

CYPRUS: INVESTORS' GUIDE

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A. GENERAL

Over the last years, Cyprus has been actively courting foreign direct investment into the country, offering a number of attractive incentives to establish the island as a world-class destination for international business activity. As a result, Cyprus managed to become one of the most attractive destinations for foreign investors due to, inter alia, favourable tax regime, its well-established legal system, membership with the European Union, its highly qualified and multilingual labour force alongside with the high standards adhered to by the legal and accountancy professions. All these factors contribute significantly to the country's international reputation as a financial hub and business centre. The purpose of this publication is to outline some of the main factors that make Cyprus a financial centre.

B. CYPRUS AT GLANCE

GEOGRAPHY, POPULATION AND OTHER GENERAL INFORMATION

Cyprus is a small island in the eastern Mediterranean, at the meeting point of three continents (namely, Europe, Asia and Africa) and close to the busy trade routes linking Europe with the Arab World and the Far East.

Cyprus' total area is 9,251km², making it the third-largest island in the Mediterranean. The island enjoys an excellent climate with about 300 days of sunshine per year. The temperature varies from 6°C to 13°C in winter to 21°C to 36°C in summer. Cyprus' population is estimated at approximately 1.2 million. The official languages of the Republic are Greek and Turkish, but English is widely spoken and regularly used in business. Nicosia, with an estimated population of approximately 300,000, is the capital city and situated in the middle of the island. All other major cities are on the coast and all are popular holiday resorts, as well as business centres.

HUMAN RESOURCES

Cyprus has a young, highly educated and highly skilled labour force with wide experience and fluency in English. A high proportion of Cypriots have obtained a university degree, either in Cyprus or abroad. This has led Cyprus to rank among the leading countries in the world in terms of its proportion of university graduates.

OPERATING AND LABOUR COSTS

Cyprus offers one of the lowest set up and operating costs within the European Union. With regard to labour costs, an average annual starting salary for a young graduate with a bachelor degree is €22,800.

PROFESSIONAL SERVICES

Major international and local accounting companies with in-depth knowledge of the local tax and accounting environment and highly qualified lawyers specialised in international work can assist and support a foreign investor with both set-up and contractual formalities.

TRANSPORT AND TELECOMMUNICATIONS

A wide network of air-routes connects Cyprus with Europe, Africa and Asia. The island has two busy international airports, in Larnaca and Paphos, handling a large number of scheduled flights and served by many international and chartered airlines.

Seaborne traffic is served by a fully renewed port system comprising the multi-purpose ports of Limassol and Larnaca, the industrial port of Vassiliko, and the three specialised oil terminals of Larnaca, Dhekelia and Moni. A large number of shipping lines include Cyprus in their regular schedules to and from five continents, ensuring that thousands of ships call at Cypriot ports each year.

ECONOMY

The economy of Cyprus is based on free enterprise, with most economic activity taking place in the private sector.

The service sector, which dominates the Cypriot economy, accounts for about half of employment and almost two-thirds of its GDP. In 2021, the average rate of inflation was 1.67 % and the unemployment rate was 7.10%. The standard of living is relatively very high with estimated annual income per capita for 2021 of USD 31,500.

The economy of Cyprus is in a relatively good state, despite the challenges created by the ongoing COVID-19 crisis, with economic growth and improving public finances.

GOVERNMENT

The structure of government is similar to other western democracies where human rights, political pluralism and private property are safeguarded.

The head of state is the President who is elected for a five-year term of office. The Council of Ministers, appointed by the President, is the executive organ of Cyprus. Legislative power lies with the House of Representatives whose members hold office for five years.

Cyprus is a member state of the European Union as well as member of Eurozone, British Commonwealth, Council of Europe, International Monetary Fund, United Nations, World Bank and World Trade. It is signatory to many international conventions and treaties. As a result, Cyprus is politically stable.

CURRENCY

Cyprus joined the Euro zone on 1 January 2008. There are no exchange controls in Cyprus.

BANKING SYSTEM

Cyprus' banking sector is comprised of two tiers: (i) domestically oriented banks and (ii) international banks with Cyprus-based subsidiaries or branches. Both domestic and international banks are regulated, monitored and supervised by, inter alia, the Central Bank of Cyprus.

Currently, there are 30 authorised credit institutions in Cyprus, consisting of 7 local authorised credit institutions, 3 subsidiaries of foreign banks from EU Member States, 1 subsidiary of foreign bank from non-EU country, 5 branches of banks from EU Member States, 13 branches of banks from non-EU Member States and 1 representative office.

INTERNATIONAL BUSINESS AND MULTINATIONAL PRESENCE

Cyprus is a developed and established international business centre, with many tax and other advantages for international business. The extensive network of treaties which Cyprus has formed for the avoidance of double taxation makes the island very attractive to international investors.

A significant number of international business companies (IBCs) i.e. companies incorporated in Cyprus whose beneficial ownership and business activities lie outside Cyprus and international banking units operating in Cyprus.

Furthermore, as holding companies in Cyprus are in practice free of any tax both on their income from dividends and on their proceeds on disposal of their investments, without any restrictions in relation to the time for which the investment was held or in relation to thin capitalisation, the island has become a favourable location for establishing holding companies by international businesses.

LEGAL SYSTEM

Cyprus' legal system is deeply rooted and largely based on the English Common Law system as a result of Cyprus being a former British colony. The basis of all laws of the Republic is its constitution enacted in 1960. Following the accession of Cyprus to the European Union in 2004, the European Union law has supremacy over the constitution and national legislation of Cyprus.

