes:

(1) Unless: a dividend is indirectly paid after four years from the end of the year in which the profits out of which the said dividend was paid. Dividends paid from income derived directly or indirectly from dividends on which SDC was paid, are exempt from the payment of SDC.

(2) Unless: more than 50% of income is derived from investment activities **AND** foreign tax is significantly lower than the Cyprus tax (effective rate of less than 6.25% on the profit distributed).

Deemed dividend distribution

A company resident in Cyprus, is deemed to distribute at 70% of the accounting profits after tax (as adjusted for SDC purposes), in the form of dividends, within two years from the end of the year in which the profits relate.

SDC is imposed to the extent that the ultimate direct/indirect shareholders of the company are Cyprus Tax resident and Cyprus domiciled individuals. Deemed dividend distributions are reduced by actual dividend payments made during the two years.

Disposal of company's assets to shareholders

Disposal of company's assets to shareholders or closely related individuals (who have not previously been gifted to the company by the shareholder) for a consideration below market value, the difference will be deemed to have been distributed for a consideration as a dividend to the shareholder.

Company dissolution

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

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 previously paid-in equity will be considered as dividends distributed and are subject to Special Defence Contribution at the rate of 17% (after deducting any amounts which have been deemed as distributable profits).

Capital gains tax 20%

Imposed on gains from the disposal of immovable property situated in Cyprus including directly (or through company shares) or indirectly through shares if at least 50% of the market value of the said shares derive from such immovable property. Gains on disposal of shares listed on recognized stock exchange are exempt from Capital Gains Tax.

Levy of 0,4% on Immovable property disposals in Cyprus

As from 18 November 2022, a levy of 0.4% applies on all disposals of immovable property (with the levy being imposed on the sale price) as well as disposals of shares of a company that holds immovable property, either directly or indirectly (with the levy being imposed on the latest general valuation undertaken by the Department of Land & Surveys).

Transfer fees by department of land and surveys

Land transfer fees are payable by the buyer to the Department of Land and Surveys on transfer of immovable property. The rates applicable for the land transfer fees, are reduced by 50% except in the case of transfers under Part VI and Part VIA of the Transfers and Mortgages of Immovable Property Law.

Social Insurance & National Healthcare System contributions

	Social Insurance Fund	Redundancy Fund	Industrial Training Fund	Social cohesion fund	NHS
Employee	8.3%	-	-	-	2.65%
Employer	8.3%	1.2%	0.5%	2%	2.90%
Self employed	15.6%	-	-	-	4%

Maximum contributions on employee's emoluments: €5,005 per month and €60,060 per annum – (except social cohesion fund which has no maximum).

NHS contributions are capped at €180.000 total annual income.

Mandatory Disclosure Rules (DAC6)

As from 1 January 2021 (with retroactive application as of 25 June 2018), the Cyprus tax law aligned with the EU "DAC6" Directive 2018/822 on the mandatory automatic exchange of information in the field of taxation regarding the reportable cross-border arrangements with the intention to increase transparency in the area of direct taxation.

Penalties for non-compliance vary depending on the type of violation, with a maximum of €20.000 per arrangement.

Cyprus Double Tax treaties

Andorra	Egypt	Jersey	Norway	Spain
Armenia	Estonia	Jordan	Poland	Sweden
Austria	Ethiopia	Kazakhstan	Portugal	Swiss Confederation
Azerbaijan	Finland	Kuwait	Qatar	Syria
Barbados	France	Kyrgyzstan	Romania	Thailand
Bahrain	Georgia	Latvia	Russia	The States of Guernsey
Belarus	Germany	Lebanon	San Marino	Ukraine
Belgium	Greece	Lithuania	Saudi Arabia	United Arab Emirates
Bosnia	Hungary	Luxembourg	Serbia	United Kingdom
Bulgaria	Iceland	Malta	Seychelles	United States
Canada	India	Mauritius	Singapore	Uzbekistan
China	Iran	Moldova	Slovakia	
Czech Republic	Ireland	Montenegro	Slovenia	
Denmark	Italy	Netherlands	South Africa	

The general concept is that there is no withholding tax (WHT) for payments made from Cyprus for dividends, interest and for royalty rights not used within CY (there are some restrictions with regards to royalty rights being used within CY).

As from 31 December 2022, Cyprus will apply WHT on dividend, interest and royalty payments to countries based on the EU 'blacklist' of non-cooperative jurisdictions on tax matters.

Anti-tax avoidance measures

Controlled Foreign Company (CFC) rule

The non-distributable income of a CFC or of a foreign PE arising from non-genuine arrangements which are controlled by the controlling company resident in the Republic, is added to the taxable income of the controlling company resident in the Republic, subject to certain exceptions. Any foreign tax paid on the income of the CFC is credited against income tax payable in the Republic.

