



Independent legal & accounting firms

Doing Business in Cyprus

Edition No. 1 / March 2020



Doing business in Cyprus



MSI's guide on Doing Business in Cyprus provides current information about the financial, regulatory and legal considerations that could affect business dealings within Cyprus. For further assistance please contact one of our MSI member firms in Cyprus.

Country overview

Population

Cyprus has a total population of 1,195,918 inhabitants (March 2019).

Government

Cyprus is an independent and sovereign republic with a presidential system of government. The president serves a five year term and is both the Chief of State and Head of government.

The legislative power lies with the House of Representatives. Its members also serve five year terms.

Cyprus' legal system is based on common law, with civil law modifications. The most principles are the same which are applicable in the United Kingdom.

Languages

The national language is Greek and Turkish (predominantly in Northern Cyprus). However, English is almost universally used as a second language and is also widely used in business.

Currency

The national currency is the Euro.

Economic summary

GDP: €19.2 billion (2017)

Income per capita: €22,360 (2017)

Inflation: 0.2% (2018)

Main sectors of the economy

Cyprus has a modern, free-market, service-based economy with an effective and transparent regulatory and legal framework offering international investors and domestic businesses confidence to invest, grow and prosper. It continuously and systematically strives

to offer an innovative, diverse and investor-friendly environment.

Cyprus offers exciting potential in both traditional and emerging economic growth sectors, continuously aiming at diversifying and enriching its product. Traditional sectors, such as shipping, tourism, banking, financial and professional services, have been the key driving forces of the island's economy for years, while new sectors, such as energy, investment funds, research & development, education and wellness tourism, offer a modern perspective and give impetus to the country's path towards growth and a varied, knowledge based economy.

Numerous opportunities are waiting to be explored in all development sectors, while various incentives and funding opportunities are frequently introduced in order to improve Cyprus' competitiveness and enhance ease of doing business.

EU country/ Non-EU and its impact on businesses and investors

Cyprus, today, is firmly established as a reputable international financial centre, the ideal bridge between East and West.

An EU member state since May 2004, Cyprus offers a unique experience to investors and trading partners. The strong pro-business attitude, the multi-lingual and highly skilled human capital, the state-of-the-art telecommunications infrastructure and the favourable tax system have made the island one of the most progressive and efficient business locations in Europe. Cyprus has succeeded in differentiating itself from other financial centres. It provides a unique combination of favourable

participation exemption provisions on income emanating from international activities and applies a wide network of double tax treaties.

Setting up a business

Under Cyprus law, an individual can set up a business as a sole trader or company.

Legal types of business entities

1. Branch
2. Sole trader
3. Partnership
4. Limited partnership
5. Private limited liability company
6. Public limited liability company
7. Joint Ventures
8. Trusts

The majority of companies incorporated in Cyprus are limited liability where the liability of the shareholders is limited to the amount paid on their shares. Companies must have at least one director and a company secretary. Directors can be employees of the company and receive salaries. In some cases directors may be shareholders as well and thus can choose to some extent to be remunerated by salary or by a way of dividend.

The constitution of a registered limited company consists of two documents, the Memorandum of Association and the Articles of Association. Many foreign companies make use of a subsidiary rather than a branch. The main legal reason to set up a subsidiary, instead of a branch, is limitation of liability. As a shareholder of a subsidiary, the foreign company's liability is basically limited to the extent of its capital contribution; whereas, if the foreign company makes

use of a branch, it is fully responsible for all the obligations and liabilities of the branch.

Process of how to set up a business

A limited liability company is incorporated after a proper, unique name is approved at the Registrar of Companies. The memorandum of association, notarized and elaborated by a lawyer must be deposited, along with the specific document forms at the Companies Section of the Department of Registrar of Companies and Official Receiver.

Requirement to prepare financial statements

Under the Cyprus Companies Law, Cap.113, the directors of every company are responsible to maintain proper books of account and to ensure that the company prepares a full set of financial statements that gives a true and fair view in accordance with IFRSs as adopted by the European Union and the requirements of the said Law. The financial statements are accompanied by the Management Report (if applicable), the contents of which are specified in the said law and whose preparation is the responsibility of the Directors.

The financial statements are to be presented to the shareholders at the Annual General Meeting (AGM) held in each year. A company's first AGM can take place within 18 months from the Company's incorporation. Subsequently, the AGM must take place within 15 months from the time of the previous AGM.

Requirement for consolidated financial statements

Companies which have subsidiary companies are required to prepare consolidated financial statements in accordance with IFRSs as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap 113.

