

Doing Business in CYPRUS



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About Andersen

Andersen Global

Andersen Global® was established in 2013 as an association of legally separate, independent member firms, with a worldwide presence and comprised of professionals that share a common background and the same vision no matter the location where they are.

Our growth is a byproduct of the outstanding client service delivered by our people - the best professionals in the industry. Our objective isn't to be the biggest firm, it is to provide best-in-class client services in a seamless fashion across the globe.

Our professionals are selected based on quality, like-mindedness, and commitment to client service and each and every one of the professionals that are a part of Andersen Global share our core values.

Andersen Global was established to create an enduring place – ONE FIRM where clients across the globe are afforded the best, most comprehensive tax and legal services provided by skilled staff with the highest standards.

Outstanding client service has and will continue to be our top priority.

About Andersen in Cyprus

Andersen in Cyprus is the Cypriot member firm of Andersen Global. It is a regulated accounting firm providing a wide range of professional services to local and international clients, in Cyprus and abroad, including without limitation, accounting and tax services, business consulting, payroll, corporate administration, trustee services and other services of fiduciary nature.

Andersen offices in Cyprus are located at one of the most popular avenues of the city which makes it easy to be reached. The business address is at 140 Athalassas Avenue, CY-2024 Nicosia, Cyprus.

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2.

Country Highlights

Cyprus, officially the Republic of Cyprus, is an island country in the Eastern Mediterranean and the third largest and third most populous island in the Mediterranean. The country is located south of Turkey, west of Syria and Lebanon, northwest of Israel, north of Egypt, and southeast of Greece.

Cyprus covers an area of 9,251 km² with a population of 1 million approximately and has been a full member of the European Union since May 2004 and the Eurozone since January 2008.

Greek is the official language, but English is widely spoken and, as in other jurisdictions, is the most common language of doing business.

Citizens of EU member-states which have ratified the Schengen treaty are free to move, live and work in Cyprus (subject to minimal requirements).

Nationals from non-EU countries must obtain an entry visa before arriving in Cyprus and a residence permit if also seeking employment.

Cyprus is a Presidential Republic. The head of state and of the government is elected by a process of universal suffrage for a five-year term. Executive power is exercised by the government with legislative power vested in the House of Representatives whilst the Judiciary is independent of both the executive and the legislature. At time of writing, the president of the Republic of Cyprus is Mr. Nicos Anastasiades, elected in February 2018.

Cyprus is a full member of the European Monetary Union. Its currency is the Euro.



Cyprus has an open free-market, service-based economy with a long record of successful economic performance. Its strong business environment, highly educated workforce and favorable and stable tax regime have remained in place and allowed the country to pass quickly through the economic crisis of 2013. Looking ahead, with measures ongoing to reform public spending, accelerate initiatives to boost investments, develop the investment fund sector and push

forward with natural gas exploitation, Cyprus ensures that its prosperity endures.

The Cyprus economy has been expanding rapidly, with growth acceleration since 2015. It is among the top five Eurozone performers, with an impressive growth rate of 3.9% in 2017 and 3.2% in 2018.

The GDP growth rate in real terms during the second quarter of 2021 is positive, and it is estimated at 12.8% over the corresponding quarter of 2020. Based on seasonally and working day adjusted data, the GDP growth rate in real terms is estimated at 12.9%.

The positive GDP growth rate is mainly attributed to the following sectors:

- Hotels and Restaurants
- Construction
- Manufacturing
- Transport, Storage and Communication
- Wholesale and Retail Trade and Repair of Motor Vehicles
- Arts, Entertainment and Recreation
- Other Service Activities

Concessions and Investments Incentives

Cyprus can be considered as an ideal country for investors due to its unique weather, fabulous beaches, the affordable prices of property, relative ease to acquire the “Permanent Residence Permit” (PRP) and many advantageous tax regimes for international investors.

Attractive tax regime and incentives

- One of the lowest corporate taxes across the EU at 12.5%
- An attractive Double Tax Treaty network which covers over 60 countries
- Access to every single EU Tax Directive
- Reduced residential VAT rate. Commercial property in Cyprus attracts a 19% VAT rate, meanwhile, residential property only attracts 5% on the first 200 square meters of the first and primary permanent residence property
- Dividend income exemption based on relaxed conditions
- Tax exemption on capital gains and gains from trading in securities
- Tax neutrality on Foreign Exchange Gains
- No inheritance or succession taxes
- No withholding taxes on outgoing dividends, interest and or royalty settlements
- Notional interest deduction available for equity investment into Cyprus incorporate companies
- Very attractive personal tax regime for international expatriates residing in Cyprus for first time
- No immovable property taxes
- Specially tailored provisions for the investment funds industry
- Competitive Intellectual Property Regime
- Competitive Tonnage Tax for Shipping companies and an open registry approved by the EU
- Tax deductions to encourage investment into Cypriot startups

One of the lowest corporate taxes across the EU at 12.5%

Incentives through other sectors

Great efforts have been made in education (excellent education facilities including many UK universities having campuses on the Island), healthcare facilities, banking, shipping, science and technology, privatization, innovation and liberalism.

