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tax guide

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COUNTRY

# overview



Cyprus is the third largest island in the Mediterranean Sea with a geostrategic location at the crux of busy shipping and air routes, conveniently linking the continents of Europe, Africa, and Asia. The island, which has a rich cultural heritage and fascinating history dating back more than 10,000 years, has developed into a modern and thriving EU economy offering both international investors and domestic businesses opportunities across a wide range of sectors. This small yet dynamic country has a strong reputation as a 'centre of excellence' for international business activities with its unique clusters of expertise and world-class service capability to support key growth sectors.

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Cyprus is a business-friendly jurisdiction, with a highly skilled and multilingual workforce, where doing business is simple and efficient and quality of life is high, the ideal conditions for international businesses to invest, prosper and grow.



COUNTRY

# overview

Capitalising on its competitive advantages, continuously improving the business climate and competitiveness, as well as ensuring a stable economic environment, Cyprus aims at further diversifying its economy by driving new sectors with high potential.

These include sectors such as **energy**, **start-ups** and **innovation** and **investment funds**, while also further sharpening its edge in areas in which it has traditionally excelled, such as **tourism**, **shipping**, and **real estate**.

The country is also continuously **enhancing its regulatory framework**, processes and infrastructure to ensure it remains efficient and ahead of the game in today's fast-paced environment.

These efforts underline its commitment to offer a high quality and unique value proposition for investors and businesses worldwide. Cyprus is a business friendly jurisdiction, with a highly skilled and multilingual workforce, where doing business is simple and efficient and quality of life is high - the ideal conditions for international businesses to invest, prosper and grow.





# Cyprus Tax Regime Highlights

The Cyprus tax, legal and regulatory system provides an excellent framework for the operation of international and local businesses of all sizes. The country has an attractive Double Tax Treaty network currently covering 68 countries and as a member state of the European Union, investors are offered access to all EU Tax Directives.

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# One of the lowest corporate tax rates in the EU

01

Corporate tax for Cyprus tax resident companies is currently imposed at the rate of 12.5% for each year of assessment on income derived from sources both within and outside Cyprus. In arriving at the taxable income, deductions on such income and exemptions must be taken into account. All relevant expenses incurred wholly and exclusively for the production of that income are deductible expenses whereas dividends (subject to relaxed conditions), capital gains or profits from the sale of shares and other securities constitute tax exempt income. Expenses that directly or indirectly relate to the production of tax-exempt income are also not tax deductible.



# Dividend income exemption based on relaxed conditions

02

Foreign dividends received by a Cyprus Company, will be exempt from corporate tax in Cyprus, provided that such dividend payments are not allowed as a tax deduction in the country of residency of the dividend paying company.

Further, foreign dividends may also be exempt from Special Defense Contribution (SDC) in Cyprus, if one of the following criteria is met:

- the dividend paying company derives 50% or more of its income directly or indirectly from activities which lead to active income ('active versus passive test')

OR

- the foreign tax burden on the profits of the company paying the dividend is not substantially lower than the Cypriot corporate income tax rate ('effective tax test').

If neither of the above conditions can be satisfied, dividends will be subject to SDC tax in Cyprus at the current rate of 17%.



# Capital Gains Tax (CGT) exemption

Capital gains tax is only imposed on the sale of immovable property situated in Cyprus as well as on the sale of shares which are directly or indirectly held in companies (other than listed shares) in which the underlying asset is immovable property situated in Cyprus. CGT is imposed at a flat rate of 20% after allowing for indexation cost. Capital gains that arise from the disposal of immovable property held outside of Cyprus or shares in companies which may have as an underlying asset immovable property situated outside of Cyprus, are exempt from CGT.

