

DOING BUSINESS IN CYPRUS



This document describes some of the key commercial and taxation factors that are relevant on setting up a business in Cyprus.

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1. Background

1.1 Why Cyprus?

Cyprus is a thriving business hub, strategically located between Europe, Middle East, Africa and Asia at the crossroads of global economy.

Member of the European Union with a modern telecommunications network and tested infrastructure, Cyprus is a gateway to the world of international business.

The last two decades have witnessed Cyprus' gradual transformation into a reputable international business and financial centre.

Its attractiveness as a business and investment location is based on the following additional reasons:

- Democratic country with stable business environment, based on the free market philosophy
- Macroeconomic stability, as indicated by stable prices and currency
- Favourable tax policy, including a wide network of agreements for avoidance of double taxation
- Highly skilled, educated and flexible workforce well acquainted with the use of modern technology. Competitive level of wages and other costs
- Compliance with the European Union Code of Conduct for Business Taxation and with the commitment to the elimination of harmful tax practices according to OECD regulations
- Uncomplicated administrative procedures
- Well developed commercial infrastructure
- Easy access to international markets
- Lowest crime rates in Europe

1.2 Country overview

Cyprus is an island located in the north-eastern corner of Mediterranean Sea covering an area of 9,250 sq Km.

The capital of Cyprus is Nicosia.

Its population is approximately 792.6 thousand (July 2008 est.) of which approximately 77% are Greek Cypriots and the official languages are Greek and Turkish. However English is almost universally used as a second language and is also widely used in business.

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.

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

1.3 Economic overview

Cyprus economy demonstrates relatively high GDP per inhabitant and GDP growth higher than European average growth (potentially 3.5% - 4%) with low unemployment and inflation rates and relatively a low fiscal deficit.

Cost of living and quality of life compares favourably with other European Countries.

Following Cyprus' accession to the EU, on 1st May 2004, the government of the Republic of Cyprus undertook the obligation to join the Economic and Monetary Union and to adopt the euro as soon as the necessary requirements are fulfilled.

Cyprus joined the European Exchange Rate Mechanism II (ERM2) in May 2005.

On 1st January 2008 Cyprus adopts the Euro which is now the official currency of the country.

The Cyprus workforce is around 392.9 thousand and the level of unemployment is kept low at 4.5%. The core inflation rate on consumer prices is approximately 2% - 2.5% which is very close to EU average.

The Cyprus taxation system went through a reform to conform with EU entry regulations and the low rates of corporation tax that apply from 1 January 2003, which are 10% for all companies, have made Cyprus an attractive business centre.

1.4 Transport infrastructure

Cyprus is an important shipping centre with two ports in Limassol and Larnaca which are used for both storage of containers and break bulk cargo.

It is also connected with air routes to Europe, America, Asia and Africa.

The island demonstrates excellent telecommunication services giving the opportunity of reaching almost any country in the world with an automatic system.

2. Choice of Legal Form

2.1 Limited Liability Company

The Law in Cyprus governing limited liability companies is the Companies Law, CAP 113, which is based on the companies ACT 1948 of the United Kingdom.

The majority of companies incorporated in Cyprus are limited liability where the liability of the shareholders is limited to the amount unpaid on their shares. Companies must have at least one director and a company secretary. Directors are considered employees of the company and are paid 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.

In order to establish a company in Cyprus the shareholders must file with the Registrar of Companies the documents listed in Appendix I.

Limited Liability Companies which are public or which prepare consolidated financial statements must file their accounts with the registrar of companies within 12 months of their year end. Also all Limited Liability Companies have to file the special form "IR4"

which includes information on the financials and tax computations to the Inland Revenue within 12 months from their year end.

Limited Liability Companies will prepare accounts usually for 12 months with a year end at 31 December.

Limited Liability Companies which are public also have to conform to Stock Exchange regulations.

