

CAPITAL ALLOWANCES

Capital allowances are given as a percentage on the cost of acquisition of a fixed asset and are allowable deductions from chargeable income for companies.

Individuals who prepare accounts are also entitled to claim deductions for capital allowances from their chargeable income.

Type of fixed asset	Annual wear and tear allowance %
Plant and machinery	10
Furniture and fittings	10
Plant, machinery and tools used in agriculture	15
Excavators, tractors, bulldozers, fork lifts, self propelled loaders and drums for oil companies	25
Computer hardware and operating software	20
Application software:	
Up to € 1.708,60	100
Above € 1.708,60	33 1/3
Televisions and videos	10
Motor cars (except saloon cars) and motorcycles	20
Tools	33 1/3
Industrial carpets and water drillings	10
Industrial, agricultural and hotel buildings	4
Commercial buildings and flats	3
Metallic greenhouses frames	10
Wooden greenhouses frames	33 1/3
Videotapes property of video clubs	50
Sailing vessels	4 ½
Steamers, tug boats and fish boats	6
Ship motor launches boats	12 ½
New cargo vessels	8
New passenger vessels	6
Second hand cargo/passenger vessels and capital additions	Over the remaining useful economic life based on the certificate issued by the Shipping Registry Organisation

Shipping companies

- A Cyprus shipping company which owns ships under the Cyprus flag and operates in international waters (including chartering) is not subject to any taxation on profits earned or dividends paid to its shareholders. The same applies for the salaries of the officers and crew of such ships.
- Local or international ship management and crew management activities are subject to tax at 4.25 %. Alternatively, the company can choose to be taxed at a special tonnage tax, at rates equal to 25 % of the rates used to calculate tonnage tax of vessels under management which are registered outside Cyprus.

Insurance companies

- The profits of insurance companies both of general and life business are taxed in the same way as all other companies.
- The exemption to this rule applies in the situation where the tax payable on the taxable profit of the life insurance business is less than 1.5 % of the gross amount of the insurance premiums. Then the company must pay the difference as an additional tax.

Foreign pensions

The pension income of a tax resident individual in Cyprus, from services rendered abroad, is taxed at a rate of 5 %. An annual exemption of € 3.417,20 is granted.

Gross income of entertainers, professionals and athletes

The gross income earned by non Cyprus resident individuals from the exercise in Cyprus of any profession or vocation as well as public entertainers including football clubs and other athletic missions, is subject to a 10 % withholding tax.

Film royalties

The gross amount of any royalty derived by a non Cyprus resident individual with regards to showing of cinematographic films in Cyprus is subject to a 5 % withholding tax.

SPECIAL CONTRIBUTION FOR DEFENCE

Special contribution for defence is imposed on income earned by tax residents in Cyprus. Non tax residents of Cyprus are exempt from special contribution for defence.

The charges are as per the table that follows:

Income	Contribution rates	
	Individuals %	Companies %
Dividend income from Cyprus Resident companies	15	Nil
Dividend income from non Cyprus resident companies	15	Nil(-see note 1 below)
Interest income arising from the ordinary activities or closely related to the ordinary activities	Nil	Nil
Interest income from savings bonds & development bonds issued by government	3	10
Interest income earned by a provident fund	N/A	3
Other interest	10(-see note 2 below)	10
Profits of a semi-government organisation	N/A	3
Rental income less 25 % (instead of actual expenditure)	3	3

Notes:

1. Exemption Rule: Dividend income from abroad received by a tax resident company in Cyprus or a company not resident in Cyprus which maintains a permanent establishment in Cyprus is exempt from defence fund contribution provided that the company receiving the dividend owns at least 1 % of the company paying the dividend.

This exemption rule does not apply if:

- the company paying the dividend engages more than 50 % in activities that lead directly or indirectly to investment income, and
- the foreign tax burden on the income of the company paying the dividend is substantially lower than the tax burden of the company receiving the dividend.

When the exemption rule does not apply then the dividend income is subject to special contribution for defence at the rate of 15 %.

2. Refund rule: In the situation where the total income of an individual, including interest, does not exceed € 11.960,21, then he/she has the right to a refund of the tax withheld on the interest in excess of the amount corresponding to 3 %.