A non-listed parent company can utilize the following exemptions not to prepare consolidated financial statements:

-Under IFRSs: if the ultimate or any intermediate parent of the parent

produces consolidated financial statements available for public use that comply with IFRSs.

-Under the Cyprus Companies Law: if its parent or ultimate parent publishes consolidated financial statements prepared in accordance with Generally Accepted Accounting Principles accepted by the members of the International Organisation of Securities Commissions (IOSCO) or if the group is regarded as small/medium sized group (i.e. fulfilling two of the three criteria: total assets <€20m, net turnover <€40m, average number of employees < 250).

Along with consolidated financial statements, the Cypriot tax authorities require a (non-dormant) company to also prepare its stand-alone financial statements, which form the basis for the company's income tax return. In such cases, both consolidated and stand-alone financial statements should be presented at the AGM.

Requirement audit

Under the Cyprus Companies Law and the tax Law, all companies must have their financial statements audited and signed by a Cyprus registered auditor.

The law requires that the audit is conducted in accordance with International Standards on Auditing (ISAs).

Submission of the annual return and financial statements to the registrar of companies

All Cyprus registered companies are required to file an annual return accompanied with their annual audited financial statements (together with the auditor's report) to the Registrar of Companies. The annual return includes details of registered office, shareholders, directors, company secretary, etc.

Financial year of taxes and financial statements

Every company has a legal obligation for the preparation of audited financial statements for the period/year ended 31 December each year. However, legal entities may choose for a different financial year if they wish.

Economic and fiscal incentives

The Cyprus government offers a number of incentive schemes in various sectors to support companies in their business operations.

Intellectual property rights

Expenses for the acquisition or development of intangible assets (intellectual property rights) is amortised in equal instalments over a five year period. Moreover, 80% of the revenue arising from the exploitation of the intangible assets (including compensation for improper use of the rights) as well as out of any gains which may arise from their sale, will be deemed as an expense, hence only the remaining 20% will be subject to tax. This 80% deduction will apply on the profit after deduction of the amortization and any other direct expenses incurred in earning the profit.

Notional Interest Deduction (NID)

Over the last years, the supply of credit by financial institutions has been considerably reduced due to the banking crisis. In an effort to help the economy return to a growth path, the Government has introduced a Notional Interest Deduction (NID) regime on corporate equity. The NID regime is expected to encourage the introduction of equity capital into corporate structures which will effectively result in de-leveraging the economy and foster economic growth. The NID will remove any distortions between equity and debt finance by bringing equity and debt into a level playing field since both will be entitled to a tax deduction.

As per the amended law, corporate entities will be entitled to a NID on equity. The NID will equal the multiple of "reference interest rate" and the "new equity" held and used by a company in the carrying on of its business activities. Both terms are defined in the law:

"Reference interest rate" means the interest rate of the 10 year government bond yield of the country in which the new equity is invested increased by 3% having as a lower limit the 10 year government bond yield of the Republic of Cyprus increased by 3%. The bond

yield is the one applicable as of 31 December of the tax year preceding the relevant tax year.

“New equity” means any equity introduced in the business on or after 1 January 2015 in the form of issued share capital and share premium (provided it is fully paid) and “old equity” means equity that existed on 31 December 2014. “New equity” does not include amounts that have been capitalised and which are the result of a revaluation of movable or immovable property.

It needs to be mentioned that the NID granted on new equity cannot exceed 80% of the taxable profit before allowing the NID. In the event of losses, the NID will not be available. Effectively, this means that the NID cannot create or increase a tax loss.

Incentives foreign investors Non Domicile

The new non domiciled rules were introduced to further entice corporate executives and high net worth individuals (currently entitled to a 50 per cent tax exemption of personal income tax for a 10 year period where income exceeds €100,000) to take up residency in Cyprus.

The Special Contribution for Defense Law (the SDC Law) imposes tax on income (dividends, interest, rental income) received from within or outside of Cyprus by individuals who are considered to be tax residents of Cyprus. An individual is considered to be a tax resident of Cyprus if he/she physically spends at least 184 days in Cyprus during the tax year.

The SDC Law has now been amended to incorporate the non domiciled rules exempting the income (whether actual or deemed) of persons who are not considered to be domiciled in Cyprus from payment of special contribution for defense, even if they are considered to be tax residents of Cyprus.

An individual can be considered as domiciled in Cyprus either (i) by domicile of origin; or (ii) by domicile of choice. In

order to understand the concept of "domiciled in Cyprus" one must look to the Wills and Succession Law Cap. 195.

Notwithstanding the above, an individual who has been a tax resident of Cyprus for at least 17 years out of the last 20 years prior to the tax year will be considered to be "domiciled in Cyprus" and as such will be subject to special contribution for defence from the 18th year.

