

Tax Facts & Figures 2018 - Cyprus

The tax system
in Cyprus

January 2018





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Foreword

This publication provides valuable information about the tax system in Cyprus, based on the current tax legislation and practice.

The “Tax, Facts & Figures 2018 - Cyprus” publication which provides a general description of our tax system represents a rich source of general guidance that will enable you to consider your tax planning in an efficient manner.

However, in no case a publication can substitute proper professional advice. All of us at PwC are here to offer you our knowledge and expertise and to support you in achieving your personal and corporate tax goals. The specialised solutions we offer to you are adjusted to your own needs.

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

PwC Cyprus
January 2018



Personal income tax



Basis of taxation

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

An individual is tax resident in Cyprus if (s)he spends in Cyprus more than 183 days in any one calendar year.

With effect as from 1 January 2017, an individual may also be considered tax resident in Cyprus if (s)he satisfies the “60 day rule”. The “60 day rule” applies to individuals who in the relevant tax year:

1. do not reside in any other single state for a period exceeding 183 days in aggregate, and
2. are not tax resident in any other state, and
3. reside in Cyprus for at least 60 days, and
4. have other defined Cyprus ties. To satisfy this condition the individual must carry out any business in Cyprus and/or be employed in Cyprus and/or hold an office (director) of a company tax resident in Cyprus at any time in the tax year, provided that such is not terminated during the tax year. Further the individual must maintain in the tax year a permanent residential property in Cyprus which is either owned or rented by him/her.

For the purposes of both the “183 days rule” and the “60 days rule” 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 for the tax year | Tax rate | Accumulated tax |
|------------------------------------|----------|-----------------|
| € | % | € |
| First 19.500 | Nil | Nil |
| From 19.501 - to 28.000 | 20 | 1.700 |
| From 28.001 - to 36.300 | 25 | 3.775 |
| From 36.301 - to 60.000 | 30 | 10.885 |
| Over 60.000 | 35 | |

Foreign pension income is taxed at the flat rate of 5% on amounts over €3.420. The taxpayer can however on an annual basis elect to be taxed at the normal tax rates and bands set out above.

Cyprus source widow(er)'s pension is taxed at the flat rate of 20% on amounts over €19.500. The taxpayer can however on an annual basis elect to be taxed at the normal tax rates and bands set out above.

Exemptions

The following are exempt from income tax:

Type of income

- Interest, except for interest arising from the ordinary business activities or closely related to the ordinary business activities of an individual

Exemption

The whole amount (1)

- Dividends The whole amount (1)
- Remuneration from any employment exercised in Cyprus by an individual who was not a resident of Cyprus before the commencement of the employment, exemption applies for a period of 10 years for employments commencing as from 1 January 2012 provided that the annual remuneration exceeds €100.000. For employments commencing as from 1 January 2015 the exemption does not apply in case the said individual was a Cyprus tax resident for 3 (or more) tax years out of the 5 tax years immediately prior to the tax year of commencement of the employment nor in the preceding tax year. In certain cases it is possible to claim the exemption where income falls below €100.000 per annum. 50% of the remuneration
- Remuneration from any employment exercised in Cyprus by an individual who was not a resident of Cyprus before the commencement of the employment. For employments commencing during or after 2012 the exemption applies for a period of 5 years starting from the tax year following the year of commencement of the employment with the last eligible tax year being 2020. This exemption may not be claimed in addition to the immediately above mentioned 50% exemption for employment income.. 20% of the remuneration with a maximum amount of €8.550 annually

- | | |
|---|------------------|
| <ul style="list-style-type: none"> • 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 | The whole amount |
| <ul style="list-style-type: none"> • Profits of a foreign permanent establishment under certain conditions(2) | The whole amount |
| <ul style="list-style-type: none"> • Lump sum received by way of retiring gratuity, commutation of pension or compensation for death or injuries | The whole amount |
| <ul style="list-style-type: none"> • Capital sums accruing to individuals from any payments to approved funds (e.g. provident funds) | The whole amount |
| <ul style="list-style-type: none"> • Profits from the sale of securities (3) | The whole amount |



Notes:

1. Such dividend and interest income may be subject to Special Contribution for Defence - refer to the Special Contribution for Defence section - page 25.
2. With effect as from 1 July 2016, taxpayers may elect to tax the profits earned by a foreign permanent establishment, with a tax credit for foreign taxes incurred on those foreign permanent establishment profits. Transitional rules apply in certain cases on the granting of foreign tax credits where a foreign permanent establishment was previously exempt and subsequently a taxpayer elects to be subject to tax on the profits of the foreign permanent establishment.

Notes:

- 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. Circulars have been issued by the Tax Authorities further clarifying what is included in the term Securities. According to the circulars 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 circulars also clarify 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 (for individuals required to prepare audited financial statements, current year losses and losses of the previous five years only may be deducted) | The whole amount |
| • Rental income | 20% of gross 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 €1.200, €1.100 or €700 per square meter (depending on the size of the building) |

- Social Insurance, medical fund (maximum 1,5% of remuneration), pension and provident fund contributions (maximum 10% of remuneration) and life insurance premiums (maximum 7% of the insured amount) Up to 1/6 of the chargeable income
- Amount invested each tax year as from 1 January 2017 in approved innovative small and medium sized enterprises either directly or indirectly Up to 50% of the taxable income as calculated prior to this deduction (subject to a maximum of €150.000 per year) (1)

Note

1. Unused deduction can be carried forward and claimed in the following 5 years, subject to the cap of 50% of taxable income (and overall maximum of €150.000 per year).

Example of personal Tax computation for 2017

| | |
|---|----------|
| Salary (€5.885 monthly) | €70.620 |
| Rent receivable | €5.000 |
| Interest receivable | €700 |
| Dividend income | €600 |
| Social Insurance contributions | €4.243 |
| Life insurance premiums | €8.500 |
| Insured sum | €100.000 |
| Provident fund contribution | €3.000 |
| Donations to approved charities – with receipts | €300 |

Tax computation

| | € | € |
|---|--------|---------------|
| Salary | 70.620 | |
| Rent receivable** | 5.000 | |
| Interest receivable (exempt) | - | |
| Dividends receivable (exempt) | - | |
| Total income | | 75.620 |
| Less: deductions | | |
| Donations - (with receipts) | 300 | |
| 20% of rent income | 1.000 | 1.300 |
| Net total income | | 74.320 |
| Life insurance premiums: Restricted to 7% of the insured sum (7% @ €100.000 = €7.000) Provident fund (€ 3.000 < 10% of € 70.620), social insurance Contributions to 1/6 of net total income (€7.000 + €3.000+ €4.243 = €14.243 restricted to 1/6 of €74.320) | | (12.386) |
| Taxable income | | 61.934 |

| | € | € |
|-----------------------------------|--------|---------------|
| Tax payable: - first | 19.500 | 0 |
| - next | 8.500 | 1.700 |
| - next | 8.300 | 2.075 |
| - next | 23.700 | 7.110 |
| - rest | 1.934 | 677 |
| Income tax payable | | 11.562 |
| Special contribution for defence* | | |
| Dividends receivable €600 x 17% | 102 | |
| Interest receivable €700 x 30% | 210 | |
| Rent receivable | | |
| €5.000 – 25% = €3.750 x 3% | 112 | 424 |
| Social insurance | | 4.243 |
| Total tax payable | | 16.229 |

*Please refer to Special Contribution for Defence section (page 25).
The individual in this example is both Cyprus tax resident and Cyprus domiciled for the purposes of the Special Contribution for Defence.

