



Practical Note CY 1



Cyprus:

An Overview

Introduction

Cyprus has developed in to a very attractive location from which to conduct business internationally, to invest in and to relocate and live on a permanent basis. The purpose of this Practical Note is to provide a brief introduction to aspects which should be taken in to account before deciding for any of the above actions.

General

With an area of 9251 sq. km, Cyprus is the third largest island in the Mediterranean Sea, situated in its north-eastern basis at the crossroads of Europe, Asia and Africa. The official languages are Greek and Turkish but English is widely spoken and is the language mostly used in business.

The island is home to a large expatriate community, having the second highest percentage of foreign citizen residents in the EU. British nationals comprise the largest expat community whilst Russians and other Eastern European nationals also constitute big expatriate groups. Cyprus is considered as a safe and pleasant place to live, with low crime and pollution rates. Furthermore, the top quality of facilities and services on offer, such as marinas, golf courses, professional services, private schools and universities, have already led to a significant increase in the number of foreign people investing in and relocating to Cyprus over the coming years.

Cyprus has been a member of the EU since the 1st of May 2004. The strategic location, the strong pro-business attitude, the multi-lingual and highly skilled human capital (more university graduates per capita than anywhere else in Europe), the state-of-the-art infrastructure and the 2003 tax reform transformed the island in to one of the most progressive and efficient business locations in Europe.

Area: 9251 sq. km

Currency: EURO

Time: CET (GMT + 02:00)

GDP per capita: €23,397

Weather: Mediterranean climate, 340 warm and dry days in a year and mild winters

GDP composition:

- agriculture 2.1%,
- industry 14.2%,
- services 83.7%

Population (as of December 2019): 888k

Financial Institutions: Banks: 29

Languages:
Greek, Turkish (both official)

Investment Funds: 230

Crime: 0.64 per 100 persons

Registered Companies (as of Mar 2021): 231,558

Pollution: Low

Sovereign rating :

- Fitch - 3/2021: BBB-
- S&P - 3/2021: BBB-
- Moody's - 9/2019: Ba2

Political System:
Presidential Republic, with President as Head of State leading an elected government

Gross Public Debt for 2020:
118.2% of GDP

Memberships:

- EU since 2004
- Eurozone since 2008
- Commonwealth

Public Surplus / (Deficit) for 2020: (5.2)% of GDP

Please note

This publication aims to present a summary of the main provisions and possible or typical solutions in the most plain and practical way possible. Whether or not what is presented could apply to a specific case will depend on its own facts and circumstances. We will be happy to discuss these facts with you and present you with possible solutions, in the most straightforward, accurate and comprehensive way possible. You can find our contact details at the back of this publication.

Did you Know that Cyprus...

- comes 29th in the 2020 Global Innovation Index out of 131 countries?
- Cyprus Investment Promotion Agency (CIPA) was ranked 5th among 189 Organisations Worldwide for the provision of excellent information to investors by the World Bank's "Global Investment Promotion Best Practices"?
- is the biggest ship management centre in the EU?
- has more University graduates than anywhere else in the EU?
- has the 3rd biggest Ship Register in Europe and 11th in the world?
- ranks 54th out of 190 countries on the World Bank's "Doing Business Report" of 2020?

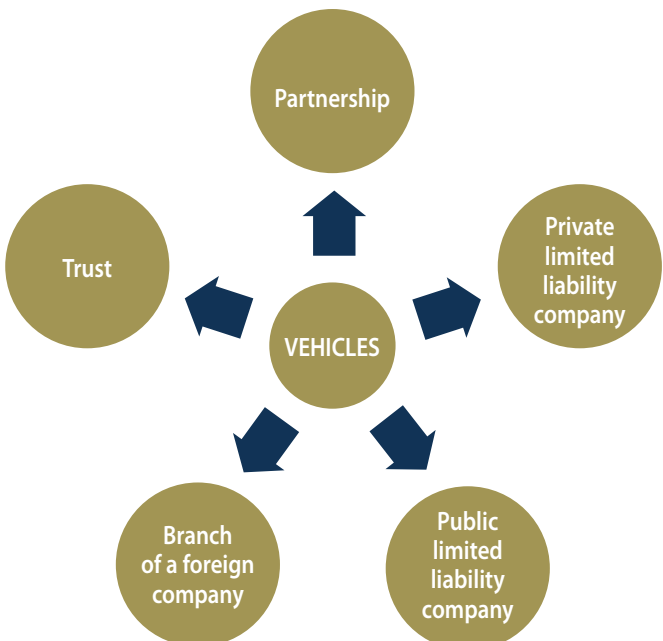
Legal System

Cyprus Law is a mixture of legislative statutes and case law. Its structure is largely based on Common Law and English case law is often cited.