2.2 General Partnership

The definition of a partnership is the relationship between two or more persons carrying on a business in common with a view to profit.

The members of the partnership are jointly and severally liable for all debts and obligations, without limitation.

Partnership profits are shared by the partners as income and taxation is paid on this income in exactly the same way as a sole proprietor.

2.3 Limited Liability Partnership

A limited partnership consists of one or more partners called general partners who shall be liable for all debts and obligations of the partnership and one or more persons called limited partners, who are not liable for the debts or obligations of the partnership beyond their fixed contribution.

2.4 Branch/Representative Office

The registration formalities of registering a branch are the same as the company registration. Overseas companies may also establish a branch in Cyprus provided that they file with the registrar of companies the documents listed in Appendix I.

2.5 Sole Proprietorship

The owner has unlimited liability for all debts. Cypriots are allowed to carry on business in their name or under a trade name which must be registered as a business name.

All business profits are treated as income of the sole proprietor who then pays income tax according to the applicable rates in force.

Foreign investors are also allowed to carry on the same business if they comply with the relevant exchange control regulations and the immigration law and regulations.

2.6 Offshore legal entities

The Offshore legal entities in Cyprus ceased to exist on 1st January 2003. International Business Companies (IBCs) in Cyprus are essentially Cyprus registered entities owned by non-Cypriots and operating outside Cyprus. They are taxed at the same rates as local companies as indicated in Section 4 'Taxation' at the rate of 10% corporation tax.

Establishment of an IBC is made in the same way as a local limited liability company.

2.7 Joint Venture

Joint ventures can be set up in Cyprus and registered with the registrar of Companies. Their operation and treatment is similar to partnerships.

2.8 Public Limited Company

Public Limited Companies are limited companies which are listed in the Cyprus Stock Exchange.

In addition to the legislation applicable to limited liability companies, they have to conform to the provisions of the Cyprus Stock Exchange and Cyprus Securities and Exchange Commission regulations.

2.9 Trust/Foundation

The concept of Trust

The Trust is one of the most important and flexible institutions of English law and finds no parallel in any legal system not influenced by English law. The Cyprus legal system is modelled on the English legal system and the concept of Trust in Cyprus is rooted in the English law.

The legal framework in Cyprus allows also the establishment and operation of International Trusts which are created by non-residents for the benefit of non-residents.

The nature of a Trust

A Trust, or a Settlement as it is often called, is established by an individual "the Settlor" and is a means whereby property "the Trust Property" is held by one or more persons "the Trustees" for the benefit of another or others "the Beneficiaries" or for specified purposes. The Settlor can be a Trustee and the Settlor and the Trustees or any of them can be Beneficiaries. A Settlor cannot be a Trustee and a Beneficiary at the same time.

In law the Trustees are the owners of the Trust Property, although, they may not deal with it as absolute owners, but rather in accordance with the provisions of the law relating to Trusts and the rights of the Beneficiaries as set out in the Trust document. In other words, the Trustees are under a binding obligation to deal with the Trust document. The beneficial owners of the Trust Property are the Beneficiaries.

The Trust Property can include all kinds of assets situated anywhere in the world provided the Trustees have legal control and ownership of the assets according to the law governing the particular Trust.

Trusts can be established:

- by lifetime gift
- on a death pursuant to Will
- by operation of law
- by accident

Creation of Trusts

A Trust may be created by the owner of property during his lifetime by Deed or upon his death by Will. Trusts created by operation of law and by accident are outside the scope of this publication.

No one should enter into a Trust arrangement without first having obtained expert professional advice and ensuring that he understands what he is doing. He should also see that the Trust instrument provides exactly the degree of flexibility or otherwise what he requires.

