

# Cyprus

## Legal overview

### Executive Summary

By having a favourable tax system for corporations in Europe, Cyprus is one of the leading business centres and attracts foreign investors to establish their companies on the island. The company registration procedure is the same for all business entities with a simple and straightforward structure. Registration of companies and filings may also take place electronically over the internet.

### Registered Companies and Partnerships

A Cyprus company will be Cyprus tax resident if it is managed and controlled in Cyprus.

Companies incorporated in Cyprus must adhere to the rules and regulations for taxation in Cyprus and must pay corporate tax (see below).

According to Cyprus Companies Law, legal entities may be registered as limited liability companies, public limited companies or as a company limited by guarantee. In Cyprus, partnerships are also allowed in general or limited form.

Any foreign company may establish branches in Cyprus, by presenting relevant documents. The main requirement for the branches is to submit annual financial reports, in Greek or accompanied by a Greek translation.

From a Cyprus Tax perspective, a Cyprus Limited Liability Partnership is not considered as a legal entity with separate legal personality. As such, the partners themselves are subject to taxation instead of the partnership.

All types of companies and partnerships must be registered at the Company Registrar of Cyprus.

## **Classification of Registered Companies**

In Cyprus there are the following types of company:

### **Company limited by shares**

Private Limited Company. This is the most commonly used type of company. There are no minimum or maximum share capital requirements. A private limited liability company must have between one and 50 shareholders. The right to transfer shares is restricted and shares or debentures cannot be subscribed to the public.

Public Limited Company. A public limited liability company must have at least seven members and at least €25.629 share capital. There is no maximum number of shareholders. Shares and debentures may be offered to the public.

Companies that wish to list their shares on the Cyprus Stock Exchange are required to set up a public limited corporation. 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.

Companies limited by guarantee – normally incorporated for non-profit purposes.

There are no companies with unlimited liability.

### **Memorandum and articles of association**

A Cyprus company has a memorandum of association and articles of association.

The memorandum of association must include at least the following information:

- Name of the company.
- Objects of the company: a company may adopt a general short-form objects clause in the memorandum of association which provides that the object of the company is the conduct of any business as a general commercial company.
- That the liability of its members is limited.
- The share capital of the company.

The articles of association also form part of the company's constitution. A company may choose to either adopt Table A of the Cy-

prus Companies Law or to tailor Table A in accordance to their specific needs.

The form of the memorandum of association and articles of association is set out in the Cyprus Companies Laws.

## **Share Capital**

The liability of the shareholders is limited to the amount, if any, unpaid on the shares respectively held by them.

## **Public Offer of Shares**

A private limited company is prohibited from inviting the public to subscribe for any shares in the company.

A public limited company may offer its shares to the public. The invitation must be accompanied by a prospectus.

Public companies enjoy tighter regulation. A public limited company may also list their shares on the Cyprus Stock Exchange.

## **General Meetings**

General meetings are regulated by both the Cyprus Companies Laws and the articles of association of the company (to the extent permitted by the law). Every company must call an annual general meeting each year. Public companies shall also hold a statutory meeting shortly after the date that the company is entitled to commence business.

Notice periods for the meetings vary depending on the type of company and the type of meeting. The articles of association may provide for longer notice periods for meetings but notice periods cannot be shorter than the minimum periods provided for by law. In relation to notice periods for annual general meetings, shorter notice may only be given if the shareholders unanimously agree. Other than an annual general meeting, shorter notice may be provided when 95% of the shareholders agree.

General meetings may take place by telephone conference call or by any other means of communication, except as otherwise provided by the company's articles of association. The place of the general meeting is considered to be the place where the minutes have actually been taken.

Major decisions of the company, such as change of the objects of the company, change of the articles of association, change of name and reduction of capital are only taken by the shareholders of the company.

## **Directors**

The directors may only act within the powers conferred to them by the articles of association. Directors usually have the power to manage the company on a day to day basis.

A private limited company must have at least one director and one secretary. If there is only one member, that member may act as the director and secretary.

A public limited company must have at least two directors and one secretary.

