
Tax Facts & Figures 2012 - Cyprus

The tax system
in Cyprus

January 2012



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Foreword

This publication provides valuable information about the tax system in Cyprus, based on the current tax legislation and practice as at January 2012.

The “Tax, Facts & Figures 2012 - Cyprus” publication which provides a general description of our tax system represents a rich source of general guidance that will enable you to effectively proceed with your tax planning in a timely manner.

However in no case a publication can substitute proper professional advice. All of us in 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 and will support you in structuring your tax operations in an efficient way.

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

PwC Cyprus
January 2012

Personal income tax

Basis of taxation

All Cyprus tax residents 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 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

Foreign taxes paid can be credited against the personal income tax liability.

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
36.301 - 60.000	30	10.885
over 60.000	35	

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, except for interest arising from the ordinary business activities or closely related to the ordinary business activities of an individual
- Dividends
- Remuneration from any office or employment exercised in Cyprus by an individual who was not a resident of Cyprus before the commencement of his employment, for a period of 5 years for employments commencing as from 1 January 2012 if the annual remuneration exceeds €100.000.
- Remuneration from any office or employment exercised in Cyprus by an individual who was not a 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

Exemption

The whole amount (1)

The whole amount (1)

50% of income

20% of income with a maximum amount of €8.550 annually

- 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
- Profits of a permanent establishment abroad under certain conditions 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 (2) The whole amount

Notes:

1. Such dividend and interest income is subject to Special Contribution for Defence.
2. 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 €1.200, €1.100 or €700 per square meter (depending on the size of the building) |
| • Social Insurance, provident fund, medical fund (maximum 1% of remuneration), pension fund contributions and life insurance premiums (maximum 7% of the insured amount) | Up to 1/6 of the chargeable income |
| • Special contribution (see page 12) | The whole amount |

Example of personal Tax computation

Salary (€5.885 monthly)	€70.620
Rent receivable	€5.000
Interest receivable	€700
Dividend income	€600
Social Insurance contributions	€3.625
Special contribution	€620
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	
Special contribution	620	
20% of rent income	1.000	1.920
Net total income		73.700
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 + €3.625 + €7.000 = €13.625 restricted to 1/6 of €75.000*)		(12.500)
Chargeable income		61.200

* €75.000 is made up of net total income plus interest and dividend.

	€	€
Tax payable: - first	19.500	0
- next	8.500	1.700
- next	8.300	2.075
- next	23.700	7.110
- rest	1.200	420
Income tax payable		11.305
Special contribution for defence*		
Dividends receivable €600 x 20%	120	
Interest receivable €700 x 15%	105	
Rent receivable €5.000 – 25% = €3.750 x 3%	112	337
Special contribution**		620
Social insurance***		3.625
Total tax payable		15.887

*Please refer to Special Contribution for Defence section (page 23)

** Please refer to Special Contribution section (page 12)

*** Please refer to Social Insurance section (page 46)

Special Contribution

The following Special Contributions are payable according to monthly income:



Gross monthly emoluments from employment / pension €	Government and semi-government employees and pensioners (1)	Private sector employees, self-employed individuals and private sector pensioners (2)
0 – 1.500	nil	nil
1.501 – 2.500	1,5%	nil
2.501 – 3.500	2,5%	2,5% (minimum €10)
3.501 – 4.500	3,0%	3,0%
Over 4.500	3,5%	3,5%

Notes:

1. Hourly paid workers whose gross monthly emoluments are €1.500 or less do not pay the Special Contribution, on amounts over €1.500 their rate is 1,5%.
2. In the case of 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 companies tax resident of Cyprus 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.



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(1)	The whole amount
<ul style="list-style-type: none">• Dividends	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 permanent establishment abroad, under certain conditions	The whole amount

Notes:

1. For a definition of securities see page 7.
2. Such dividend income may be subject to Special Contribution for Defence.
3. 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.
4. Such interest income is subject to Special Defence Contribution.

Tax deductions

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

Type of expense	Exemption limit
• Donations to approved charities (with receipts)	The whole amount
• 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 €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

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 subject to conditions 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 subject to conditions provided the companies are Cyprus tax resident companies of a group. Group is defined as:

- One company holding at least 75% of the voting shares of the other company
- Both of the companies are at least 75% (voting shares) held by another third company

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.