Reasons for making a Trust

There are many reasons for which the Settlor may wish to create a Trust but some of the principal reasons are:

- to avoid or mitigate taxation liabilities. Trusts have traditionally been a very important tax planning device and even today a very high proportion of tax saving schemes involve Trusts.
- to preserve property in the family, by ensuring that an individual is well provided for, without giving that individual the opportunity of exhausting the family assets because of mismanagement of unsuitable marriage.
- to benefit disabled or mentally handicapped persons by making them Beneficiaries without passing control of the property to them.
- to keep control as Trustee over the enjoyment and ultimate destination, despite giving the assets away.
- to provide flexibility over the identity of the donees and the extent of the interest taken by them in order to take account of future developments.
- to make gifts for charitable and religious purpose to be held by Trustees for such purposes.

3. Audit Requirement

3.1 Requirement and Thresholds

All Limited Liability companies either public or private are required to have a statutory annual audit by a resident approved auditor.

As from 01st January 2006 a self-employed person whose turnover exceeds the threshold of €70,000 must submit audited financial statements to the Director of Inland Revenue.

3.2 Requirement for consolidation

Recent amendments to the Law have introduced the small size group criteria limiting the requirement of holding companies in Cyprus to prepare consolidated financial statements.

Amendments

- 1) Financial statements should now be prepared in accordance with IFRSs as adopted by the European Union and as these are adopted by the European Union in accordance with the provisions of Regulation (EC) No.1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards, as this is amended or replaced from time to time.
- 2) Small sized groups shall be exempt from the obligation to prepare consolidated financial statements.

The term “small sized group” shall mean a group of companies, of which the companies that are being consolidated:

- (i) Are non-public companies;
 - (ii) The preparation of their consolidated financial statements is not subject to other legislation; and
 - (iii) Together fulfill two out of the following three criteria at the date of closure of the balance sheet of the holding company:
 - (a) The total assets presented on the balance sheet (without deducting liabilities) does not exceed the amount of EUR 14.600.000;
 - (b) The net turnover does not exceed the amount of EUR 29.200.000;
 - (c) The average number of employees during the financial year does not exceed 250.
- 3) A company need not prepare consolidated financial statements, even if does not qualify as a small group, if it is itself a wholly owned subsidiary, or a subsidiary of a company which prepares consolidated financial statements.

4 Taxation

Cyprus tax residents are subject to tax in Cyprus on their worldwide income, whilst non – residents are subject to tax only on their income derived in Cyprus. Non-Resident companies are subject to Cyprus tax only on income derived in Cyprus through a Permanent Establishment.

A resident of Cyprus is the individual who stays in Cyprus for a period or periods exceeding in aggregate 183 days in any one calendar year. A company is resident of Cyprus if is managed and controlled in Cyprus.

A Permanent Establishment is a fixed place of business through which the business of an enterprise is wholly or partly carried on.

The term “Permanent Establishment” includes especially:

- a place of management
- a branch
- an office
- a factory
- a workshop
- a mine, an oil or gas well or any other place of extraction of natural resources.

A building site or construction or installation project or supervisory activities constitute a Permanent Establishment only if they last more than three months.

4.1 Corporation Tax

- The taxable profits of all Cypriot companies, including IBCs, will be taxed at the rate of 10%.
- The amount of loss that cannot be **wholly** set off against income from other sources for that year of assessment is carry forward without any time limitation but it must be set off against the first available profits of the following years. No carry back of losses is allowed.

A loss cannot be carry forward if within any three year period there is a change in the ownership of the shares of a company **and** a substantial change in the nature of the business of the company.

- Profits earned from a permanent establishment abroad are fully exempt from corporation tax except if:
 - More than 50% of the paying company's activities result in investment income; and
 - The foreign tax is significantly lower than the tax rate paid in Cyprus.
- Dividend income from Cyprus or from abroad is wholly tax-exempt from Cyprus corporation tax.
- Interest earned from trading activities or closely related with trading activities of the company, constitutes business income subject to 10% corporation tax and not interest.
Interest on deposit is 50% exempt from corporation tax and is subject to 10% Special Contribution for Defence.
- Profit from the disposal of shares is wholly tax-exempt from Cyprus corporation tax.