Overview

Cyprus offers a wide range of choice of different legal forms for setting up companies. One, therefore, has to identify the most suitable form of company from an organizational point of view, also taking into account the objects of the business to be pursued, the capital to be committed, the degree of liability each legal form involves, the various tax implications and, lastly, the complexity of the accounting and organizational measures each kind of form implies.

Types of Business Organizations

A legal entity (Company) in Cyprus can be formed by registration under the Cyprus *Companies Law* – Cap 113, as amended, (the Companies Law). The *Companies Law* provides for the following types of legal entities:

Private Company Limited by Shares (LTD)

This type of company is the most popular in Cyprus. There is no minimum share capital requirement, however at the time of incorporation a shareholder must subscribe for at least one share. It is necessary that at least one to maximum 50 shareholders set up an LTD in Cyprus, who are liable to the company's obligations only to the extent of their contribution. The right of transfer of its shares must be restricted and any invitation to the public to subscribe for its shares is prohibited. There must be at least one director and a secretary. A private company which is entirely owned by foreign investors



is also known as an International Business Company.

Private Company Limited by Guarantee

This type of company has a similar structure to the one of Private Company Limited by Shares, but the members give a guarantee to pay a stated sum in the event of winding up. Private Companies Limited by Guarantee are usually the type of company established for non-profit purposes and charitable actions.

Public Company Limited by Shares (PLC)

A Public Company Limited by Shares has again a similar structure to the one of Private Company Limited by Shares with the main differences being that the shares are freely transferable and can be offered to the public. The minimum number of shareholders must be seven without

maximum limit and there must be at least two directors. The incorporation of a public company limited by shares requires at least EUR 25,630 as an initial capital contribution.

Overseas Company (Cyprus Branch of a Foreign Legal Entity)

A Cyprus Branch can be used by foreign legal entities as a means of establishing a place of business in Cyprus for the purpose of conducting business in the ideal environment that Cyprus provides, in accordance with the Companies Law. The difference with subsidiaries (legal entities), a branch is considered as an extension of the foreign company and therefore the foreign company is liable for the debts of the branch, whereas the subsidiary is considered as a separate legal entity. Registering a branch in Cyprus means that an Overseas Company can enjoy the same benefits that are in place for Cyprus companies, provided that the management and control of the branch office is exercised in Cyprus. Whereas the management and control of the company is not exercised in Cyprus, the profits generated from the activities of the branch are exempted from Cyprus tax and the profits will most probably be taxed in the country of incorporation of the Overseas Company.

European Public Limited Company (SE)

The registration of a European Public Limited Company (Societa Europaea or SE) in Cyprus is in line with the Council Regulation (EC) No. 2157/2001. The main objective is to allow companies incorporated in different EU Member States to merge or form a

holding company or joint subsidiary, while avoiding the legal and practical constraints from the existence of different legal systems. The incorporation of a Societa Europea can be conducted in the following four different ways: (a) through a *Merger* (merging a Public Limited Company from two different Member States), (b) through a *Holding* (formation of a holding Company by a Public and a Private Limited Company from two different Member States), (c) through a *Subsidiary* (which can be formed by any legal entities subject to Public or Private law from two different Member States or by a SE itself) or (d) by *Conversion* (a Public Limited Liability Company can convert into an SE if it had a subsidiary in another Member State for two years).

In addition to the above, there are also other legal arrangements through which a business can operate in Cyprus:

Partnerships

The Partnerships and Business Name Law provides for two general types of Partnerships as follows:

1. **General Partnership:** A general partnership in Cyprus can be formed by two to 20 individuals. Registration of the partners with the Registrar of Partnerships is mandatory. There is no capital requirement and partners are fully liable to the extent of their private assets.
2. **Limited Partnership:** The difference between a general partnership and a limited partnership is that the latter must have at least have one General Partner



who is fully liable (unlimited liability) for the partnership's obligations and rest of the partners who are liable to the extent of their contribution (limited liability). Just like the General Partnership, a limited partnership requires at least two partners who must register with the Registrar of Partnerships.