Directors do not need to be citizens of the Republic of Cyprus and may be of any nationality. A company may also be appointed as director.

## **Financing a company**

A company may be financed in the following ways:

- Equity Finance – issue shares/capital contribution from shareholders, flotation (public companies);
- Debt Finance – borrowings; and
- Grants.

## **Commencement of Business**

The application for company name approval and registration of a company may be filed online or by hand at the Registrar of Companies. The approval of the company name takes about two business days on a fast track basis. Registration of the company takes about three-four business days after the submission of all the required documents, again on a fast track.

A company needs to register with the tax authorities and obtain a tax identification code within 60 days from the date of incorporation.

## **Mergers and Acquisitions**

A private limited company may be sold through a share sale, whereby the shares in the company are transferred by the selling

shareholder to the purchaser. The purchaser takes all of the assets and liabilities of the company. Instead of a share sale, the purchaser may acquire the business of the company (asset sale). In an asset sale, the buyer cherry-picks the assets they wish to purchase and the company selling its business does not change hands.

A public limited company may be purchased directly from its shareholders. For listed companies the takeover procedure is regulated by tighter laws and regulations and supervised by the Cyprus Securities and Exchange Commission.

## **Corporate Insolvency**

When a company becomes insolvent, there are various rescue mechanisms: a compromise arrangement, examinership and liquidation.

The company or the creditors may apply before the court to convene a meeting to propose a compromise arrangement. A compromise arrangement between the company and its creditors will be binding on all of the creditors and the company, if three-fourths in value of the creditors approve it at the creditors' meeting and provided that the compromise agreement is sanctioned by the Court. No protection from creditors is provided by the Court.

Examinership aims to rescue viable companies. In order to assist in the survival of the company, the company is placed under the protection of the court for four months from the date of the presentation of the petition or on the withdrawal or refusal of the petition, whichever happens first. The company shall then be deemed to be under the protection of the Court. During that protective period no winding up proceedings may be commenced against the company and no receiver may be appointed.

Liquidation is detailed immediately below.

## **Winding Up of Companies**

A company may be wound up in three ways:

- Compulsory liquidation by the Court;
- Voluntary liquidation; or
- Liquidation subject to the supervision of the Court.

With regard to compulsory liquidation by the Court, a petition may be presented either by the company or by any creditor including any contingent or prospective creditor and/or contributory creditor. The company may be wound up by the Court, if, among

other things:

- The company is unable to pay its debts;
- The Court is of the opinion that it is just and equitable for the company to be wound up; or
- The company decides so by a special resolution.

When a winding up order has been made, no action or proceeding shall be proceeded or commenced against the company without prior leave of the Court.

Only licensed Insolvency Practitioners may be appointed to act as liquidators.

**Authors:**

Harris Kyriakides  
Christoforos Ioannou Kitsios  
c.ioannou@aiklaw.com  
h.kyriakides@harriskyriakides.law

**Contact:**

Larnaca  
Harris Kyriakides LLC  
www.harriskyriakides.law  
Tel: +357 24201600  
Limassol  
A.I.Kitsios LLC  
www.aiklaw.com  
Tel: +357 25361080

# Tax overview

## Company registration

As mentioned above, all Cyprus companies must register with the Department of Registrar of Companies and Official Receiver of the Republic of Cyprus. Companies must also register with the Cyprus Tax Department.

## Setting-up taxation

There are no setting-up costs in terms of taxation in Cyprus.

## National current benefit taxation

### Corporate income tax

Taxable profits of Cyprus tax resident companies and branches doing business in Cyprus are subject to corporation tax at a flat rate of 12.5%, one of the lowest rates in the European Union.