** In regards to the immovable property on which rental income is earned, the deductions could additionally include any interest expense accruing on borrowings that were obtained by the individual to finance the acquisition of the building as well as wear and tear allowances (if not already exhausted).



Special Contribution

As from 1 January 2017, Special Contribution has been abolished. The Special Contribution which applied in the period 2014 through 2016 is set out in the table below.

| Gross monthly emoluments from employment / pension € | Government and semi-government employees and pensioners | Private sector employees, self-employed individuals and private sector pensioners (2) (3) (4) |
|--|---|---|
| 2014 - 2016 | | |
| First 1.500 | Nil | Nil |
| From 1.501 – to 2.500 | 2,5%(1) | 2,5% (minimum €10) |
| From 2.501 – to 3.500 | 3,0%(1) | 3,0% |
| Over 3.500 | 3,5%(1) | 3,5% |





Notes:

1. The Special Contribution rate becomes 3%, 3,5% and 4% respectively for highly ranked civil service officials/ employees within their respective scale.
2. In the case of private sector employed individuals and private sector pensions the Special Contribution relates to services rendered in Cyprus. In the case of self-employed individuals the Special Contribution relates to any business carried on in Cyprus.
3. For private sector employed individuals the Special Contribution does not apply, inter alia, on retirement gratuities, on payments from approved provident funds, on remuneration of the crew of qualifying ships and on reimbursements of business expenses.
4. In the case of private sector employed individuals the recipient of the remuneration is liable for half the Special Contribution and the employer for the other half.



Corporation tax



Basis of taxation

All Cyprus tax resident companies are taxed on their income accrued or derived from all chargeable 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 a resident of Cyprus if it is managed and controlled in Cyprus.

Foreign taxes paid can be credited against the corporation tax liability.

Corporate tax rate

Tax rate
%

The corporation tax rate for all companies is

12,5

Exemptions

The following are exempt from corporate tax:

| Type of income | Exemption limit |
|--|----------------------|
| <ul style="list-style-type: none">Profit from the sale of securities (1) | The whole amount |
| <ul style="list-style-type: none">Dividends (excluding, as from 1 January 2016, dividends which are tax deductible for the paying company) | The whole amount (2) |
| <ul style="list-style-type: none">Interest not arising from the ordinary activities or closely related to the ordinary activities of the company (3) | The whole amount (4) |
| <ul style="list-style-type: none">Profits of a foreign permanent establishment, under certain conditions (5) | The whole amount |
| <ul style="list-style-type: none">Gains relating to foreign exchange differences (forex) with the exception of forex arising from trading in foreign currencies and related derivatives. | The whole amount |

Notes:

- For a definition of securities see page 6.
- Such dividend income may be subject to Special Contribution for Defence.
- 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.
- Such interest income is subject to Special Contribution for Defence.
- With effect as from 1 July 2016, taxpayers may elect to tax the profits earned by a foreign permanent establishment, with a tax credit for foreign taxes incurred on those foreign permanent establishment profits. Transitional rules apply in certain cases on the granting of foreign tax credits where a foreign permanent establishment was previously exempt and subsequently a taxpayer elects to be subject to tax on the profits of the foreign permanent establishment.

Corporate tax deductions for expenses

Generally expenses incurred wholly and exclusively in earning taxable income and supported by documentary evidence are deductible for corporate tax purposes, including:

Type of expense

- Interest expense incurred for the direct or indirect acquisition of 100% of the share capital of a subsidiary company will be treated as deductible for income tax purposes provided that the 100% subsidiary company does not own (directly or indirectly) any assets that are not used in the business. If the subsidiary owns (directly or indirectly) assets not used in the business the interest expense deduction is restricted to the amount which relates to assets used in the business. This applies for such acquisitions of subsidiaries from 1 January 2012.
- 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). The annual NID deduction is calculated as the new equity multiplied by the NID interest rate. The relevant interest rate is the yield on 10 year government bonds (as at December 31 of the prior tax year) of the country where the funds are employed in the business of the company plus a 3% premium (subject to a minimum amount which is the yield on the 10 year Cyprus government bond as at the same date plus a 3% premium). For 2017 the minimum relevant NID interest rate is 6,489% (6,685% for 2016). A taxpayer may elect not to claim all or part of the available NID for a particular tax year. Certain anti-avoidance provisions apply.

Deduction limit

The whole amount of interest expense if the subsidiary does not own (directly or indirectly) any assets not used in the business. A restricted amount of interest expense is allowed to the extent the subsidiary owns (directly or indirectly) assets used in the business.

The NID deduction cannot exceed 80% of the taxable profit derived from the assets financed by the new equity (as calculated prior to the NID deduction).

- Royalty income, embedded income and other qualifying income derived from qualifying intangible assets in the 'new' Cyprus intellectual property (IP) box (provision applies with effect from 1 July 2016) (1)

80% of the net profit as calculated using the modified nexus fraction (2)
- Royalty income, embedded income and other qualifying income derived from qualifying intangible assets in the 'old' Cyprus IP box (3)

80% of the net profit
- Tax amortisation on any expenditure of a capital nature for the acquisition or development of IP (provision applies with effect from 1 July 2016) (4)

Allocated over the lifetime of the IP (maximum period 20 years)
- Donations to approved charities (with receipts)

The whole amount
- Employer's contributions to social insurance and approved funds on employees' salaries

The whole amount
- Employer's contributions to:

 - Medical fund for employees
 - Provident/Pension fund for employees

1% on employee's remuneration
10% on employee's remuneration
- Any expenditure incurred for the maintenance of a building in respect of which there is in force a Preservation Order

Up to €700, €1.100 or €1.200 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
- Expenditure incurred for the acquisition of shares in an innovative business (abolished as from 1 January 2017) The whole amount



Notes:

1. Qualifying 'intangible assets' maybe legally or economically owned and comprise patents, copyrighted software, utility models, intangible assets that grant protection to plants and genetic material, orphan drug designations, extensions of patent protection. It also comprises of other intangible assets which are non-obvious, useful and novel, that are certified as such by a designated authority, and where the taxpayer satisfies size criteria (i.e. annual IP related revenue does not exceed €7,5m for the taxpayer, and group total annual revenue does not exceed €50m, using a 5 year average for both calculations). Marketing-related intangible assets, such as trademarks, do not qualify.
2. A fraction is applied to the net profit based on research and development (R&D) activity. The higher the amount of R&D undertaken by the taxpayer itself or via a taxable foreign permanent establishment or via unrelated third party outsourcing, the higher the amount of R&D fraction (modified nexus fraction).