The legal and regulatory infrastructure of Cyprus is constantly evolving in order to reflect the fast-moving sophisticated commercial realities worldwide and to enable unrestricted

development, innovation and growth for the people and the entities which decide to choose Cyprus. The Cyprus' legal system is widely considered as business-friendly, effective and fair. It ensures transparency and reliability as it is based on well-established business practices followed in the global financial centres.

Cyprus' legal system is further fully compliant with both the European and international legal standards allowing business and individuals to act globally by being based in Cyprus.

The restructuring of the Cyprus court system has been on the forefront of political and academic discussion over the past year. It is noted that an Administrative Court was established a few years ago with jurisdiction to adjudicate recourses submitted against administrative decisions and acts, including applications concerning international protection regimes, as a first instance court. This has accelerated the handling of such cases, which were previously heard by the Supreme Court of Cyprus. At the same time, it somewhat relieved the Supreme Court from this branch of its jurisdiction, allowing it to function more promptly and efficiently as an appellate court handling the adjudication of appeals and constitutional referrals, which were traditionally being heard with serious delays. In the same vein, plans are being promoted for the introduction of a tripartite judicial system with the creation of new Court of Appeal serving as an appellate court of second instance, as well as the creation of new courts with special jurisdiction such as the Supreme Court, the Constitutional Court and a new Commercial Court which will exclusively be handling disputes of a commercial nature. The Supreme Court has also set its focus on increasing the numbers of judges adjudicating cases before the District Courts of Cyprus, aiming at a more manageable allocation of judicial workload at first instance level, which is expected to accelerate the court process and adjudication of cases, which has been and still is criticised for unreasonable delays.

Moreover, after several years of deliberation, and with the assistance of experts from the UK and Ireland, the Supreme Court of Cyprus has recently published and is expected to implement new modernized Civil Procedure Rules regulating the court process in civil cases. The new rules, largely in line with the Woolf reforms in the UK, aim to tackle various issues in the existing system, which were traditionally contributing to the creation of delays and obstacles in the smooth operation of the civil justice system. In parallel, amendments in the current legislation are being promoted aimed at encouraging the use of alternative dispute resolution methods such as arbitration and mediation, which are universally accepted as flexible, effective and efficient ways to resolve disputes, in lieu of conventional court

proceedings, thus further easing the load of the judicial system and providing stakeholders with an efficient alternative.

IMPACT OF COVID-19

The impact of the COVID-19 pandemic had widespread effect, with Cyprus not being an exception. As a silver lining, the pandemic has initiated a renewed focus on technology and new methods with various state authorities and public institutions seeking to introduce certificates backed by blockchain and other innovative technologies that are expected to create high-growth employment opportunities. In parallel, we have witnessed the resilience of the private sector which quickly adapted to work from home environments and took full use of new technologies and capabilities. Due to Cyprus' small size and outdoor lifestyle, the spread of the pandemic was relatively contained, yet certain areas of the economy suffered by the reduced visitors due to the restrictions. Targeted measures and incentives were introduced to assist affected businesses and individuals; however, it is early to predict any long-term effects on the economy.

Furthermore, the COVID-19 pandemic found the Cypriot court system lagging behind in terms of technological, or legal infrastructure, highlighting the urgent need for digitalization of the court procedures and the capability to adjudicate any proceedings remotely through video conference or otherwise. Nevertheless, the Cypriot courts found ways to adapt to the challenges of the times – albeit imperfectly – and have implemented procedures to ensure that the judicial system continues to function as smoothly as possible, despite the unprecedented hurdles and restrictions brought by the pandemic. Significant steps were taken this year towards the creation of a digital court registry, the implementation of a digitalization system for the filing of pleadings, and the general management of court procedures digitally. While the said platform is not yet operational, a pilot version is currently being tested, and it is expected that it will be fully implemented in the foreseeable future.

C. KEY SECTORS FOR FOREIGN INVESTMENT

SHIPPING

Cyprus' excellent geographical position at the crossroads of Europe, Africa and the Middle East has resulted to Cyprus being an internationally renowned shipping centre having a prominent role in forming global shipping policies. The Cyprus flag is the 3rd largest in Europe and the 11th largest in the world. More than 20% of the worlds' third party management fleet is managed by companies based in Cyprus.

Limassol, the largest ship management centre in the European Union and the 2nd globally, hosts more than 200 companies offering shipping and shipping-related services from ship ownership and ship management to shipping insurance, shipping finance, brokerage, bunkering, ballast water system production, marine training, maritime technology in satellite and radio systems and many more.

Since March 2010, Cyprus has the most flexible, competitive and fully approved shipping tonnage tax system in the European Union. It allows shipping companies to be taxed on the basis of net tonnage of their fleet, rather than corporation tax.

INVESTMENT FUNDS

Cyprus is becoming one of the fastest growing investment fund centres in Europe through the prompt response to legislative and regulatory needs and its strong financial services sector which is at the forefront of industry developments. Since 1999 with the introduction of the law for Collective Investment Schemes, the country has continuously developed as a regional domicile for investment funds and managers. The growth of the investment fund sector is founded on the social and political stability of Cyprus and on a pragmatic legal and regulatory environment that is continuously evolving through constructive consultation between the regulator and the private sector.