4.2 Small Companies Rate

There is no small companies rate in Cyprus since as explained above all companies are subject to corporation tax at the rate of 10%

4.3 Dividend payments

Dividends paid by Cyprus Companies are subject to withholding tax at 15% for residents of Cyprus only. This applies for individuals. If the shareholder is a company then no withholding tax is levied.

No withholding tax is paid on dividends which are paid to non-residents.

4.4 Income tax on branches

Branches are taxed under the provisions of the Income tax Law as Permanent Establishment.

4.5 Personal income tax Residents of Cyprus

The resident individuals in Cyprus are taxed by progressive tax rates, which are as follows from 1.1.2008:

	2009
Income (Euro)	Tax rate
0 – 19,500	0%
19,500 – 28,000	20%
28,000 – 36,300	25%
Above 36,300	30%

Taxation of retired persons

Pensions, received from abroad are taxed at 5% on income exceeding €3,420 per annum.

4.6 Capital Gains Tax

Capital gains tax is levied at the rate of 20% on gains arising from the disposal of immovable property or the disposal of shares of companies, other than public, which own immovable property situated in Cyprus. In the case of disposal of company shares, the gain is calculated exclusively on the basis of the gain from the immovable property. The value of the immovable property will be its marked value at the time the shares were sold.

There is no taxation on the profits from the disposal of listed securities for all companies and individuals.

4.7 Immovable Property Tax

Immovable property tax is levied on the market value of the property as at 1 January 1980. The rates of tax are ranging from 0‰ – 3.5‰ up to €854,300 and for over €854,300 is 4‰.

4.8 Value Added Tax

VAT is a tax on general consumption. In line with the practise in EU countries it coexists with certain taxes imposed on the consumption of specific products such as petroleum, tobacco, alcoholic beverages etc. The VAT standard rate is 15%.

All supplies which take place in Cyprus are subject to VAT at the standard rate but there are also supplies which can be included under one of the following categories:

- subject to VAT at the rate of 8%
- subject to VAT at the rate of 5%
- subject to VAT at the rate of 0%
- exempt

All businesses with an annual turnover of €15,600 must register for VAT.

VAT registered businesses must complete and submit a quarterly VAT return. The return is used to calculate the difference between VAT input and VAT output. The difference is either a credit or a payment to be made. Should a payment be required this must accompany the VAT return.

Failure to submit returns or pay VAT due will result to penalties and interest will be charged on the payable amount.

Provisions also exist in the law for when a company receives certain services from abroad and these services are considered to be provided by the company itself and output tax must be accounted for (reverse charge).

Group VAT registration is available in Cyprus for companies which form a group by having a 50% direct or indirect holding relationship.

4.9 Sales tax

There is no sales tax imposed under Cyprus legislation.

4.10 Local taxes

Defence contribution (a specific tax levied on tax residents)

- As from 1 January 2003 onwards companies, which do not distribute 70% of their profits after tax, as defined by the relevant tax law, within two years after the end of the relevant tax year, will be deemed to have distributed as dividends 70% of these profits. Special contribution for defence at 15% will be payable on such deemed dividends to the extent that the shareholders (companies and individuals) are Cyprus tax residents. The amount of deemed distribution is reduced by any actual dividends paid out of the profits of the relevant year during the following two years. This special contribution for defence is payable on behalf of the shareholders. Companies where their shares are kept by Nominee Company and the beneficial shareholders are non-residents should sign and submit a special letter confirming that.
- Under certain conditions interest income may be subject to defence contribution at the rate of 10%. In such cases 50% of the same interest will be exempt from corporation tax thus having an effective tax burden of approximately 15%.
- Dividends received from an overseas company:
 - are subject to Special Defence Contribution at 15% where the participation in the overseas company is less than 1%
 - are subject to Special Defence Contribution at 15% if the participation in the share capital of the paying company is at least 1% and the following apply:
The company paying the dividend engages directly or indirectly more than 50% in investing activities **AND** the foreign tax burden is lower than 5%.
 - are exempt from Special Defence Contribution if the participation in the share capital is at least 1% and the following apply:
The company paying the dividend engages directly or indirectly more than 50% in business activities **OR** the foreign tax burden is not substantially lower than the Cyprus tax burden.