3. The term ‘qualifying intangible assets’ under the old Cyprus IP box includes copyrights, patents and trademarks. The old Cyprus IP box closed as from 30 June 2016. Under transitional/grandfathering rules, taxpayers with intangible assets that were already included in the old Cyprus IP box as at 30 June 2016 continue to apply the old Cyprus IP box provisions for a further five years i.e. until 30 June 2021 for those intangible assets. A much shorter transitional/grandfathering period to 31 December 2016 applied in the case of intangible assets acquired directly or indirectly from related parties during the period 2 January 2016 – 30 June 2016, unless at the time of acquisition such intangible assets were already benefitting from an IP box (including the Cyprus IP box) or were not acquired with the main purpose (or one of the main purposes) being tax avoidance. Embedded income and income earned from intangible assets economically but not legally owned will only qualify in the relevant transitional/grandfathering period if earned from those type intangible assets that would qualify for the new Cyprus IP box (i.e. patents, copyrighted software, etc.). Additionally any expenditure of a capital nature incurred for the acquisition or development of such intangible assets may be claimed as a tax deduction in the year in which it was incurred and the immediate four following years on a straight line basis.
4. Excluding goodwill and intangible assets falling under the transitional rules of the old Cyprus IP box which continue with that box’s tax amortisation (see 3 above). A taxpayer may elect not to claim all or part of the available tax amortization for a particular tax year.

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 from the date of acquisition of the asset

Losses carried forward

The tax loss incurred during a tax year and which cannot be set off against other income, is carried forward subject to conditions and set off against the profits of the next five years.

The current year loss of one company can be set off against the profit of another, subject to conditions, provided the companies are Cyprus tax resident companies of a group(1). Group is defined as:

- One Cyprus tax resident company holding directly or indirectly at least 75% of the voting shares of another Cyprus tax resident company, or,
- Both of the companies are at least 75% (voting shares) held, directly or indirectly, by a third company

As from 1 January 2015 interposition of a non- Cyprus tax resident company(ies) will not affect the eligibility for group relief as long as such company(ies) is/are tax resident of either an EU country or in a country with which Cyprus has a tax treaty or an exchange of information agreement (bilateral or multilateral).

A partnership or a sole trader transferring a 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 an exempt permanent establishment abroad are taxable up to the amount of losses allowed.



Note:

1. As from 1 January 2015 a Cyprus tax resident company may also claim the tax losses of a group company which is tax resident in another EU country, provided such EU company firstly exhausts all possibilities available to utilise its losses in its country of residence or in the country of any intermediary EU holding company.

Reorganisations

Transfers of assets and liabilities between companies can, subject to conditions, be effected in a tax neutral manner within the framework of a qualified reorganisation, and tax losses may be carried forward by the receiving entity.

Reorganisations include:

- mergers
- demergers
- partial divisions
- transfer of assets
- exchange of shares
- transfer of registered office of a European company (SE) or a European cooperative company (SCE).

Annual wear and tear allowances on tangible 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 (1)</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 (2)</i> | % |
| Commercial buildings | 3 |
| Industrial, agricultural and hotel buildings (3) (4) | 4 |
| Flats | 3 |
| Metallic greenhouse structures | 10 |
| Wooden greenhouse structures | 33 1/3 |

| <i>Vehicles and Means of Transportation (1)</i> | <i>%</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 (1)</i> | <i>%</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 |



Notes

1. Plant and machinery, vehicles (excluding private motor vehicles) and other assets acquired during the tax years 2012 - 2018 (inclusive) are eligible to accelerated tax depreciation at the rate of 20% per annum (excluding such assets which are already eligible for a higher annual tax rate of tax depreciation).
2. The rates stated for buildings are for new buildings. Rates are amended in the case of second-hand buildings.
3. In the case of industrial and hotel buildings which are acquired during the tax years 2012 - 2018 (inclusive), an accelerated tax depreciation at the rate of 7% per annum applies.
4. Buildings for agricultural and livestock production acquired during the tax years 2017-2018 (inclusive) are eligible for accelerated tax depreciation at the rate of 7% per annum.

Special type of companies

Shipping companies

The Merchant Shipping Legislation fully approved by the EU provides for exemption from all direct taxes and taxation under tonnage tax regime of qualifying shipowners, charterers and shipmanagers, from the operation of qualifying community ships (ships flying a flag of an EU member state or of a country in the European Economic Area) and foreign (non community) ships (under conditions), in qualifying activities.

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

The legislation includes an “all or nothing” rule, meaning that if a shipowner/ charterer/ shipmanager of a group elects to be taxed under the Tonnage Tax regime, all shipowners/ charterers/ shipmanagers of the group should elect the same.

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/chartering out 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 and its distribution

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

Charterers

Exemption is given to:

- profits derived from the operation of chartered in 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 exemption covers:

- Profits from technical and/or 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 community citizens
- At least 2/3 of total tonnage under management must be managed within the community (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 unless they had a valid reason to exit such as disposal of their vessels and cessation their activities.

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 premiums. In this case the difference is paid as additional corporation tax.

The Cyprus Alternative Investment Funds (AIFs) and Undertakings for Collective Investment in Transferable Securities (UCITS)

The sole objective of AIFs and UCITS is the collective investment of funds raised from a number of investors/unitholders for the benefits of those investors/unitholders.

The Alternative Investment Fund Law 131(I)/2014 (“AIF Law”) allows for two (2) types of AIFs to be registered in Cyprus which are as follows:

- Alternative Investment Funds with limited number of investors (75)
- Alternative Investment Funds with no limitations as to the number of investors

Cyprus AIFs may be established with limited or unlimited duration and can take various legal forms depending on structuring orientations and tax considerations. The various legal forms in which an AIF can manifest in are as follows:

AIF with a limited number of investors:

- Variable Capital Investment Company (VCIC)
- Fixed Capital Investment Company (FCIC)
- Limited Partnership (LP)

AIF with no limitation as to the number of investors:

- Variable Capital Investment Company (VCIC)
- Fixed Capital Investment Company (FCIC)
- Limited Partnership (LP)
- Common Fund (CF)

UCITS can take the following legal forms:

- Common Fund
- Variable Capital Investment Company

AIFs and UCITS are liable to tax or not depending on their legal status.

Under certain conditions, management fees and administration fees charged for AIFs and UCITS funds can be exempt from VAT.

Special contribution for defence

Special Contribution for Defence is imposed on dividend income, 'passive' interest income and rental income earned by companies tax resident in Cyprus and by individuals who are both Cyprus tax resident and Cyprus domiciled. It is charged at the rates shown in the table below:



| | Tax rates | |
|--|----------------------|-------------------------|
| | Individuals (1) % | Legal entities (1) % |
| Dividend income from Cyprus tax resident companies | 17(5) | Nil (2) |
| Dividend income from non-Cyprus tax resident companies | 17(5) | Nil (3) |
| Interest income arising from the ordinary activities or closely related to the ordinary activities of the business | Nil (4) | Nil (4) |
| Other interest income ('passive') | 30(5) | 30(5) |
| Gross rental income (reduced by 25%) | 3(5) (6) | 3(5) (6) |



Notes:

1. Legal entities are subject to Special Contribution for Defence if they are tax resident in Cyprus (see page 11). Prior to 16 July 2015 individuals were subject to Special Contribution for Defence if they were tax resident in Cyprus (see page 2). As from 16 July 2015 individuals are subject to Special contribution for defence if they are both Cyprus tax resident and Cyprus domiciled. An individual is domiciled in Cyprus for the purposes of Special Contribution for Defence if (s)he has a domicile of origin in Cyprus per the Wills and Succession Law (with certain exceptions) or if (s)he has been a tax resident in Cyprus for at least 17 out of the 20 tax years immediately prior to the tax year of assessment. Anti-avoidance provisions apply.
2. Dividends received by a Cyprus tax resident company from other Cyprus tax resident companies are exempt, subject to certain anti-avoidance provisions.
3. The exemption of this section 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 an effective tax rate of less than 6,25% on the profit distributed.