The Companies Law Cap 113, went through a major reform in 2003 and in the years that followed, as part of the harmonisation of Cyprus Law with EU Law, and various provisions were introduced enabling the use of the Cyprus Company as a vehicle in a number of structures, among other things.

Apart from these changes related to EU harmonisation, in general there is stability in the Law with no frequent radical changes and hence with minimum uncertainty. Despite that, where deficiencies are detected or modernization is required in the Law, the necessary amendments are implemented speedily and effectively.

Types of Business Vehicles





Private Limited Liability Company

Share Capital

- No minimum or maximum and no minimum paid up
- Can be issued at a premium

Shareholders

- At least one
- Nominee shareholders permitted but nominees must be licensed

Directors

- At least one
- In certain cases a director may also act as the company secretary
- Can be either a physical or a legal person
- Local not required but strongly recommended

Company Secretary

- Any nationality – resident highly recommended
- Can be either a physical or a legal person

Registered Office

- Required to be in Cyprus

Meetings

- At least one General Meeting of the Shareholders each year, in addition to any other company meetings
- General Meetings of the Shareholders, except for the Annual General Meeting can be held via resolution in writing

Tax

As part of its accession to the EU, Cyprus has transformed from an off-shore tax haven featuring a 4.25% corporate tax rate for ring-fenced businesses to an EU preferential jurisdiction with a uniform tax rate which currently stands at 12.5% and is among the lowest in the European Community.

Furthermore, Cyprus has not only fully adopted all EU Directives; it has even gone beyond that by not imposing a minimum holding period, percentage holding and any other restrictions used by most Member States.

1. Tax Facts

Corporation Tax Rate	12.5%
Tax residency	Based on the management and control concept
	Companies tax resident of Cyprus: subject to tax on worldwide income
	Companies non-tax resident of Cyprus: subject to tax only on income arising in Cyprus
Withholding tax on dividends, interest and royalties	None to non-residents of Cyprus (for royalties only for rights used outside Cyprus)
Tax Rulings	Only on interpretation of Law
Double tax relief	<ul style="list-style-type: none">• Double Tax Treaties - over 60; or• Unilateral Tax Relief;
Gains on sale of shares and other securities	Exempt from any tax (except when the shares belong to a non-listed company owning immovable property in Cyprus)
Tax Losses	<ul style="list-style-type: none">• Can be carried forward for five years/ cannot be carried backwards• Group Relief is available
Special Tax Regimes	Shipping Industry Intellectual Property Film Industry Investment Funds Non-Cyprus domiciled persons and Expats

2. Tax Advantages

Participation Exemption

No withholding taxes on dividends, interest and royalties to non-residents

No tax on gains on disposal of shares and other securities

Unrestricted access to all EU Directives

80% exemption on profits from the exploitation/licensing and gains on disposal of qualifying intellectual property

Tonnage tax for the shipping industry

No Thin Capitalisation Rules

No Controlled Foreign Corporation (CFC) legislation

No Wealth Tax
No Inheritance Tax



3. Table of Taxes

	Corporation Tax	Special Contribution for Defense (SCD)	Capital Gains Tax
Trading Income	12.5%	N/A	N/A
Active Interest	12.5%	Exempt	N/A
Passive Interest	Exempt	30%	N/A
Dividends – SCD exemption conditions met	Exempt	Exempt	N/A
Dividends – SCD exemption conditions failed	Exempt	17%	N/A
Gains on sale of securities	Exempt	N/A	Exempt
Rental income	12.5%	3% on 75%	N/A
Income from qualifying Intellectual Property	80% Exempt	N/A	N/A

* **Individuals** who are tax residents of Cyprus but are not considered to be “domiciled” (refer to “Incentives to Relocate to Cyprus” section) in Cyprus are exempt from payment of SCD.

