

Tax Facts & Figures 2011 - Cyprus

The tax system in
Cyprus.

January 2011




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Foreword





There are significant benefits from a proper and effective tax planning. Our people possess the knowledge and expertise to assist you identify such benefits. We are next to you to share know-how and innovative specialized solutions to support you for structuring your operations in a tax efficient way.

This publication aims at providing a general description of the tax system in Cyprus. The tax information contained is based on the tax legislation and practice as at January 2011.

A full and detailed description of the prevailing tax system is not the aim of this booklet nor could it be covered in a brief publication of this kind. Consequently “Tax Facts & Figures - 2011 Cyprus” should only be used as a source of general information and it cannot substitute proper professional advice.

Please do not hesitate to contact us at any of our offices at the addresses shown at the back of this publication.

PwC Cyprus
January 2011

Personal Income Tax

Basis of taxation

All Cyprus tax residents are taxed on all income accrued or derived from all sources in Cyprus and abroad. Individuals who are not tax residents of Cyprus are taxed on income accrued or derived from sources in Cyprus.



An individual is tax resident in Cyprus if he spends in Cyprus more than 183 days in any one calendar year. Days in and out of Cyprus are calculated as follows:

- the day of departure from Cyprus counts as a day of residence outside Cyprus.
- the day of arrival in Cyprus counts as a day of residence in Cyprus.
- arrival and departure from Cyprus in the same day counts as one day of residence in Cyprus.
- departure and arrival in Cyprus in the same day counts as one day of residence outside Cyprus.

Personal tax rates

The following income tax rates apply to individuals:

Chargeable income	Tax rate	Accumulated tax
€	%	€
0 - 19.500	Nil	Nil
19.501 - 28.000	20	1.700
28.001 - 36.300	25	3.775
over 36.300	30	

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

Exemptions

The following are exempt from income tax:

Type of income

- Interest
- Dividends
- Remuneration from any office or employment exercised in Cyprus by an individual who was not resident of Cyprus before the commencement of his employment, for a period of 3 years commencing from 1st January following the year of commencement of the employment
- Remuneration from salaried services rendered outside Cyprus for more than 90 days in a tax year to a non-Cyprus resident employer or to a foreign permanent establishment of a Cyprus resident employer
- Profits of a permanent establishment abroad under certain conditions

Exemption

- The whole amount
- The whole amount
- 20% of income with a maximum amount of €8.550 annually
- The whole amount
- The whole amount

- Lump sum received by way of retiring gratuity, commutation of pension or compensation for death or injuries. The whole amount
- Capital sums accruing to individuals from any payments to approved funds (e.g. provident funds) The whole amount
- Profits from the sale of securities * The whole amount

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



Tax deductions

The following are deducted from income:

- | | |
|--|---|
| • Contributions to trade unions or professional bodies | The whole amount |
| • Loss of current year and previous years | The whole amount |
| • Rental income | 20% of rental income |
| • Donations to approved charities (with receipts) | The whole amount |
| • Expenditure incurred for the maintenance of a building in respect of which there is in force a Preservation Order | Up to €342, €513 or €598 per square meter (depending on the size of the building) |
| • Social Insurance, provident fund, medical fund, pension fund contributions and life insurance premiums (the allowable annual life insurance premium is restricted to 7% of the insured amount) | Up to 1/6 of the chargeable income |

Social grants

The following social grants are given:

- For every child receiving full time higher education in Cyprus (with certain restrictions) or full time university education outside Cyprus. Families with more than three children receive additional grant.
- For blind persons.
- All families resident in Cyprus fulfilling the provisions of the Law, are entitled to a basic child grant, whereas those families that had a gross family (applicant, spouse, children) income below a threshold are entitled to an additional child grant.

Upon application, the applicants do not need to submit any evidence of their income, unless it is the first time claim. The actual amounts of social grants are revised annually and announced at the beginning of each year. The amounts applicable for 2011 were not available at the date of printing.

Example of personal Tax computation

	€
Salary	60.000
Rent receivable	5.000
Interest receivable	1.200
Dividend income	800
Social Insurance contributions	2.900
Life insurance premiums	8.500
Insured sum	100.000
Provident fund contribution	3.000
Donations to approved charities – with receipts	300

Tax computation

	€	€
Salary	60.000	
Rent receivable	5.000	
Interest receivable (exempt)	-	
Dividends receivable (exempt)	-	
Total income		65.000
Less: deductions		
Donations - (with receipts)	300	
20% of rent income	1.000	1.300
Net total income		63.700
Life insurance premiums: Restricted to 7% of the insured sum (7% @ €100.000 = €7.000). Provident fund, social insurance contributions and life insurance premiums restricted to 1/6 of net total income (€3.000 + €2.900 + €7.000 = €12.900 restricted to 1/6 of €65.700*)		(10.950)
Chargeable income		52.750

