

Value added tax is imposed on the provision of goods and services in Cyprus, as well as on the acquisition of goods from the European Union and the importation of goods into Cyprus.

Taxable persons (both individuals and legal entities) charge VAT on their taxable supplies (called output tax) and are charged with VAT on the receipt of goods and services (called input tax).

In the situation where output tax in a VAT period is in excess of input tax then a payment of the excess has to be made to the government. If input tax exceeds output tax in a VAT period then the government refunds the excess to the taxable person.

Administration of intra-community transactions

With regards to intra-community transactions the merchandiser does not pay VAT on receipt of goods into Cyprus but instead he/she accounts for VAT using acquisition accounting. This is a simple accounting entry in his/hers books whereby he/she self-charges VAT and at the same time claims it back in the case that it relates to taxable supplies thereby creating no cost to the business.

If the acquisition relates to an exempt transaction then the merchandiser must pay the VAT that relates to the acquisition.

When a merchandiser is involved in intra community trading such as purchases and sales from/to other European member states then it is necessary to fill in the following forms:

A. Intra-Community Acquisitions

- Intrastat-Arrivals
- Inclusion in the VAT returns form on a total basis of the product code, the partner member state and the value of the goods, etc.

B. Intra-Community Supplies

- VIES-Departures
- Recapitulative list for supplies
- Include in the VAT return form on a total basis with 0 % by partner member state, VAT number of client, value of goods, etc.

Submission of intra-community transactions forms

The Intrastat forms must be submitted not later than the 10th day which follows the end of the month they relate to, as mentioned on the form itself.

The VIES forms must be submitted within 40 days from the end of each calendar quarter that they relate to.

Both the Intrastat and the VIES forms must be submitted to the VAT authorities in the deadlines specified above, in order to avoid the penalties specified by the law for late submission.

VAT rates

There are four tax rates as per the Vat legislation:

- Standard rate 15 %
- Reduced rate 8 %
- Reduced rate 5 %
- Zero rate 0 %

Standard rate (15%)

The standard rate of 15 % was introduced from 1st January 2003 and it applies to any provision of goods and services in Cyprus that are not subject to the zero rate, the reduced rates or is exempt.

Reduced rate (8%)

The reduced rate of 8 % was introduced on 1st August 2005 and it applies to the following:

- all restaurant services and other similar catering services (excluding the supply of alcoholic drinks, beers and wine)
- accommodation provided by hotels and other similar establishments including the provision of holiday accommodation
- transportation of both passengers and their accompanying luggage within Cyprus by the use of urban, intercity and rural taxis as well as by tourist and intercity buses
- transportation of passengers and their accompanying luggage by sea, within Cyprus

Reduced rate (5%)

The reduced rate of 5 % was introduced on 1st July 2000 and it applies to the following:

- Funeral services and the supply of coffins
- Services of road cleaning, garbage collection and recycling
- Services of authors, composers, artists and critics of work of art
- Books
- Gas
- Supply of non-bottled water
- Supply of fertilizers
- Supply of seeds
- Supply of animal feeding stuff
- Newspapers and magazines
- Various goods used by disabled persons
- Chips and salted nuts
- Bus fares for urban and rural regions
- Letting of camping sites and caravan parks
- Services of hairdressers

VALUE ADDED TAX (VAT)

- Entry fees to theatres, circus, museums, festivals, parks, zoos, cinemas, sports events, concerts
- Fees for the utilization of athletic centres
- Repair and maintenance of private houses after three years of first residence
- Ice creams, ice yoghourts, water ice and similar products

Zero rate (0%)

Zero-rated goods and services include the following:

- Exports
- Food supplies (except in the case of catering)
- Supplies of medicines and vaccines
- Commissions received from abroad for imports/exports of goods and related services to/from Cyprus
- International air and sea transport of persons, goods and related services (except from intra community transport of goods)
- Ship management services
- Goods to be stored in customs warehouses, bonded warehouses or free zones and be subjected to customs regime

Standard rate (15 %)

The standard rate applies to all provisions of goods and services in Cyprus that are not subject to the zero rate, reduced rate or are exempt.

Sale of immovable property in the case where the application for the building permission has been filed with the relevant authority after 1st of May 2004 is also subject to 15 % VAT.

Exemptions

- Medical services
- Rental of immovable property
- Insurance and financial services
- Postal services
- Sale of immovable property in the case where the application for the building permission has been filed with the relevant authority prior to 1st of May 2004.