Tax resident (60 day rule)

An individual can also acquire Cyprus tax residence by staying at least 60 days in Cyprus per year.

Under the “60 day rule”, which became effective on January 1st, 2017, an individual is considered a Cyprus tax resident if he/she satisfied all of the following criteria;

- remain in Cyprus for at least 60 days during the tax (calendar) year;
- not be a tax resident of any other State or remain in any other State for a period/s exceeding 183 days in respect of the year in question;
- maintain a permanent residence in Cyprus, which can be either owned or rented by him;
- carry out business activities in Cyprus or have employment in Cyprus or be a director in a company that is tax resident in Cyprus at any time during the tax year in question.

Subsequently, under the “60 day rule” high earning individuals who are not tax residents in any other country for the same tax year can transfer their tax residence to Cyprus and be taxed only on income from the activities the individuals’ exercises in Cyprus, provided the above criteria are fulfilled. Nevertheless is to be noted that although an individual may satisfied all of the aforementioned conditions, he/she may not be considered as a Cyprus tax resident if his/her business and/or employment in Cyprus and/or position in a Cyprus tax resident have been ceased.

Taxation

The Cyprus tax legislation and its regulation is straight forward in nature. Relations between the business community and the tax authorities are excellent and ensure the efficient taxation of the commercial and financial sector. By providing a transparent and efficient environment, the tax system enhances Cyprus’s competitiveness and contributes to making Cyprus an attractive jurisdiction for setting up business operations.

In that framework, it is possible to obtain advance certainty regarding the fiscal qualification of international corporate structures in the form of so-called Advance Tax Rulings. In addition, the Cyprus has also signed tax treaties with many other countries to prevent the occurrence of double taxation. At the same time, its vast network of tax treaties offers instruments for international tax planning.

VAT

Value added tax (VAT) is mandatory in Cyprus for any type of company that provides goods or services. Various VAT rates apply according to the type of product and they are as follows: the standard rate is 19% and the reduced rate is 9% or 5%. The standard rate applies to all goods or services that are not subject to the reduced rate, or the zero rate or that are exempt from VAT altogether.

Income tax

An individual who will be considered a Cyprus tax resident will be taxed on their worldwide income under Cyprus Income Tax. Currently the income tax rates in Cyprus are as follows:

Tax Base (EUR)	Tax rate (%)
Up to €19,500	0%
€19,501 to €28,000	20%
€28,001 to €36,300	25%
€36,301 to €60,000	30%
Over €60,000	35%

Corporate income tax

Profit generated by limited liability companies and branches of foreign

investors located in the Cyprus are taxed at 12.5% on profits unless a source of income is exempt from taxation. (i.e. profits from the sale of titles)

Capital gains tax

Gains derived from the sale of shares are tax-exempt. Capital gains tax at a rate of 20% is imposed on gains from the disposal of immovable property situated in Cyprus and on gains from the disposal of shares in an unlisted company that owns, directly or indirectly, immovable property situated in Cyprus.

Special contribution for defence

Special contribution for defence is imposed on income earned by Cyprus tax residents from interest at the rate of 30%, dividends at the rate of 17% and rents at the rate of 2.25%. Non-tax residents and non domicile are exempt from special contribution for defence

Registration procedures

Private persons and companies are registered with the tax authorities and are given a tax identification code (TIC). Both have to registered to TaxisNet a website/portal maintained by the Cypriot tax authorities through which various tax returns are filed. The Tax authorities will issue a Unique Registration Number (URN). For tax returns to be filed through TaxisNet, each taxpayer must register with this service. Companies must authorise their tax advisor for electronic submission of the tax declaration. All other submissions can be filed by the individual or company unless an authorisation was given to the tax advisor/accountant. Communication with the tax authorities by way tax assessments is done by post but all other tax and VAT services are executed in an electronic way.

Taxation of dividends

Dividends received by a Cyprus resident company are exempt from corporation tax (whether received from a company located in Cyprus or abroad). Dividends received by a Cyprus resident company are exempt from the Special Contribution for Defence (SCD), unless the dividends are paid out of profits that are more than four years old. Dividends

received from a non-resident company also generally are exempt from SCD, although the exemption does not apply if more than 50% of the non-resident payer company's activities, directly or indirectly, lead to investment income and the foreign tax burden on the income of the non-resident payer is substantially lower than the tax burden of the company in Cyprus (i.e. less than 6.25%). If not exempt, dividends are liable to SCD at 17%.

