



GAC auditors ltd
AUDIT | TAX | ADVISORY

Regulated by ICPAC under the license number E190/A/2013,
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And approved Employer by ACCA

VARIOUS TAX ISSUES

Personal Taxation

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

Personal Taxation

Tax Residency

- An individual is tax resident in Cyprus if he/she has physical presence in Cyprus exceeding 183 days in a tax year.
- If an individual is physically present in Cyprus for more than 183 days in a tax year, he/she will be considered a tax resident of Cyprus in that tax year.
- If the individual is physically present in Cyprus for less than 183 days in a tax year, he/she will be considered to be a non-Cyprus tax resident in that tax year.

Personal Taxation

Tax Residency

- An individual is also considered a Cyprus tax resident even if he/she spends less than or equal to 183 days in the Republic provided that he/she satisfies all of the following conditions within the same tax year (1 January – 31 December):
 - i. does not spend more than 183 days in any other country;
 - ii. is not a tax resident of any other country;
 - iii. spends at least 60 days in the Republic;
 - iv. maintains a permanent home in the Republic that is either owned or rented;
 - v. carries on a business in the Republic, is employed in the Republic or holds an office in a person who is a tax resident of the Republic at any time during the tax year.

Personal Taxation

Non Domicile

- **According to the provisions of the Cyprus tax laws, an individual who is a tax resident of Cyprus under the provisions of the Income Tax Law but is “non-domiciled” in the Republic of Cyprus, will be exempt from Special Defense Contribution (SDC).**
- A non-domicile will apply for 17 years from the date the individual will become a Tax resident in Cyprus.
- A non-domiciled individual may be deemed as domiciled in Cyprus if he/ she has been a Cypriot tax resident for at least 17 out of the last 20 years prior to the relevant tax year. An individual born to a Cypriot domiciled father may also qualify as non-domiciled in Cyprus subject to certain conditions.

Personal Taxation

Tax payers' Obligations

- All tax resident individuals earning gross income over €19.500 should register with the tax authorities and submit a tax return
- All non tax resident individuals earning gross income over €19.500 from Cyprus sources should register with the tax authorities and submit a tax return
- Submission deadline of personal tax return (TD1) is 31st July of the next year

Personal Taxation

Personal Tax Rates

<u>Taxable Income</u>	<u>Rate</u>	<u>Tax</u>	<u>Cumulative Tax</u>
€	%	€	€
0 - 19.500	0%	0	<u>0</u>
19.501 - 28.000	20%	1.700	<u>1.700</u>
28.001 - 36.300	25%	2.075	<u>3.775</u>
36.301 - 60.000	30%	7.110	<u>10.885</u>
60.001 and over	35%		-

Personal Taxation

Exemptions

- Dividend income for tax resident with non domicile status
- Interest income (excluding interest income arising in the ordinary course of business or closely connected with the ordinary carrying on of the business) for tax resident with non domicile status
- Gains arising from the disposal of Securities
- Profits of a permanent establishment maintained outside the Republic

Personal Taxation

Exemptions

- Remuneration from any employment exercised in the Republic by an individual who was resident outside the Republic before the commencement of the employment - 20% of the remuneration or €8.550 (whichever is lower) for a period of 7 years
- Remuneration from any employment exercised in the Republic by an individual who was resident outside the Republic before the commencement of the employment, provided that the annual remuneration of the employee exceeds €55.000 - 50% of the remuneration for a period of 17 years, provided that the individual was **NON CY** tax resident at least 15 consecutive years immediately before the commencement of the individual's first employment in Cyprus.