When the exemption does not apply, the dividend income is subject to Special Contribution for Defence at the rate of 17%.

As from 1 January 2016 this section also does not apply to dividends which are deductible for tax purposes by the paying company. In such cases, dividends are subject to corporation tax and not Special Contribution for Defence.

4. Such interest income is subject to personal income tax / corporation tax.

Deemed dividend distribution

A Cyprus tax resident company is deemed to distribute as a dividend 70% of its accounting profits (as adjusted for Special Contribution for Defence purposes⁽¹⁾ and net of Corporation Tax, Special Contribution for Defence on company incomes, Capital Gains Tax and unrelieved foreign taxes) two years from the end of the tax year in which the profits were generated.

Such a deemed dividend distribution is reduced with payments of actual dividends paid during the relevant year the profits were generated and the two following years.

On the remaining net amount (if any) of deemed dividend 17% Special Contribution for Defence is imposed to the extent that the ultimate direct/indirect shareholders of the company are individuals who are both Cyprus tax resident and Cyprus domiciled (see page 26). Prior to 16 July 2015 the imposition applied to the extent the ultimate direct/indirect shareholders of the company were Cyprus tax resident individuals. Instead of the rate of 17% a rate of 3% is applicable on deemed dividend distribution of Collective Investment Schemes.

When an actual dividend is paid after the deemed dividend distribution date, then if Special Contribution for Defence is due on such a dividend, the 17% is imposed only on the amount of the actual dividend paid which exceeds the dividend that was previously deemed to have been distributed and previously suffered Special Contribution for Defence.



Notes:

1. A number of adjustments to the accounting profit are required for deemed distribution purposes, including for tax years 2012, 2013 and 2014 if the company has acquired in those years plant, machinery or buildings (excluding private motor vehicles) for business purposes; the full cost of these assets will be deductible against the accounting profits.



Disposal of assets to shareholder at less than market value

When a company disposes of an asset to an individual shareholder or a relative of his/her up to second degree or his/her spouse 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, does not apply for assets originally gifted to the company by an individual shareholder or a relative of his up to second degree or his/her spouse.

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 17% (3% for Collective Investment Schemes).

This provision does not apply in the case of dissolution under a Reorganisation (see page 19).



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 subject to special defence contribution at the rate of 17% after deducting any amounts which have been deemed as distributable profits.

The redemption of units or shares in a Collective Investment Scheme is not subject to the above provisions.

Prior to 16 July 2015 the above three provisions applied only to the extent that the ultimate shareholders (direct or indirect) are Cyprus tax resident individuals. As from 16 July 2015 the above provisions apply only to the extent that the ultimate shareholders (direct or indirect) are individuals who are both Cyprus tax resident and Cyprus domiciled.



Capital gains tax

Capital Gains Tax (CGT) 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 directly own such immovable property. Further, as from 17 December 2015 shares of companies which indirectly own immovable property located in Cyprus and at least 50% of the market value of the said shares derive from such immovable property are subject to Capital Gains Tax. In the case of share disposals only that part of the gain relating to the immovable property situated in Cyprus is subject to CGT.

Disposal for the purposes of CGT specifically includes; exchange, leasing, gifting, abandoning use of right, granting of right to purchase, and any sums received upon cancellation of disposals of property.

Shares listed on any recognised stock exchange are excluded from these provisions.



Exemptions

The following disposals of immovable property are not subject to CGT:

- Subject to conditions, land as well as land with buildings, acquired in the period 16 July 2015 up to 31 December 2016 will be exempt from CGT upon its future disposal subject to certain anti-avoidance provisions.

- 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 gift. The property must be kept by the donee for at least three years
- 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, to the extent that the gain made on the exchange has been used to acquire the new 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 for CGT purposes

Liability arises only on gains accruing as from 1 January 1980, i.e. 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. interest costs on related loans, transfer fees, legal expenses etc.

| Example | € | € |
|---|----------|----------|
| Sale price in June 2017 | 500.000 | |
| Cost of acquisition as at 1 January 1991 | (90.000) | |
| Indexation allowance January 1991 to May 2017 (month prior to sale) (€90.000 @ 219,86/119,43) - €90.000 | (75.682) | |
| Capital gain | | €334.318 |
| Legal expenses | | (1.000) |
| Taxable Capital Gain | | €333.318 |

Lifetime Exemptions

Individuals can deduct from the taxable capital gain the following:

| | € |
|---|--------|
| Disposal of private principal 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 lifetime exemptions subject to an overall lifetime maximum of €85.430



Estate duty

Estate duty has been abolished since 1 January 2000.

The executor/administrator of the estate of the deceased, is however 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 supply of goods and provision of services in Cyprus, as well as on the acquisition of goods from the 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.

Immediate refund of excess input VAT can be obtained in the following cases:

- a period of eight months 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 (with the exception of goods subject to excise duty) the trader does not pay VAT on receipt of the goods in Cyprus but instead 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, provided 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 the input VAT is not granted, the trader must pay the VAT that corresponds to the acquisition.

VAT rates

The legislation provides for the following four tax rates:

- Zero rate (0%)
- Reduced rate of five per cent (5%)
- Reduced rate of nine per cent (9%)
- Standard rate 19% as from 13 January 2014

Exemptions

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

- leasing of buildings used for residence
- most banking and financial services and insurance services;
- most hospital, medical and dental care services;
- certain cultural educational and sports activities;
- supplies 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



VAT on immovable property

A number of recent amendments to Cyprus VAT Legislation concerning transactions in real estate were enacted during 2017, these amendments comprise of:

- (a) Imposition of VAT on leasing of immovable property (land and commercial buildings, other than residential buildings) when used by lessee in making taxable supplies. The lessor has the right to opt not to impose VAT on the specific property. The option is irrevocable.
- (b) The imposition of 19% VAT on the sale of non- developed building land, as from 2 January 2018, which is defined as a land intended for the construction of one or more structures in the course of carrying out a business activity. No VAT will be imposed on the purchase or sale of land located in a livestock zone or areas which are not intended for development such as zones/areas of environmental protection, archaeological and agricultural.
- (c) The application of reverse charge on transactions relating to transfers of immovable property during the process of loan restructuring and for compulsory transfer to the lender, as from 2 January 2018.

Imposition of the reduced rate of 5% on the acquisition and/or construction of residences for use as the primary and permanent place of residence.

The reduced rate of 5% applies to contracts that have been concluded from 1 October 2011 onwards provided they relate to the acquisition and/or construction of residences to be used as the primary and permanent place of residence for the next 10 years.

Following a legislative amendment, the restriction that existed for the imposition of the reduced rate of VAT on the first 200 square meters for private residences up to 275 square meters no longer applies.

Based on the amendment, the reduced rate of VAT of 5% applies on the first 200 square meters whereas for the remaining square meters as determined based on the building coefficient, the standard VAT rate is imposed.

The reduced rate is imposed only after obtaining a certified confirmation.

The eligible person must submit an application on a special form, which will state that the house will be used as the primary and permanent place of residence. The applicant must attach a number of documents supporting the ownership rights on the property and evidencing the fact that the property will be used as the primary and permanent place of residence. The application must be filed prior to the actual delivery of the residence to the eligible person.