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

Plant and machinery

	%
Plant and machinery	10
Furniture and fittings	10
Industrial carpets	10
Boreholes	10
Machinery and tools used in an agricultural business	15

Buildings

	%
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>	<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</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

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 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 and its distribution

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) and Undertakings for Collective Investment in Transferable Securities (UCITs)

The sole objective of ICISs and UCITs 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

UCITs can take the following legal forms:

- Common Fund
- Variable Capital Investment Company

ICISs and UCITs are liable to tax or not depending on their legal status.

Under certain conditions, management fees charged for the management of ICISs and UCITs funds can be exempt from VAT.



Special contribution for defence

Special contribution for defence is imposed on certain income earned by Cyprus tax residents. Non-tax residents are generally 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	20(1)	Nil (1)
Dividend income from non-Cyprus resident companies	20	Nil (2)
Interest income arising from the ordinary activities or closely related to the ordinary activities of the business	Nil (3)	Nil (3)
Other interest income	15(4)	15(4)
Rental income (reduced by 25%)	3 (4)(5)	3 (4)(5)

Notes:

1. Dividends declared by a Cyprus tax resident company to another Cyprus tax resident company after the lapse of four years from the end of the year in which the profits were generated are subject to 20% defence contribution. Dividends which emanate directly or indirectly out of such dividends on which special contribution for defence was previously suffered are exempt.
2. 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 20%.

3. Such interest income is subject to personal income tax / corporation tax.
4. 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 15%).

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 Cyprus company, partnership, the state or local authority Special contribution for defence on rental income is withheld at source and is payable at the end of the month following the month in which it was withheld. 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 paid to Cyprus tax residents any defence due is withheld at source and is payable at the end of the month following the month in which they were paid.

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

5. Rental income is also subject to personal income tax / corporation tax.

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
- 20% 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 relevant year or paid during the two following 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 100% by non resident shareholders, the tax authorities have clarified that defence contribution does not need to be paid by the subsidiary. In cases where the subsidiary is not ultimately held 100% by non-Cyprus tax resident shareholders defence contribution paid by the subsidiary on deemed distribution is refundable to any non resident shareholders upon receipt of an actual dividend.

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 up to second degree or his 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 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 20% (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 20% after deducting any amounts which have been deemed as distributable profits.

The above provisions apply only in cases where the shareholders are Cyprus tax resident individuals.

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

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 on 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
- 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 October 2011	500.000	
Cost of acquisition as at 1 January 1991	(90.000)	
Indexation allowance January 1991 to October 2011 €90.000 @ 90,66%	(81.590)	
Capital gain		328.410
Legal expenses		(1.000)
Taxable Capital Gain		327.410

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 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 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 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.



Immediate 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 (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.

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
- Additional compliance obligation for electronic submission of the monthly VIES return for services subject to VAT in another EU Member State 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).

Up to 31 December 2010 the above services, 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% up to 29 February 2012 and 17% as from 1 March 2012)

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

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.

For contracts concluded up to 30 September 2011 for the acquisition and/or construction of residences for use as the primary and permanent place of residence, the eligible person must apply for a grant.

The reduced rate of 5% applies for the first 200 square meters of residences of total covered area of up to 275 square meters. In the case of families with more than 3 children the allowable total covered area increases by 15 square meters per additional child beyond the three children.

The reduced rate is imposed only after obtaining a certified confirmation from the VAT Commissioner.

The eligible person must submit an application on a special form, issued by the VAT Commissioner, 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 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 VAT Commissioner, 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.

Persons who make a false statement 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.

Grant for acquisition of first residence

The grant is given to eligible persons for the construction, or purchase or transfer of a new residence which is used as the main and primary place of residence. The grant applies for contracts concluded up to 30 September 2011.



The application for the grant is submitted to the Ministry of Finance, in relation to residences 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 residences 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 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 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 Member States	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 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 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 120.000	-	-
120.001 – 170.000	4	200
170.001 – 300.000	5	850
300.001 – 500.000	6	2.050
500.001 – 800.000	7	4.150
Over 800.000	8	

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 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 these 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 (i) the settlor and the beneficiary(ies) (other than a Charity) are not permanent residents of Cyprus (ii) at all times there is at least one trustee resident in Cyprus and (iii) the trust property does not include immovable property in Cyprus.