Personal Taxation

Exemptions

- Remuneration from the rendering of salaried services outside the Republic to a non-resident employer or a permanent establishment outside the Republic of a resident employer, for an aggregate period in the year of assessment of more than 90 days
- Lump sum received as retiring gratuity, commutation of pension, death gratuity or as consolidated compensation for death or injury
- Lump sum repayment from life insurance schemes or approved provident funds

Practical example

Annual gross salary €53.000-€56.000

Annual salary	€	53.000,00	€	56.000,00
Social insurance and GHS contributions	€	5.803,50	€	6.131,99
Annual PAYE	€	4.478,95	€	580,00
Annual net salary	€	42.717,55	€	49.288,01
Montly gross salary	€	4.416,67	€	4.666,66
Montly net salary	€	3.559,80	€	4.116,20

Corporate Income tax

- A company which is tax resident in the Republic, is taxed on income accruing or arising from sources both within and outside the Republic.
- A company which is not tax resident in the Republic, is only taxed on income accruing or arising from sources within the Republic.
- Corporate income tax rate is 12.5%

Corporate Income tax

Tax Residency

- A company is tax resident in the Republic if:
 - - it is managed and controlled from the Republic; or
 - - it is incorporated or registered in the Republic but is managed and controlled from outside the Republic, as long as the company is not considered a tax resident of any other country (applies from 31 December 2022).

Corporate Income tax

Deductible expenses

- All expenses incurred **wholly and exclusively** for the production of income are deductible in calculating the taxable income of a company, including:
- Interest incurred for the acquisition of an asset used in the business
- Notional Interest deduction (NID)
- Donations to approved charitable organisations
- Donations to political parties – up to 50.000

Corporate Income tax

Deductible expenses

- Employers contributions to approved funds on employees salaries
- Benefits (BIK) provided to an employee and/or their family members that have been taxed in the hands of the employee
- Annual Wear and Tear allowances (Capital Allowances)
- Entertainment expenses – up to 1% of turnover

Corporate Income tax

Non Deductible Expenses

- Expenses not incurred wholly and exclusively for the production of taxable income
- Expenditure not supported by documentation
- Private motor vehicle expenses
- Interest payable or deemed to be payable in relation to the acquisition of a private motor vehicle, irrespective of whether it is used in the business or not, or other asset not used in the business. This restriction ceases after seven years from the date of acquisition of the relevant asset.

Corporate Income tax

Non Deductible Expenses

- Wages and salaries relating to services offered within the tax year on which social insurance and other contributions have not been paid in the year in which they were due.
- In case the contributions (including any penalties and interest) are paid within two years following the due date, such wages and salaries will be tax deductible in the tax year in which they are paid.

Corporate Income tax

Losses

- **Losses carried forward**
- Companies may carry forward tax losses incurred during a tax year over the next five years to be offset against taxable income.
- **Group relief**
- Current year tax losses may be surrendered by one Cyprus tax resident group company to another.
- A group company which is tax resident in another EU country may also surrender current year tax losses to a Cyprus tax resident company, provided to conditions.

Corporate Income tax

Losses

- Group relief is available if both companies are members of the same group for the entire tax year.
- Two companies are considered to be part of a group for group relief purposes if:
 - one is at least a 75% subsidiary of the other, or
 - both are at least 75% subsidiaries of a third company.
- Where a company has been incorporated by its parent company during the tax year, this company will be deemed to be a member of the group for group relief purposes for that tax year.

Notional Interest Deduction

- As from 1 January 2015, Cyprus tax resident companies and Cyprus permanent establishments that employ “new equity” in the production of taxable income are entitled to deduct from their taxable profits, a notional interest deduction.
- NID is equal to the amount of the new equity multiplied by the relevant “reference rate,” and is subject to an annual cap of 80% of the taxable profits (as calculated prior to the NID) arising from the new equity, minimizing the effective tax rate from 12.5% to 2.5%

Benefits in Kind

- *Any benefits provided to the employees are taxable in the hands of the employees and may be claimed as tax deductible expense for the company/ employer.*
- ***Benefits provided may include:***
- *Usage of company car for personal use irrespective of whether this is owned by company or leased.*
- *Actual rent or house allowance paid by the employer.*
- *Provision of Meals, telephone etc*
- *The Cyprus tax authorities accept the whole amount of relocation expenditure as tax free, provided it qualifies as such and supporting documentation is provided. In cases where the relocation allowance is a general allowance and does not relate to specific moving expenses, the Cyprus tax authorities will consider a lump sum of up to EUR 9.000 as tax free.”*
- *Other allowances paid by employer to employees in cash*



Thank You.

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