As from 8 June 2012 eligible persons include residents of non EU Member States, provided that the residence will be used as their primary and permanent place of residence in the Republic.

The documents supporting the ownership of the property must be submitted together with the application. The documents supporting the fact that the residence will be used as the primary and permanent place of residence (copy of telephone, water supply or electricity bill or of municipal taxes) must be submitted within six months from the date on which the eligible person acquires possession of the residence.

A person who ceases to use the residence as his primary and permanent place of residence before the lapse of the 10 year period must notify the Commissioner of Taxation, within thirty days of ceasing to use the residence, and pay the difference resulting from the application of the reduced and the standard rate of VAT attributable to the remaining period of 10 years for which the property will not be used as the main and primary place of residence.

In addition based on the amendment, persons who have already acquired a residence on which the reduced VAT rate was imposed, can re-apply and acquire a new residence on which the reduced VAT rate will be imposed, irrespective of whether the 10 year prohibition period for using the residence has lapsed or not. A condition for this to apply is that in case the 10 year period of using the residence as the main and permanent place of residence has not lapsed, the persons must pay back to the Tax Department the difference in the VAT between the standard and reduced VAT rates applicable at the time of the acquisition or construction of the residence.



Persons who make a false declaration to benefit from the reduced rate are required by law to pay the difference of the additional VAT due. Furthermore, the legislation provides that such persons are guilty of a criminal offence and, upon conviction, are liable to a fine, not exceeding twice the amount of the VAT due, or imprisonment up to 3 years or may be subject to both sentences.

Imposition of the reduced rate of 5% on the renovation and repair of private residences

As from 4 December 2015 the renovation and repair of old private residences (for which a period of at least three years has elapsed from the date of their first use) is subject to VAT at the reduced rate of VAT of 5%, excluding the value of materials which constitute more than 50% of the value of the services.

In addition as from 4 December 2015 the renovation and repair of old private residences (for which a period of at least three years has elapsed from the date of their first use) and which are used as the place of residence of vulnerable groups or residences that are used as the place of residence and which are located in **remote** areas are subject to VAT at the reduced rate of VAT of 5%.

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);

Registration

Registration is compulsory for businesses with (a) turnover subject to VAT in excess of €15.600 during the 12 preceding months or (b) expected turnover subject to VAT 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/refund of VAT

VAT returns must be electronically submitted on a quarterly basis 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. The approval of the Commissioner of Taxation is required. The Commissioner of Taxation 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.

As from 19 February 2013 taxpayers who make a claim for VAT refund will be entitled to repayment of the principal amounts together with interest in the event that the repayment is delayed for a period exceeding four months from the date of the submission of the claim.

The grace period for the Tax Department to repay the refundable amounts is extended by four months (i.e. eight months in total) in the event that the Commissioner of Taxation is carrying out an investigation in relation to the submitted claim.

| 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 Member State | 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 6 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 constitutes a criminal offence with a maximum penalty of | 850 |
| 11 | Penalty for late registration with the VAT authorities | 85 per month of delay |

Immovable Property Tax



Immovable Property Tax has been abolished as from 1 January 2017. Until tax year 2016, the owner of immovable property situated in Cyprus was liable to pay an annual IPT which is calculated on the market value of the property as at 1 January 1980, at the varying rates as noted in the table below, which apply per owner and not per property.

Tax rates

| Property value (as at 1 January 1980) € | Rate ‰ | Accumulated tax € |
|--|-----------|----------------------|
| First 40.000* | 6 | 240 |
| From 40.001 – to 120.000 | 8 | 880 |
| From 120.001– to 170.000 | 9 | 1.330 |
| From 170.001– to 300.000 | 11 | 2.760 |
| From 300.001– to 500.000 | 13 | 5.360 |
| From 500.001– to 800.000 | 15 | 9.860 |
| From 800.001 – to 3.000.000 | 17 | 47.260 |
| Over 3.000.000 | 19 | |

* Property owners whose property has a total value of €12.500 or less (using values of 1.1.1980) are exempt from Immovable Property Tax.

Exemptions

The following were never subject to Immovable Property Tax:

- Public cemeteries
- Churches and other religious buildings (partly exempt)
- 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 may be defined as the obligation of a person (i.e. the trustee) to whom property is transferred by the owner of the property and the creator of the trust (i.e. the settlor), to hold and manage such property for a defined period according to the wishes of the settlor, oral or written as expressed in a Deed of Trust or a Will, in favour of a specified person or persons or class of persons (i.e. the beneficiaries). A trust is not a separate legal entity.

International Trusts

The Law defines an International Trust as being a trust in respect of which:

(a) The Settlor is not a tax resident in Cyprus during the calendar year which precedes the year of creation of the trust; (b) At least one of the Trustees from time to time is a tax resident in Cyprus during the trust period; and (c) None of the Beneficiaries are tax residents in Cyprus during the calendar year which precedes the year of creation of the trust.

According to applicable law: (i) Where the beneficiary is resident in Cyprus, the income and profits of a Cyprus International Trust which are earned or deemed to be earned from sources within and outside of Cyprus, are subject to every form of taxation imposed in Cyprus. (ii) Where the beneficiary is not a resident of Cyprus, the income and profits of a Cyprus International Trust which are earned or deemed to be earned from sources within Cyprus, are subject to every form or taxation imposed in Cyprus.

Transfer fees by the department of land and surveys

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

| Market Value | Rate | Fee | Accumulated fee |
|------------------------|------|-------|-----------------|
| € | % | € | € |
| First 85.000 | 3 | 2.550 | 2.550 |
| From 85.001 to 170.000 | 5 | 4.250 | 6.800 |
| Over 170.000 | 8 | | |

However:

- No transfer fees are payable if VAT is applicable upon purchasing the immovable property.
- The above transfer fees are reduced by 50% in case the purchase of immovable property is not subject to VAT.

In the case of free transfers of property the transfer fees are calculated on the value of the property as follows:

- from parents to children – Nil
- between spouses – 0,1%
- between third degree relatives – 0,1%
- to trustees €50

‘Value’ in these cases refers to values as at 1 January 2013.

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

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



Social insurance



| Contributions | % |
|----------------------|----------|
| Employer | 7,8 |
| Employee | 7,8 |



The rate of Social insurance contributions is applied to a maximum level of emoluments. **The maximum level of emoluments for 2018 (as with 2017, 2016 and 2015) is €54.396 (weekly €1.046/monthly €4.533).**

The rate of 7,8% applies for both the employer and the employee up to 31 December 2018.

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 not exempt) | 8,0** |

* Social cohesion fund is calculated on total emoluments and has no maximum level

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

The contributions of self-employed persons are 14,6% of their 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. These limits are set on an annual basis.

Stamp duty

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



Nature of documents

| | |
|--|---------|
| Receipts (if not exempt) - for sums of over €4 | 7 cents |
| Cheques | 5 cents |
| Letters of credit | €2 |
| Letters of guarantee | €4 |
| Bills of exchange (payable within three days, on demand or at sight) | €1 |
| Contracts with a fixed amount | |
| - the first €5.000 | 0 |
| - between €5.001 - to €170.000 | 1.5‰ |
| - above €170.000 | 2‰* |
| Contracts without fixed sum | €35 |
| Customs declaration documents (depending on document type) | €18-€35 |
| Bills of lading | €4 |
| Charterparty | €18 |
| Powers of attorney | |
| - general | €6 |
| - limited | €2 |
| Certified copies of contracts and documents | €2 |

* Capped at a maximum of €20.000.