The island is increasingly becoming a destination of choice within the EU for investors, fund managers and management companies thanks to the following advantages:

- Low set-up and operation costs when compared to other EU jurisdictions. Indicatively, the set-up costs of a Cyprus fund range from €20,000 to €30,000 while the set-up costs of a Luxembourg fund range from €40,000 to €60,000.

- Availability of an abundance of experienced and skilled professionals, and service providers that can be employed at half the cost of what the same professionals and providers would cost in other jurisdictions. The island hosts a number of recognised service providers, ranging from global names to local independent operators servicing all types of funds at very competitive rates.
- Access to international fund administrators, custodians and brokers.
- Eligibility to offer services and market funds within EU (European Passport) as well as easy access to major markets e.g. Israel, Central Europe, Middle East, India, China.
- High standards of transparency and investor protection, through frequent reporting to investors and the regulator.
- Flexible structuring opportunities and variety of legal forms, eligible managers and fund structures.
- Favourable tax regime for alternatives (equities, venture capital, infrastructure).
- Attractive tax regime and incentives provided to foreigners, including fund managers, investors and funds, when setting up and operating a business from Cyprus (including, the smallest corporate tax rates across all EU at 12.5%, and no withholding tax on dividends).
- Competent, accessible and trustworthy regulator. Cyprus Securities and Exchange Commission, the regulator, has invested significant resources and deployed new technology tools, to ensure that the application process is as efficient as possible and currently works on a platform allowing fund promoters to submit applications online.
- Fairly simple and time efficient application process.

Moreover, new amendments in the existing tax legislation are expected by the end of 2021 or early 2022, providing additional incentives for the establishments of funds in Cyprus, such as the possibility of a fund to choose NAV-based taxation for its investors and the right for Registered Alternative Investment Funds (RAIFs) to acquire loan portfolios.

D. FOREIGN INVESTMENT INCENTIVES

FAST-TRACK IMMIGRATION PERMIT PROGRAMME

The fast-track immigration permit programme allows third country nationals wishing to invest in Cyprus to avoid the time-consuming immigration formalities normally required for non-EU nationals in order to obtain an immigration permit in Cyprus provided that certain financial and quality requirements are satisfied.

In March 2021, the Cyprus Government has further amended and softened the criteria for granting an Immigration Permit, which now stands as follows:

1. Financial Criteria

The applicant has to make an investment of €300,000 in one of the following categories:

- Investment in a house/apartment of at least €300,000 (plus VAT).
- Investment in real estate (excluding houses/apartments) with a total value of €300,000.
- Investment worth €300,000 in Cyprus company's share capital, with business activities and personnel in the Republic.
- Investment worth €300,000 in units of Cyprus Investment Organization of Collective Investments (forms of AIF, AIFLNP, RAIF).

Further to the abovementioned investment criteria, the applicant should be able to prove that he has at his disposal a secure annual income of at least €30,000. This annual income increases by €5,000 for each dependent family member and €8,000 for each dependent parent (of the applicant and/or his spouse).

2. Quality Criteria

In addition to the satisfaction of the abovementioned financial criteria, the applicant and his spouse must fulfil the following conditions:

- Clean criminal record (applicant and spouse).
- No employment in Cyprus except as directors in a company in which they have chosen to invest.
- In cases where the investment does not concern the company's share capital, the applicant and/or his spouse are allowed to be shareholders in companies registered in Cyprus and the income from the dividends derived from such companies may not be considered as an obstacle for the purposes of obtaining the immigration permit. In such companies, they may also hold the position of an unpaid director.

- In cases where the applicant chooses to invest in real estate (excluding houses/apartments), in Cyprus company's share capital or in units of Cyprus Investment Organization of Collective Investments, he should provide evidence regarding his accommodation in the Republic (e.g. title of ownership or contract of sale and proof of payment for the property or rental agreement).

With regard to the application procedure and time estimates for the examination of the application, the new revised regulations provide that the applications accompanied with the required documents must be submitted to the Civil Registry and Migration Department in person or through an authorised representative. The estimated examination period from the date of submission of the completed application will be approximately two months.

For further information, please refer to [our publication](#) regarding the new amendments of criteria for investor's immigration permit.

HUMAN RESOURCE DEVELOPMENT AUTHORITY OF CYPRUS (HRDAC)

HRDAC is a public body which provides grant funding to support a wide spectrum of training needs for companies of any size registered in Cyprus.

For further information, please visit [HRDAC's website](#).

RESEARCH & INNOVATION FOUNDATION (RIF)

RPF is the national authority in charge of supporting and promoting research, technological development and innovation in Cyprus. Since its establishment, RIF has developed widespread national programmes for the financing of research, development and innovation projects.

For further information regarding RIF's funding programmes, please visit [RIF's website](#).

MINISTRY OF ENERGY, COMMERCE & INDUSTRY FUNDING PROGRAMMES

The Ministry of Energy, Commerce & Industry of Cyprus has introduced a framework of investment incentives in various areas of the economy including energy, technology, manufacturing, agriculture, e-commerce and more.

For further information regarding the funding programmes provided by the Ministry of Energy, Commerce and Industry please visit [Ministry's website](#).

FOREIGN DIRECT INVESTMENT (FDI) POLICY

In order to further enhance the foreign investment intensity, as from 1 October 2004 the Government of Cyprus has liberalised the Foreign Direct Investment (FDI) Policy not only for EU citizens but also for investors from third countries in most sectors of the economy.

Limitations related to the minimum level of investment and foreigners' participation percentage have been abolished, in most sectors of the economy, allowing for up to 100% equity participation in registering companies or acquiring shares in existing companies.