03



# No withholding tax on outgoing dividend, interest or royalty payments

04

In general, based on the domestic tax legislation, no withholding tax is imposed on dividends, interest and royalties' payments made by a Cyprus tax resident company to a non-tax resident person, irrespective of whether the recipient of the payment resides in a treaty country or not. As from 31 December 2022, Cyprus applies withholding tax on certain outbound dividend, interest and royalty payments to entities in the EU list of non-cooperative jurisdictions for tax purposes (the 'EU List' - Annex 1 to the Council conclusions on the EU list of non-cooperative jurisdictions for tax purposes).



# Gains from trading in securities are tax exempt

The Cyprus legislation provides that any gain on the disposal of securities is exempt from taxation. The term 'Securities' includes but is not limited to: ordinary and preference shares, founder's shares, options on qualifying securities, debentures, bonds, short positions on qualifying securities, futures/forwards on qualifying securities, swaps on qualifying securities, depositary receipts on qualifying securities, rights of claims on bonds and debentures, index participations (only if they represent securities), repurchase agreements or Repos on qualifying securities, participations in companies and units in open-end or closed-end collective investment schemes.

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# Notional Interest Deduction (NID) for investment into Cypriot companies

06

A Notional Interest Deduction (NID) will be granted for new capital introduced in a Cyprus tax resident company and used in the business for the production of income. The NID will be calculated using a 'reference interest' rate which is equal to the yield of the 10-year governmental bond (as at 31 December of the prior tax year) of the country in which the new equity is invested, increased by 5%. A Cyprus company may elect as to whether or not to claim the entire amount of the NID, or part of it, as a tax deduction. The NID will not be available if the Cyprus company is in a tax loss position, nor can it exceed 80% of the taxable profits arising as a result of the newly introduced capital, in a specific tax year.



# A competitive Intellectual Property (IP) regime

07

The IP regime applies to 'qualifying' intangible assets. Broadly defined 'qualifying' intangible assets are assets which were acquired, developed, or exploited by a person in the course of carrying on a business and which constitute intellectual property, other than marketing related intellectual property associated with promotion (marketing), and which are the result of research and development activities, including an intangible asset for which there is only economic ownership.

In calculating the taxable profit, an 80% deemed deduction applies to the qualifying profit from the exploitation of such qualifying intangible assets. Qualifying profits are calculated in accordance with the nexus approach:

$$\text{Qualifying Profits: } \frac{(QE + UE)}{OE} \times OI$$

**QE:** Qualifying Expenditure on the qualifying intangible asset

**UE:** Up-lift Expenditure

**OE:** Overall Expenditure on the qualifying intangible asset

**OI:** Overall Income which derives from the qualifying intangible asset

Capital gains arising from the disposal of a qualifying asset are fully exempt from income tax. The taxpayer may choose to forego the whole or part of the deduction in each year of assessment. Where the calculation of qualifying profits results in a loss, only 20% of this loss may be carried forward or group relieved. The capital cost of any qualifying intangible asset is tax deductible as a capital allowance over the useful life of the IP, not to exceed 20 years. Given that the Cyprus corporate tax rate is flat at 12.5% (one the lowest in the EU), the effective tax rate for IP companies is 2.5%.



# Foreign Permanent Establishment (PE) profits are tax exempt

08

Based on the Cyprus tax legislation, any profits of a foreign PE of a Cyprus tax resident company are exempt from corporate tax in Cyprus if one of the following two conditions is satisfied:

The PE must not engage more than 50%, directly or indirectly, in activities which lead to passive income (active versus passive test)

OR

The foreign tax burden imposed at the level of the PE is not substantially lower than the tax burden in Cyprus (effective tax test).

In addition, any losses from a foreign PE of a Cyprus Company abroad may be offset against profits of the Cyprus Company for the same year subject to recapturing of future PE profits up to the amount of losses previously utilised.

## Election to tax the profits of a foreign PE in Cyprus

Cyprus tax resident companies may elect to tax the profits of their foreign PEs in Cyprus in accordance with the provisions of the Cyprus tax legislation. Further, a credit for any foreign taxes imposed on the foreign PE's profits will be afforded in Cyprus, up to the amount of the Cyprus tax payable on such foreign PE's profits. Where there is no double tax treaty, the relief is given unilaterally by Cyprus.



