

# *Overview of the Cyprus Direct Tax Framework*

*Telecommunications  
Conference*

*12 February 2016*



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# *The Cyprus Direct Tax Framework - Overview*

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## **Cyprus Current Tax Regime (*since 1 January 2003*)**

- 2003 tax reform as part of EU accession;
- Abides by the commitment to the OECD to eliminate harmful tax practices;
- Maintains and enhances Cyprus' image as a reputable international business centre;
- Cyprus is included in the OECD white list as a 'largely compliant' jurisdiction.

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# Cyprus Tax Laws – Main Features (1/3)

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- **Uniform corporate tax rate** - *one of the lowest headline rates in the EU*;
- Corporations taxable on **worldwide income** if **managed & controlled** in Cyprus;
- Certain types of **‘passive’** income are subject to **Special Defence Contribution**;
- **Expenses deductible** provided wholly & exclusively incurred for the production of (‘taxable’) income;
- Adoption of all **EU Directives**, including:
  - ✓ Parent/subsidiary directive
  - ✓ Mergers and acquisitions directive
  - ✓ Interest and royalties directive



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## ***Cyprus Tax Laws – Main Features (2/3)***

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- Unconditional exemption of **profits on disposal of securities** (capital gains tax implications only in case of disposal of non-listed shares owning – directly or indirectly – immovable property in Cyprus);
- Exemption from tax of trading **profits from foreign permanent establishments**;
- Exemption from tax of **dividend incomes** – (direct or indirect trading group);
- **No withholding taxes** on payment of dividends, interest and royalties (when rights are not used within Cyprus) to non Cyprus tax residents.

Care should be taken in case of royalties on rights used in Cyprus or technical assistance service payments, subject to applicability of a DTT or EU Interest & Royalties Directive;

- No CFC rules;
- No thin capitalisation rules;

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## ***Cyprus Tax Laws – Main Features (3/3)***

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- **Thin spread of income** possible (Transfer Pricing and Beneficial Ownership considerations);
- Group relief available;
- Tax loss carry forward availability (5 years);
- **Notional Interest Deduction (NID) provisions** for new corporate equity, as from 1 January 2015 (aims to closer align tax treatment of equity finance with tax treatment of debt finance - annual NID vs annual interest expense);
- Attractive **Intellectual Property tax regime ('IP Box')** – effective tax rate below 2,5% on both income from IP exploitation and gains on disposal. Regime to be amended as from 1 July 2016 for alignment with EU guidance.
- Extensive **Double Tax Treaty network**;
- **Investor friendly approach** by Cypriot tax and other regulatory authorities;
- Efficient **advance ruling practice** through designated Inland Revenue team.