Administrative procedures have been simplified and measures have been taken to streamline the infrastructure regarding foreign investment, thus reducing the level of bureaucratic intervention and fostering improved economic activity.

Consequently, foreign companies now have the opportunity of investing and establishing business in Cyprus on equal terms with local investors.

INVEST CYPRUS (THE CYPRUS INVESTMENT PROMOTION AGENCY - CIPA)

In 2008, the Cyprus Investment Promotion Agency (now rebranded as Invest Cyprus) was formed and fully funded by the Government of Cyprus. It is responsible to:

- Promote Cyprus as an attractive international investment centre in key priority growth sectors.
- Advocate reform in Cyprus required to improve the regulatory and business environment and infrastructure.
- Provide investor support with after care and further development services.

Furthermore, CIPA promotes Cyprus as an attractive investment destination in various priority sectors of the economy, by developing leads and driving demand for investments into the country, while serving as the first point of contact to all foreign investors.

For more information, please visit [CIPA's website](#).

THE CYPRUS INVESTMENT FUNDS ASSOCIATION (CIFA)

The Cyprus Investment Funds Association (CIFA) was established in 2013 at the initiative of the CIPA as a natural development of the progress made thus far in promoting Cyprus as a competitive investment funds jurisdiction.

CIFA's mission is to:

EROTOCRITOU

ADVOCATES - LEGAL CONSULTANTS

- Help its members capitalise on industry trends.
- Shape regulation.
- Encourage professionalism, integrity and quality.
- Promote the Cyprus investment funds industry.

For more information, please refer to [CIFA's website](#).

E. SETTING UP A BUSINESS IN CYPRUS

The main legislation on corporate law in Cyprus is the Companies Law, CAP 113 (the “*Companies Law*”).

TYPES OF BUSINESS ENTITIES IN CYPRUS

Pursuant to the Companies Law, the forms of companies that may be incorporated thereunder are the following:

- (a) Private company limited by shares
- (b) Private company limited by guarantee
- (c) Public company
- (d) European Public Limited Companies or Societas Europea (SE)

In addition to the above, business entities in Cyprus can operate under the following forms:

- (a) Sole proprietor or partnership
- (b) Branch

The re-domiciliation of foreign companies to Cyprus, and vice-versa, is possible. This means that companies may migrate from another jurisdiction to Cyprus (and vice-versa) without the need for a takeover or a transfer of assets to another company already registered in the destination country.

PRIVATE LIMITED COMPANY BY SHARES

The majority of companies incorporated in Cyprus are private limited by shares. In companies limited by shares, the liability of its shareholders for the debts of the company is limited to the amount of their shares. A limited liability company by shares is deemed to have a separate legal personality from that of its founders, shareholders and directors. As such, it can, in its own name, acquire property, enter into contracts, bring an action before the courts as the plaintiff or be the subject of any such action as the defendant and in general act in various other ways in its own right.

Under the laws of Cyprus, such a limited liability company is not deemed to have any restrictions to act in its corporate capacity, other than those set out in its constitutional documents which set out its main objects and rules for management and representation. Records of shareholder’s and shares must be maintained both by the company on an internal

register of members kept at the company's registered office but also in the official registry kept by the Registrar of Companies.

The minimum number of shareholders is 1 and the maximum is 50. This excludes any persons currently employees of the company or former employees who were shareholders while in that employment and have continued after the termination of that employment to be members of the company.

Further, any invitation to the public to subscribe for any shares or debentures of the company is prohibited under Cap.113.

The right to manage and represent a limited liability company by shares is usually entrusted to the board of directors who acts as a collective body. However, there is the practical ability for the board to delegate or assign roles and tasks to certain individuals (e.g., one of the directors, the managing director(s), a lawful attorney or an alternate director). The minimum number of directors is one for each company. In general, the right to make decisions relating to the business and operations of a limited liability company by shares is entrusted to the board of directors. However, certain corporate decisions are reserved exclusively for the shareholders, such as the power to amend the company's memorandum (subject to court approval) and articles of association, power to reduce the company's share capital etc.

Every company must have a company secretary, a director and a registered office address in Cyprus which may also be used as the business address of the company.

REGISTRATION PROCEDURE OF A LIMITED LIABILITY COMPANY

Under the Companies Law, the procedure for the formation and registration of a company in Cyprus is quite simple and as follows:

1. Approval of name

Before any other steps are taken with regard to the incorporation of a company, the Registrar of Companies must be approached to ascertain whether the proposed name of the company is acceptable.

In the case of a private company, the name selected should end with the word "Limited" or the abbreviation "Ltd" while the name of a public company should include the words "Public Company Limited" or their abbreviations e.g. "Plc", "Public Co Ltd", "Public Limited" etc.

It should be also noted that the Registrar of Companies may decline to register a company where its name is:

- (a) Similar to names of already registered organisations.
- (b) Similar to registered trademarks.
- (c) Misleading or undesirable. For example, it may not, inter alia, include the terms “National”, “Co-operative”, “European Union”, “International” or “Republic”, or indicate any relationship with the Republic of Cyprus, the President, a Minister, Ministry, Government Department or local authority, or include words or phrases, the use of which is a criminal offence.
- (d) Includes restrictive words or phrases, without obtaining the relevant consent from the competent governmental authority or authorised body. For example, include the word “bank”, “credit institution”, “university”, “college”, “insurance company”, “casino”, “radio”, “LLC” or “Variable Capital Investment Company” etc.