Sole Proprietor (or Sole Trader)

Sole proprietors (or Sole Traders) are individuals who own and run a business on their own account without partners, and with or without employees. They may trade under their own real name or under a different business name in which case such business name (other than their own) must be registered with the Registrar of Partnerships. Sole Proprietors have personal full liability about the business. Sole Proprietors profits are eligible to income tax, irrespective as to whether the profits are distributed to the proprietor or left in the business.

Cyprus International Trusts

A Cyprus International Trust is a settlement whereby the Settlor transfers an immovable or movable property, the Trust Property, to an independent person, the Trustee,

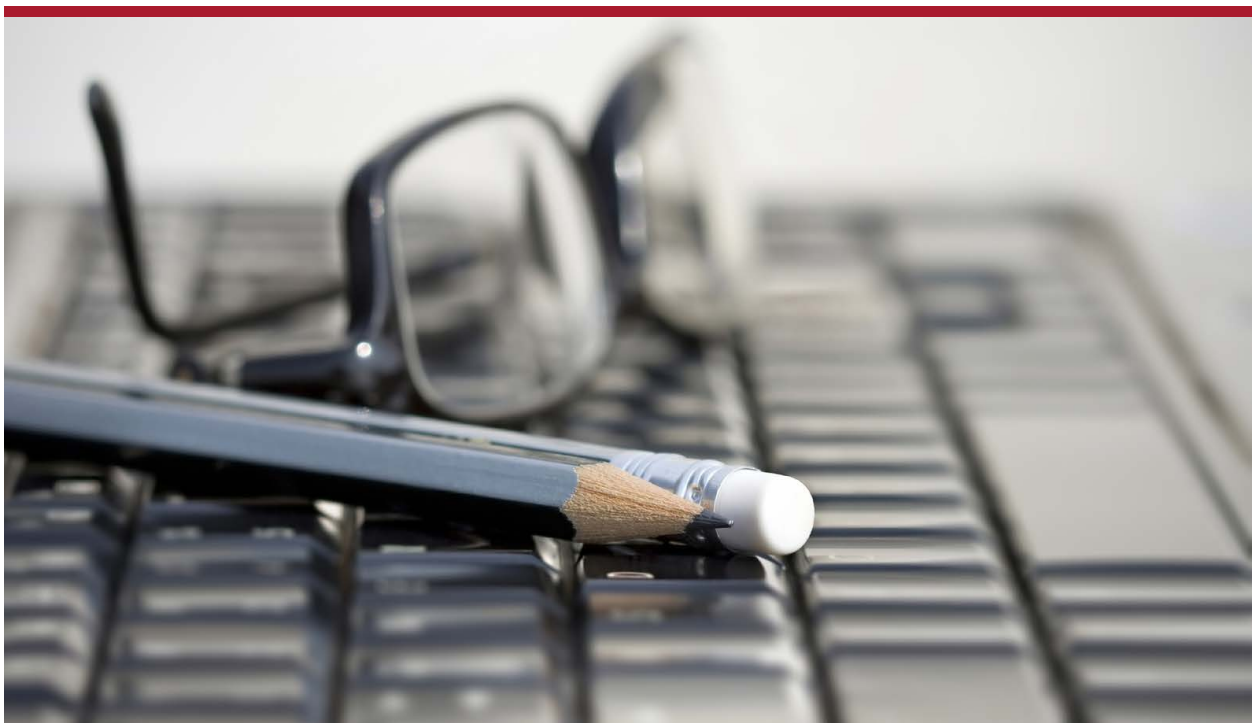
for the latter to hold for the benefit of the Beneficiary(ies). The Settlor and the Beneficiaries must not be residents of the Republic of Cyprus preceding the year of the establishment, but the Trustee or at least one of the Trustees must be a permanent resident of the Republic of Cyprus. The use of the Cyprus International Trusts is increasingly becoming popular as a vehicle for inheritance, international tax planning and business structuring. Income and gains of a Cyprus International Trust derived from sources outside Cyprus are exempt from any tax imposed in Cyprus.