# Tailor-made provisions for the investment fund industry

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Cyprus tax resident  
Alternative  
Investment Funds  
(AIFs) and  
Undertakings for  
Collective Investments  
in Transferable  
Securities (UCITs) are  
liable to tax or not  
depending on their  
legal status (i.e.  
transparent or not).

- Most income realised by a Cyprus tax resident fund is tax free (e.g. dividend income and capital gains)
- No Permanent Establishment (PE) is created in Cyprus for investors as a result of investing in Cyprus funds that are transparent from a legal point of view
- No subscription tax on net assets of a fund
- No tax on disposal of shares/units by the unit holders upon exit by sale or redemption
- No tax on income arising from trading in securities (including units in Cyprus funds)
- Services provided by the investment manager of the fund are not subject to VAT
- Tax resident fund managers, upon election, are taxed at the flat rate of 8% on the performance linked element of the manager's reward (carried interest) with minimum tax liability of €10,000 per annum



# Competitive tonnage tax for shipping companies and an EU-approved open registry

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Cyprus has a tonnage tax system which is fully endorsed by the EU and allows shipping companies to opt to be taxed on the net tonnage of the fleet they operate (Tonnage Tax System - TTS), rather than corporate tax, which they would otherwise have to pay. Under certain conditions the TTS applies also to tugboats, dredgers and cable layers. Cyprus has a competitive European Union approved 'Open Registry' and the TTS allows for mixed activities subject to tonnage tax, and to corporation tax. The tonnage tax system covers ship ownership, ship management and ship chartering.



# Foreign Exchange (FOREX) gains or losses are tax neutral

FOREX gains or losses will be tax exempt/not tax allowable accordingly, irrespective of whether such gains/losses are realised or unrealised. The exemption will not apply to companies that are trading in currencies and currency derivatives.

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# Tax deduction for research and development costs

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Expenditure for scientific research and for research and development of revenue nature, as recognised by international accounting standards, incurred by a person that carries on business and has the economic ownership of the intangible asset which arises, or it is possible to arise, from incurring such expenditure are deductible for Cyprus tax purposes. An additional 20% deduction applies in years 2022, 2023 and 2024 (cannot be claimed in parallel with the 80% IP deduction).



# Tax deduction for investment into start-ups



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Expenditure incurred by a person, who is an independent investor, either directly or indirectly for risk finance investment in an innovative small and medium-sized enterprise, are allowable deductions from the taxable income of that person.

The allowable amount is restricted (i) for physical persons to 20%, 35% or 50% of the amount invested, depending on the characteristics of the investment and (ii) for legal persons to 30% of the amount invested if the investments are financed from own funds. The allowable amount should not exceed 50% of the taxable income. The tax deduction is subject to a yearly cap of €150,000. The unutilised amount can be carried forward and claimed in the next five (5) years, subject to the above-mentioned restrictions. The Cyprus Tax Authorities may refuse to allow the deduction, if the investor does not retain the investment in the innovative small and medium-sized enterprise for minimum period of three years. The tax deduction is currently available up to 31 December 2026.



# An attractive personal tax regime for employees and non-domiciled individuals

## Personal income tax rates in Cyprus

The taxable income arising for individuals (residents and non-tax residents) will be subject to the following income tax rates:

Chargeable Income (€)	Tax Rate (%)
0 - 19,500	0
19,501 - 28,000	20
28,001 - 36,300	25
36,301 - 60,000	30
60,000+	35

## Tax Residency in Cyprus

### The 183 Days Rule:

Cyprus has adopted a residency-based system of taxation, whereby physical presence in Cyprus exceeding 183 days in a tax year (1st January to 31st December) will constitute tax residency for an individual. Consequently, if the individual is physically present in Cyprus for less than 183 days in a tax year s/he will be regarded to be a non-tax resident of Cyprus in that tax year.