Payment dates

For interest and dividends received gross, the special contribution for defence due is payable at the end of the month following the month in which they were received.

In the case of rental income and trading profits of semi government organisations, the special contribution for defence is payable in half yearly intervals, on 30 June and 31 December each year.

Dividends received net of 20 % withholding tax

Dividends received from companies net of a 20 % withholding tax under the legislation that was applicable up to 31 December 2002 and not distributed as dividends up to 31 December 2002, can be distributed within 6 years from the date of their receipt without any additional tax deduction.

Deemed dividend distribution

A Cyprus tax resident company is deemed to have made a dividend distribution of 70 % of its accounting profits after tax at the end of the two years from the end of the tax year in which the profits were incurred.

A 15 % special contribution for defence is charged on deemed dividends distribution; applicable only to shareholders both individuals and companies who are tax residents of Cyprus.

Deemed dividend distribution is reduced with the amount of the actual dividends paid within two years from the end of the year that the profits were incurred.

If an actual dividend is paid after the deemed dividend distribution, then special contribution for defence is imposed only on the additional dividend paid.

Dissolution of a company

The cumulative profits of the last five years prior to the dissolution of the company, which were undistributed or deemed to be distributed, will be treated as distributed on dissolution and hence will be subject to special contribution for defence at 15 %.

This treatment will not be applicable in the situation of dissolution as a result of a reorganisation, according to certain prerequisites and where the shareholders are non Cyprus residents.

Allowance for foreign tax

If foreign tax was paid on income subject to special contribution for defence, then this can be claimed as an allowance against the special contribution for defence payable in Cyprus, regardless if a double taxation relief exists with the foreign country.

Basis of Taxation

Capital Gains Tax is imposed on gains from disposal of immovable property situated in Cyprus, or on gains from the sale of shares in companies which own immovable property in Cyprus, with the exemption of shares of listed companies in the Cyprus Stock Exchange.

Tax rates and determination of capital gain

The tax rate on the net gain from disposals of immovable property is at 20 %.

In determining the capital gain, the value of the immovable property as at 1 January 1980 or the cost of acquisition if later, the costs of any additions made after 1 January 1980 or the date of the acquisition if later, as adjusted for inflation on the basis of the official consumer price index are deducted from the sale proceeds.

Exemptions

- Transfers by reason of death
- Gifts made up to third degree relatives
- Gifts to a company where the company's shareholders are members of the donors family and the shareholders continue to be members of the family for a period of five years after the date of the gift
- Gifts by a family company to its shareholders in the case that such property was originally acquired by the company via donation. However, the property must be kept by the donee for at least three years
- Gifts to charities and the Government
- Exchange or disposal of immovable property under the Agricultural Land(Consolidation) Laws
- Transfers of ownerships or share transfers in the event of company reorganisations
- Expropriations
- Transfer of immovable property of a missing person under administration
- Exchange of properties provided that all the gain made on the exchange has been utilized to purchase the other property. The gain that is not taxable on the exchange is deducted from the cost of the new property and hence the payment of the tax is deferred until the disposal of the new property

Lifetime exemptions for individuals

Individuals are entitled to deduct from their capital gains the following:

	€
● Disposal of principal private residence (under certain conditions)	85.430,07
● Disposal of agricultural land by a farmer	25.629,02
● Other disposals	17.086,01

The above exemptions are given only once and not for every disposal. The maximum exemption of an individual claiming a combination of the above exemptions is €85.430,07.

IMMOVABLE PROPERTY TAX

Basis of Taxation

Immovable property tax is imposed annually on the market value of immovable property as at 1st January 1980 and is calculated on the immovable property owned by both individuals and companies as at 1st January each year. The tax is payable by 30th of September each year

Tax Rates

Property value €	Rate %	Tax €	Cumulative Tax €
Up to 170.860,14	0	0	0
170.860,15 to 427.150,36	0,25	640,73	640,73
427.150,37 to 854.300,72	0,35	1495,03	2.135,76
Over 854.300,72	0,40		

Exemptions

The following properties are not subject to Immovable Property Tax:

- Public cemeteries
- Public hospitals
- Schools
- Churches and other buildings belonging to the church
- Immovable property owned by the Government
- Foreign embassies and consulates
- Common use and public places
- Buildings of charitable organisations
- Agricultural land used in farming or stockbreeding by a farmer or a stockbreeder residing in the area
- Property under Turkish occupation
- Buildings under a preservation order