Setting Up a Business

Procedure for registering / incorporating a Cyprus Limited Company:

The Department of Registrar of Companies and Official Receiver (the *Registrar*) is the regulatory body and the place where the registration documents are filed and checked. It has the power to impose penalties and to strike off companies from its register if the registration requirements are not complied with. The registration process involves the following steps:

1. **Company name:** The choice of company name, which must be approved by the Registrar. The name must end with the word *Limited* or *Ltd* and must not sound and or be similar to existing registered names.
2. **Memorandum of Articles and Association:** Once the name has been approved, the memorandum and articles of association of the company are prepared according to the company's proposed main activity (such as, development, holding, construction or investment) and then filed with the Registrar of Companies together with information regarding the company's first officers and shareholders.
3. **Registered Office:** A registered office in the Republic of Cyprus is a requirement for the registration of a company.
4. **Board Members:** All Cyprus Limited Companies are obliged in appointing at least one Director and one Secretary. It is strongly advisable that all or at least the majority of Directors are of Cypriot Tax Residence so that on the face of it the management and control is exercised in Cyprus being the cornerstone factor for the company to be considered Cyprus tax resident. In the case of the Secretary, it is recommended to be of Cypriot Residence mainly for practical reasons.
5. **Certificate of incorporation:** When all the documents required by the registrar are completed and the requirements for the registration of the company are met, the Certificate of Incorporation of the company is issued, meaning that the company comes into existence as a separate legal entity.



The procedure for forming a Company in Cyprus can be completed within a time-frame of seven to ten working days. It is highly recommended that businessman attend a meeting with a tax consultant, accountant and or auditor (which are members of the Institute of Certified Public Accountants of Cyprus – ICPAC), to discuss further matters affecting the operations of the Cyprus Company i.e. substance requirement, banking, tax registration (compulsory), VAT registrations (if applicable), payroll obligations (if applicable) and annual reporting requirements (Tax, Audit, AGM).

Procedure for registering / establishing a Cyprus Branch:

Overseas companies (or branches as most commonly called) may establish a branch in Cyprus by filing with the Registrar the following documents:

1. A written report including the following information:
 - the name and legal form of the overseas company, as well as the name of the branch (if it is going to be different from the name of the overseas company)
 - the registered office and address of the overseas company as well as its business address
 - the purpose and objects of the overseas company

- where applicable, the register in the third country, together with the relevant registration number of the overseas company where the basic information about the company has been filed
 - the amount of the capital subscribed (where applicable)
 - the law of the state governing the company
2. Certificate of incorporation of the company (certified)
 3. The Memorandum and Articles or the charter of the overseas company or any other document defining its constitution (certified)
 4. List of directors and secretary (if applicable) of the company and their particulars. This shall include names, and surnames, nationality, business occupation, residential address, passport number.
 5. Name and address of at least one-person resident in Cyprus authorized to accept on behalf of the company any notices required to be served to it.

Procedure for registering / establishing a Cyprus Partnership:

An application is made to the Cyprus Registrar of Companies for approval of the name (before any applications for its registration).

Within a month of its establishment a written statement in a prescribed form is submitted to the Registrar signed by all the partners containing the following information:

1. the partnership's name
2. the nature of the business activities
3. the place where the business will take place
4. details about the partners such as names, nationality, residency and business occupation
5. the date of commencing the business activities
6. the contribution of each partner
7. the authorized representatives of the general partnership

Corporate Compliance

Statutory obligations

1. *Annual General Meetings*
All Cyprus incorporated companies must hold in each year a general meeting as their Annual General Meeting (AGM) in addition to any other meetings held during the year, which are called Extraordinary General Meeting.

The first AGM must be held within a period of 18 months from the date of incorporation and not more than 12 months should elapse between the date of one general meeting of the shareholders and that of the next. The

articles of association normally contain certain provisions concerning notice and the place where the meeting may be held.

2. *Annual returns*
Every Cyprus company is required to submit an Annual Return (Form HE32) accompanied by the audited Financial Statements of the previous year. The deadline for the submission of the Annual Return is within 28 days of the AGM.

The Annual Return contains the company's statutory information as at the date of the AGM and should include among other information certified copies of the audited financial statements, directors' report and auditors' report. A delay in the submission of the Annual Return is subject penalty charges.

3. *Annual levy*
Every company must pay an annual levy amounting to EUR 350, before June 30 of each calendar year. If late payment is effected, penalties are imposed. In addition, if payment of the levy is not effected within a period of two years from the due date, the company may be stricken off the Registry.

Financial obligations

1. *Registration with the Cyprus Tax Authorities*
Companies have an obligation to register with the tax authorities and obtain a tax identification code (TIC) within 60 days from their incorporation.