# *The Cyprus Direct Tax Framework*

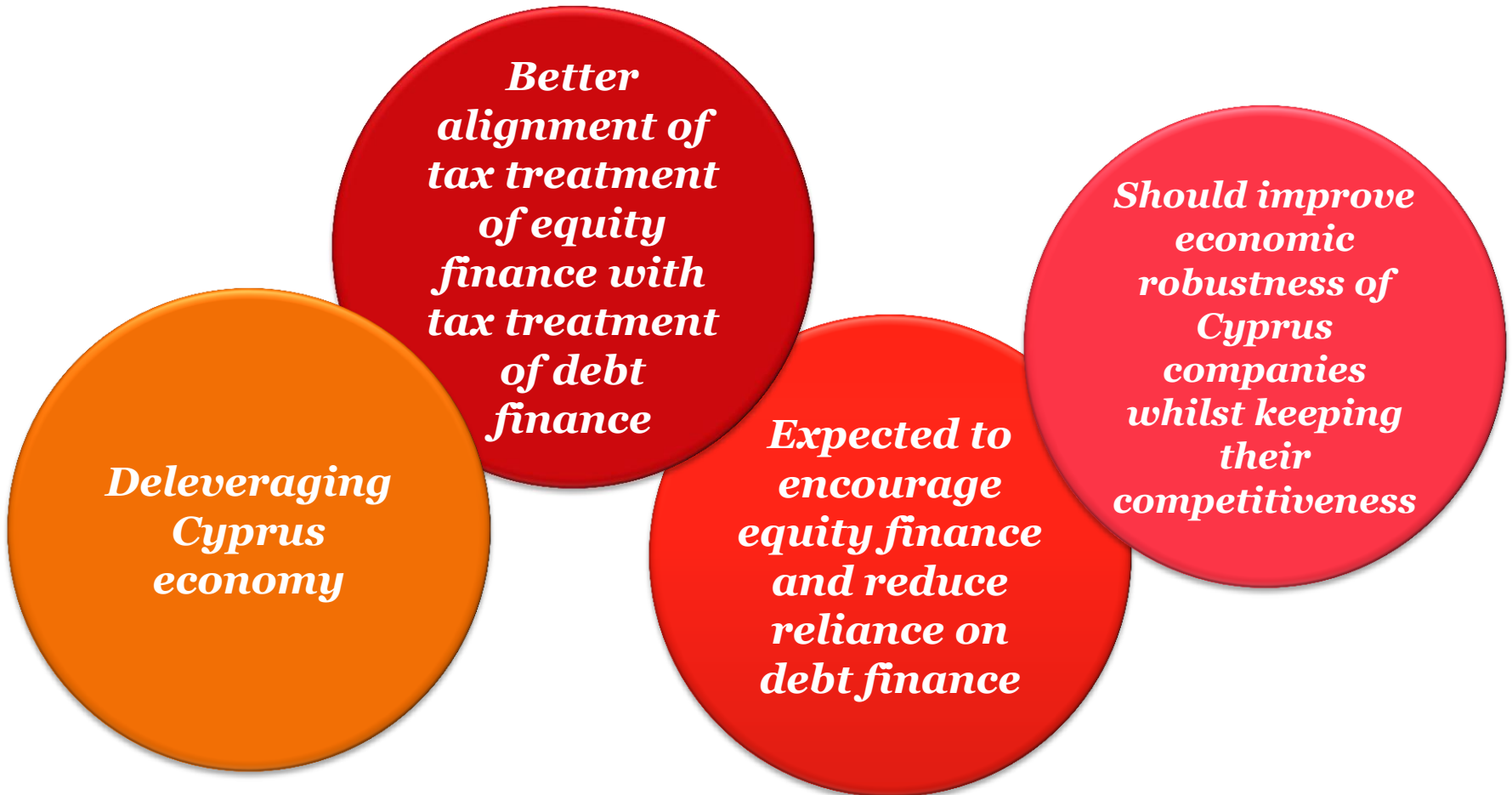
## **Selected Direct Tax Law recent developments**

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# *Cyprus Tax Laws – Recent Developments (1/6)*

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## **Income Tax Law - Notional interest deduction (NID)**



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# ***Cyprus Tax Laws – Recent Developments (2/6)***

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## **Notional interest deduction (NID), continued**

- New equity introduced - paid up in cash or as assets in kind - into a company, as from 1 January 2015, is eligible for the annual NID deduction.
- The NID interest rate is the yield on 10 year government bonds of the country where the funds are employed in the business of the company plus a 3% premium (minimum rate is yield on 10 year Cyprus government bonds + 3% : 8,037% for 2015).