According to applicable law, the trust property, the income thereof e.g. interest, dividends, rents and the proceeds thereof e.g. from sale, are not subject to income tax, capital gains tax, inheritance tax, special contribution for the defence or any other tax in Cyprus. These exemptions do not apply in case a beneficiary becomes a tax resident of 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 an effort to revive the real estate market for the six month period commencing 2 December 2011 to 1 June 2012 a transfer subject to VAT will be exempt from the above transfer fees and a transfer not subject to VAT will be eligible for a 50% exemption from the above transfer fees.

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 2012 is €53.304 (weekly €1.025/ monthly €4.442).

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 2012 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
Powers of attorney	
- general	€5,13
- limited	€1,71
Certified copies of contracts and documents	€1,71

* 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 capital 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



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.

Note under Cyprus domestic legislation there is no withholding tax on dividends and interest paid to non-residents of Cyprus at all times thus the treaty rates shown below are NOT applicable.

Paid from Cyprus

	Dividends (1) %	Interest (1) %	Royalties %
Non-treaty countries	nil	nil	nil (2)
Armenia	nil(31)	5	5
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, P.R.	10	10	10
Czech Republic	nil (29)	nil	nil (30)
Denmark	nil (6, 34)	nil	nil
Egypt	15	15	10
France	10 (9)	10 (10)	nil (3)
Germany (33)	10 (8)	10 (6)	nil (3)
Greece	25	10	nil (12)
Hungary	nil	10 (6)	nil
India	10 (9)	10 (10)	10 (16)
Ireland, Rep. of	nil	nil	nil (12)
Italy	nil	10	nil

Paid from Cyprus

	Dividends (1) %	Interest (1) %	Royalties %
Kuwait	10	10(6)	5 (7)
Kyrgyzstan (20)	nil	nil	nil
Lebanon	5	5	nil
Malta	15	10	10
Mauritius	nil	nil	nil
Moldova	5 (27)	5	5
Montenegro (26)	10	10	10
Norway	nil	nil	nil
Poland	10	10 (6)	5
Qatar	nil	nil	nil (28)
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 Republic	10	10 (6)	5 (7)
Slovenia	5 (32)	5	5
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 Arab Emirates	nil	nil	nil
United Kingdom	nil	10	nil (3)
United States	nil	10 (10)	nil

Tax treaties withholding tax tables

Received in Cyprus

Payer	Dividends %	Interest %	Royalties %
Armenia	nil (31)	5	5
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, P.R.	10	10	10
Czech Republic	nil (29)	nil	nil (30)
Denmark	nil (6,34)	nil	nil
Egypt	15	15	10
France	10 (9)	10 (10)	nil (3)
Germany (33)	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, Rep. of	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 %	Interest %	Royalties %
Moldova	5 (27)	5	5
Montenegro (26)	10	10	10
Norway	nil (13)	nil	nil
Poland	10	10 (6)	5
Qatar	nil	nil	nil (28)
Romania	10	10 (6)	5 (7)
Russia	5 (17)	nil	nil
San Marino	nil	nil	nil
Singapore	nil	10 (6,25)	10
Slovak Republic	10	10 (6)	5 (7)
Slovenia	5 (32)	5	5
South Africa	nil	nil	nil
Serbia (26)	10	10	10
Seychelles	nil	nil	5
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 Arab Emirates	nil	nil	nil
United Kingdom	15 (14)	10	nil (3)
United States	5 (9)	10 (10)	nil

Notes

1. Under Cyprus legislation there is never any WHT on dividends and interest paid to non-residents of Cyprus
2. Royalties earned on rights used within Cyprus are subject to WHT of 10%
3. A rate of 5% on film and TV royalties
4. Nil if paid to a government or for export guarantee
5. Nil on literary, dramatic, musical, or artistic work
6. Nil if paid to the government of the other state
7. This 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
8. A rate of 15% if received by a company controlling less than 25% of the voting power.
9. A rate of 15% if received by a person controlling less than 10% of the voting power
10. Nil if paid to a government, bank, or financial institution
11. The treaty provides for WHT on dividends but Greece does not impose any withholding tax in accordance with its own legislation
12. A rate of 5% on film royalties
13. A rate of 5% if received by a person controlling less than 50% of the voting power
14. This rate applies to individual shareholders regardless of their percentage of shareholding. Companies controlling less than 10% of the voting shares are also entitled to this rate
15. A rate of 10% for payments of a technical, managerial, or consulting nature
16. Treaty rate is 15%, therefore restricted to Cyprus legislation rate
17. A rate of 10% if a dividend is paid by a company in which the beneficial owner has invested less than US\$100,000