Capital duty

Upon incorporation of a Cyprus company

| | |
|--------------------------|--|
| Authorised share capital | €105 plus 0,6% on the authorised share capital |
| Issued share capital | There is no capital duty payable if the shares are issued at their nominal value. There is a €20 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 | €20 flat duty on every issue, whether the shares are issued at nominal value or at a premium |



Tax treaties withholding tax (WHT) tables

WHT on dividends, interest and royalties

Cyprus does not levy a WHT on dividends, interest and royalties paid to non-residents of Cyprus except in the case of royalties earned on rights used within Cyprus, which are subject to a WHT of 10% (5% in the case of cinematographic films). Such Cyprus WHT on royalties for rights used within Cyprus may be reduced or eliminated by double tax treaties entered into by Cyprus or by the EU Interest and Royalty Directive as enacted in the Cyprus tax legislation.

WHT on other types of income

Cyprus levies a 10% WHT on technical services performed by non-residents in Cyprus. However no such WHT is levied if such services are performed via a permanent establishment in Cyprus of the non-resident or if performed between 'associated' companies as these are defined by the EU Interest and Royalty Directive as enacted in the Cyprus tax legislation.

Cyprus also levies a 10% WHT on the gross income/ receipts derived by a non-resident individual from the exercise in Cyprus of any profession or vocation and the remuneration of non-resident public entertainers (such as theatrical, musical including football clubs, other athletic missions etc).

Further, a 5% WHT is levied on gross income derived from within Cyprus by non-residents with no local permanent establishment for services in regards to the exploration, extraction or exploitation of the continental shelf as well as the establishment and use of pipelines and other installations on the ground, on the seabed and on the surface of the sea.

WHT on dividend, interest and royalties tables

Table A below illustrates the applicable Cyprus WHT rates on outbound dividend, interest and royalty payments.

Table B, further below, illustrates the WHT rates provided for in the double tax treaties entered into by Cyprus. This table illustrates the maximum tax rates on Cyprus inbound payments which the treaty partner country may charge on such type incomes qualifying under the respective treaty. The actual WHT rate charged may be lower/eliminated based on each paying country's domestic law provisions.

Table A- WHT on outbound payments from Cyprus

| Paid from Cyprus | | | | |
|-------------------------|--------------------------------|-------------------------------|--|--|
| Paid to | Dividends (1) % | Interest (1) % | Royalties Rights not used within Cyprus % | Royalties Rights used within Cyprus % |
| Non-treaty countries | Nil | Nil | Nil | 5/10 (2) |
| Armenia | Nil | Nil | Nil | 5 |
| Austria | Nil | Nil | Nil | Nil |
| Bahrain | Nil | Nil | Nil | Nil |
| Barbados (13) | Nil | Nil | Nil | Nil |
| Belarus | Nil | Nil | Nil | 5 |
| Belgium | Nil | Nil | Nil | Nil |
| Bosnia (7) | Nil | Nil | Nil | 5/10 (5) |
| Bulgaria | Nil | Nil | Nil | 5/10 (5) |
| Canada | Nil | Nil | Nil | 0/5/10 (4), (5) |
| China, P.R. | Nil | Nil | Nil | 5/10 (5) |
| Czech Republic | Nil | Nil | Nil | 0/10 (11) |
| Denmark | Nil | Nil | Nil | Nil |
| Egypt | Nil | Nil | Nil | 5/10 (5) |
| Ethiopia (14) | Nil | Nil | Nil | 5 |
| Estonia | Nil | Nil | Nil | Nil |
| Finland | Nil | Nil | Nil | Nil |
| France | Nil | Nil | Nil | 0/5 (3) |
| Georgia | Nil | Nil | Nil | Nil |
| Germany | Nil | Nil | Nil | Nil |
| Greece | Nil | Nil | Nil | 0/5 (5) |
| Guernsey | Nil | Nil | Nil | Nil |
| Hungary | Nil | Nil | Nil | Nil |

Paid from Cyprus

| Paid to | Dividends (1) % | Interest (1) % | Royalties Rights not used within Cyprus % | Royalties Rights used within Cyprus % |
|-----------------------|-----------------|----------------|---|---------------------------------------|
| Iceland | Nil | Nil | Nil | 5 |
| India | Nil | Nil | Nil | 5/10 (5) |
| Iran (13) | Nil | Nil | Nil | 5/6 (5) |
| Ireland, Rep. of | Nil | Nil | Nil | 0/5 (5) |
| Italy | Nil | Nil | Nil | Nil |
| Jersey (13) | Nil | Nil | Nil | Nil |
| Kuwait | Nil | Nil | Nil | 5 |
| Latvia | Nil | Nil | Nil | 0/5 (12) |
| Lebanon | Nil | Nil | Nil | Nil |
| Lithuania | Nil | Nil | Nil | 5 |
| Malta | Nil | Nil | Nil | 5/10 (5) |
| Mauritius | Nil | Nil | Nil | Nil |
| Moldova | Nil | Nil | Nil | 5 |
| Montenegro (7) | Nil | Nil | Nil | 5/10 (5) |
| Norway | Nil | Nil | Nil | Nil |
| Poland | Nil | Nil | Nil | 5 |
| Portugal | Nil | Nil | Nil | 5/10 (5) |
| Qatar | Nil | Nil | Nil | 5 |
| Romania | Nil | Nil | Nil | 0/5 (10) |
| Russia | Nil | Nil | Nil | Nil |
| San Marino | Nil | Nil | Nil | Nil |
| Serbia (7) | Nil | Nil | Nil | 5/10 (5) |
| Seychelles | Nil | Nil | Nil | 5 |
| Singapore | Nil | Nil | Nil | 5/10 (5) |
| Slovakia Republic (9) | Nil | Nil | Nil | 0/5 (10) |
| Slovenia | Nil | Nil | Nil | 5 |
| South Africa | Nil | Nil | Nil | Nil |
| Spain | Nil | Nil | Nil | Nil |
| Sweden | Nil | Nil | Nil | Nil |
| Switzerland | Nil | Nil | Nil | Nil |
| Syria | Nil | Nil | Nil | 5/10 (5) |
| Thailand | Nil | Nil | Nil | 5/10 (6) |
| Ukraine | Nil | Nil | Nil | 5/10 (8) |
| United Arab Emirates | Nil | Nil | Nil | Nil |
| United Kingdom | Nil | Nil | Nil | 0/5 (3) |
| United States | Nil | Nil | Nil | Nil |