* €65.700 is made up of total income including interest and dividend less deductions

	€	€
Tax payable: - first	19.500,00	0
- next	8.500,00	1.700,00
- next	8.300,00	2.075,00
- rest	16.450,00	4.935,00
Income tax payable		8.710,00
Special contribution for defence		
Dividends receivable €800 x 15%	120,00	
Interest receivable €1.200 x 10%	120,00	
Rent receivable		
€5.000 – 25% = €3.750 x 3%	112,50	352,50
Total tax payable		9.062,50

Corporation Tax

Basis of taxation

All companies tax resident of Cyprus are taxed on their income accrued or derived from all sources in Cyprus and abroad. A non-Cyprus tax resident company is taxed on income accrued or derived from a business activity which is carried out through a permanent establishment in Cyprus and on certain income arising from sources in Cyprus.

A company is resident of Cyprus if it is managed and controlled in Cyprus.



Corporation tax rates

	Tax rates %
The corporation tax rate for all companies is	10

Exemptions

Type of income	Exemption limit
<ul style="list-style-type: none">• Profit from the sale of securities	The whole amount
<ul style="list-style-type: none">• Dividends	The whole amount
<ul style="list-style-type: none">• Interest not arising from the ordinary activities or closely related to the ordinary activities of the company¹	The whole amount ²
<ul style="list-style-type: none">• Profits of a permanent establishment abroad, under certain conditions	The whole amount

¹ All the interest income of Collective Investment Schemes is considered to be arising from the ordinary activities or closely related to the ordinary activities of the Scheme.

² Such interest income is subject to Special Defence Contribution

Tax deductions

All expenses incurred wholly and exclusively in earning the income of the Company and supported by documentary evidence, including:

Type of expense	Exemption limit
<ul style="list-style-type: none">• Donations to approved charities (with receipts)	The whole amount
<ul style="list-style-type: none">• Employer's contributions to social insurance and approved funds on employees' salaries	The whole amount

- Any expenditure incurred for the maintenance of a building in respect of which there is a Preservation Order Up to €342, €513 or €598 per square meter (depending on the size of the building)
- Entertainment expenses for business purposes Lower of €17.086 or 1% of the gross income of the business

but not including:

- Expenses of a private motor vehicle The whole amount
- Interest applicable to the cost of acquiring a private motor vehicle, irrespective of its use and to the cost of acquiring any other asset not used in the business The whole amount for 7 years
- Professional tax The whole amount

Losses carried forward

The tax loss incurred during a tax year and which cannot be set off against other income, is carried forward and set off against future profits with no time restriction. This provision is applicable for all losses incurred from tax year 1997 onwards.

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

- One company holding at least 75% of the shares of the other company.
- At least 75% of the voting shares of the companies are held by another company.

A partnership or a sole trader transferring business into a company can carry forward tax losses into the company for future utilisation.

Losses from a permanent establishment abroad can be set off with profits of the company in Cyprus. Subsequent profits of the permanent establishment abroad are taxable up to the amount of losses allowed.

Reorganisations

Transfers of assets and liabilities between companies can be effected without tax consequences within the framework of a reorganisation and tax losses can be carried forward by the receiving entity.

Reorganisations include:

- mergers
- demergers
- partial divisions
- transfer of assets
- exchange of shares
- transfer of registered office

Annual wear and tear allowances on fixed assets

The following allowances which are given as a percentage on the cost of acquisition are deducted from the chargeable income:

Fixed assets	
<i>Plant and machinery</i>	%
Plant and machinery	10
Furniture and fittings	10
Industrial carpets	10
Boreholes	10
Machinery and tools used in an agricultural business	15

<i>Buildings</i>	%
Commercial buildings	3
Industrial, agricultural and hotel buildings	4
Flats	3
Metallic greenhouse structures	10
Wooden greenhouse structures	33 1/3

<i>Vehicles and Means of Transportation</i>	%
Commercial motor vehicles	20
Motor cycles	20
Excavators, tractors, bulldozers, self-propelled loaders and drums for petrol companies	25
Armoured Motor Vehicles (e.g. used by Security Services)	20
Specialised Machinery for the laying of Railroads (e.g. Locomotive engines, Ballast wagons, Container wagons and Container Sleeper Wagons)	20
New Airplanes	8
New Helicopters	8
Sailing vessels	4,5
Motor Yachts	6
Steamers, tugs and fishing boats	6
Shipmotor launches	12,5
New cargo vessels	8
New passenger vessels	6
Used cargo/passenger vessels	Over their useful lives
<i>Other</i>	%
Televisions and videos	10
Computer hardware and operating systems	20
Application software	33 1/3
Expenditure on application software less than €1.709, is written off in the year of acquisition	
Wind Power Generators	10
Photovoltaic Systems	10
Tools in general	33 1/3
Videotapes property of video clubs	50

Special type of companies

Shipping companies

The new Merchant Shipping Legislation fully approved by the EU and in force as from 1 January 2010 provides for exemption from all direct taxes and taxation under tonnage tax of qualifying shipowners, charterers and shipmanagers, from the operation of qualifying EU/EEA (European Economic Area) ships (and foreign ships under conditions) in qualifying activities.