A. Share capital requirements

There are no legal requirements as to the minimum or maximum share capital of the company. The company’s share capital is usually expressed in euro and may be divided into shares of any value. Other currencies, such as sterling pounds or US dollars, may also be an option, subject always to the approval of the Registrar.

B. Shareholders

Under the relevant legislation, there must be at least one shareholder, for whom the following information is required to be disclosed to the Registrar:

- Full name
- Country of nationality/ registration
- ID/Passport number/ Registration number
- Date of birth/ incorporation
- Residential/ Registered office address
- Occupation
- Number of shares held

C. Directors

The law requires that the company has at least one director. However, it is usual for there to be at least two directors. The details of the directors are also required to be disclosed to the Registrar of Companies.

D. Secretary

In accordance with the provisions of the Companies Law, the company is required to have a secretary, who may be a natural person or a legal entity, and may not necessarily be a resident of Cyprus. The secretary acts under the control and instructions of the directors, maintains the company's statutory registers and performs certain administrative functions, for example, the keeping of the minutes of directors' meetings.

E. Registered office

Every company must have a registered office in Cyprus, which is determined by the directors.

F. Filing of the Memorandum and Articles of Association

Once the proposed name is approved, the Memorandum and Articles of Association along with all necessary forms containing the details of the registered office and directors and secretary of the new company must be submitted for filing with the Registrar of Companies. A specimen Memorandum and Articles of Association can usually be made available but care should be taken to ensure that the first few main object clauses are tailored to the specific circumstances and main business objects (aims or activities) of the company.

Provided that the Registrar of Companies is satisfied that all relevant legal requirements for the registration of the company, have been met, he will proceed with the publication of the Company's registration to the Official Gazette and the issuance of the certificate of incorporation of the company.

G. Timing

The process of incorporation takes about 5 business days.

F. EMPLOYMENT MATTERS

Cyprus ranks amongst the leading countries in the world in terms of the proportion of university graduates, ensuring the availability of high-quality managerial and administrative personnel.

EMPLOYMENT LEGISLATION AND REGULATIONS

The Labour related legislation in Cyprus is fully compliant with EU regulations.

PERMISSION TO WORK

Foreigners wishing to take up employment in Cyprus must have either a 'business permit' or an 'employment permit'. Citizens of EU member states may be employed in Cyprus without restrictions. Other aliens require residence/employment permits.

WRITTEN EMPLOYMENT CONTRACT

Although a written employment contract is not required in Cyprus, local laws impose an obligation on the employer to provide to the employee, in writing, specific information regarding the terms of his employment, including, inter alia, the position of the employee, the place of work, all the payments the employee is entitled to and annual leave entitlement.

Employment contracts can be written in any language that is understandable to both the employer and the employee or, if the contract is written in a language that the employee does not understand, its provisions must be orally explained to the employee.

In addition to the above, it should be noted that certain terms are implied into contracts of employment both by virtue of statute and common law and deal, amongst others, with the rights and obligations of the employer and the employee.

MINIMUM WAGE

Salary is, like other benefits, negotiable by the employer and the employee. However, for certain occupations a minimum wage is fixed annually by an Order of the Council of Ministers. The minimum wage provision applies to clerks, sales persons, school aids, child and infant minders, nursing aids, care workers and security guards.

WORKING HOURS

Generally, the weekly working hours should not exceed 48 hours, on average, including over-

time work, except in certain occupations where different limitations apply.

SOCIAL INSURANCE CONTRIBUTIONS

As from 1 January 2019, and for the next five years, the employer's contribution to social insurance was increased to 8.3% of the employee's salary, restricted to a maximum amount of salary, being currently at €57.408 (weekly €1,104, monthly €4,784). Thereafter, the rate will increase every five years until it reaches 10,7% as from 1 January 2039.

OTHER EMPLOYER'S CONTRIBUTIONS

- **General Healthcare System:** The General Healthcare System (GHS) (also referred to as the National Health Insurance System (GESY)) was introduced in Cyprus in 2019. It is the national healthcare system, financed through a compulsory contribution of employees, employers, self-employed persons, pensioners, and persons earning other types of income and the government. During Phase A the applicable rate of contribution for employers was 1,85%. Phase B was implemented as from 1 March 2020. The employer's contribution was increased to 2.9% of the employee's salary, for the whole of March 2020 and then from July onwards. For the remaining months, the rate of Phase A was applicable.
- **Redundancy Fund:** The employer's contribution to the Redundancy Fund is 1.2% of the employee's salary. This contribution is used to pay some compensation to employees in case they are made redundant. This is restricted to the maximum level of emoluments as with social insurance contributions.
- **Human Resources Development Fund:** The employer's contribution to the Human Resources Development Fund is 0.5% of the employee's salary. This contribution is used to pay for various government-sponsored training needs for industry. This is restricted to the maximum level of emoluments as with social insurance contributions.
- **Social Cohesion Fund:** The employer's contribution to the Social Cohesion Fund is 2,0% of the employee's salary.
- **Holiday Fund:** All employees with at least 50 weeks' service are entitled to a minimum of 20 working days of paid holidays. Employers have to contribute 8,0% of the employee's salary to this fund. They may, however, apply for exemption from having to contribute to the fund provided they offer better conditions to their employees.

TERMINATION OF EMPLOYMENT

Pursuant to the Termination of Employment Law, an employer intending to terminate an employee, who has completed at least 26 weeks of continuous employment with that employer, is obliged to give the employee a minimum period of notice, depending on the length of his service, as determined by the relevant law.