Registration

Every individual or company is obliged to register to VAT if:

- a) at the end of any month the amount of taxable supplies (including supplies that are zero rated, reduced rated and/or standard rated) recorded in the last 12 months exceed € 15.600 or
- b) at any time the amount of taxable supplies are anticipated to exceed € 15.600 in the next 30 days

Voluntary registration to VAT

Persons who have a business establishment in Cyprus or their usual place of residence is in Cyprus and are involved in supplies outside Cyprus, can voluntarily register to VAT if those supplies made outside Cyprus would be taxable supplies if made within Cyprus.

VAT declaration and payment

Vat returns must be submitted to the VAT authorities within 40 days from the end of the period in which the tax period ends and pay any VAT due.

Irrecoverable Input VAT

There is an exemption in the general rule for the input vat that can be recovered for the following:

- Purchase of saloon cars up to nine seats
- Entertainment and hospitality expenses, other than those relating to employees and directors

Zero-rated supplies Vs Exempt supplies

The difference between zero rated and exempt supplies is that persons and companies who make exempt supplies can not recover the VAT charged on their purchases, expenses or imports.

Penalties and other charges

Late registration	For every month of non registration € 85
Late de-registration	An one-off penalty of € 85
Late submission of a return	An one-off penalty of € 51
Delayed payment of VAT due	10 % penalty on amount due, plus 8 % interest
Late submission of VIES	€ 51 for each delayed month up to three months.
Late submission of INTRASTAT	€ 8 for each delayed working day up to 30 working days.

What is a trust

A trust is being established by an individual called the “settlor”, and is a way by which a “person” either an individual or a company (“the trustee”) agrees to hold property (“the trust property”) for the benefit of another or others (“the beneficiaries”) on certain terms and with certain powers as outlined in the “trust deed”.

In other words the trustee has legal title to the trust assets and the beneficiary has beneficial title.

Governing law

International trusts are governed by the International Trusts law of Cyprus.

Necessary conditions in order to set up a trust:

1. the settlor is not a permanent resident in Cyprus
2. the trust property does not include any immovable property situated in Cyprus
3. at least one of the trustees is resident in Cyprus

(It is important to point out for a tax planning point of view that a trustee can be a Cyprus International business company and even a partnership.)

Benefits relating to Cyprus International Trusts:

- Exemption from income tax, capital gains tax or any other tax in Cyprus (provided that the property is located and income is derived outside Cyprus)
- No reporting requirements in Cyprus
- An International Trust may form a Cyprus International Business company and obtain the benefits available to them
- A favorable legal system relating to International Trusts together with Cyprus key geographical location.
- Dividends, interest, or royalties received by an international trust from a Cyprus International Business company are not taxable and not subject to withholding tax.
- No inheritance tax in Cyprus
- No exchange control restrictions
- Gains on the disposal of assets of an International Trust are exempt from Capital Gains tax in Cyprus.
- No estate duty on the assets
- A foreigner creating a Cyprus International Trust when he retires to Cyprus will pay no taxes provided that the property is settled and the income earned is abroad, irrespective if he/she is even a beneficiary.

Confidentiality and non-disclosure

Confidentiality is of the up most importance in setting up a trust and a Cyprus International Trust is advantageous in this respect as no information or documents will be disclosed by the Cyprus government or the Central Bank of Cyprus with respect to:

- Settlor
- Beneficiaries
- Trustees
- Accounts or property of the trust

However, the courts can order the disclosure of information or documents in criminal or civil cases if they are considered to be important for the legal case.

DOUBLE TAX TREATIES

The tables here below present a summary of the withholding taxes provided by the double tax treaties signed between Cyprus and the following countries:

Countries	Received in Cyprus		
	Dividends %	Interest %	Royalties %
Austria	10	0	0
Belarus	5 ⁽¹⁾	5	5
Belgium	10 ⁽²⁾	10 ⁽¹³⁾	0
Bulgaria	5 ⁽⁴⁾	7 ⁽⁵⁾	10 ⁽⁶⁾
Canada	15	15 ⁽⁷⁾	10 ⁽⁸⁾
China	10	10	10
Czech Republic ⁽⁹⁾	10	10 ⁽¹⁰⁾	5 ⁽¹¹⁾
Denmark	10 ⁽²⁾	10 ⁽¹⁰⁾	0
Egypt	15	15	10
France	10 ⁽¹²⁾	10 ⁽¹³⁾	0 ⁽¹⁴⁾
Germany	10 ⁽²⁾	10 ⁽¹⁰⁾	0 ⁽¹⁴⁾
Greece	25 ⁽¹⁵⁾	10	0 ⁽¹⁶⁾
Hungary	5 ⁽²⁾	10 ⁽¹⁰⁾	0
India	10 ⁽¹²⁾	10 ⁽¹⁰⁾	15 ⁽¹⁷⁾
Ireland	0	0	0 ⁽¹⁶⁾
Italy	15	10	0
Kuwait	10	10 ⁽¹⁰⁾	5 ⁽¹¹⁾
Lebanon	5	5 ⁽³⁾	0
Malta	0	10 ⁽¹³⁾	10
Mauritius	0	0	0
Montenegro ⁽¹⁸⁾	10	10	10
Norway	0 ⁽¹⁹⁾	0	0
Poland	10	10 ⁽¹⁰⁾	5
Romania	10	10 ⁽¹⁰⁾	5 ⁽¹¹⁾
San Marino	0	0	0
Serbia ⁽¹⁸⁾	10	10	10
Seychelles	0	0	5
Singapore	0	10 ⁽²⁰⁾	10
Slovakia ⁽⁹⁾	10	10 ⁽¹⁰⁾	5 ⁽¹¹⁾
Slovenia ⁽¹⁸⁾	10	10	10
South Africa	0	0	0
Sweden	5 ⁽²⁾	10 ⁽¹⁰⁾	0
Syria	0 ⁽²⁾	10 ⁽¹⁰⁾	15 ⁽²¹⁾
Thailand	10	15 ⁽²²⁾	5 ⁽²³⁾
Ukraine ⁽²⁴⁾	0	0	0
United Kingdom	15 ⁽²⁵⁾	10	0 ⁽¹⁴⁾
USA	15 ⁽²⁶⁾	10 ⁽¹³⁾	0
USSR ⁽²⁴⁾	5 ⁽²⁷⁾	0	0

DOUBLE TAX TREATIES

Countries	Paid from Cyprus		
	Dividends %	Interest %	Royalties %
Austria	10	0	0
Belarus	5 ⁽¹⁾	5	5
Belgium	10 ⁽²⁾	10 ⁽¹³⁾	0
Bulgaria	5 ⁽⁴⁾	7 ⁽⁵⁾	10
Canada	15	15 ⁽⁷⁾	10 ⁽⁸⁾
China	10	10	10
Czech Republic ⁽⁹⁾	10	10 ⁽¹⁰⁾	5 ⁽¹¹⁾
Denmark	10 ⁽²⁾	10 ⁽¹⁰⁾	0
Egypt	15	15	10
France	10 ⁽¹²⁾	10 ⁽¹³⁾	0 ⁽¹⁴⁾
Germany	10 ⁽²⁾	10 ⁽¹⁰⁾	0 ⁽¹⁴⁾
Greece	25	10	0 ⁽¹⁶⁾
Hungary	0	10 ⁽¹⁰⁾	0
India	10 ⁽¹²⁾	10 ⁽¹⁰⁾	15 ⁽¹⁷⁾
Ireland	0	0	0 ⁽¹⁶⁾
Italy	0	10	0
Kuwait	10	10 ⁽¹⁰⁾	5 ⁽¹¹⁾
Lebanon	5	5 ⁽³⁾	0
Malta	15	10 ⁽¹³⁾	10
Mauritius	0	0	0
Montenegro ⁽¹⁸⁾	10	10	10
Norway	0	0	0
Poland	10	10 ⁽¹⁰⁾	5
Romania	10	10 ⁽¹⁰⁾	5 ⁽¹¹⁾
San Marino	0	0	0
Serbia ⁽¹⁸⁾	10	10	10
Seychelles	0	0	5
Singapore	0	10 ⁽²⁰⁾	10
Slovakia ⁽⁹⁾	10	10 ⁽¹⁰⁾	5 ⁽¹¹⁾
Slovenia ⁽¹⁸⁾	10	10	10
South Africa	0	0	0
Sweden	5 ⁽²⁾	10 ⁽¹⁰⁾	0
Syria	0 ⁽²⁾	10 ⁽¹⁰⁾	15 ⁽²¹⁾
Thailand	10	15 ⁽²²⁾	5 ⁽²³⁾
Ukraine ⁽²⁴⁾	0	0	0
United Kingdom	0	10	0 ⁽¹⁴⁾
USA	0	10 ⁽¹³⁾	0
USSR ⁽²⁴⁾	5 ⁽²⁷⁾	0	0
Non Treaty countries ⁽²⁸⁾	0	0	0