Notes- Table A- outbound Payments from Cyprus

1. Under Cyprus legislation, there is no WHT on dividends and interest paid to non residents of Cyprus. Further, there is also no WHT on royalties paid to non-residents of Cyprus for rights not used within Cyprus.
2. Royalties earned on rights used within Cyprus are subject to WHT of 10% (except royalties relating to cinematographic films, where the WHT rate is 5%).
3. A WHT rate of 5% is applicable on royalties for cinematographic films including films and video tape for television.
4. 0% on literary, dramatic, musical, or artistic work (excluding motion picture films and works on film or videotape for use in connection with television).
5. The WHT rate of 5% is applicable on cinematographic film royalties.
6. 5% WHT applies for any copyright of literary, dramatic, musical, artistic, or scientific work.
7. Serbia, Montenegro and Bosnia apply the Yugoslavia/ Cyprus treaty.
8. A 5% WHT will be levied on payment of royalties in respect of any copyright of scientific work, any patent, trademark, secret formula, process, or information concerning industrial, commercial, or scientific experience and cinematographic films.
9. The Cyprus-Czechoslovakia treaty applies with the Slovak Republic.
10. 5% WHT rate applies for patents, trademarks, designs or models, plans, secret formulas, or processes, or any industrial, commercial, or scientific equipment, or for information concerning industrial, commercial, or scientific experience.
11. 10% WHT rate applies for patent, trademark, design or model, plan, secret formula or process, computer software or industrial, commercial, or scientific equipment, or for information concerning industrial, commercial, or scientific experience.
12. Nil applies if the payer is a company that is a resident in Cyprus and the beneficial owner of the income is a company (other than partnership) that is a resident in Latvia. 5% WHT rate applies for all other cases.
13. The treaty is effective as from 1 January 2018.
14. The treaty is effective as from 1 January 2018 for Cyprus.

Table B- Maximum WHT on inbound payments to Cyprus

| Received in Cyprus | | | |
|---------------------------|------------------------|-----------------------|------------------------|
| Paid from | Dividends % | Interest % | Royalties % |
| Armenia | 0/5 (1) | 5 | 5 |
| Austria | 10 | Nil | Nil |
| Bahrain | Nil | Nil | Nil |
| Barbados (45) | Nil | Nil | Nil |
| Belarus | 5/10/15 (2) | 5 | 5 |
| Belgium | 10/15 (3) | 0/10 (4), (5) | Nil |
| Bosnia (6) | 10 | 10 | 10 |
| Bulgaria | 5/10 (7) | 0/7 (4), (8) | 10 (8) |
| Canada | 15 | 0/15 (9) | 0/10 (10) |
| China, P.R. | 10 | 10 | 10 |
| Czech Republic | 0/5 (11) | Nil | 0/10 (12) |
| Denmark | 0/15 (4), (13) | Nil | Nil |
| Egypt | 15 | 15 | 10 |
| Ethiopia (46) | 5 | 5 | 5 |
| Estonia | Nil | Nil | Nil |
| Finland | 5/15 (14) | Nil | Nil |
| France | 10/15 (15) | 0/10 (16) | 0/5 (17) |
| Georgia | Nil | Nil | Nil |
| Germany | 5/15 (18) | Nil | Nil |
| Greece | 25 | 10 | 0/5 (19) |
| Guernsey | Nil | Nil | Nil |
| Hungary | 5/15 (3) | 0/10 (4) | Nil |
| Iceland | 5/10 (39) | Nil | 5 |
| India | 10 (20) | 0/10 (46) | 10 (21) |
| Iran (45) | 5/10 (47) | 5 | 6 |
| Ireland, Rep. of | Nil | Nil | 0/5 (19) |
| Italy | 15 | 10 | Nil |
| Jersey (45) | Nil | Nil | Nil |
| Kuwait | 0 | 0 | 5 |
| Latvia | 0/10(42) | 0/10(42) | 0/5(43) |
| Lebanon | 5 | 5 | Nil |
| Lithuania | 0/5 (22) | Nil | 5 |
| Malta | Nil | 10 | 10 |
| Mauritius | Nil | Nil | Nil |

Received in Cyprus

| Paid from | Dividends | Interest % | Royalties % |
|-------------------------|------------------|-----------------------|------------------------|
| Moldova | 5/10 (24) | 5 | 5 |
| Montenegro (6) | 10 | 10 | 10 |
| Norway | 0/15 (36) | Nil | Nil |
| Poland | 0/5 (23) | 0/5 (4) | 5 |
| Portugal | 10 | 10 | 10 |
| Qatar | Nil | Nil | 5 |
| Romania | 10 | 0/10 (4) | 0/5 (25) |
| Russia | 5/10 (26) | Nil | Nil |
| San Marino | Nil | Nil | Nil |
| Serbia (6) | 10 | 10 | 10 |
| Seychelles | Nil | Nil | 5 |
| Singapore | Nil | 0/7/10 (4), (27) | 10 |
| Slovak Republic (37) | 0/5 (28) 10 | Nil 0/10 (4) | Nil 0/5 (25) |
| Slovenia | 5 | 5 | 5 |
| South Africa | 5/10(41) | Nil | Nil |
| Spain | 0/5 (28) | Nil | Nil |
| Sweden | 5/15 (3) | 0/10 (4) | Nil |
| Switzerland | 0/15 (40) | Nil | Nil |
| Syria | 0/15 (29) | 0/10 (9) | 10/15 (38) |
| Thailand | 10 | 10/15 (30) | 5/10/15 (31) |
| Ukraine | 5/15 (32) | 2 | 5/10 (33) |
| United Arab Emirates | Nil | Nil | Nil |
| United Kingdom | 0/15 (34) | 10 | 0/5 (17) |
| United States | 5/15 (35) | 0/10 (16) | Nil |

Notes- Table B- inbound payments to Cyprus

1. The WHT rate of 5% applies where a dividend is paid by a company in which the beneficial owner has invested less than EUR 150.000.
2. A WHT rate of 5% applies where the investment is not less than EUR 200.000 in the share capital of the company paying the dividend. If such investment is less than EUR 200000, dividends are subject to 15% WHT which is reduced to 10% if the recipient company controls 25% or more of the paying company.
3. A WHT rate of 15% applies if received by a company holding less than 25% of the share capital of the paying company and in all cases if received by an individual.
4. No WHT if paid to the government/Central Bank/ Public Authority of the other state.
5. No WHT for interest on deposits with banking institutions.
6. Serbia, Montenegro and Bosnia apply the Yugoslavia/Cyprus treaty.
7. The WHT 5% rate applies to companies holding directly at least 25% of the share capital of the company paying the dividend. In all other cases the WHT is 10%.
8. The treaty rates do not apply if the payment is made to a Cyprus entity by a resident of Bulgaria owning directly or indirectly at least 25% of the share capital of the Cyprus entity and the Cyprus entity pays tax in Cyprus at a tax rate lower than the usual tax rate.
9. Nil if paid to a government/Central Bank/ Public Authority or for export guarantee.
10. Nil on literary, dramatic, musical, or artistic work (but not including royalties in respect of motion picture films and works on film or videotape for use in connection with television).
11. Nil applies if received by a company (excluding partnership) which holds directly at least 10% of the share capital of the paying company for an uninterrupted period of no less than one year. A WHT rate of 5% applies in all other cases.
12. 10% WHT applies for patent, trademark, design or model, plan, secret formula or process, computer software or industrial, commercial, or scientific equipment, or for information concerning industrial, commercial, or scientific experience.