The legislation allows non EU/EEA vessels to enter the tonnage tax regime provided the fleet is composed by at least 60% EU/EEA vessels. If this requirement is not met, then non EU/EEA vessels can still qualify if certain criteria are met.

Exemption is also given in relation to the salaries of officers and crew aboard a Cyprus ship.

Shipowners

The exemption applies to:

- profits derived from the use of the ships
- interest income relating to the working capital of the company
- profits from the disposal of qualifying ships
- dividends received from the above profits at all distribution levels
- profit from the disposal of shipowning companies

The exemption also applies to the bare boat charterer of a vessel flying the Cyprus flag under parallel registration

Charterers

Exemption is given to:

- profits derived from the operation of chartered ships

- interest income relating to the working capital of the company
- dividends received from the above profits at all distribution levels

The law grants the exemption provided that the option to register for Tonnage Tax is exercised for all vessels and provided a composition requirement is met (at least 25% - reduced to 10% under conditions - of the net tonnage of the vessels owned or bare boat chartered in).

Shipmanagers

The tax exemption covers:

- Profits from technical/crew management
- Dividends paid out of these profits at all levels of distribution
- Interest income relating to the working capital of the company

In order to qualify shipmanagers must satisfy the following additional requirements:

- Maintain a fully fledged office in Cyprus with personnel sufficient in number and qualification
- At least 51% of all onshore personnel must be EU/EEA citizens
- At least 2/3 of total tonnage under management must be managed within the EU/EEA (any excess of 1/3 taxed under corporation tax)

The application of the tonnage tax system is compulsory for owners of Cyprus flag ships and optional for owners of non Cyprus flag ships, charterers and shipmanagers. Those who choose to enter the Tonnage Tax regime must remain in the system for at least 10 years.

Insurance companies

Profits of insurance companies are liable to corporation tax similar to all other companies except in the case where the corporation tax payable on taxable profit of life insurance business is less than 1,5% of the gross premium. In this case the difference is paid as additional corporation tax.

International Collective Investment Schemes (ICISs)

The sole object of an ICIS is the collective investment of funds of the unitholders.

ICISs can take the following legal forms:

- International fixed capital company
- International variable capital company
- International unit trust scheme and
- International investment limited partnership

ICISs are liable to corporation tax similar to all other legal entities depending on the legal status of the ICIS.



We aim to offer you the value you are looking for. Value based on knowledge that our teams draw from 161.000 experts in 154 countries. But also on our experience adapted to your own needs.

Special Contribution for Defence

Special contribution for defence is imposed on income earned by Cyprus tax residents. Non-tax residents are exempt from special contribution for defence. It is charged at the rates shown in the table below:



	Tax rates	
	Individuals %	Legal entities %
Dividend income from Cyprus resident companies	15	Nil
Dividend income from non-Cyprus resident companies	15	Nil ¹
Interest income arising from the ordinary activities or closely related to the ordinary activities of the business	Nil	Nil
Other interest income	10 ²	10 ²
Rental income (reduced by 25%)	3	3

Notes

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

This exemption does not apply if:

- more than 50% of the paying company's activities result directly or indirectly in investment income and
- the foreign tax is significantly lower than the tax burden in Cyprus. The tax authorities have clarified through a circular that "significantly lower" means a tax burden rate below 5%.

When the exemption does not apply, the dividend income is subject to special contribution for defence at the rate of 15%.

2. Interest income from Cyprus government savings bonds and development bonds and all interest earned by a provident fund is subject to special contribution for defence at the rate 3% (instead of 10%).

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

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

For interest and dividends received gross any defence due is payable at the end of the month following the month in which they were received.

However, with effect from June 2011, special contribution for defence on dividends from abroad and interest income from abroad is payable in 6 month intervals on 30 June and 31 December each year.

Foreign taxes paid can also be credited against the defence tax liability.

Deemed dividend distribution

If a Cyprus resident company does not distribute a dividend within two years from the end of the tax year then:

- 70% of accounting profits (net of corporation tax, special defence contribution, capital gains tax and foreign taxes and after some adjustments) are deemed to have been distributed.
- 15% special contribution for defence is imposed on deemed dividend distribution applicable to shareholders who are residents of Cyprus (3% on deemed dividend distribution of Collective Investment Schemes).
- Deemed distribution is reduced with payments of actual dividends which have already been paid during the two years from the profits of the relevant year.