VAT Facts

Cyprus has a VAT system based on the EU VAT Directive 77/1388/EEC. The main characteristics of the Cyprus VAT regime can be viewed in the below table:

Standard VAT rate	19%
Reduced VAT rate	5% - Food, drinks (excluding alcoholic and soft drinks), entry fees to theatres, cinemas, sport events and other cultural events, books and newspapers, repair and maintenance of private households, confectionery products, medicines, live animal and animal foodstuff, hair salon services 9% - Transportation services, restaurant services, hotel services
Zero rating and exemptions	Zero rating - exports and intra - community supplies, supply, hiring and repairs of aircrafts and sea going vessels Exempt - Financial services, rents, lotteries, medical services, insurance services, education, sports, cultural services
Registration threshold	<ul style="list-style-type: none"> Annual turnover of €15,600 No threshold if a business offers taxable supplies to a VAT - registered person in another EU Member State Acquisitions from other EU Member States of €10,251.61
VAT return	Submitted on a quarterly basis
VAT Information Exchange System (VIES)/INTRASTAT	Submitted on a monthly basis

Accounting Facts

All Cyprus registered companies are required to prepare financial statements in accordance with the relevant provisions of the Cyprus Companies Law, Cap. 113 and the International Financial Reporting Standards and file these with the Registrar of Companies. The main characteristics of the accounting regime of Cyprus are displayed on the below table:

Accounting standards	IFRS
Submission of accounts	Required
Audit	Yes – exemption for private companies qualifying as small but still needed for tax purposes
Updating of Accounting Records	Within four months from the occurrence of a transaction (tax requirement)
Maintenance of Accounting Records	To be kept for 6 years
Consolidation	Yes – exemptions for intermediate parent companies and small size groups

Employment Issues

1. Work Permits

a. EU Citizens

EU Members have the right to enter Cyprus by simply showing a valid EU passport or ID card without having to register upon arrival.

EU citizens have also the freedom to work and open their own business on the island.

In order to commence employment the following steps must be taken:

- apply within eight days of their arrival for an Alien Registration Certificate at the local Immigration Branch of the Police and pay the relevant fee;
- apply for a social insurance number securing employment in Cyprus;
- apply for the issuance of a Registration Certificate at the Migration Department.

b. Non - EU Citizens

Applications for the issue of entry and work permits are submitted to the Civil Registry and Migration Department by the intended employer, on condition that the candidates are abroad. It must be proven that regarding the specific position applied for, there are no available and adequately qualified Cypriots or other EU citizens.

Work permits for non - EU citizens are granted for employment only by the applicant employer and are normally issued for one year, although they can be renewed.

2. Social Security

There is a mandatory earnings-related social security scheme in Cyprus which applies to both employed and self-employed individuals, whether resident or not, and whether Cypriot or not. Self-employed persons are assessed on notional income levels depending on their occupation.



Contributions to the various funds are tax-deductible, and the employer's contribution is not taxable for the employee. The following are the contributions an employer is required to make on the gross emoluments of his employees:

Social Insurance Fund 8.3%
Redundancy Fund 1.2%
Industrial Training Fund 0.5%
Social Cohesion Fund 2%
Holiday Fund (if not exempt *) 8%

* An employer can be granted an exemption when paid annual holidays are offered and upon certain conditions being met.

Besides the Social Cohesion Fund for which contributions are uncapped, for the rest of the funds the contributions are capped at a certain amount of gross emoluments, which for 2021 is € 57,408 per annum.

The employee only contributes to the Social Insurance Fund at the same rate as the employer and subject to the same gross emoluments cap.

3. General Health System

Employers are required to contribute 2.90% on the gross emoluments of employees, who are also required to contribute 2.65% on their emoluments and other income (e.g. rent, dividends, interest, etc.). The contribution rate for self-employed persons is 4%. The state is also required to contribute at 4.70% on the gross emoluments.

For the purposes of calculating the contributions, gross emoluments and other income are limited to €180,000 per annum.


4. Personal Income Tax

Individuals who are resident in Cyprus are taxed in the country on their worldwide income.