The following sources of income are fully or partially exempt from corporation tax:

Source of income	Exemption
Profit from disposal of shares and other financial instruments that qualify as “titles” (under certain conditions)	7 100%
Dividend income not treated as an allowable deduction for the subsidiary	100%
Interest income not arising from the ordinary activities or closely related to the ordinary activities of the company (but taxed under Special Defence Contribution tax)	100%
Profits arising from a permanent establishment of a Cyprus company outside Cyprus (under certain conditions)	100%
Qualifying profits deriving from the use or disposal of qualifying intangible assets or intellectual property rights	80%
Foreign exchange (forex) gains / losses with the exception of forex arising from trading in foreign currencies and related derivatives	100%

From 1 January 2015, a notional interest deduction at a “reference rate” is granted on any new “qualifying equity” invested into a Cyprus company for the purposes of carrying on its activities. New qualifying equity includes any equity in the form of share capital and share premium introduced and settled on or after 1

January 2015. The amount of the deduction which a company is eligible to obtain on new equity cannot exceed 80% of the taxable profit of the company prior to granting the deduction.

In addition to corporation tax, Special Contribution for Defence is imposed on income earned by Cyprus tax resident companies as follows:

<b>Source of income</b>	<b>Tax Rate</b>
Passive interest income	30%
Interest income arising from the ordinary activities or closely related to the ordinary activities of the company	Nil
Dividends received from Cyprus tax resident companies	Nil
Dividends received from non-Cyprus tax resident companies are exempt from SDC tax unless both of the following conditions are met:	100%
the company paying the dividend engages directly or indirectly in more than 50% of the activities which lead to investment income, and	100%
the foreign tax burden on the income of the company paying the dividend is lower than 6.25%.	17%
Dividends received from Cyprus tax residents and domicile in Cyprus	17%
Rental income (25% of such income is exempted)	3%

Trade tax (local profits tax)

There is no local profits tax in Cyprus.

## **Other taxes (VAT, property taxes)**

### **VAT**

VAT is levied at a standard rate of 19% for most goods or services. A reduced rate of 5% applies to food, books and certain other necessities and 9% on transportation, restaurants and accommodation services. The leasing of ships/aircraft and the services which relate to the immediate needs of the ships or aircraft are subject to zero VAT. Certain medical, financial and educational services are exempt from VAT.

VAT is charged on the transaction value and the VAT collected by the business from its customers is paid to the tax department based on the VAT returns submitted, which are filed monthly, quarterly or annually. A business can claim the VAT charged on the goods or services received from local suppliers which is deductible from the VAT payable. Where the business does not have a VAT liability, the negative balance of these amounts is refunded to

the business. A foreign company may reclaim Cyprus VAT under certain conditions.

### **Capital Gain Tax ("GCT")**

Capital gains tax at the rate of 20% is imposed on any gains arising from the disposal of immovable property located in Cyprus or from the disposal of shares in companies which directly or indirectly own immovable property in Cyprus.

Transfer fees are imposed by the Department of Land and Surveys for transfers of Cyprus immovable property. No transfer fees are payable if VAT is applicable upon purchasing the immovable property.

An exemption from CGT is granted on gains from disposal of immovable property acquired between 16 July 2015 and 31 December 2016 provided that:

The property consists of land, buildings or land and buildings;  
and  
It is acquired from an independent third party; and  
It is not acquired through an exchange of property or through donation/gift.

### **Treaties for the avoidance of double taxation**

Cyprus has a wide range of double tax treaties. Under the domestic legislation, there is no withholding tax on the payment of dividends, interest and royalties to non-resident persons.

As at the date of this publication, Cyprus has concluded double tax treaties with 64 countries, including but not limited to France, Switzerland, China, Germany, India, Italy, Russia, the United Kingdom, the United States of America, Belgium, Denmark, Luxembourg and Malta. An exemption from withholding tax may be available if the conditions for the application of the EU parent-subsidiary directive and the EU interest and royalties directive are satisfied.

### **Benefit distribution**

Under the domestic legislation, there is no withholding tax on the payment of dividends, interest and royalties to non-resident persons (except in the case of royalties that are for use within Cyprus for which a 5% or 10% rate applies).

## **Tax treatment of losses**

Tax losses arising in a tax year can be offset against other taxable profits in the same tax year.

