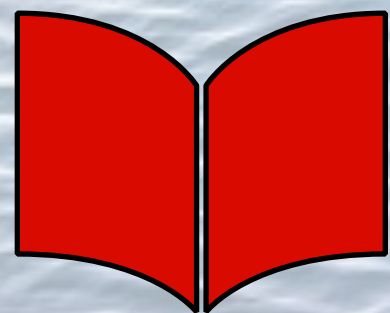




PRIME ADVISORY
NETWORK

COUNTRY REPORT CYPRUS



**YOUR WEEKLY REPORT
ON BUSINESS OPPORTUNITIES
ACROSS THE GLOBE**

Issue: 23 05/07/2017

IN THIS NEWSLETTER

Cyprus in a nutshell.....	4
General information.....	5
Foreign investment.....	6
Sectors to invest.....	9
Key tax points.....	12
Our Members in Cyprus.....	20
New Members.....	21
The Network map.....	22
Contact.....	23

Prime Advisory Network Ltd of London



Prime Advisory Network is an international and highly professional network, made up of expert accountants, auditors and lawyers qualified to provide a complete consultancy service to companies and groups operating in several fields.

Thanks to a completely innovative communication technology for the management of the client, Prime Advisory Network represents the first “digital” global network of the accountant offices in the world.

Professionals can cooperate worldwide with each other in an integrated way, by managing their clients all over the world and expanding their services and of course growing the number of their customers.

CYPRUS IN A NUTSHELL

Geography

Cyprus is an island country in the Eastern Mediterranean and the third largest and third most populous island in the Mediterranean.

It is located south of Turkey, west of Syria and Lebanon, northwest of Israel, north of Egypt, and southeast of Greece.

Tourism

According to the website [visitcyprus.com](https://www.visitcyprus.com), every year, more than two million people visit Cyprus and appreciate the hospitality and beautiful landscapes that the island offers.

Economy

The economy of Cyprus is classified by the World Bank as a high-income economy, and was included by the International Monetary Fund in its list of advanced economies in 2001.

Culture

Cyprus has a rich culture as an island known as one of the oldest civilisations in the Mediterranean. It offers breathtaking sceneries, museums, monuments and cultural sights.

GENERAL INFORMATION



Cyprus has an open, free-market, service-based economy with some light manufacturing. Internationally, Cyprus promotes its geographical location as a "bridge" between East and West, along with its educated English-speaking population, moderate local costs, good airline connections, and telecommunications.

Since gaining independence from the United Kingdom in 1960, Cyprus has had a record of successful economic performance, reflected in **strong growth**, full employment conditions and relative stability.

The underdeveloped agrarian economy inherited from colonial rule has been transformed into a **modern economy**, with dynamic services, industrial and agricultural sectors and an advanced physical and social infrastructure.

The Cypriots are among the most prosperous people in the Mediterranean region, with nominal GDP per capita surpassing \$23,000. Their standard of living is reflected in the country's "very high" Human Development Index, and Cyprus is ranked 23rd in the world in terms of the Quality-of-life Index.

In the past 30 years, the economy has shifted from agriculture to **light manufacturing and services**.

FOREIGN INVESTMENT

SECTORS

The services sector, including tourism, contributes almost 80% to GDP and employs more than 70% of the labor force. Industry and construction account for approximately one-fifth of GDP and labor, while agriculture is responsible for 2.1% of GDP and 8.5% of the labor force.

Potatoes and **citrus** are the principal export crops. After robust growth rates in the 1980s (average annual growth was 6.1%), economic performance in the 1990s was mixed: real GDP growth was 9.7% in 1992, 1.7% in 1993, 6.0% in 1994, 6.0% in 1995, 1.9% in 1996 and 2.3% in 1997.

This pattern underlined the economy's vulnerability to swings in tourist arrivals (i.e., to economic and political conditions in Cyprus, Western Europe, and the Middle East) and the need to diversify the economy.