The Termination of Employment Law also contains provisions regarding payment of compensation in case of unlawful dismissal or redundancy.

G. TAXATION MATTERS

The modern, efficient and comprehensive tax regime maintained in Cyprus is the main reason why so many investments and businesses are primarily drawn to the island. Since 2004, the year Cyprus became a member state of the European Union, the Cyprus tax regime is fully aligned with all EU tax directives and initiatives.

INCOME TAX

Residents of Cyprus are taxed on their worldwide income. Non-residents are taxed only on some specific income from sources in Cyprus. An individual is a tax resident in Cyprus if he/she stays in Cyprus for more than a total of 183 days in any calendar year.

As of 1st January 2017, an individual may also be considered as a Cyprus tax resident if he/she satisfied the “60-day rule.” This rule is satisfied if the following conditions are satisfied:

- He/she does not spend more than a total of 183 days in any State within a tax year;
- He/she is not a tax resident of another State within the same tax year;
- He/she remains in Cyprus for at least 60 days in the tax year;
- He/she carries on a business in Cyprus or is employed in Cyprus or holds an office in a Cyprus tax resident person at any time during the tax year; and
- He/she maintains a permanent home in Cyprus that is either owned or rented.

A company, in order to be viewed as being “*domiciled*” in Cyprus for tax purposes, must be managed and controlled in Cyprus (incorporation is, by itself, insufficient to establish residence in Cyprus).

Though there is no specific definition of “*management and control*”, in practice and on the basis of certain common law principles, it is generally considered that management and control is exercised in the place where:

- the majority of the directors reside;
- the majority of board meetings are held; and
- the majority of significant decisions are taken.

In addition, there are other factors that may also be considered important in obtaining such a status, including:

- the maintenance of an office from which the company operates; and
- the place from where the bank accounts are operated, and records of the company are maintained.

CYPRUS TAX RESIDENT NON-DOMICILED TAX STATUS

As of 16 July 2015, individuals who are not domiciled in Cyprus for tax purposes are not subject to SDC on dividend income, passive interest income, and rental income. Thus, dividend and interest income is exempt from all taxes in Cyprus for such individuals. Rental income remains subject to Personal Income Tax.

With this status you will be able to reside in Cyprus, enjoy the high quality of life, excellent, climate and lifestyle, the high-quality services and at the same time enjoy the income, as described above, free of tax.

CORPORATION (INCOME) TAX

As stated above, a company is resident in Cyprus if its business is centrally managed and controlled in Cyprus.

- A Cyprus resident company is taxed on its worldwide income
- The rate of tax is 12.5% (however see below for significant exemptions)

As from 2021, a Cyprus incorporated company will by default be considered a tax resident of Cyprus, subject to the relevant law being enacted. All Cyprus tax resident companies are taxed on their income accrued or derived from all chargeable sources in Cyprus and abroad.

With effect from 1 January 2019 Controlled Foreign Companies (CFCs) rules apply i.e. non-distributed profits of CFCs directly or indirectly controlled by a Cyprus tax resident company, may become subject to tax in Cyprus (certain exceptions may apply).

A non-Cyprus tax resident company is taxed only on income accrued or derived from a business activity which is carried out through a permanent establishment in Cyprus and on certain income arising from sources in Cyprus. Foreign taxes paid can be credited against the Cyprus corporation tax liability.

TAX EXEMPTIONS

Tax exemptions apply to the following income:

- Dividend income
- Profits from the sale of shares and other securities
- 100% of passive interest
- Profits of a permanent establishment abroad, provided the foreign tax is not significantly lower than Cyprus tax and the PE does not derive more than 50% of its total income from investments.

Note: With effect, as from 01 July 2016, taxpayers may elect to tax the profits earned by a foreign PE with a tax credit for foreign taxes incurred on those foreign PE profits. Transitional rules apply in certain cases on the granting of foreign tax credits where a foreign PE was previously exempt and subsequently a taxpayer elects to be subject to tax on the profits of the foreign PE.

INTEREST EXPENSE FOR ACQUISITION OF 100% SUBSIDIARY

Interest expense incurred for the direct or indirect acquisition of 100% of the share capital of a subsidiary company will be treated as deductible for income tax purposes provided that the 100% subsidiary company does not own (directly or indirectly) any assets that are not used in the business. If the subsidiary owns (directly or indirectly) assets not used in the business the interest expense deduction is restricted to the amount which relates to assets used in the business. This applies for acquisitions of subsidiaries from 1 January 2012.

TAX LOSSES

The tax loss incurred during a tax year and which cannot be set off against other income, is carried forward subject to conditions, and set off against the profits of the next five years.

- Group relief is available
- Losses for a PE abroad can be set off against other profit of the Company

Please note that as from 1 January 2015:

- (a) interposition of a non-Cyprus tax resident company(ies) will not affect the eligibility for

group relief as long as such company(ies) is tax resident of either an EU country or in a country with which Cyprus has a double tax treaty or an exchange of information agreement (bilateral or multilateral); and that

- (b) a Cyprus tax resident company may also claim the tax losses of a group company which is tax resident in another EU country, provided such EU Company firstly exhausts all possibilities available to utilise its losses in its country of residence or in the country of any intermediary EU holding company.

WITHHOLDING TAXES

No Cyprus withholding tax on dividends or interest is paid to non-residents

RELIEF FROM FOREIGN TAXES

Foreign taxes, both underlying and withholding, are deducted from taxes in Cyprus on the same income.