Tax losses may be carried forward and offset against future profits for a period of 5 years from the year to which the losses relate. A trading loss of a tax year can be offset against trading profits of another group company for the same tax year, provided that both companies were Cyprus tax resident companies throughout the entire tax year. From 1 January 2012, in the event that a company is incorporated during a tax year, the company will be considered as a member of the group for the whole tax year for the purpose of surrendering losses between group companies.

Two companies are considered to form a company group for group relief purposes if:

A company is a 75% direct or indirect subsidiary of the other company, or

Each company is 75% subsidiary of a third company.

From 1 January 2015, tax losses can also be surrendered to a Cyprus company by a group company located in another EU Member State, provided that the surrendering company has exercised all available options for group relief, or the carry forward of losses in its Member State or in another Member State where an intermediary holding company is located (if applicable).

## **Employer obligations (salary taxes, social security)**

An employer must deduct tax and social insurance contributions from the salaried income of each of its employees and pay this to the relevant authorities by the end of the month following the month in which the salary was paid.

The employer is also liable to pay social security contributions on the salaried income of each employee. The contributions are payable to the relevant authorities by the end of the month following the month in which the salary was paid.

The social security contributions are as follows:

	<b>Employer</b>	<b>Employee</b>
Social insurance	8.3%	8.3%
Redundancy Fund	1.2%	-
Industrial Training	0.5%	-
Social Cohesion Fund	2%*	-
Health Scheme	1.85%	1.7%
Health Scheme From 01/03/2020	2.9%	2.65%

The contributions are restricted to a maximum income level. The maximum level of income is as follows:

	<b>Per Week (Euro)</b>	<b>Per Month (Euro)</b>	<b>Per Annum (Euro)</b>
Weekly employees	1,051	-	54,652
Monthly employees	-	4,554	54,648

\*The contributions to the social cohesion fund have no upper limits.

## General Healthcare System

As from 1st March 2019, and for a one year period, reduced contributions will be in force.

Relevant contributions are to be increase after the lapse of the 1st year.

	<b>01/03/2019- 01/03/2020</b>	<b>From 01/03/2020</b>
Every employee on his emoluments	1.70%	2.65%
Every employer on his employee's emoluments	1.85%	2.90%
Every self-employed on his emoluments	2.55%	4.0%
On the pension income of every pensioner	1.70%	2.65%
On the emoluments of any person who holds or exercises an office	1.70%	2.65%
A person earning income (e.g. dividends, rent, interest etc)	1.70%	2.65%
Any physical or legal person or the Government who is responsible for paying the emoluments of a person who holds or exercises an office, on his emoluments	1.85%	2.90%
The Republic of Cyprus on pensions, income of persons covered in (a),(c),(d) and (e) above and emoluments	1.65%	4.70%

*Author: Savvia Stravou, K. Treppides & Co*

**Contact:**

**Nicosi**

K. TREPPIDES & CO.

Treppides Tower - 9, Kafkasou street Aglantzia

2112 NICOSIA

Tél. +357 22 678944

Fax +357 22 679096

Site web : [www.treppides.com](http://www.treppides.com)

E-mail : [ktreppides@treppides.com](mailto:ktreppides@treppides.com) [mcosma@treppides.com](mailto:mcosma@treppides.com) [www.treppides.com](http://www.treppides.com)

Kikis TREPPIDES - Marios COSMA

G. PAPADOPOULOS & CO. 12, Michalacopoulou Str.

PO Box 27136 - 1642 NICOSIA

Tél. +357 22 767 160

Fax +357 22 767 159

E-mail : [g.papadopoulos@gpapadopoulos.com.cy](mailto:g.papadopoulos@gpapadopoulos.com.cy) George PAPA-DOPOULOS

**Limassol**

K. TREPPIDES & CO.

Kristelina Tower - 12, Makarios III Avenue Mesa Geitonia, 4th floor

4000 Lymassol

Tél. +357 22 678944

Fax +357 22 679096

Site web: [www.treppides.com](http://www.treppides.com)

E-mail: [ktreppides@treppides.com](mailto:ktreppides@treppides.com) [mcosma@treppides.com](mailto:mcosma@treppides.com) [www.treppides.com](http://www.treppides.com)

Kikis TREPPIDES - Marios COSMA