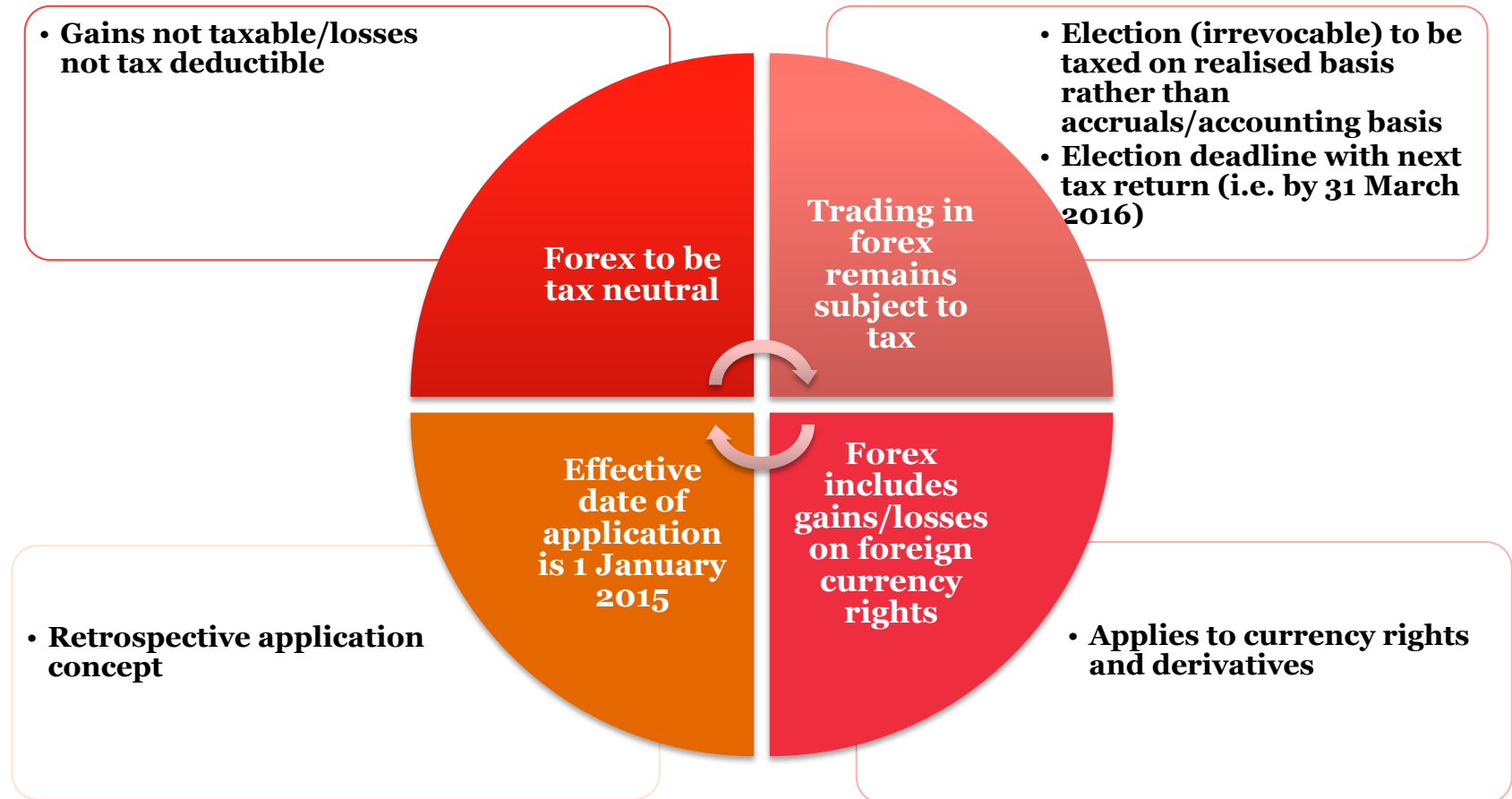
$$\text{NID deduction} = \text{New equity} * \text{NID interest rate}$$

- The NID is tax deductible in a similar manner as for actual interest expense.
- The NID deduction cannot exceed 80% of the taxable profit, as calculated prior to the NID.
- If maximum NID available, effective tax rate as low as 2,5%.
- Any excess NID deduction due to the 80% cap is lost.
- Anti-avoidance provisions (general and specific) apply.