When an actual dividend is paid after the deemed dividend distribution, then special contribution for defence is imposed only on the dividend paid over and above the dividend that was previously deemed to had been distributed.

In case of two tier structures of Cyprus companies (parent with subsidiary) owned by non resident shareholders, defence contribution paid by the subsidiary on deemed distribution is refundable to the non resident shareholder upon receipt of an actual dividend.

Disposal of assets to shareholder at less than market value

When a company sells assets to an individual shareholder or a relative up to second degree or spouse thereof for a consideration less than its market value, the difference between the consideration and the market value will be deemed to have been distributed as a dividend to the shareholder. This provision, which will come into effect in June 2011, does not apply for assets originally gifted to the company by the shareholder.

Company dissolution

The cumulative profits of the last five years prior to the company's dissolution, which have not been distributed or deemed to have been distributed, will be considered as distributed on dissolution and will be subject to special contribution for defence at the rate of 15% (3% for Collective Investment Schemes).

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

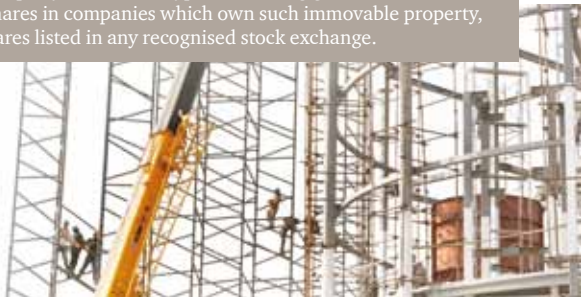
Reduction of capital

In the case of a reduction of capital of a company, any amounts paid or due to the shareholders over and above the paid up share capital will be considered as dividends distributed subject to special defence contribution at the rate of 15% after deducting any amounts which have been deemed as distributable profits.

The above provisions do not apply where the shareholders are nonresidents in Cyprus.

Capital Gains Tax

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



Exemptions

The following disposals of immovable property are not subject to Capital Gains Tax:

- Transfers arising on death.
- Gifts made from parent to child or between husband and wife or between up to third degree relatives.
- Gifts to a company where the company's shareholders are members of the donor's family and the shareholders continue to be members of the family for five years after the day of the transfer.

- Gifts by a family company to its shareholders, provided such property was originally acquired by the company by way of donation. The property must be kept by the donee for at least three years. For gifts that were made from the company to its shareholders and took place before 28 May 1999, the exemption applies irrespective of how the immovable property was originally acquired by the company.
- Gifts to charities and the Government.
- Transfers as a result of reorganisations.
- Exchange or disposal of immovable property under the Agricultural Land (Consolidation) Laws.
- Expropriations.
- Exchange of properties, provided that the whole of the gain made on the exchange has been used to acquire the other property. The gain that is not taxable is deducted from the cost of the new property, i.e. the payment of tax is deferred until the disposal of the new property.

Determination of capital gain

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

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

Example	€	€
Sale price in November 2008	500.000	
Cost of acquisition as at 1 January 1991	(90.000)	
Indexation allowance January 1991 to November 2008 €90.000 @ 79,20%	(71.280)	
Capital gain		338.720
Legal expenses		(1.000)
Taxable Capital Gain		337.720

Lifetime Exemptions

Individuals can deduct from the capital gain the following:

	€
Disposal of private residence (subject to certain conditions)	85.430
Disposal of agricultural land by a farmer	25.629
Any other disposal	17.086

The above exemptions are given only once and not for every disposal.

An individual claiming a combination of the above is only allowed a maximum exemption of €85.430.

Estate Duty

Estate duty has been abolished since 1 January 2000.

The executor/administrator of the estate of the deceased, is required by the Deceased Persons Estate Law, to submit to the tax authorities a statement of assets and liabilities of the deceased within six months from the date of death.



Value Added Tax

VAT is imposed on the provision of goods and services in Cyprus, as well as on the acquisition of goods from the European Union (EU) and the importation of goods into Cyprus.

Taxable persons charge VAT on their taxable supplies (output tax) and are charged with VAT on goods or services which they receive (input tax).



If output tax in a VAT period exceeds total input tax, a payment has to be made to the state. If input tax exceeds output tax the excess input tax is carried forward as a credit and set off against future output VAT. Refund of excess input VAT can be obtained in the following cases:

- a period of three years has elapsed from the date the VAT became refundable
- input VAT which cannot be set off against output VAT until the last VAT period of the year which follows the year in which the VAT period in which the credit was created falls

- the input VAT relates to zero rated transactions
- the input VAT relates to the purchase of capital assets of the company
- the input VAT relates to transactions which are outside the scope of VAT but would have been subject to VAT had they been carried out within Cyprus
- the input VAT relates to exempt financial and insurance services provided to non EU resident clients (services for which the right to recover the related input VAT is granted).

