



Cyprus Corporation Tax

January 2008

Basis of taxation

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

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

Corporation tax rates

	Tax rate %
Companies	10
Public corporate bodies	25

Exemptions

Type of income	Exemption limit
Interest income not arising from the ordinary activities or closely related to the ordinary activities of the company	50%
Dividends income	the whole amount
Profit from the sale of securities	the whole amount
Profits of a permanent establishment abroad, subject to certain conditions	the whole amount

Deductions

All expenses incurred wholly and exclusively in earning the income of the company including:

Type of expense	Exemption limit
Interest incurred for the acquisition of a fixed asset used in the business	the whole amount
Expenditure incurred for the maintenance of a building in respect of which there is a Preservation Order	up to €342, €513 or €598 per sq. meter (depending on the size of the building)
Donations to approved charities (with receipts)	the whole amount
Employer's contributions to social insurance and approved funds on employees' salaries	the whole amount

But not including:

Type of expense	Exemption limit
Business entertainment expenses including hospitality expenses of any kind which are incurred for the business	amounts in excess of 1% of the gross income or €17.086 (whichever is the lower)
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
Immovable property tax	the whole amount
Contributions to the Social Cohesion Fund	the whole amount

Losses carried forward

The tax loss incurred during a tax year and which cannot be set off against other income, is carried forward and set off against future profits with no time restriction.

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

Group is defined as:

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

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

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

Reorganisations

Transfers of assets and liabilities between companies can be effected without tax consequences within the framework of a reorganisation.

Reorganisations include:

- mergers
- demergers
- transfer of activities
- exchange of shares

Capital Allowance

The following allowances for the annual wear and tear which are given as a percentage on the cost of acquisition are deducted from the chargeable income:

Fixed assets	%
Plant and machinery	
Fork lifts, excavators, loading vehicles, bulldozers and oil barrels	25
Motor vehicles of all types except from private saloon cars	20
Personal computers (hardware) and operating software	20
Application software	
up to €1.708,60	100
above €1.708,60	33 1/3
Plant and machinery used in agriculture	15
Water drillings, industrial carpets, video recorders, televisions	10
Any other plant and machinery	10
Buildings	
Metallic frame of greenhouses	10
Wooden frame of greenhouses	33 1/3
Industrial, agricultural and hotel buildings	4
Commercial	3
Ships	
Sailing vessels	4,5
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
Tools	
All tools in general	33 1/3
Videotapes used by video clubs	50

Special Modes of Taxation

Shipping companies

No income tax is payable on the profits earned or dividends paid by a Cyprus shipping company which owns ships under the Cyprus flag and operates in international waters (including chartering), or on the salaries of officers and crew of such ships

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

Local or international ship management and crew management businesses (corporated or unincorporated) have the option to be taxed either at the rate of 4,25% or at rates equal to 25% of the rates used to calculate tonnage tax of vessels under management which are registered outside Cyprus. If no election is made tonnage tax will be imposed. The election is made annually by 30 November of the previous year.

Insurance companies

Insurance companies of general and life business are taxable in the same way as all other companies. In the case where there is no tax payable or where the tax payable on the taxable income of the life business is less than 1.5% of the gross amount of the insurance premiums then the insurance company pays the difference as additional tax.

Royalty income - Intellectual property rights etc

The gross income arising from intellectual property rights, other exploitation rights, compensations or other similar income arising from sources within the Republic, of a person who is not resident in the Republic, is subject to withholding tax at a rate of 10%.

Royalties received by a connected company registered in a European Union member State are exempt from tax (subject to conditions).

Rights granted for use outside the Republic are not subject to any withholding tax.

Film royalties etc

The gross income derived by a non-resident person in respect of royalties arising from film projection in the Republic is subject to withholding tax at a rate of 5%. Royalties received by a connected company registered in a European Union member State are exempt from tax (subject to conditions).

Profits of professionals, entertainers etc

The gross income derived by a non-resident individual from the exercise in the Republic of any profession, vocation or public entertainment services including football teams and other athletic missions, is subject to a 10% withholding tax.

EU Interest and Royalty Directive

The EU Interest and Royalty Directive came into effect on 1 January 2005. It provides that interest and royalty payments in one EU member state are exempt from any withholding taxes imposed on those payments in that state, provided that the beneficial owner of the interest is a company in another EU state.

For the directive to apply the companies must be associated. The interest or royalty must be on an arm's length basis. The directive will not apply to what is considered to be in excess of an arm's length amount.

Greece, Czech Republic, Slovakia, Poland, Portugal, Spain, Latvia and Lithuania have been granted a transitional period in which to apply the directive. They can charge a maximum withholding tax of 5% until 2011.

The overall tax burden on interest and royalties remitted to Cyprus from these countries is not affected by the transitional provisions as Cyprus grants a tax credit for the taxes withheld by these countries.