# Cyprus Tax Laws – Recent Developments (3/6)

## Income Tax Law - Foreign currency exchange differences (Forex) - Tax neutrality



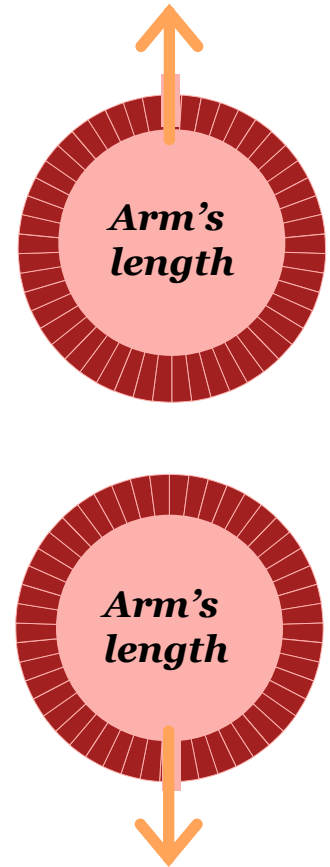
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# *Cyprus Tax Laws – Recent Developments (4/6)*

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## **Income Tax Law - Extension of arm's length principle**

- In cases where two related Cyprus taxpayers transact and the Cyprus tax authorities make an upwards arm's length adjustment to one of the taxpayers, there should be a corresponding downwards adjustment for the other taxpayer.
- Effective as from 1 January 2015.



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# Cyprus Tax Laws – Recent Developments (5/6)

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- **Other - Income Tax Law**

- Extension of the **accelerated tax depreciation** for corporate tax purposes available on industrial buildings, hotels and plant & machinery acquired until the end of 2016 (previously applicable only for acquisitions during years 2012 to 2014).

- Extension of the **50% employment income exemption**

50% exemption from income tax for remuneration exceeding €100K from any employment exercised in Cyprus by individuals who were not Cyprus tax residents before their employment has been extended from 5 years to **10 years** (also subject to certain other conditions).

As such, effective income tax rates for individuals can be as low as 8% with an absolute **maximum of 17,5%**.

- **Other - Capital Gains Tax Law**

- Exemption from future capital gains tax for properties (land and land with buildings) purchased during the period 16 July 2015 to 31 December 2016.

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# *Cyprus Tax Laws – Recent Developments (6/6)*

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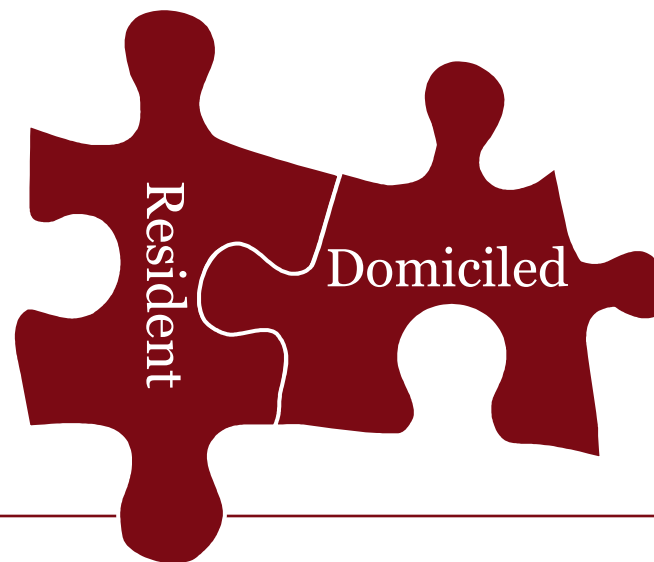
## **Special Defence Contribution (SDC) and non – domiciled individuals (non-doms)**

- Aims to further encourage high net-worth individual investors and decision makers to invest in and reside and work from Cyprus.
- Non-doms are exempt from SDC on dividends, interest and rentals, irrespective of whether such incomes are earned in Cyprus or abroad.

**Subject to SDC Previously:**



**Subject to SDC as from 16 July 2015:**



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# ***Thank you!***



***Christos S Charalambides***

**Partner**

**Tax Advisory**

***christos.charalambides@cy.pwc.com***

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