INTERNATIONAL TRUSTS

Trust Law in Cyprus is based on English legal principles and the legislation in force follows the English Trustees Act of 1925. In 1992, the International Trust Law was enacted in order to facilitate the use of the basic law by non-residents. The law was amended on 9 March 2012 to become more attractive. A Cyprus international trust is a trust which has the following characteristics:

- The settlor and beneficiaries other than charitable institutions must not be Cypriot residents during the calendar year prior to the year of creation of the trust (may become Cypriot residents at any time following its creation)
- The trustees may vest the beneficiaries' interests in movable and immovable property both in Cyprus and abroad and in shares in Cypriot companies
- The trust can have Cyprus sourced income
- A trust may continue to be valid and enforceable without time restriction.

Taxation of a trust in Cyprus:

- International trusts are viewed as transparent instruments for Cyprus tax purposes which

means that the income is only assessable on Cypriot resident beneficiaries.

- No capital gains tax is charged on the disposal of assets held abroad.

ROYALTY INCOME ARISING IN CYPRUS OF A NON-RESIDENT

The gross income arising from intellectual property rights, other exploitation rights, compensations or other similar income arising from sources within the Republic, of a person who is not resident in the Republic, is subject to withholding tax at a rate of 10%. Royalties received by a connected company registered in a European Union Member State are exempt from tax (subject to conditions). Rights granted for use outside the Republic are not subject to any withholding tax.

FILM ROYALTIES

The gross income derived by a non-resident person in respect of royalties arising from film projection in the Republic is subject to withholding tax at a rate of 5%. Royalties received by a connected company registered in a European Union Member State are exempt from tax (subject to conditions).

PROFITS OF PROFESSIONALS, ENTERTAINERS

The gross income derived by an individual not resident in the Republic from the exercise in the Republic of any profession or vocation, the remuneration of public entertainers not resident in the Republic, and the gross receipts of any theatrical or musical or other group of public entertainers, including football clubs and other athletic missions from abroad, derived from performances in the Republic is subject to a 10% withholding tax.

INTEREST AND ADDITIONAL PENALTY OF 5% FOR LATE PAYMENT OF TAX WITHHELD

Tax withheld on payments to non-Cypriot residents should be paid to the Inland Revenue department by the end of the following month. In case where the tax is not paid within the deadline, an additional penalty of 5% will be imposed on the tax withheld in addition to any interest that may be imposed.

THE CYPRUS ALTERNATIVE INVESTMENT FUNDS (AIFS) AND UNDERTAKINGS FOR COLLECTIVE INVESTMENT IN TRANSFERABLE SECURITIES (UCITS)

AIFs and UCITs are liable to tax or not depending on their legal status.

Under certain conditions, management fees and administration fees charged for AIFs and UCITs funds can be exempt from VAT.

Taxation of funds

Funds which are opaque for tax purposes and which are managed and controlled in Cyprus are tax resident in Cyprus and are subject to the general provisions of the Cyprus tax framework.

In the case of funds which have compartments, each compartment is assessed separately for tax purposes subject to the provisions of the law.

Under circumstances and depending on the legal form of the fund, some funds may be transparent for tax purposes. Additional key provisions which are relevant to funds are set out below:

Sale of fund units

There is no CGT on the gains arising from the disposal or redemption of units in funds unless the fund owns immovable property in Cyprus. However, even if it owns immovable property in Cyprus, no Capital Gains Tax arises if the Fund is listed on a recognized stock exchange.

Stamp duty

The subscription, redemption, conversion or transfer of a fund's units should be exempt from Cyprus stamp duty.

No creation of a permanent establishment

Based on the Cyprus tax legislation no Cyprus permanent establishment will be deemed to arise:

- for non-Cyprus resident investors as a result of investment into Cyprus tax-transparent investment funds, or,
- as a consequence of the management from Cyprus of non-Cyprus investment funds/

Management services

The management fee charged for the provision of collective management services to investment funds is exempt from VAT, provided certain conditions are met.

Carried interest / performance fee for AIF and UCITS fund managers

Certain employees and executives of the following investment fund management companies or internally managed investment funds may opt for a different mode of personal taxation:

- Alternative Investment Fund Managers authorised under the Alternative Investment Fund Managers Law 56(I)/2013, as amended (hereinafter, the 'AIFM Law');
- Internally managed AIFs authorised under the AIFM Law;
- UCITS Management Companies authorised under the UCI Law; and
- Internally managed UCITS authorised under the UCI Law.

Subject to conditions, their variable employment remuneration which is effectively connected to the carried interest of the fund managing entity may, through an annual election, be separately subject to Cyprus tax at the flat rate of 8%, with a minimum tax liability of €10.000 per annum. This special mode of taxation is available for a period of 10 years.

CAPITAL GAINS TAX (CGT)

Rate

CGT is imposed at the rate of 20% on capital gains arising from the disposal of immovable property (real estate) situated in Cyprus, including gains from the disposal of shares of companies not listed on a recognised stock exchange which own immovable property situated in Cyprus. The disposal of shares listed in recognised Stock Exchanges is exempt from Capital Gains Tax.

Disposal

For the purpose of CGT, a disposal specifically includes exchange, leasing, gifting, abandoning use of rights, granting of right to purchase and any sums received upon cancellation of disposals of property.

Taxable gain

The taxable gain is the difference between the sale proceeds and the original cost of the property plus improvements as adjusted for inflation (Confined to gains accruing since 1 January 1980)

Lifetime exemptions

Lifetime exemptions are available to individuals on gains, with an overall lifetime maximum €85,430, as shown below.