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

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

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

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

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

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

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

VAT rates

The legislation provides for the following four tax rates:

- Zero rate (0%)
- Reduced rate of five per cent (5%)
- Reduced rate of eight per cent (8%)
- Standard rate of fifteen per cent (15%)

Changes to the VAT rate applicable for foodstuff, pharmaceutical products and vaccines and supplies in the course of catering as from 10 January 2011.

Due to the termination of the derogation enjoyed up to 31 December 2010 by the Republic of Cyprus, as from 10 January 2011, the following VAT rates apply for foodstuffs, pharmaceutical products, vaccines and supplies made in the course of catering.

- I. Imposition of reduced VAT rate of 5% for supplies of foodstuffs, including beverages, for human consumption with the exemption of alcoholic beverages, beer, wine and soft drinks. Most of these supplies were up to 9 January 2011 subject to the zero VAT rate.
- II. Imposition of reduced VAT rate of 5% for supplies of prepared or unprepared foodstuffs and/or beverages not accompanied with support services, regardless of whether the goods are delivered to the consumer.

These supplies were up to 9 January 2011 subject to the:

- zero VAT rate if the supplies relate to foodstuffs,
 - standard VAT rate of 15% if the supplies relate to supplies of smoked salmon, smoked oxryhynchus, caviar, processed and canned salmon and oxryhynchus, lobster, crayfish shrimps and shellfish,
 - reduced rate of 8% if the supplies relate to services provided in the course of catering.
- III. Imposition of reduced VAT rate of 5% to supplies of medicaments used for health care, prevention of illnesses and as treatment for medical or veterinary purposes as well as vaccines used for medical or veterinary purposes. These supplies were up to 9 January 2011 subject to the zero VAT rate if they fall under codes CN 30.02, CN 30.03 and CN 30.04 of the Nomenclature.
 - IV. Imposition of reduced VAT rate of 8% to supplies of alcoholic beverages, beer and wine, which are provided at the establishment of the provider or in the course of catering and for which the provision of support services is predominant. These supplies were up to 9 January 2011 subject to VAT at the standard rate of 15%.

Exemptions

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

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

Grant for acquisition of first residence

The grant is given to eligible persons for the construction, or purchase or transfer of a new house which is used as the main and primary place of residence.

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

The level of the grant is limited to 130 m² (extended for families with four and more children) and depends on the type of the property and on whether the house was constructed or purchased. The relevant legislation

provides that the level of the grant will be adjusted annually for the increase in the Retail Price Index.

Difference between zero rate and exempt supplies

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

Irrecoverable input VAT

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

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

Registration

Registration is compulsory for businesses with (a) turnover in excess of €15.600 during the 12 preceding months or (b) an expected turnover in excess of €15.600 within the next 30 days. Businesses with turnover of less than €15.600 or with supplies that are outside the scope of VAT but for which the right to claim the amount of the related input VAT is granted, have the option to register on a voluntary basis.

An obligation for registration also arises for businesses which make acquisition of goods from other EU Member States in excess of €10.251,61 during any calendar year. In addition as from 1 January 2010 an obligation for VAT registration arises for businesses engaged in the supply of

intra – Community services for which the recipient must account for VAT under the reverse charge provisions. Furthermore an obligation for VAT registration arises for businesses carrying out economic activities from the receipt of services from abroad for which an obligation to account for Cyprus VAT under the reverse charge provision exists subject to the registration threshold of €15.600 per any consecutive 12 month period. No registration threshold exists for the provision of intra-Community supplies of services.

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

VAT declaration - Payment/return of VAT

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

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

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

	Thresholds and penalties	Amount in Euro (€)
1	Registration threshold (taxable supplies in Cyprus)	15.600
2	Registration threshold for distance sales (sale of goods to persons not subject to VAT registration in Cyprus, by suppliers resident in another EU Member State)	35.000
3	Registration threshold for acquisition of goods in Cyprus from suppliers resident in another EU MS	10.251,61
4	Registration threshold for intra – Community supply of services	no threshold
5	Registration threshold for receipt of services from abroad for which the recipient must account for VAT under the reverse charge provisions	15.600
6	Penalty for late submission of VAT return	51 for each return
7	Penalty for omission to keep books and records for a period of 7 years	341
8	Penalty for late submission of VIES return	50 for each return
9	Penalty for late submission of corrective VIES return	15 for each return
10	Omission to submit the VIES return for a period of over 3 months constitutes a criminal offence with a maximum penalty of	2.562
11	Penalty for late registration with the VAT authorities	85 per month of delay

Immovable Property Tax

Immovable Property Tax is imposed on the market value as at 1 January 1980 and applies to the immovable property owned by the taxpayer on 1 January of each year. This tax is payable on 30 September each year.