4.11 Tax treaties

Cyprus Government signed an extensive number of Double Tax Treaties with other countries.

Refer to Appendix II for a table which shows the double taxation agreements between Cyprus and other countries in relation to withholding tax.

4.12 Taxation of Trusts

An International Trust will enjoy the benefit of total exemption from income, capital gains and estate taxation. The only tax burden that will be imposed on International Trusts is a fixed stamp duty rate of €427 which will be payable on the creation of the Trust.

5 Allowances

5.1 Depreciation

Depreciation is provided on all fixed assets except land in order to write off the value of the asset over its useful economic life.

Depreciation is not an allowable expense for tax computation purposes. However capital allowances are provided using the rates defined by legislation for each category of asset and are tax deductible.

5.2 Investment allowance

Investment allowance has been abolished in Cyprus from 1 January 2003.

5.2 Tax credits

No tax credits are available according to Cyprus tax law.

6 Employment

6.1 Social Security/Unemployment taxes

Contributions to the Social Security are compulsory for both employees and employers as well as for self employed individuals. The rates of contributions are 6.3% for employees and 6.3% for employers until 31 March 2009 with an increase to 6.8% for each party from 1 April 2009. Expatriate employees of IBC's are exempt from contributing to this fund.

The employer is forced to make the following contributions based on employee's emoluments:

	%
Social Cohesion Fund	2.0
Redundancy fund	1.2
Industrial training fund	0.5
Holiday fund (if not exempt)	8.0

6.2 Employment of foreign personnel

Short/Long term employment of non-EU personnel by a Cyprus Company or IBC or foreign branch or an individual is possible provided that the proper permit is obtained by the Cyprus Immigration Authorities and the Labour office.

6.3 Medical

There is no defined medical scheme for employees

7. Withholding taxes

7.1 Interest

See Appendix II for withholding tax deducted at source in terms of interest with countries that have tax treaties with Cyprus.

7.2 Royalties

See Appendix II for withholding tax deducted at source in terms of royalties with countries that have tax treaties with Cyprus.

7.3 Dividends

Dividends paid by Cyprus Companies are subject to withholding tax at 15% for individual residents of Cyprus only.

No withholding tax is paid on dividends which are paid to non-residents.

8. Sign off and disclaimer

This document is provided as a general overview of matters to be considered when setting up a business in Cyprus. It is essential to take advice on specific issues. No liability can be accepted for any action taken or not taken arising from the information provided

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APPENDIX I

Table of withholding tax

In cases where the Cyprus Tax Law is more beneficial such as dividends paid to Non-Residents, it overcomes the Double Tax Agreement.