Declining competitiveness in tourism and especially in manufacturing are expected to act as a drag on growth until structural changes are effected. Overvaluation of the Cypriot pound prior to the adoption of the euro in 2008 had kept inflation in check.

TRADE

Trade is vital to the Cypriot economy—the island is not self-sufficient in food and until the recent offshore gas discoveries had few known natural resources—and the trade deficit continues to grow. Cyprus must **import fuels, most raw materials, heavy machinery, and transportation equipment**. More than 50% of its trade is with the rest of the European Union, especially Greece and the United Kingdom, while the Middle East receives 20% of exports.

EU countries remain the main trading partners of Cyprus, along with China and Israel. Italy maintains a good market position, fourth place, between China (3rd place) and the UK.

LEGAL SYSTEM

The Cyprus legal system is founded on English law, and is therefore familiar to most international financiers.

Cyprus's legislation was aligned with EU norms in the period leading up to EU accession in 2004. Restrictions on foreign direct investment were removed, permitting 100% foreign ownership in many cases. Foreign portfolio investment in the Cyprus Stock Exchange was also liberalized.



ECONOMY

The economy is predominantly oriented to services such as tourism, transport and finance, which account for over 80% of GDP. The manufacturing industry, which accounts for about 17% of GDP, diversifies in food and textiles, paper processing, chemical and pharmaceutical industries and petroleum refining. Agriculture contributes around 2.5% to GDP growth.

OTHER ECONOMY DRIVERS

Aside from tourism and navigation services, the major drivers of the Cypriot economy's development over the next few years will be linked to the programs for improving and enhancing energy production from renewable sources, energy efficiency programs and improved management of treatment Waste also for energy production.

Do not underestimate the potential of exploiting offshore resources that could turn the country into a regional energy hub.



INVESTING IN CYPRUS

- Low taxation
- High GDP per capita, limited exchange risk
- Good infrastructure quality and widespread knowledge of English.
- Presence of hydrocarbon deposits

Low taxation

The most important commercial attraction is given by low taxation, coupled with a dense network of bilateral agreements (over 45) against double taxation: corporate tax is among the lowest in the European Union (12.5 %).

Over 250,000 companies have established their headquarters in Cyprus.

High GDP per capita, limited exchange risk

Cyprus is among the high GDP per capita countries, and membership in the Euro zone allows a limited exchange rate risk.

Good infrastructure quality and widespread knowledge of English.

Infrastructures (ports, telecommunications, highways, airports) ensure good levels of efficiency. English is common business language, even for public administration.

Presence of hydrocarbon deposits

Beyond the current crisis situation, future prospects appear to be interesting, in particular for the discovery of hydrocarbon deposits that in the coming years will attract massive investments.



SECTORS TO INVEST

- Transport and storage
- Mining and quarry products
- Construction
- Real estate activities
- Electricity, gas, steam and air conditioning (also from renewable sources)

The maritime transport sector and related services management is one of the strong points of the Cypriot economy. Thanks to the strategic position of the island and to the favorable legislation, especially tributary - the country is currently the only one in Europe to apply the c.d. Tonnage tax, and the vessels registered in Cyprus are exempt from income, property and capital gains - the merchant fleet has grown to become the third in the EU and tithing in the world (about 21 million Tonnage, rising to 48 if we consider all managed ships).

The market is relatively concentrated, 30% of businesses generate almost 90% of the business volume. The presence of German companies is remarkable, accounting for about 55% of turnover.

Mining and quarry products

In recent years, the eastern Mediterranean has seen the greatest discovery of hydrocarbon deposits. In the "block 12" of the Exclusive Economic Zone of Cyprus (divided into 13 blocks), the presence of at least 200 billion mc of gas from US Noble Energy has already been established. At the end of 2012, the government allocated exploration and exploitation licenses for another 5 blocks: 3 to the Italian-Korean ENI-KOGAS consortium and 2 to the TOTAL multinational corporation;

In government auspices gas should be available for domestic use and for export by 2020; The necessary infrastructure (on land and at sea) is still under study.