Physical and legal persons are both liable to Immovable Property Tax.



Tax rates

Property value €	Rate ‰	Accumulated tax €
Up to 170.860	-	-
170.861 - 427.150	2,5	641
427.151 - 854.300	3,5	2.136
Over 854.300	4,0	

Exemptions

The following are not subject to Immovable Property Tax:

- Public cemeteries
- Churches and other religious buildings
- Public hospitals
- Schools
- Immovable property owned by the Republic
- Foreign embassies and consulates
- Common use and public places
- Property under Turkish occupation
- Buildings under a Preservation Order
- Buildings of charitable organisations
- Agricultural land used in farming or stock breeding, by farmer or stock breeder residing in the area.

Trusts

A trust is established by an individual “the settlor” and is a means whereby property “the Trust Property” is held by one or more persons “the Trustees” for the benefit of another or others “the Beneficiaries” or for specified purposes.



International trusts

International trusts (i.e. a Trust whose property is located and income is derived from outside Cyprus) are governed by the International Trusts Law of Cyprus. International Trusts are not taxed in Cyprus.

All income, whether trading or otherwise, of an International Trust is not taxable in Cyprus.

- Dividends, interest or other income received by an international Trust from a Cyprus company are neither taxable nor subject to withholding tax.
- Gains on the disposal of the assets of an international Trust are not subject to capital gains tax in Cyprus.
- An alien who creates an International Trust in Cyprus and retires in Cyprus is still exempt from tax if all the property settled and the income earned is abroad, even if he is a beneficiary.
- The assets of an international trust are not subject to estate duty in Cyprus.

Transfer fees by the Department of Land and Surveys

The fees charged by the Department of Land and Surveys for transfers of immovable property are as follows:

Value	Rate	Fee	Accumulated fees
€	%	€	€
Up to 85.430	3	2.563	2.563
85.431 - 170.860	5	4.272	6.835
Over 170.860	8		



In the case of property transferred to a family company, transfer fees are refundable after five years if the property remains with the company and the shareholders remain the same.

In the case of property transferred from a company whose shareholders are spouses and/or their children, to one of the two spouses, or their children or to a relative up to third degree of relation the transfer fees are calculated on the value of the property as follows:

- | | |
|------------------------------------|------|
| • if the transfer is to a spouse | - 8% |
| • if the transfer is to a child | - 4% |
| • if the transfer is to a relative | - 8% |

Also the following rates are applicable in the case of free transfers:

- | | |
|----------------------------------|-------|
| • from parents to children | - 4% |
| • between spouses | - 8% |
| • between third degree relatives | - 8% |
| • to trustees | €8,54 |

Value in these cases is the one written on the title deed which refers to values of the year 1920.

Mortgage registration fees are 1% of the current market value.

In the case of companies' reorganizations, transfers of immovable property are not subject to transfer fees or mortgage registration fees.

Social Insurance

Contributions	%
Employer	6,8
Employee	6,8



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

The maximum amount that applies for 2011 is €52.104 (weekly €1.002/ monthly €4.342).

Other employer's contributions

The employer makes the following other contributions based on employee's emoluments:

	%
Social cohesion fund	2,0
Redundancy fund	1,2*
Industrial training fund	0,5*
Holiday fund (if is not exempt)	8,0*

* Restricted to the maximum level as with the social insurance contributions

The contributions of self-employed persons are 12,6% of income. The amount of the contributions is subject to a lower and a maximum limit, depending on the profession or trade of the Self-Employed Person. The limits applicable for 2011 were not available as at the date of printing.

Stamp Duty

The following table gives the amount or rate of duty payable on certain documents. Transactions which fall within the scope of reorganizations are exempt from stamp duty. Also, any contracts relating to assets situated outside Cyprus or business affairs that take place outside Cyprus are exempt from stamp duty.



Nature of documents

Receipts - for sums of €3,42 – €34,17	€3,42
Receipts - for sums of over €34,17	€6,84
Cheques	€5,13
Letters of credit	€1,71
Letters of guarantee	€3,42
Bills of exchange (payable within three days, on demand or at sight)	€85,43
Contracts	
- the first €170.860	1.5‰
- over €170.860	2‰*
- without fixed sum	€34,17
Customs declaration documents	€17,10 - €34,17
Bills of lading	€3,42
Charterparty	€17,09

* Capped at a maximum of €17.086.