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18. If investment is less than EUR 200,000, dividends are subject to 15% WHT which is reduced to 10% if the recipient company controls 25% or more of the paying company
 19. No WHT for interest on deposits with banking institutions
 20. Kyrgyzstan, Tajikistan, and Ukraine apply the USSR/Cyprus treaty
 21. A 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
 22. This rate applies for any copyright of literary, dramatic, musical, artistic, or scientific work. A 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
 23. This 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%
 24. This rate does not apply if the payment is made to a Cyprus international business entity by a resident of Bulgaria owning directly or indirectly at least 25% of the share capital of the Cyprus entity
 25. A rate of 7% if paid to a bank or financial institution
 26. Serbia, and Montenegro apply the Yugoslavia/Cyprus treaty
 27. This rate applies if received by a company (excluding partnerships) that holds directly 25% of the shares. A rate of 10% applies in all other cases
 28. Applies to any consideration for the use of, or the right to use, any copyright of literary, artistic or scientific work (including cinematograph films and films, tapes or discs for radio or television broadcasting), computer software, any patent, trademark, design or model, plan, secret formula or process, or for information concerning industrial, commercial, or scientific experience
 29. This rate applies if received by a company (excluding partnership) which holds directly at least 10% of the shares for an uninterrupted period of no less than one year. 5% applies in all other cases

30. 10% 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
31. A rate of 5% if a dividend is paid by a company in which the beneficial owner has invested less than EUR 150.000
32. The provisions of the Parent-Subsidiary EU directive are applicable
33. A new treaty has been signed and is now awaiting ratification
34. A 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



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.

2012 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 (IR623) for the year ended 31 December 2009

31 March

- Electronic submission of the 2010 corporation tax return (IR4) for accounting periods ending on 31 December 2010

30 April

- Submission of 2011 personal returns of individuals whose income does not include income from a trade/business, income from rents, income from royalties nor income relating to trading goodwill (1)
- Payment of premium tax for life insurance companies - first instalment for 2012

30 June

- Submission of 2011 personal returns of individuals not preparing audited financial statements whose income includes; income from a trade/business, income from rents, income from royalties or income relating to trading goodwill (1) (2) and payment of tax via a self-assessment method]
- Payment of special contribution for defence for the first six months of 2012 on rents and on dividends or interest from sources outside Cyprus

31 July

- Electronic submission by employers of the total 2011 payroll (Form IR7)

1 August

- Submission of provisional tax declaration and payment of first instalment of provisional tax for 2012
- Payment of 2011 final corporation tax under the self-assessment method
- Payment of 2011 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 2012

30 September

- Payment of provisional tax - second instalment for 2012
- Payment of immovable property tax for 2012

31 December

- Submission of 2011 tax returns of individuals preparing audited financial statements (2)
- Payment of provisional tax - third and last instalment for 2012
- Payment of special contribution for defence for the last six months of 2012 on rents and on dividends or interest from sources outside Cyprus
- Payment of premium tax for life insurance companies - third and last instalment for 2012

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, penalties are 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 169.000 experts in 158 countries and based on experience adapted to local needs. PwC Cyprus focuses on two main areas: Assurance & Advisory Services and Tax & Legal 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 thus 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. 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.

Some of our services are:



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

Assurance & Advisory Services

Our Financial Assurance services comprise of statutory and regulatory audit services, which include evaluation of information systems, advisory services for capital market transactions, 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).

Our Risk Assurance Consulting (RAC) offers expertise on internal audit services, internal controls optimisation, corporate governance and reporting, as well as assurance and advisory services related to security and controls of information technology systems including Enterprise Resource Planning (ERP) systems (e.g. SAP, Oracle, Navision), Project Implementation Assurance (PIA), Computer Assisted Audit Techniques (CAATs), Spreadsheet Integrity and IT Risk Diagnostic and Benchmarking.