TRANSFER FEES ON IMMOVABLE PROPERTY

Transfer Fees

The fees are charged on the transfers of immovable property, calculated on the market value of the immovable property as estimated by the Land Registry Office as follows:

Value of Property €	Rate %	Fees €	Cumulative Tax €
Up to 85.430,07	3	2.562,90	2.562,90
85.430,08 to 170.860,14	5	4.271,50	6.834,40
Over 170.860,14	8		

In the case of property transferred to a family company, the transfer fees are refundable after five years provided the company still owns the property and the shareholders remain the same.

In the case of transfers of property from a company whose shareholders are spouses and/or their children, to one of the two spouses or their children or up to a third degree of kindred relative, the transfer fees are calculated on the value of the property appearing on the title deed as follows:

- transfer to spouse 8%
- transfer to children 4%
- transfer to a third degree relative 8%

Moreover, the following rates apply in the case of free transfers and they are calculated on the value of the property appearing on the title deed as follows:

- from parents to children 4%
- between spouses 8%
- between third degree relatives 8%

Transfers of immovable property by a company to another company for the purpose of reorganization are exempt from paying transfer fees to the Department of Land and Surveys.

Mortgage fees

On Loans 1%

Mortgage fees are not payable on the transfer of mortgage from one company to another company as a result of a reorganisation.

STAMP DUTIES

The table that follows here below details the rate of duty payable on certain documents:

Type of Document	Duty to be paid
Receipts for amounts from €3,42 to € 34,17	€0,03
Receipts for amounts over € 34,17	€0,07
Contracts for amounts up to € 170.860,14	0,15%
Contracts for amounts over € 170.860,14	0,2%, plus € 256,29, up to a maximum levy of € 17.086,01
Contracts without fixed amount	€ 34,17
Letters of guarantee	€ 3,42
Letters of credit	€ 1,71
Bills of exchange (payable within three days on demand or at sight)	€0,85
Customs declaration documents	€ 17,09 to € 34,17
Bills of lading	€ 3,42
Special power of attorney	€ 1,71
General power of attorney	€ 5,13
Certified copies of contracts and documents	€ 1,71
Will	€ 17,09
Estate administration document	€ 8,54

Exemptions

- Transactions that fall within the scope of reorganizations are exempt from stamp duty.
- Contracts relating to assets situated outside Cyprus or business dealings that take place outside Cyprus are also exempt from stamp duty.

REGISTRAR OF COMPANIES RIGHTS AND FEES

Payable on the incorporation of a company

Authorised share capital	€102,52 plus 0.6% on the nominal value
Issued share capital	No stamp duty is due when the shares are issued at their nominal value. There is a flat duty of € 17,09 if the shares are issued at a premium.

Payable on subsequent issues (increases)

Authorised share capital	0.6 % on the additional amount of share capital
Issued share capital	A flat duty of € 17,09 on each issue is payable, regardless if the shares are issued at their nominal value or at a premium.

Change in the company's name	€ 34,17
Application for registration of a business name	€ 68,34
Filing of the Annual Return	€ 17,09
Filing of an overdue Annual Return	€ 34,17
Application for registration of either a general or a limited partnership	€ 102,52
Notification of a registered mortgage on immovable property in Cyprus irrespective of the value concerned	€ 17,09

Conversion of share capital from Cyprus Pounds into Euro

The Registrar of Companies do not charge any fees on the conversion of a limited liability company's share capital from Cyprus Pounds into Euro.



MAINTAINING PROPER BOOKS OF ACCOUNT AND RECORDS

From the tax year 2006 and onwards every individual, company and partnership earning income from commercial or industrial business, profession or vocation or from leasing and rental from property and any other occupation is obliged to :

- issue invoices with regards to transactions and receipts according to the regulations published in the Cyprus Gazette by the Council of Ministers,
- maintain proper books of accounts and records,
- prepare accounts in accordance with acceptable accounting standards, and
- have its accounts audited by an eligible person acting as auditor in accordance with the Companies Law.

Exemption

An individual is exempt from the obligation to maintain proper books of accounts and records if his/hers annual turnover is not in excess of €68.344,06.