Construction

The construction sector will be directly concerned with the development of the infrastructure needed for the exploitation of hydrocarbon deposits. Among the works of future realization are:

- The realization and management of gas pipelines on mainland (about 200 km, orientation: 1.5 billion euro);
- The realization of the LNG facility which will have to allow gas exports (orientation amount: 7 billion);
- The deployment of the distribution network, divided into a first phase "A" (possible start of the procedures in 2013), for the supply of power stations (about 80 km, orientation amounting to 70 million, of which 10 already engaged by the EU , Possible EIB financing at 50%), and a subsequent completion of the network (steps B and C) to reach both industrial and domestic users (orientation amount: 500 million);

Real estate activities

Cyprus Investments Promotion Agency (CIPA) website has reported investment opportunities in real estate and tourist projects of significant amounts. Proposals are published by CIPA at the request of the interested parties.

Electricity, gas, steam and air conditioning (also from renewable sources)

Cyprus is currently an isolated energy system, with no connections to international transport networks. To satisfy its consumption, the island depends on the import of fossil fuels, the only ones used in power plants.

Generating capacity from conventional sources amounts to approximately 1,438 MW, largely produced by the public operator "Electricity Authority of Cyprus" ("EAC").

Renewable sources ("RES") are at present the only alternative that can mitigate dependence on imports, diversify energy production and reduce environmental pollution.

Under the conditions laid down in Directive 2009/28 / EC, Cyprus will have to increase the use of renewable energy by 2020, bringing it to 13% of total consumption.

In detail, the National Renewable Energy Plan (hereinafter referred to as "PNER") provides the following RES contributions:

- for the production of electricity (target: 16%): 300 MW from wind, 192 MW from photovoltaic, 17 MW from biomass / biogas, 75 MW from concentrated solar power plants;
- for heating / cooling (target: 23.5%): 17.2% from solar, 5.7% from biomass / biogas, 2.97% from geothermal;
- for transport (target: 4,9%): 1,8% from bioethanol, 3% from biodiesel, 0,07% from electricity produced with RES.

In July 2011 an explosion seriously damaged the main power plant, creating huge supply problems for the country; The event prompted the Government to accelerate the PNER implementation path.

There are opportunities especially in the solar photovoltaic sector.

In February, licenses were issued for a total of 50 MW with the downstroke mechanism (final price 8.66 cents / kWh, against the 15.44 required for fossil fuel production); Awaits the publication of a new call in the spring.

Assigning licenses could provide business opportunities to component companies.

KEY TAX POINTS

- Companies resident in Cyprus are subject to corporation tax on all their income: non-resident companies only on profits derived from Cyprus. Branches managed and controlled from Cyprus are taxed as resident companies.
- A controlled foreign company system applies which is designed to tax foreign source income in a low tax territory.
- Capital gains tax applies to residents and non-residents disposing of immovable property situated in Cyprus, and shares in companies owning such assets.
- VAT is charged on taxable supplies and imports. A reduced rate, zero rate and exemption regime applies to the supply of certain goods and services.
- Resident companies must withhold tax on certain interest and royalty payments, as well as dividends paid to resident individuals, subject to certain exemptions based on domicile concept.
- In the absence of a tax treaty, the tax paid on overseas income in a non-treaty country is normally allowed as a deductible expense. Credit relief is only available where a similar concession is given to Cyprus companies in the overseas territory concerned (but the credit may not exceed the Cyprus corporation tax on the overseas income).
- Cyprus tax resident individuals are subject to income tax on worldwide income, non-residents are subject to income tax on Cyprus-sourced income only.
- Cyprus tax resident and domicile individuals are subject to defense contributions on dividend, interest and rental income. Cyprus tax residents who are not Cyprus domiciles are exempted from defense contribution.
- An individual is considered of a Cyprus domicile if he/she has a domicile of origin in Cyprus based on the provisions of the Will and Succession legislation. Examples of domicile may include domicile of the parents at the time of birth or permanently living and intending to live in a country.

