



The information contained in this booklet is based on the tax regulations and laws effective as at January 2008. It provides a general guide only and it gives a summary of the basic tax facts and laws in Cyprus. Interested individuals or legal entities should obtain professional advice prior to acting on any information contained in this booklet.

If any advice is required or any further information is necessary please contact us in the address shown on page 35 of this booklet.

The figures that are mentioned in this pamphlet have been converted using the irrevocable conversion rate of € 1 to £ 0,585274, except for the cases where law and other regulations dictate differently.

The logo for FRS.Audit features the text "FRS.Audit" in a bold, blue, sans-serif font. A green, curved line arches over the "S" in "FRS" and extends slightly to the right.

FRS AUDIT SERVICES LIMITED
Auditors & Business consultants
January 2008



TABLE OF CONTENTS

Page

PROFILE	1
INCOME TAX	2
CORPORATION TAX	6
CAPITAL ALLOWANCES	9
SPECIAL TAX REGIMES	10
SPECIAL CONTRIBUTION FOR DEFENCE	11
CAPITAL GAINS TAX	13
IMMOVABLE PROPERTY TAX	14
TRANSFER FEES ON IMMOVABLE PROPERTY	15
STAMP DUTIES	16
REGISTRAR OF COMPANIES RIGHTS AND FEES	17
MAINTAINING PROPER BOOKS OF ACCOUNT AND RECORDS ..	18
VALUE ADDED TAX (VAT)	19
TRUSTS	23
DOUBLE TAX TREATIES	25
SOCIAL INSURANCE CONTRIBUTIONS	29
SOCIAL COHESION FUND	30
STOCK EXCHANGE TRANSACTIONS FEE	31
TAX DIARY	32
CYPRUS HOLDING COMPANIES	33
TRIANGULAR TRADING WITH AN INTERNATIONAL BUSINESS COMPANY (IBC)	34
CONTACT DETAILS	35

FRS Audit Services Ltd is a reputable firm, situated and operating from Limassol which is the second largest city of the Republic of Cyprus. The firm is offering a wide range of services such as international tax planning, accounting, statutory audit, VAT related services, trusts & company formation, international business company services as well as management consultancy services including internal audit services.

Based on our associates and a qualified well experienced team of professionals who have years of experience in this field, we can provide a high level of professional services for both local and international companies.

Our mission is to provide high quality professional services timely and cost effectively while at the same time focusing on our client's individual business needs.

Moreover, we maintain high ethical standards including professional integrity, confidentiality for any information disclosed to us by our clients and independence in any work undertaken.

Regardless of our client's size we give close attention to their respective and individual needs, assisting our clients in any matter required by them with the aim to help them develop further their business.

Our user-friendly approach coupled with our well-experienced team of professionals and our size enables us to respond quickly to our client's needs offering at the same time a high level of professional advice and service.

*Antonis Zapitis
Managing Director*

INDIVIDUALS

Basis of Taxation

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

An individual is considered to be tax resident in Cyprus if he/she spends in Cyprus more than 183 days in any one year.

Tax rates for individuals

Taxable income €	Tax Rate %	Tax €	Cumulative Tax €
0-19.500	0	0	0
19.500-28.000	20	1.700	1.700
28.000-36.300	25	2.075	3.775
Over 36.300	30		

Foreign pensions from services rendered abroad

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.

Exemptions

Type of Income

Exemption limit

Interest

Entire amount

Dividend

Entire amount

Profits from the sale of securities

Entire amount

Deposits with the Housing Finance Corporation for schemes that existed as at 30 April 2003

40 % of the amount deposited
(The annual deposits can not exceed 25 % of the individual's gross income)

Lump sum received by way of retiring gratuity, commutation of pension or compensation for death or injuries

Entire amount

Type of Income

Exemption limit

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

Entire amount

Remuneration from any office or employment exercised in Cyprus by an individual whose residence was outside Cyprus before the commencement of the employment (This exemption applies for three years from 1st January following the year of commencement of the employment)

20 % of the income or € 8.543,01 depending on whichever is lower

Capital sum repayments from life insurance or approved provident funds

Entire amount

Widow's pensions granted under schemes approved by the Inland Revenue

Entire amount

Tax deductions

Type

Deduction

Contributions to trade unions and professional bodies

Entire amount

Donations to approved charities (with receipts)

Entire amount

Loss of current and previous years

Entire amount

Rental income

20 % of rental income

Expenditure incurred for the maintenance of a building under the Preservation order

Up to € 512,58, € 854,30 or € 939,73 per sq.m (depending on building size)

Type

Deduction

Interest incurred for the purchase of a building for rental purposes

Entire amount

Social insurance, provident fund, medical fund pension fund contributions and life insurance premiums (the allowable annual premium is restricted to 7 % of the insured amount)

Up to 1/6 of the taxable income

If the life insurance contract is cancelled within 6 years from the date it was entered into, part of the life insurance premiums already granted as a deduction will be taxed as follows:

- cancellation within 3 years 30 %
- cancellation within 4 to 6 years 20 %

Example of an individual's Tax Computation

Details of income & deductions

Amount-€

Salary	50.000
Dividend income	1.000
Rental income	4.800
Interest income	1.500
Social insurance deductions	2.900
Life insurance premiums	5.000
Insured sum	70.000
Provident fund contribution	2.000
Donations with receipts to approved charities	400

Tax Computations

	€	€
Salary	50.000	
Dividend income (exempt)	0	
Rental income	4.800	
Interest income (exempt)	<u>0</u>	
Total income		54.800
Less Deduction:		
20 % on rental income	960	
Donations with receipts to approved charities	<u>400</u>	
Total deductions		1.360

INCOME TAX

	€	€
Net income		53.440
Restriction of life insurance premiums to 7 % of the insured sum (7% @ € 70.000= € 4.900)		
Social insurance deductions, provident fund and life insurance premiums restricted to 1/6 of net total income (€ 2.900+€2.000+€4.900=€ 9.800); restricted to 1/6 of € 55.940)		<u>9.323,33</u>
Taxable income		44.116,67
Income Tax payable		
Up to € 19.500	0	
Between € 19.500 to € 28.000	1.700	
Between € 28.000 to € 36.300	2.075	
Over € 36.300	<u>2.345</u>	
Total Income Tax payable		6.120
Special Contribution for defence		
Dividend income (€1.000 @ 15 %)	150	
Interest income (€1.500 @ 10 %)	150	
Rental income (€ 4.800 @ 0,75@ 3 %)	<u>108</u>	
		<u>408</u>
Total tax payable		<u>6.528</u>

Note

€55.940 comprises of total income including interest and dividend, less the deductions of €1.360

Basis of taxation

All companies that are tax resident in Cyprus are taxed on their income accrued or derived from all sources both in Cyprus and overseas.

If a company is a non Cyprus tax resident then it is only taxed on income accrued or derived from sources within Cyprus.

A company is considered to be tax resident in Cyprus if it is managed and controlled in Cyprus.

Corporation tax rates

	TAX RATES %
Semi government organisations	25
Other companies	10

Exemptions

Type of Income

Exemption limit

Dividend income

Entire amount

Profits from sale of securities

Entire amount

Profits from a permanent establishment maintained outside Cyprus (under certain conditions)

Entire amount

Interest income, not arising from the ordinary activities or closely related to the ordinary activities of the company
(if it is interest income arising in the ordinary course of business or income closely connected with the carrying on of the business then it is not considered as interest but as trading income and hence the 50 % exemption is not applicable)

50 %

Tax Deductions**All expenses incurred wholly and exclusively for the purposes of generating income**

Type	Deduction
Donations with receipts to approved charities	Entire amount
Employers contributions to social insurance and other approved funds on employee's salaries	Entire amount
Expenditure incurred for the maintenance of a building under the Preservation order	Up to € 512,58, € 854,30 or € 939,73 per sq.m (depending on building size)
Entertainment expenses for business purposes	Up to 1 % of gross income with a limit of €17.086,01

Non-Deductible expenses

Expenses of a private motor vehicle	Entire amount
Social cohesion fund contributions	Entire amount
Interest payable or deemed to be payable for the purchase of a private motor vehicle regardless if it is used in the business or not, or other asset not used in the business (the restriction is lifted after 7 years from the date that the relevant asset was bought)	Entire amount
Any sum employed or intended to be employed as capital	Entire amount
Taxes	Entire amount
Costs of goods taken out of the business for private use	Entire amount
Expenses incurred not wholly and exclusively for generating income	Entire amount

Losses

Tax losses incurred during a tax year which can not be set off against other income, are carried forward to be set off against future profits without any time restriction.

This provision applies for all losses incurred from the tax year 1997 and onwards.

In the case that there is a change in the shareholders of a company and a substantial change in the nature of the business of the company, within a three year period from the year that the loss was incurred, then that loss can not be carried forward to the following years.

In the case where an owner of a business, including a partnership, transfers his/hers business into a company, then any accumulated losses of the owner of the business can be carried forward to the company.

Group relief

Losses for the current year of one company can be set off against the profit of another group company provided that all of the group companies are Cyprus tax residents. Group relief for losses will be provided if all the companies utilizing this provision are members of the same group for the whole tax year.

A Group for group relief purposes is defined as:

- a) one company holding at least 75 % of the shares of the other company, or
- b) at least 75 % of the voting shares of the companies are held by another company

Losses of a permanent establishment abroad

Losses of a permanent establishment abroad can be set off against profits arising from the company in Cyprus. However, any subsequent profits of the permanent establishment abroad are taxable up to the amount of losses that have been utilized in the past.

Reorganisations

The transfer of assets and liabilities between companies within the group is allowed without any tax consequences within the framework of a reorganisation. Unused brought forward losses can be transferred to the new company and the same provisions of group relief still apply.

A reorganisation includes:

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