For individuals who are not residents of Cyprus, tax is charged only on income and gains generated in or derived from Cyprus. Tax is charged progressively, with the maximum rate being 35%. There are some special regimes for attracting foreign pensioners or highly qualified personnel, which are covered in detail below.

Tax is withheld at source by the employer through the PAYE system.

Personal Tax		
Taxable Income	Tax Rate	Cumulative Tax
€	%	€
0 - 19,500	0	0
19,500 - 28,000	20	1,700
28,000 - 36,300	25	3,775
36,300 - 60,000	30	10,885
60,001 and over	35	



For expatriates relocating to Cyprus, it will be important to establish their country of tax residency, their sources of income and to what extent they may qualify for benefits under bilateral or EU agreements for relief from taxation and social insurance contributions.

The following are, among other, exempted from Income Tax:

- interest income
- dividend income
- gains from disposal of securities (shares, bonds, options, forwards, etc.)

The most important expenses deductible for Income Tax purposes are as follows:

- Contributions to approved provident funds
- Subscriptions to trade unions or professional bodies
- Donations to approved charitable organisations
- Expenses for the letting of buildings up to the 20% of the rental income.

Incentives to Relocate to Cyprus

With regards to incentives to relocate to the country, Cyprus offers schemes for different purposes, from promoting the physical establishment/relocation of foreign companies and groups to motivating Cypriots studying abroad to return to Cyprus upon graduating, to giving yet one more motive for non-residents to retire in Cyprus.

1. “Domicile” concept for Special Contribution for Defense purposes

The concept of “domiciled” persons for what concerns Special Contribution for Defense was introduced as from July 2015. Individuals who are tax residents of Cyprus but are not considered to be “domiciled” in Cyprus are exempt from payment of Special Contribution for Defense on dividends, interest and rental income.

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

2. 60-days tax residency rule

This provision, which was introduced in July 2017, provides an incentive to individuals who are not tax residents in any other country for any tax year to transfer their tax residence to Cyprus, as long as they satisfy certain criteria.

3. 50% Exemption on Employment Income

This measure was implemented to attract foreign companies or groups to establish themselves or, as is usually the case, transfer their base and substance of operations in Cyprus by offering 50% exemption on personal income. The exemption applies to employment income of a non-resident person taking up residence in Cyprus to work for an employer in the country. This exemption applies for a period of ten years starting from the first year of employment provided that the employment income of the employee exceeds €100,000 per annum either in that year or in any three out of the five years preceding the year in which their employment commenced in Cyprus.



4. 20%/EUR8550 Exemption on Employment Income

This exemption has been in effect for many years and it has been mainly targeting expatriates and Cypriots studying abroad to return to Cyprus for employment. The exemption relates to the lower of 20% of employment income or €8,550 and applies for five years starting from the 1st of January of the year following the year of employment.

5. Special Tax Rate for Pensioners

Foreign pensions have a very favourable status in Cyprus, involving a flat annual income tax charge of 5% for amounts exceeding €3,420 per annum. What is more, the tax payer has the right to choose to be taxed either under the special mode of taxation as stated above or at normal rates. The latter option might be more beneficial, depending on the circumstances, considering that the first €19,500 of personal income per annum is tax free. It should be stressed that as pension income is generally treated as earned income in the country of origin, it is only by concession that a lower rate can be paid by living abroad as an expat. Such concessions are usually determined by Double Tax Treaties (DTTs) and Cyprus has many such treaties, which include the relevant provisions.

Other Incentives

1. Permanent Residence Permit Programme

This special class of permit relieves its holders from time consuming procedures associated with other types of permits, such as consular inspections, renewal etc. The main criterion in order to qualify for the scheme is the investment of not less than €300,000 in Cyprus real estate, or companies, or collective investment organisations.

More information about this programme can be found in our Practical Note CY3 - "Incentives for investing/relocating in Cyprus".

2. Reduced VAT and Transfer Fees

The construction or the acquisition of immovable property to be used as the primary and permanent residence, is subject to the reduced VAT rate of 5% on the first 200 square meters of the property. For the remaining square meters the standard VAT rate of 19% is imposed. The reduced VAT rate is applicable to individuals from all over the world, who do not necessarily reside in Cyprus ordinarily but acquire property to be used as their residence while they are in Cyprus.