Interest limitation rule

Excess Borrowing Cost (EBC) shall be deductible in the tax period in which they are incurred only up to 30% of the taxpayer's earnings before interest, tax, depreciation and amortization (EBITDA). There is a threshold of €3.000.000 per annum. Other exemptions may also apply.

General Anti-Abuse rule (GAAR)

The GAAR provides that an arrangement or a series of arrangements which are non-genuine (i.e., are not put into place for valid commercial reasons that reflect economic reality) shall be ignored, for the purposes of calculating the corporate tax liability.

Exit taxation

Where a taxpayer moves assets (e.g., from head office to PE or vice versa) or its tax residence out of the Republic, the taxpayer shall be subject to tax on an amount equal to the market value of the transferred assets at the time of exit, less their value for tax purposes.

Hybrid mismatches

Hybrid mismatches rules apply to prevent double non-taxation of certain income in the Republic.

Transfer Pricing

Arm's length Principle – Section 33 of Income Tax Law

The price agreed in a transaction between two related parties must be the same as the price agreed in a comparable transaction between two independent parties.

Transfer Pricing Documentation and Penalties

With effect as from 1 January 2022, transfer pricing documentation requirements have been introduced. These apply to all Cyprus tax resident companies, as well as PEs of non-resident companies, that engage in transactions with related parties, with arm's length value of more than EUR750,000 p.a. in each of the following categories - goods, services, IP related income, financial transactions, and other transactions.

The documentation compliance obligations include the preparation of Cyprus Local File, maintaining a Master File and preparation and submission of Summary Information Table ('SIT') – subject to certain exemptions.

The Local File (and Master File, if relevant) for a particular year should only be submitted to the Tax Authorities upon request within 60 days from the date of such request. Penalties for late or non filing range from €5.000 - €20.000.

The SIT should be prepared and submitted along with the taxpayer's Corporate Income Tax Return for that year. The penalty for failure to submit is €500.

Tax calendar

End of each month

- Payment of PAYE and N.H.S. deducted from employee's salary, in the preceding month (TD61)
- Payment of SDC and N.H.S. 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 (TD603, TD602, TD614)
- Payment of tax withheld in the preceding month on payments made to non-Cyprus residents (TD11)

31 January

- Submission of declaration of deemed dividend distribution (TD623) for the year ended 31 December 2020

31 March

- Electronic submission of company's tax return for accounting periods ending on 31 December 2021 (TD4)
- Electronic submission of the 2021 income tax return of physical persons preparing audited financial statements (TD1)

30 April

- Payment of premium tax for life insurance companies – 1st instalment for 2023 (TD199).

31 May

- Electronic submission of the employer's return for 2022 (TD7)

30 June

- Payment of SDC and N.H.S for the first six months of 2023 on rents if such tax is not withheld at source by tenant, dividends, or interest from sources outside Cyprus (tax portal - payment codes 604,612,613)

31 July

- Submission of the 2023 provisional tax return and payment of the 1st instalment (*via tax portal under payment codes 200 and 213*)
- Electronic submission of 2022 personal tax return of individuals and payment of the income tax liability (TD1)
- Electronic submission of 2022 personal returns by self-employed individuals who do not prepare audited financial statements and payment of the income tax liability (TD1)

1 August

- Payment of the 2022 final tax balance under the self-assessment method by individuals and companies preparing audited financial statements (*via tax portal under payment code 300*)

31 August

- Payment of premium tax for life insurance companies – 2nd instalment for 2023 (TD199)

31 December

- Submission of the 2023 revised provisional tax return and payment of the 2nd instalment (TD5, TD6)
- Payment of SDC and N.H.S for the last six months of 2023 on rents if such tax is not withheld at source by tenant, dividends, or interest from sources outside Cyprus (*tax portal - payment codes 604,612,613*)
- Payment of premium tax for life insurance companies – 3rd and last installment for 2023 (TD199)

Notes:

- **Tax payments** can only be made electronically.
- From tax year 2018 and onwards, a **revised tax return** can be submitted within 3 years from the submission deadline of the relevant tax return.

Interest and Penalties

The official interest rate, as set by the Ministry of Finance, is 2.25% per annum for amounts due as from 1 January 2023. (2021-2022:1.75%, 2019: 2%,2018-2017:3.5%)

In addition to the interest, penalties are also charged depending on the circumstances.

This Tax Card has been prepared based on the latest legislation voted by the representatives of parliament as at 31 December 2022. You should consult your tax advisor before making decisions on the basis of information given herein.

Address

Kreston Ioannou & Theodoulou Ltd

4 Pindou Street
2409 Engomi
P.O.Box 27713
2432 Nicosia
Cyprus

Tel: +357 22050500
Fax: +357 22493123

Email: info@ith.com.cy
Website: www.ith.com.cy