As from 1 January 2016, dividends received by a Cyprus company from investments in hybrid instruments that are treated as a tax deductible expense in the country of the payer are treated as trading profits subject to income tax (i.e. they are not considered dividends exempt from SCD).

Pay-as-you-earn system (PAYE)

In respect of employee income tax is withheld from salaries by the employer under the pay-as-you-earn system (PAYE) according to the individual income tax rates.

Withholding taxes

The most common withholding tax is dividend tax with a rate of 17%. Within the European Union the dividends are generally tax free under the participation exemption. The same may apply to other countries, depending on the tax-treaty.

HR/ Labour Law

Employment law

Employment legislation ensures minimum workplace entitlements, including maximum weekly working hours (with exceptions), minimum salaries for specified occupations (including shop assistants, child minders and security guards), minimum notice periods for the termination of employment and minimum annual leave, maternity and parental leave rights. Terms and conditions of employment may also be agreed by collective bargaining between the employer and employee.

Employment contracts may be oral or in writing. However, the employee must be

provided with a written statement of terms within one month of commencing employment. The written statement must include:

- Place of work
- Job title and scope
- Commencement date of employment (and expected duration for fixed term contracts)
- Annual leave entitlement
- Notice periods for termination of the contract by the employer or the employee
- Remuneration and payment schedule
- Daily or weekly working hours, and
- Any applicable collective agreements.

Legislation sets out minimum notice periods that employers and employees must give in order to terminate a contract of employment. Notice periods must be provided in writing. The length of notice required depends on the employee's length of employment. An employee may also be dismissed without notice for justifiable reasons, including gross misconduct by the employee. Employees that are unlawfully dismissed are generally entitled to compensation.

Visa and work permits

All EU inhabitants can work freely anywhere in the EU without a special working permit or visa. If an EU national from outside The Republic of Cyprus is employed in The Republic of Cyprus, he/she must register with the Migration Department and obtain an Alien Registration Card (ARC) and also register to the tax office from which a personal tax identification number is allocated.

People from outside the EU must apply for a work permit before taking employment in The Republic of Cyprus.

Social security

Participation in a social security program is obligatory. Employers and employees are required to make contributions to the Social Insurance Department These contributions provide benefits, including sickness benefits,

unemployment benefits, employment injury benefits and state pensions.

Social insurance and other contributions are calculated at the following rates on employee's gross weekly/monthly emoluments.

Percentage of Earnings			
Fund	Employer	Employee	Self employed
Social Insurance fund	8.3%	8.3%	15.6%
Redundancy fund	1.2%	-	-
Training Development fund	0.5%	-	-
Social Cohesion fund	2.0%	-	-
Holiday Fund (If is not exempt)	8%	-	-
TOTAL	12%	8.3%	15.6%

The following are the upper limits on employee's gross emoluments:

	Per week	Per month	Per annum
	€	€	€
Weekly employees	1,051	-	54,652
Monthly employees	-	4,554	54,648

Insurance policies can be taken from a number of national operating insurance companies.

Contributions and National Health System

As from 1 March 2019, the contributions are calculated and paid as a percentage on the gross emoluments/pensions as follows:

Contributions	01/03/19 - 29/02/20	01/03/20 onwards
Employees /retirees /income earners	1.70%	2.65%
Employers	1.85%	2.90%

Self-employed	2.55%	4.00%
The State	1.65%	4.70%

For the purposes of calculating the contributions, gross emoluments are limited to €180.000 per annum.

Pension

An individual who reached the age of 65 and have been living legally in Cyprus for at least 20 years after the age of 40, or 35 years after the age of 18, can claim from the Social Insurance Services Social Pension provided that he/she is not entitled to pension from any other source.

Payroll

When starting a business and employing staff, a company must register with the tax authorities and pay tax monthly for its employees (Pay As You Earn). A company must also register to the Social security and pay monthly contributions. The process of registration takes one day.

Contact us

The information provided in this guide cannot be exhaustive and we recommend anyone considering doing business in Cyprus should seek professional advice from our member firms before making any business or investment decision.

Contact our member firms in Cyprus to discuss your requirements:

Accounting member: Nicosia

Zervos & Co Limited
www.zervosco.com

Yiannos Zervos
yzervos@zervosco.com
+ 357 22 446 000

67 JF Kennedy Avenue
Athienitis Kennedy Park, 2nd Floor
1076 Nicosia

Legal memberL Nicosia

Damianos & Co
www.damianoslaw.com

Michael Damianos
michael@damianoslaw.com
+357 2202 1212

2 Dramas Street
4th Floor
P.C. 1077 Nicosia

MSI Global Alliance
10 Queen Street Place
London EC4R 1AG
United Kingdom

www.msiglobal.org