EXPLANATORY NOTES

- (1) The 5% rate applies if the amount of investment by the beneficial owner exceeds € 200.000 regardless of the percentage of voting shares acquired. If the investment is less than € 200.000 then dividends are subject to 15 % tax which is reduced to 10 % if the company receiving the dividend controls at least 25 % of the shares in the paying company.
- (2) 15 % if received by a company controlling less than 25 % of the voting power.
- (3) The rate is reduced to 0 % if it is paid to the Government of the other state, a political subdivision or a local authority, and the Central Bank. Also the 0 % withholding tax applies if it is paid to any institution whose capital is wholly owned by the state or a political subdivision or a local authority. Interest earned on bank deposits is also exempt from tax.
- (4) The rate increases to 10 % if it is received by a company, which owns less than 25 % of the share capital of the company paying the dividend.
- (5) Nil if paid to the Government, statutory body or the Central Bank of the other state.
- (6) This rate does not apply if the recipient in Cyprus is controlled either directly or indirectly by at least 25 % by a Bulgarian resident.
- (7) The rate is reduced to 0 % if it is paid to the Government or for export guarantee.
- (8) Nil for royalties on literary, dramatic, musical or artistic work with the exemption of films used in television programs.
- (9) The Double tax treaty between Cyprus and the Czechoslovak Socialist Republic still applies.
- (10) Nil if paid to the Government of the other state.
- (11) This rate is applicable for trademarks, patents, designs, models, plans, secret formulas or processes or any industrial, commercial or scientific equipment or for information regarding industrial, commercial or scientific experience. It reduces to 0 % if it concerns literary, artistic or scientific work.
- (12) 15 % if received by a company controlling less than 10 % of the voting power.
- (13) Nil if paid to the Government of the other state, to a bank or to a financial institution.
- (14) The rate increases to 5 % on film and TV royalties.
- (15) Despite of the fact that the Double Tax treaty provides for 25 % withholding tax on dividends, according to the local legislation in Greece no withholding tax is imposed.
- (16) 5 % on films excluding films shown on TV.
- (17) This rate is reduced to 10 % if paid for technical fees, managerial or consulting fees.



DOUBLE TAX TREATIES

- (18) The Double tax treaty between Cyprus and the Socialist Federal Republic of Yugoslavia still applies.
- (19) This rate increases to 5 % if received by a company controlling less than 50 % of the voting power.
- (20) Nil if paid to the Government of the other state and 7 % if paid to a bank or a similar financial institution.
- (21) This rate reduces to 10 % on literary, artistic, dramatic or musical work, films and television royalties.
- (22) This rate reduces to 10 % for interest received from financial institutions or when it relates to credit sales of any industrial, commercial, scientific equipment or of merchandise.
- (23) 5 % applies for copyrights of literary, dramatic, musical, artistic or scientific work. 10 % applies for the right to use scientific, industrial or commercial equipment and a rate of 15% applies for patents, trade marks, designs, models, plans, secret formulas or processes.
- (24) The Double tax treaty between Cyprus and the United Soviet Socialist Republic applies for Armenia, Azerbaijan, Kyrgyzstan, Moldova, Tatzikistan, Uzbekistan and Ukraine.
- (25) The rate of 15 % applies for individual shareholders irrespective of their percentage of shareholding and for companies controlling less than 10 % of the voting power. Otherwise the local taxation provides for zero withholding tax.
- (26) This rate reduces to 5 % if received by a company controlling at least 10 % of the voting shares.
- (27) This rate increases to 10 % if it is received by a company, which has invested less than USD 100.000.
- (28) According to Cyprus law there is no withholding tax on dividends and interest paid to non-residents of Cyprus. Regarding royalties, the same applies as for dividends and interest if they are earned on rights for use outside Cyprus. Otherwise, if royalties are earned on rights used within Cyprus then a 10 % withholding tax applies except for films and TV rights where the rate applicable is 5%.