- An individual is not considered of a Cyprus domicile if :
 - he/she has acquired a domicile of choice outside of Cyprus
 - he/she has proves that has not been a Cyprus tax resident in the last 20 years prior to the relevant tax year (irrespective whether he/she is of a Cyprus origin) or although of a Cyprus origin,
 - has not been a Cyprus tax resident for the last 20 years.
- Notwithstanding the above, an individual who although not of a Cyprus origin has been a Cyprus tax resident for 17 out of the last 20 years, prior to the relevant tax year, is considered as a Cyprus domicile.



A. TAXES PAYABLE

COMPANY TAX

A Cyprus resident company is subject to corporation tax on its worldwide income. Non-resident companies are subject to corporation tax only on profits derived in the Republic. Resident companies are those companies whose management and control is exercised from Cyprus. The corporation tax rate is 12.50%. Taxes are paid by two installments in advance based on a provisional assessment, which should be at least 75% of the final tax charge. A fiscal year is the calendar year.

CAPITAL GAINS TAX

Gains in respect of the sale of immovable property situated in Cyprus (including shares of a company whose assets (or shares in another company having immovable property) include such immovable property) are subject to Capital Gains Tax. Both residents and non-residents are subject to capital gains tax if they own immovable property in Cyprus. The applicable rate on the taxable income is 20%. No tax is levied in respect of immovable property situated abroad. No tax is levied on capital gains in respect of profits on disposal of shares of companies (other the ones which own immovable property).

BRANCH PROFITS TAX

Branches of foreign companies managed and controlled from Cyprus are taxed as if they were Cyprus resident companies. Foreign branch profits of Cyprus companies are relieved from Cyprus tax to the extent that their activities are not investment related or corporate tax of at least 6.25% has been levied on its profits (one of the two criteria needs to be satisfied).

VALUE ADDED TAX (VAT)

VAT is generally imposed on taxable supplies of goods and services at the standard rate of 19%. Certain supplies of goods and services are charged at the reduced rates of 5% - 9%; others are zero-rated, notably ship management services. Some supplies of goods and services are exempt from VAT: specifically, financial services, health and welfare, insurance, and education. The annual VAT registration threshold is EUR 15,600. Cyprus has adopted the provisions of the EU Directive 2008/8/EC effective from 1 January 2010. Exports of goods or provision of services to non-EU or to EU VAT registered persons are subject to 0%.

FRINGE BENEFITS TAX

Certain benefits such as use of cars for private purposes, rent, school fees etc are considered as benefits in kind and taxed accordingly.

LOCAL TAXES

Local taxes include transfer fees on sale and purchase of property, stamp duty (only in respect of assets situated in Cyprus or agreements executed in Cyprus), and immovable property tax.

OTHER TAXES

Contributions to the social insurance fund are paid on the salaries of resident employees. The total amount paid by an employer can vary from 11.5-13.5% of the gross salary. The employee pays a further 7.8%. The maximum salary on which contributions are paid is currently EUR 4.533 per month.

B. DETERMINATION OF TAXABLE INCOME

Resident companies pay taxes on their net taxable profits. These are determined by pooling their worldwide income and deducting allowable expenses, charges and capital allowances. Non-resident companies pay taxes on their Cyprus-sourced income only.

CAPITAL ALLOWANCES

Annual wear and tear allowances are allowed on various assets including plant and machinery; fixtures and fittings; commercial vehicles; hotels; commercial buildings; industrial buildings; computer hardware and software; and loose tools. Allowances range from 3% to 33% per annum. No capital allowances are given for saloon cars.