The Land Registry (Duties and Fees) Law provides for full exemption from transfer fees for all transfers of real estate property for which VAT is payable on the transaction and 50% exemption from transfer fees for all other transfers.

3. Immovable Property Tax

As from 2017, Immovable Property Tax (IPT) has been abolished.

Restructuring Options to/from Cyprus



Conclusion



For more details please refer to our website



About us...

Seamark Consultants Ltd was established in 2004 as Fiducenter (Cyprus) Ltd, a name which has been using up until January 2019.

We provide a comprehensive range of international business services related to Cyprus, including setting up and operating a business in Cyprus, becoming a resident, citizen or tax resident of the country, family office, accounting and tax compliance, corporate and secretarial, trustee, professional consultation and much more.

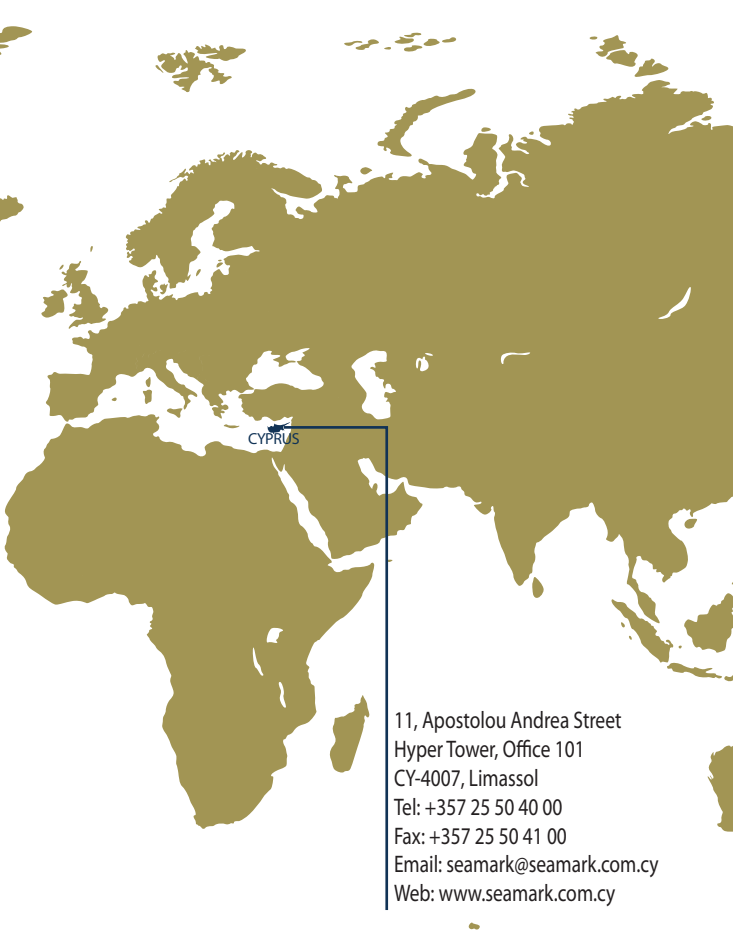
We are one of the very first companies in Cyprus licensed for the provision of Administrative Services and we are a founding member and the First President of the Cyprus Fiduciary Association.

As the human capital is the most important asset for every firm engaged in the professional services industry, our team comprises of highly qualified and experienced professionals including chartered and certified accountants, lawyers and corporate administrators.

Having the provision of top a quality, prompt and efficient service as a guiding mark, we aim to help our clients achieve their objectives by creating long-lasting relationships based upon trust, respect, integrity and proactivity.

Our name and brand identity are inspired by what the role of a modern consultant should be...

YOUR MARK FOR A SAFE INTERNATIONAL BUSINESS JOURNEY



© Seamark

April 2021

All rights reserved.

No part of this publication may be reproduced, sorted in a retrieval system, or transmitted, in any form or by means, electronic, mechanical, photocopying, recording or otherwise, without the prior written consent of Seamark.

The information provided in this publication does not constitute legal, tax or investment advice and no responsibility is accepted for any loss occasioned directly or indirectly as a result of persons acting, or refraining from acting, wholly or partially in reliance upon it.