Received in Cyprus				Paid from Cyprus			
	Dividends	Interest	Royalties		Dividends	Interest	Royalties
Countries with agreement:	%	%	%	Countries with agreement:	%	%	%
Armenia	0	0	0	Armenia	0	0	0
Austria	10	0	0	Austria	10	0	0
Belarus	5/15	5	5	Belarus	5/10/15	5	5
Belgium	10/15	0/10	0	Belgium	10/15	0/10	0
Bulgaria	5/10	0/7	10	Bulgaria	5/10/15	0/7	10
Canada	15	0/15	0/10	Canada	15	0/15	0/10
China	10	10	10	China	10	10	10
Czech Republic	10	0/10	5	Czech Republic	10	0/10	5
Denmark	10/15	0/10	0	Denmark	10/15	0/10	0
Egypt	15	15	10	Egypt	15	15	10
France	10/15	0/10	0	France	10/15	0/10	0/5
Germany	10/15	0/10	0	Germany	10/15	0/10	0/5
Greece	25	10	0/5	Greece	25	10	0/5
Hungary	5/15	0/10	0	Hungary	0	0/10	0
India	10/15	0/10	10/15	India	10/15	0/10	10/15
Ireland	0	0	0/5	Ireland	0	0	0/5
Italy	15	10	0	Italy	0	10	0
Kuwait	10	0/10	0/5	Kuwait	10	0/10	0/5
Kyrgyzstan	0	0	0	Kyrgyzstan	0	0	0
Lebanon	5	5	0	Lebanon	5	5	0
Malta	0	10	10	Malta	15	10	10
Mauritius	0	0	0	Mauritius	0	0	0
Moldova	5/10	5	5	Moldova	5/10	5	5
Norway	0/5	0	0	Norway	0	0	0
Poland	10	0/10	5	Poland	10	0/10	5
Qatar	0	0	5	Qatar	0	0	5
Romania	10	0/10	0/5	Romania	10	0/10	0/5
Russia	5/10	0	0	Russia	5/10	0	0
San Marino	0	0	0	San Marino	0	0	0
Singapore	0	7/10	10	Singapore	0	0/7/10	10
Slovakia	10	0/10	5	Slovakia	10	0/10	0/5
Slovenia	10	10	10	Slovenia	10	10	10
Seychelles	0	0	5	Seychelles	0	0	5
Serbia-Montenegro	0	0	0	Serbia-Montenegro	0	0	0
South Africa	0	0	0	South Africa	0	0	0
Sweden	5/15	0/10	0	Sweden	5/15	0/10	0
Syria	0/15	0/10	10	Syria	0/15	10	10
Tajikistan	0	0	0	Tajikistan	0	0	0
Thailand	10	10/15	5/10/15	Thailand	10	10/15	5/10
Ukraine	0	0	0	Ukraine	0	0	0
United Kingdom	15	10	0/5	United Kingdom	0	10	0/5
USA	5/15	0/10	0	USA	0	0/10	0
Uzbekistan	0	0	0	Uzbekistan	0	0	0
Yugoslavia	10	10	10	Yugoslavia	10	10	10

APPENDIX II

Information required for incorporation

Documents to be filed with application to the Registrar of Companies in order to establish a company/branch in Cyprus. International Business Companies must also apply to the Central Bank of Cyprus, accompanied by bank references for the proposed shareholders

1. Company name (3 choices)
2. Full names of shareholders
Address
Profession
and photocopy of the first 3 pages
of the passport of all shareholders.
3. Bank references
4. Share Capital
5. Nominee shareholders (See note 1 below)
6. Name of Directors
7. Nominee directors (See note 1 below)
8. Secretary (See note 1 below)
9. Register office (See note 1 below)
10. Objects of new company
11. Bank signatories (See note 1 below)
12. Letter heading
13. Shareholding

Note 1

Our firm is associated with nominee companies that can hold the shares in trust on the behalf of the beneficiary. In addition our firm can provide nominee directors, secretary and bank signatories that will only act after instructions from the beneficial owners. Register office can also be provided.

All of the above will facilitate the speedy registration of the company.

After both applications described above are accepted the following documents must be filed with the Registrar of Companies:

- (i) copies of the memorandum and articles of association (in Greek).
- (ii) statutory declaration of compliance with the Companies Law signed by a registered practicing advocate.
- (iii) the names of the first directors and secretary.
- (iv) the intended address of the registered office of the company (which must be in Cyprus).

Once the registration is completed and the relevant statutory fees are paid the Registrar will issue - in English if you so prefer - certificates of incorporation, of directors, secretary and registered office. Registration renders the company a separate legal entity distinct from its members. The whole procedure may be completed in a matter of days after all the necessary documents and information is received.