13. A WHT rate of 15% if received by a company controlling less than 10% of the share capital of the paying company or the duration of any holding is less than one uninterrupted year. A WHT rate of 15% also applies if received by an individual.
14. A WHT rate of 15% applies if received by a company controlling less than 10% of the voting power in the paying company and in all cases if received by an individual.
15. A WHT rate of 15% if received by a company (partnership is excluded) holding less than 10% of the capital of the paying company and in all cases if received by an individual.
16. Nil if paid to a government, bank, or financial institution.
17. A WHT rate of 5% on royalties for cinematographic films including films and video tapes for television.
18. A WHT rate of 15% if received by a company holding less than 10% of the capital of the paying company and in all cases if received by an individual.
19. A WHT rate of 5% on cinematographic film royalties (other than films shown on television).
20. Prior to 1 April 2017, the applicable WHT rate is 15% if received by a company holding less than 10% of the shares of the paying company and in all cases if received by an individual.
21. A WHT rate of 10% is also applicable for payments of a technical, managerial, or consulting nature. Prior to 1 April 2017, a rate of 15% applies on royalties.
22. A WHT rate of 5% if received by a company (other than partnership) holding less than 10% of the capital of the company paying the dividend and in all cases if received by an individual.
23. Nil rate applies if the recipient company (partnership is excluded) holds directly 10% of the share capital of the paying company for an uninterrupted period of at least 2 years. 5% in all other cases.
24. A WHT rate of 5% applies if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the capital of the company paying the dividends. 10% in all other cases.
25. 5% WHT rate applies for patents, trademarks, designs or models, plans, secret formulas, or processes, or any industrial, commercial, or scientific equipment, or for information concerning industrial, commercial, or scientific experience.
26. A WHT rate of 10% on dividend if paid by a company in which the beneficial owner has invested less than EUR 100.000 in the share

- capital of the company paying the dividend.
27. A WHT rate of 7% if paid to a bank or financial institution.
 28. A WHT rate of 5% if received by a company holding less than 10% of the capital of the paying company and in all cases if received by an individual or a company not limited at least partly by shares.
 29. A WHT rate of 15% if received by a company holding less than 25% of the share capital of the paying company and in all cases if received by an individual or a company not limited at least partly by shares.
 30. A WHT rate of 10% on interest received by a financial institution or when it relates to sale on credit of any industrial, commercial, or scientific equipment or of merchandise.
 31. A WHT rate of 5% applies for any copyright of literary, dramatic, musical, artistic, or scientific work. A WHT 10% rate applies for industrial, commercial, or scientific equipment. A 15% rate applies for patents, trade marks, designs or models, plans, secret formulas, or processes.
 32. A WHT rate of 15% if a dividend is paid by a company in which the beneficial owner holds less than 20% of the share capital of the paying company and the beneficial owner has invested less than Eur 100.000.
 33. A WHT 5% WHT will be levied on payment of royalties in respect of any copyright of scientific work, any patent, trade mark, secret formula, process or information concerning industrial, commercial or scientific experience. 10% WHT will be levied in all other cases.
 34. A WHT rate of 15% applies to individual shareholders regardless of their percentage of shareholding. Companies controlling less than 10% of the voting shares are also entitled to a rate of 15%. Companies controlling at least 10% of the voting shares are entitled to nil WHT.
 35. A WHT rate of 15% if received by a company controlling less than 10% of the voting power of the paying company and in all cases if received by an individual. If a company controls at least 10% of the voting power of the paying company in order to benefit from the WHT rate of 5% other conditions relating to the income of the paying company need to be satisfied, otherwise a WHT rate of 15%.
 36. Nil rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the company paying the dividends or if the beneficial owner of the shares is the Government of Cyprus or Norway. A WHT rate of 15% in all other cases.

37. The Cyprus - Czechoslovakia treaty applies with the Slovak Republic.
38. 10% WHT rate applies on payment of royalties of any copyright of literary, artistic or scientific work including cinematograph films, and films or tapes for television or radio broadcasting. A rate of 15% applies on payments of royalties of any patent, trade mark, design or model, plan, secret formula or process, or any industrial, commercial, or scientific equipment, or for information concerning industrial, commercial or scientific experience.
39. A WHT rate of 5% if received by company (other than a partnership) which holds directly at least 10% of the capital of the company paying the dividend. 10% in all other cases.
40. Nil rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 10 per cent of the capital of the company paying the dividends during an uninterrupted period of at least one year (the holding period condition may be satisfied post the date of the dividend payment). Nil rate also applies if the beneficial owner is a pension fund or other similar institution or relates to the Government of Cyprus or Switzerland. 15% in all other cases.
41. A protocol to the treaty entered into force on 18 September 2015 but may apply retrospectively. 5% WHT rate applies if the beneficial owner is a company which holds at least 10% of the capital of the company paying the dividend. 10% in all other cases.
42. Nil applies if the payer is a company that is a resident in Latvia and the beneficial owner of the income is a company (other than partnership) that is a resident in Cyprus. 10% rate applies for all other cases (except for certain governmental interest).
43. Nil applies if the payer is a company that is a resident in Latvia and the beneficial owner of the income is a company (other than partnership) that is a resident in Cyprus. 5% rate applies for all other cases.
44. Nil if paid to a government or any other institution agreed upon between the two States. Prior to 1 April 2017, nil rate also applies if paid to a bank or financial institution.
45. The treaty is effective as from 1 January 2018.
46. The treaty is effective as from 8 July 2018 for Ethiopia.
47. The WHT rate of 5% applies if the beneficial owner of the dividends holds directly at least 25% of the capital of the company paying the dividends.

2018 Tax diary



End of each month

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

31 January

- Submission of declaration of deemed dividend distribution (TD623) for the year ended 31 December 2015.

31 March

- Electronic submission of the 2016 corporation tax return (TD4) for accounting periods ending on 31 December 2016 (TD4).
- Electronic submission of the 2016 income tax return of physical persons preparing audited financial statements (2).

30 April

- Payment of premium tax for life insurance companies - first instalment for 2018.

30 June

- Payment of special contribution for defence for the first six months of 2018 on rents if such tax is not withheld at source by tenant and on dividends or interest from sources outside Cyprus.
- Payment of 2017 personal income tax under the self assessment method by individuals not preparing audited financial statements (2).

31 July

- Electronic submission by employers of the total 2017 payroll (Form TD7).
- Submission of the 2018 provisional tax return and payment of the first instalment.
- Electronic submission of 2017 personal tax returns of individuals whose incomes do not include income from a trade/business, rents, dividends, interest, royalties nor income relating to trading goodwill (1).

1 August

- Payment of 2017 final corporation tax under the self-assessment method.
- Payment of 2017 personal 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 2018.

30 September

- Electronic submission of 2017 personal tax returns of individuals not required to prepare audited financial statements but whose incomes include income from a trade/business, rents, dividends, interest, royalties or income relating to trading goodwill (1) (2).

31 December

- Payment of provisional tax - second and last instalment for 2018.
- Payment of special contribution for defence for the last six months of 2018 on rents if such tax is not withheld at source by tenant and on dividends or interest from sources outside Cyprus.
- Payment of premium tax for life insurance companies - third and last instalment for 2018.

Interest and Penalties

The official interest rate, as set by the Finance Minister, for all amounts due as from 1 January 2018 is 3,5% (3,5% for 2017, 4% for 2015-2016, 4,5% for 2014, 4,75% for 2013, 5% for years 2012 and 2011, 5,35% for the year 2010, 8% for the years 2007-2009 and 9% up to 31 December 2006).

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



Notes:



1. Physical persons are required to submit personal tax returns only when their gross taxable income exceeds €19.500.
2. A physical person is obliged to submit audited financial statements if his/her annual income from trade/business, rents, dividends interest, royalties or income relating to trading goodwill exceeds €70.000.

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