Capital Duty

Upon incorporation of the company

Authorised share capital	€102,52 plus 0,6% on the authorised share capital
Issued share capital	There is no stamp duty payable if the shares are issued at their nominal value. There is a €17,09 flat duty if the shares are issued at a premium

Upon subsequent increases

Authorised share capital	0,6% on the additional share capital
Issued share capital	€17,09 flat duty on every issue, whether the shares are issued at nominal value or at a premium.



Powers of attorney	
- general	€5,13
- limited	€1,71
Certified copies of contracts and documents	€1,71

Tax treaties

withholding tax tables

The following tables give a summary of the withholding taxes provided by the double tax treaties entered into by Cyprus.

Paid from Cyprus			
	Dividends (1) %	Interest (1) %	Royalties (1) %
Non-treaty countries	nil	nil	nil (2)
Armenia (20)	nil	nil	nil
Austria	10	nil	nil
Belarus	5 (18)	5	5
Belgium	10 (8)	10 (6,19)	nil
Bulgaria	5 (23)	7 (6)	10
Canada	15	15 (4)	10 (5)
China	10	10	10
Czech Republic	nil (30)	nil	nil (31)
Denmark	10 (8)	10 (6)	nil
Egypt	15	15	10
France	10 (9)	10 (10)	nil (3)
Germany	10 (8)	10 (6)	nil (3)
Greece	25	10	nil (12)
Hungary	nil	10 (6)	nil
India	10 (9)	10 (10)	10 (16)
Ireland	nil	nil	nil (12)
Italy	nil	10	nil
Kuwait	10	10(6)	5 (7)
Kyrgyzstan (20)	nil	nil	nil

Paid from Cyprus

	Dividends (1) %	Interest (1) %	Royalties (1) %
Lebanon	5	5	nil
Malta	15	10	10
Mauritius	nil	nil	nil
Moldova (27)	5 (28)	5	5
Montenegro (26)	10	10	10
Norway	nil	nil	nil
Poland	10	10 (6)	5
Qatar	nil	nil	nil (29)
Romania	10	10 (6)	5 (7)
Russia	5 (17)	nil	nil
San Marino	nil	nil	nil
Serbia (26)	10	10	10
Seychelles	nil	nil	5
Singapore	nil	10 (6,25)	10
Slovakia	10	10 (6)	5 (7)
Slovenia (26)	10	10	10
South Africa	nil	nil	nil
Sweden	5 (8)	10 (6)	nil
Syria	nil (8)	10	10
Tadzhikistan (20)	nil	nil	nil
Thailand	10	15 (21)	5 (22)
Ukraine (20)	nil	nil	nil
United Kingdom	nil	10	nil (3)
United States	nil	10 (10)	nil

Tax treaties withholding tax tables

Received in Cyprus			
	Dividends %	Interest %	Royalties %
Armenia (20)	nil	nil	nil
Austria	10	nil	nil
Belarus	5 (18)	5	5
Belgium	10 (8)	10 (6,19)	nil
Bulgaria	5 (23)	7 (6,24)	10 (24)
Canada	15	15 (4)	10 (5)
China	10	10	10
Czech Republic	nil (30)	nil	nil (31)
Denmark	10 (8)	10 (6)	nil
Egypt	15	15	10
France	10 (9)	10 (10)	nil (3)
Germany	10 (8)	10 (6)	nil (3)
Greece	25 (11)	10	nil (12)
Hungary	5 (8)	10 (6)	nil
India	10 (9)	10 (10)	15 (15)
Ireland	nil	nil	nil (12)
Italy	15	10	nil
Kuwait	10	10 (6)	5 (7)
Kyrgyzstan (20)	nil	nil	nil
Lebanon	5	5	nil
Malta	nil	10	10
Mauritius	nil	nil	nil

Received in Cyprus

	Dividends (1) %	Interest (1) %	Royalties (1) %
Moldova (27)	5 (28)	5	5
Montenegro (26)	10	10	10
Norway	nil (13)	nil	nil
Poland	10	10 (6)	5
Romania	10	10 (6)	5 (7)
Qatar	nil	nil	nil (29)
Russia	5 (17)	nil	nil
San Marino	nil	nil	nil
Serbia (26)	10	10	10
Seychelles	nil	nil	5
Singapore	nil	10 (6,25)	10
Slovakia	10	10 (6)	5 (7)
Slovenia (26)	10	10	10
South Africa	nil	nil	nil
Sweden	5 (8)	10 (6)	nil
Syria	nil (8)	10 (4)	10
Tadzhikistan (20)	nil	nil	nil
Thailand	10	15 (21)	5 (22)
Ukraine (20)	nil	nil	nil
United Kingdom	15 (14)	10	nil (3)
United States	5 (9)	10 (10)	nil



Your own consultant from our more than 160 specialist members of our tax team works closely with you. And we support you to achieve your own targets.