DEPRECIATION

Depreciation included in the financial statements of entities is disallowed for tax purposes, as capital allowances are given instead. For accounting purposes, depreciation rates applied are those which write-off the assets over their useful life

STOCK / INVENTORY

Opening and closing stocks are normally stated at the lower of cost and net realizable value on a FIFO basis.

CAPITAL GAINS AND LOSSES

Capital gains are computed separately and do not form part of the annual taxable income for corporation tax purposes. Indexation allowance is available for the determination of the taxable gains and losses. Capital losses can be offset against capital gains for the same fiscal year.

DIVIDENDS

Dividends receivable are exempt from corporation tax. Resident companies withhold contributions to the defense fund of the Republic on dividends paid to Cyprus tax domicile and resident individuals at the rate of 17%.

INTEREST DEDUCTIONS

Interest expense is deductible if the borrowing is wholly and exclusively for the purposes of producing income. Interest paid to a connected party is a deductible expense. Interest deductibility restrictions exist to the extent that a company has non-business assets. There are no thin capitalisation rules.

INTEREST INCOME

Interest income is subject to a withholding contribution to the defense fund of 30%. If interest is received from abroad, such income is assessed as above. If the recipient is a Cyprus non domicile individual defense contribution is exempted. Where interest is considered as profit close to the ordinary activities of the company, then such type of income is considered as trading profit and not interest. Hence it is not subject to defense contribution. Examples include financing and insurance companies, interest from trade receivables etc.

INCOME FROM INTANGIBLE ASSETS

Please note the following with respect to income from Intangible assets:

Cyprus PKF Worldwide Tax Guide 2016/17 7

- The cost of acquisition or development of the Intellectual Property is amortized equally for a period of 5 years, giving a 20% taxable allowance each year.
- 80% of the profit deriving from either royalty income (including compensation for improper use), or sale of intellectual property is deducted as a tax expense, leaving only 20% of the net profit being taxed.
- The above profit is calculated after deduction of any relevant expense in deriving such income.

LOSSES

Trading losses may be carried forward for a period of 5 years. Losses from overseas activities can be set off against chargeable income for the year and can be carried forward subject to the 5 year period. If, within any period of three years, there is both a change in the beneficial ownership of a company and a major change in the nature of trade and, at any time before the change of ownership the activities in the trade become small or negligible, then no trading losses incurred prior to the change in ownership are allowed.

FOREIGN SOURCE INCOME

Cyprus has controlled foreign company legislation (CFC) legislation. Profits from a permanent establishment abroad or dividends from an overseas company are taxed if the nature of their activities amounts to more than 50% investment income and their country of residence imposes corporation tax which is less than 6.25% p.a. Both criteria must apply in order for the tax to be charged.

TAX INCENTIVES

Some of the main incentives are as follows: a) Low corporation tax of rates at 12.50%; b) Non-resident entities are only taxed on their Cyprus-sourced income; c) No withholding tax on payments of dividend and interest to non-residents; d) Profits and dividends from abroad are tax-free free subject to CFC rules stated above; e) Restructuring legislation in line with the EU Merger Directive extending to companies in non-EU countries; f) 80% deduction from income from intangible assets (royalties etc.); and, g) A Cyprus holding company can pay virtually no tax on its profits.

C. FOREIGN TAX RELIEF

Foreign tax paid on income of a Cyprus resident company is credited against the corporation tax, subject to Double Tax treaty conditions. In the absence of a tax treaty, the tax paid in a non-treaty country is normally allowed as a deductible expense. Tax paid is credited only if a similar concession is given to Cyprus companies in that particular country. The foreign tax relief cannot exceed the Cyprus corporation tax on these profits.

D. CORPORATE GROUPS

Group loss relief is available to a group of Cyprus resident companies in relation to current year losses. Two companies will be considered as part of a group if one company holds 75% of the voting share capital or distributable profits of the other, or both companies are 75% subsidiaries of a third company. The group must be in existence within the whole fiscal year unless a company was incorporated in the year.