A particular focus of the team is in supporting the financial services industry on matters related to regulatory compliance, licensing and risk management.

Our Performance Improvement Consulting (PIC) is offering specialist advisory services on strategy and operational effectiveness, process improvement, cost reduction, people and change and sustainability issues.

Our Deals & Corporate Finance (DCF) provides consulting on M&A's, valuations, feasibility studies, transactions support and crisis Management.

Tax & Legal Services

Our PwC network's tax and legal services include Global Compliance Services, Direct and Indirect Tax Services, Services to Small and Medium Enterprises and Legal Services.

Global Compliance Services

Comprising the whole spectrum of company administration and corporate statutory compliance services, bookkeeping, accounting and payroll services as well as specialised services such as private client services, advice on establishment and administration of local and international business companies, collective investment schemes, UCITS, investment firms and trusts.

Direct tax services

Corporate: Advisory Services for tax planning, international tax structuring, mergers and buyouts and other business issues, tax returns administration, agreement with Tax Authorities and obtaining tax rulings.

Personal: Tax planning, completion submission and agreement of tax returns, tax services to expatriates, pensioners and other non-Cypriot individuals.

Indirect Tax Services

VAT: Advisory services for VAT, VAT recovery and VAT minimisation and tax compliance (administration of VAT returns, communication with VAT authorities, agreement of disputed assessments, etc).

Services to Small and Medium Enterprises (SME)

The Services to Small and Medium Enterprises are addressed to individuals, small and medium - sized enterprises with local activity and cover the whole spectrum of accounting, tax, VAT, family business and financial structuring and statutory compliance services.

Legal Services

The legal firm, full member of the PwC international network, offers legal services that cover the whole spectrum of corporate and business law, including advising and representing clients in M&A transactions, re-organizations, European Union law and Competition law, setting up and regulating private companies, setting up joint ventures and other forms of businesses and carrying out legal due diligence.

PwC offices in Cyprus

Nicosia

Mailing address: P O Box 21612, CY-1591 Nicosia, Cyprus
Street address: Julia House, 3 Themistocles Dervis Street,
CY-1066 Nicosia, Cyprus
Tel. +357 - 22555000 , Fax +357 - 22555001

Limassol

Mailing address: P O Box 53034, CY-3300 Limassol, Cyprus
Street address: City House, 6 Karaiskakis Street,
CY-3032 Limassol, Cyprus
Tel. +357 - 25555000, Fax +357 - 25555001

Larnaca

Mailing address: P O Box 40450, CY-6304 Larnaca, Cyprus
Street address: Artemidos Tower, 7th + 8th Floors, 3 Artemidos Avenue,
CY-6020 Larnaca Cyprus
Tel. +357 - 24555000, Fax +357 - 24555001

Paphos

Mailing address: P O Box 60479, CY-8103 Paphos, Cyprus
Street address: City House, 58 Gr Dighenis Avenue,
CY-8047 Paphos, Cyprus
Tel. +357 - 26555000, Fax +357 - 26555001



Your contacts for tax matters in PwC

<i>Nicosia</i>	<i>+357-22555000</i>
Board Members	Costas L Mavrocordatos (Head of Tax & Legal) Nicos P Chimarides (In charge of Direct Tax Services) Chrysilios K Pelekanos (In charge of Indirect Tax Services) Marios S Andreou Eftychios G Eftychiou Panicos Kaouris Angelos M Loizou Panikos N Tsailis Stelios A Violaris
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Senior Managers	Angela Eliophotou Andreas Kyprianou Constantinos Leontiou Michael Michael Varnavas Nicolaou Antonis Petrou Charalambos Sergiou Michalis Stavrides Joanne Theodorides

<i>Limassol</i>		+357-25555000
Board Members	Cleo Papadopoulou Constantinos L Kapsalis	
Director	Martha Lambrou	
<i>Larnaca</i>		+357-24555000
Board Member	Constantinos L Kapsalis	
<i>Paphos</i>		+357-26555000
Board Member	Pantelis Evangelou	
Senior Managers	Paris Chrysostomou Thoula Yerasimou Stavrou	

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