Exemptions	Limit in EUR
Disposal of private residence (subject to certain conditions)	85,430
Disposal of agricultural land by a farmer	25,629
Disposal of any other property	17,086

Each individual is entitled to only one of the above three exemptions, whichever is the greater.

Exempt disposals

- Disposal of property situated outside Cyprus
- Profits from the disposal of securities quoted on any recognised stock exchange
- Profits from disposal of any securities (except for shares in non-listed companies owning real estate property in Cyprus)
- Transfers by reason of death
- Gifts between relatives up to the third degree of relation
- Gift to Republic/local authority/approved charitable institutions

- Exchange of properties, provided that the whole of the gain made on the exchange is used to acquire the other property. The gain that is not taxable is deducted from the cost of the new property
- Exchange or sale in accordance with the Agricultural Land (Consolidation Laws)
- Gifts to family companies of which all the shareholders are, and continue to be, members of the donor's family for at least five years
- Gifts from family companies to their shareholders provided the company originally acquired the property by way of gift. In cases where the shareholder disposes of the property gifted by the company before the expiration of three years from the date of the gift, he will not be entitled to the lifetime exemptions applicable to individuals set out under exempt gains above
- Expropriations
- Disposal of property, or shares of companies owning immovable property, as part of a reorganisation of companies
- Subject to conditions, land as well as land with buildings, acquired in the period 16 July 2015 up to 31 December 2016 will be exempt from CGT its disposal

VALUE ADDED TAX

VAT is imposed on the supply of goods and provision of services in Cyprus, as well as on the acquisition of goods from the European Union (EU) and the import of goods into Cyprus.

Cyprus' tax legislation provides for the following four tax rates:

- Zero rate 0%
- Reduced rate 5% and 9% (8% up to January 2014)
- Standard rate 19% (as from 13 January 2014)

Standard rate

The standard rate applies to the supplies of all goods and services in Cyprus which are not subject to the zero rates, the reduced rate or are not exempt]

Reduced rate 9%

The reduced rate of 9% applies to:

- All restaurant and catering services (including the supply of alcoholic drinks, beer, wine and soft drink)
- Accommodation in hotels, tourist lodgements and any other similar lodgements including the provision of holiday lodgements
- Transportation of passengers and their accompanying luggage within the Republic using urban, intercity and rural taxis and tourist and intercity buses
- Movement of passengers in inland waters and their accompanying luggage.

Reduced rate 5%

The reduced rate of 5% applies to:

- The supply of foodstuff
- The supply of prepared or unprepared foodstuff and/or beverages (excluding alcoholic drinks, beer, wine and soft drinks) or both, irrespective of whether the goods are delivered from the supplier to the customer or taken away by the customer
- The supply of pharmaceutical products and vaccines that are used for health care, prevention of illnesses and as treatment for medical or veterinary purposes
- The supply of animals used for the preparation of food
- Books, newspapers and magazines
- Entry fees to theatres, circus, festivals, amusement parks, concerts, museums, etc.
- Entry fees to sports events and fees for using athletic centres
- Hairdressing services
- Renovation and repair of private households after three years of first residence
- Supply of catering services for school canteens
- Acquisition or construction of residence (subject to conditions)

Zero rate

The zero rate applies to:

- The exportation of goods
- Supply, modification, repair, maintenance, chartering and hiring of sea-going vessels, either used for navigation on the high seas and carrying passengers for reward or used for the purpose of commercial, industrial or other activities
- Supply, modification, repair, maintenance, chartering and hiring of aircrafts, used by airlines operating for reward mainly on international routes
- Supply of services to meet the direct needs of sea going vessels and aircrafts
- Transportation of passengers from the Republic to a place outside the Republic and vice versa using a sea-going vessel or aircraft
- Supplies of gold to the Central Bank of the Republic etc.

Exemptions

Certain goods or services are exempt from VAT:

- Leasing of buildings used for residence
- Most banking and financial services and insurance services
- Most hospital, medical and dental care services
- Certain cultural, educational and sports activities
- Supplies of real estate (except supply of new buildings before their first use) including supplies of land and of second-hand buildings
- Postal services provided by the national postal authority
- Lottery tickets and betting coupons for football and horse racing
- Management services provided to mutual

ESTATE DUTY

There is no estate duty (inheritance tax) in Cyprus.

STAMP DUTY

Stamp duty is payable on various legal documents. This generally involves small amounts, except only in the case of contracts involving a fixed amount of money. In this case the stamp duty, as from 1 March 2013 is as follows:

Up to the first €5,000	0
€5,001 – €170,000	1.5%
Over €170,000	2‰ (capped at a maximum of €20,000)

CAPITAL DUTY

Upon incorporation of a Cyprus Company, there is capital duty on the authorised share capital. There is no capital duty if the shares are issued at their nominal value. There is €20 flat duty if the shares are issued at a premium.

Upon subsequent increases of the authorised share capital, there is capital duty on the additional share capital, and flat duty of €20, on every issue whether the shares are issued at nominal value or at a premium.

DOUBLE TAX TREATIES

Cyprus has double tax treaties with 66 countries which provide important tax advantages. A list of all double tax treaties can be found at [Cyprus Ministry of Finance website](#). Further treaties are under negotiation, with many other countries.

EROTOCRITOU

ADVOCATES - LEGAL CONSULTANTS

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