Tax Diary

End of following month

- Payment of tax deducted from employees salary (PAYE)
- Payment of special contribution for defence on dividends and interest received in the preceding month
- Payment of tax withheld on payments to non-Cyprus residents

30 January

- Final deadline for the avoidance of penalty of 5% for the payment of corporation tax based on the tax return of the penultimate year, if not paid on 1 August of previous year.

31 January

- Submission of declaration of deemed dividend distribution (IR623) for the year ended 31 December two years ago.

30 April

- Submission of the previous year personal returns of individuals where their gross income arises exclusively from salaried services (1)
- Payment of premium tax for life insurance companies - first instalment for the year
- Submission by employers of the total payroll of the previous year (Form IR7)

30 June

- Submission of previous year personal returns of individuals not preparing audited financial statements (1) (2) and payment of tax via a self-assessment method.
- Payment of special contribution for defence for the first six months of the year.

1 August

- Submission of provisional tax declaration and payment of first instalment of provisional tax for the year
- Payment of previous year's final corporation tax under the self-assessment method
- Payment of previous year's income tax under the self assessment method by individuals preparing audited financial statements (2)

31 August

- Payment of premium tax for life insurance companies - second instalment for the year.

30 September

- Payment of provisional tax - second instalment for the year
- Payment of immovable property tax for the year

31 December

- Submission of previous year tax returns (2)
- Payment of provisional tax - third and last instalment for the year

- Payment of special contribution for defence for the last six months of the year
- Payment of premium tax for life insurance companies - third and last instalment for the year

Interest and Penalties

The official interest rate, as set by the Finance Minister, is 5% per annum for all amounts due after 1 January 2011 (5,35% for the year 2010, 8% for the years 2007-2009 and 9% before 31 December 2006).

In addition to the interest, a penalty is also charged depending on the circumstances.

Notes:

(1) Physical persons submit returns only when their gross income exceeds €19.500.

(2) A physical person is obliged to submit audited financial statements if his/her turnover exceeds €70.000 annually.

PwC in Cyprus

We are striving to offer our clients the value they are looking for. Value that is based on the knowledge that our teams draw from 161.000 experts in 154 countries. But also on experience adapted to local needs. We focus on three main areas of assurance, advisory and tax services. We work closely with our clients. We ask questions. We listen. We learn what they want to do. Where they want to go. From all our international knowledge we share with them the piece that is more suitable for them. And so we support them on how to achieve their goals.

In the operation of the world's capital markets we play an important role and as business advisors we help our clients solve complex business problems. We aim to improve their ability to manage risk and improve performance. And at the same time we take pride in our quality services which help to improve transparency, trust and consistency of business processes.

Our position is strengthened with our almost 1.000 professionals and our offices throughout Cyprus. We all share our knowledge and experience in order to best service our clients and help them create the value they are looking for.

Some of our services are:

Assurance Services

Statutory and regulatory audit services, which include evaluation of information systems and advisory services for accounting and regulatory issues for all types of businesses through specialist industry divisions: Financial Services (FS), Consumer and Industrial Products and Services (CIPS) and Technology, Information, Communications, Entertainment and Media (TICE). Expertise on corporate reporting, performance measurement as well as compliance and review of security and information technology systems by our Systems and Process Assurance (SPA) team which is fully integrated into the overall audit.

Advisory Services

Governance, Risk Management and Compliance, Strategy and Operational Effectiveness, Security and Technology, Process Improvement, Corporate Finance, Transactions Support, Crisis Management, People and Change, as well as general advisory services.

Tax Services

Corporate: Tax planning on structuring, mergers and buyouts and other business issues, tax returns administration, agreement with Tax Authorities and obtaining tax rulings. **VAT:** Advisory services for tax planning, VAT recovery and VAT minimisation and tax compliance (administration of tax returns, communication with VAT authorities, agreement of disputed assessments etc). **Personal:** Tax planning, completion submission and agreement of tax returns, tax services to expatriates, pensioners and other non-Cypriot individuals.

Global Compliance Services

Accounting, company administration and corporate statutory compliance services including advice on establishment and administration of local and international business companies, collective investment schemes, UCITS investment firms and trusts.

Corporate Support Services

Our Corporate Support Services, which employs among others, accountants, lawyers and other qualified staff and engages selected lawyers with extensive and specialised knowledge in corporate law and other business related matters, aims at delivering full support and solutions that combine the required expertise with commercial insight thus adding value to our clients' business.



Getting closer to our clients, understanding their business needs, working with them efficiently and supporting them to effectively address the challenges.

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