**The 60 Days Rule:** The Cyprus tax residency rules also provide that an individual who does not stay in any other country, for one or more periods exceeding in aggregate 183 days in the same tax year and is not tax resident in any other country for the same year, is deemed to be a resident of Cyprus in that tax year, if all of the following conditions are met:

- the individual stays in Cyprus for at least 60 days in the tax year
- the individual exercises any business in Cyprus and/or is employed in Cyprus and/or holds an office with a Cyprus tax resident company at any time during the tax year
- the individual maintains (by owning or leasing) a permanent home in Cyprus

The law is further amended to clarify that an individual that cumulatively meets all the above conditions shall not be treated as a Cyprus tax resident in the tax year if during that year the exercise of any kind of business in Cyprus and/or employment in Cyprus and/or holding of an office with a tax resident person in Cyprus is terminated.



## An attractive personal tax regime for employees and non-domiciled individuals (cont.)

### Domicile rules in Cyprus

Based on the Special Defense Contribution (SDC) legislation, the following persons should not be considered to be domiciled in Cyprus:

- An individual who has a domicile of origin outside of Cyprus  
**OR**
- An individual having a domicile of origin in Cyprus but who has not been a Cyprus tax resident for a consecutive period of at least 20 years as from 16.7.2015  
**OR**
- An individual with a domicile of origin in Cyprus who has taken up a domicile of choice outside of Cyprus and has not been a Cyprus tax resident for a consecutive period of 20 years prior to the year of taking up tax residency in Cyprus.

The individual's non-domicile status in Cyprus will be used up or expire in the instance where the individual remains a Cyprus tax resident for at least 17 out of the last 20 years, whereby, s/he will be considered to be deemed a Cyprus-domiciled individual for tax purposes.

Cyprus tax residents who are considered as non domiciled in Cyprus will be exempt from SDC tax on dividends, interest, and rental income, irrespective of the origin of the relevant income (i.e. from sources within Cyprus or abroad).

### Concessions available to expatriates

- The lower of 20% or €8,550 of the emoluments from first employment exercised in Cyprus by an individual who for three (3) consecutive years immediately before commencement of employment in Cyprus was employed outside Cyprus to a non-tax resident employer, is exempted from tax. The exemption applies from the 1st of January from the year following the year of commencement of such employment and is granted for a maximum period of seven (7) years.
- 50% of the gross emoluments are allowed to be deducted from employment income for individuals that were not tax residents of Cyprus for a period of at least 15 consecutive years prior to the commencement of their first employment in Cyprus. This deduction applies when income exceeds €55,000 p.a. and is allowed for a maximum period of 17 years, commencing from the year of first employment in Cyprus. The exemption is given to an individual, who exercises salaried services in Cyprus either to an employer resident in Cyprus or to a non-resident employer.



# No succession or inheritance taxes

There are no inheritance and gift taxes in Cyprus.

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# No immovable property taxes

There is no real estate tax on immovable property located in Cyprus.

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# what we can do for you

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Vertu Projects Ltd is a CySEC-regulated firm with over 20 years of experience serving a global client base, including leading fund managers, private equity groups and SMEs.

Our core services include:

- Fund Administration (full scope, from setup to ongoing management)
- Registration & administration of Cyprus companies (holding & operational)
- Relocation and re-domiciliation advisory and guidance
- Nominee directorship, company secretary & registered office
- CFO, Accounting, VAT, and Payroll services
- International Tax Structuring and advisory
- Transfer Pricing studies based on OECD guidelines
- Equity & Debt fundraising

#### Disclaimer

The information available in this guide intends to provide a general introduction to the business environment in Cyprus, and every reasonable effort is being made to ensure its accuracy and timely amendment. In no circumstances shall Vertu be be legally bound as a result of any information contained in this guide.