E. RELATED PARTY TRANSACTIONS

Transactions between related parties do not need to be adjusted for tax purposes as long as they are on 'an arm's length' basis.

F. WITHHOLDING TAX

Resident companies must withhold taxes on certain royalty payments depending on the rates provided in any tax treaty. Cyprus has entered into double tax treaties with over 40 countries. Nonresident companies have no obligation to withhold taxes on any payments they make. Dividends paid to (directly or indirectly) non-resident shareholders and interest to non-residents are not subject to withholding tax.

G. EXCHANGE CONTROLS

There are no exchange controls in Cyprus.

H. PERSONAL TAX

A person who is resident for 183 days or more in aggregate during the tax year is deemed to be tax resident. All individuals who are residents of the Republic are taxed on their worldwide income. Nonresident individuals are taxed on income emanating from Cyprus only. Income tax is payable on assessable income less allowable deductions. Assessable income includes income from employment, rent, interest and profits from trade and business or professions. Allowable expenses include mortgage interest, certain subscriptions, social insurance contributions and pension contributions. The current tax rates are as follows:

Taxable income (EUR)	Normal tax rate (%)
0–19,500	0
19,501- 28,000	20
28,001- 36,300	25
36,301- 60,000	30
Over 60,000	35

Pensions receivable from abroad by a resident in respect of services rendered outside Cyprus are still taxed at 5%, after deduction of the first EUR 3,417 if the individual elects to do so. Individuals taking up employment in the Republic, who were non-resident prior to employment are entitled to an allowance of 20% of remuneration up to a maximum of EUR 8,543 for a period of three years.

From 2012 onwards, individuals with annual remuneration in excess of EUR 100,000 are entitled to an increased allowance of up to 50% for a period of five years. Salaried services rendered abroad for a total period of more than 90 days.

The right partners for you in Cyprus. Meet our members!

FZ Audit Ltd

They design, develop and deliver practical learning solutions in IFRS (International Financial Reporting Standards), AML (Anti-Money Laundering) and Finance for Non-Financial Professionals (FFNFP).

In 2016, they completed the first ever training workshops on IPSAS (International Public Sector Accounting Standards) in Cyprus with excellent feedback from the participants, who graded their workshops with an average of 5.6 (out of 6)! Participants commented on the workshops as 'very useful' and 'relevant' with all indicating they would recommend the workshops to other colleagues in the public sector.



Let us introduce you our latest members!

By joining Prime Advisory Network, you open to the world your own studio. It means choosing to operate globally. Without distinction of flag, religion or culture.

Together with accountants and lawyers from around the world can help create a more united world.

Last week, new professionals have joined our rapidly growing global network. You can send them a welcome message using our private chat available in your PAN account.



El Salvador
lawyer Carlos Deras



Greenland

Iceland

Finland

Russia

Canada

United Kingdom

United States

North Atlantic Ocean

Mexico

Algeria

Libya

Egypt

Saudi Arabia

Pakistan

Afghanistan

India

China

Japan

South Korea

Venezuela

Colombia

Brazil

Peru

Bolivia

Chile

Argentina

Mali

Niger

Chad

Sudan

Nigeria

Ethiopia

DR Congo

Kenya

Tanzania

Angola

Namibia

Botswana

Madagascar

South Africa

Indonesia

Papua New Guinea

Indian Ocean

Australia

New Zealand



Our Growth

Our network is growing rapidly. Coverage shown is from June 2017.



Contact Us



14 Chillingworth Road Islington,
London N7 8QJ

+44 20 3300 0658

info@primeadvisorynetwork.com

Skype: [prime.advisory.network](https://www.skype.com/en/contacts/primeadvisorynetwork)

www.primenetwork.com



Chat with us from 9 to 5pm CET
Monday to Friday