Companies incorporated outside Cyprus and with their place of business within Cyprus, have the obligation to register with the tax authorities within 60 days from the date of their registration with the Registrar of Companies or from the date they are considered Cyprus tax residents.

Companies which have already been registered with the tax authorities are required to inform the Commissioner of Taxation of any changes that may affect the records of the tax authorities' register, within 60 days from the date that the relevant change occurred.

2. *Maintenance of books and records*

Every taxable person (legal entities and physical persons) is obligated for every tax year to:

- Issue receipts and invoices as specified by the regulations. Invoices should be issued within 30 days from the date of the transaction unless a written approval has been obtained by the Tax Department for the purpose of issuing the invoices later. In case where invoices are not issued within the prescribed deadline, a penalty of EUR 100 per month may be imposed.

- Maintain books and records and prepare financial statements based on the acceptable accounting standards. The financial statements should be prepared in accordance with the acceptable accounting standards (IASs/IFRSs) and audited in accordance with acceptable auditing standards (ISAs), by a person that is eligible to act as an auditor. A person is obliged to update books and records within four months from the date of the transaction. In the case where books and records are not updated within the prescribed deadline, a penalty of EUR 100 per quarter may be imposed. Books and records should be kept for at least six years and be ready to be presented to the Tax Department if requested.

Companies have an obligation to register with the tax authorities and obtain a tax identification code (TIC) within 60 days from their incorporation.

- Only physical persons whose annual turnover does not exceed the amount of EUR 70,000 are exempted from the obligation to prepare audited financial statements.

3. *Anti-money laundering requirements*

Under corporate compliance requirements in Cyprus, all companies must comply with the Anti-Money Laundering Law which was enacted in 1996 as amended from time to time. Cyprus has transposed the 5th Anti-Money Laundering Directive into national law on the 23 February 2021. Under this legislation companies, but most of all financial institutions in Cyprus, are required to follow certain administrative requirements and to establish specific regulations. These requirements imply appointing compliance officers, the implementation of customer identification programs, record keeping proceedings and training their staff.

M&A

Acquisitions (Sale and Purchase of Shares)

The Sale and Purchase of Shares is governed by the Companies Law and the Articles of Association of the Cyprus Private Company to be acquired (the Target Company). The matter is predominantly governed by the terms of a Share Purchase Agreement (SPA) as a contractual matter, thus is also governed by the Cyprus Contract Law Cap. 149 and prevailing best contractual practices. This clause relates to the Sale and Purchase of Shares in the Target Company as part of acquisition of the

whole or part of an active Cyprus company (it has business activities). It also applies to international cross border acquisitions where the Target Company is a holding company or another form of special purpose vehicle (SPV) holding shares in an active business company or real estate or any other form of assets situated in foreign jurisdiction.

In practice, except for the legal requirements to be satisfied (as referenced herein below), the Sale and Purchase of Shares entails also several preliminary practical considerations, which arise from standard and best practices, that do not necessarily constitute legal requirements, such as:

(a) Memorandum of Understanding (MOU)/ Letter of Intent (LOI)/ Heads of Terms (HOT)

As a matter of standard practice, the Seller and the Buyer customarily enter into a preliminary agreement such as a MOU, LOI or HOT. The purpose of such agreement is to solidify the interest of both parties to proceed with the transaction and set out the principal terms i.e. the price and time-frame for negotiations. The provisions of this document are, as per its terms, not binding on the parties except where the parties specifically agree otherwise therein. In practice, there would be binding provisions such as confidentiality or exclusivity. In general, a MOU, LOI or HOT serve to satisfy the Seller's concerns about confidentiality and the Buyer's concerns about access to information/ documents to conduct legal and financial due diligence. Signing a MOU, LOI or HOT, although ideal, is not necessary and depends on the facts such as the nature of the transaction and the relationship between the parties.

(b) Non-Disclosure Agreement (NDA)/ Confidentiality Agreement (CA)

Again, as a matter of standard practice, where no MOU, LOI or HOT was signed with binding confidentiality provisions, the parties may opt to enter into an NDA or CA. This facilitates the parties to disclose confidential information as part of the negotiation and due diligence process without worrying that such information will be disclosed to third parties or used in any manner other than to effectuate the prospective sale and purchase of the Target Company. Again, the NDA or CA is not necessary and depends on the facts such as the nature of the transaction and the relationship between the parties.

(c) Due Diligence

Simultaneously with negotiations, customarily prior to drafting, but in any event before entering into the SPA, the Buyer would conduct a thorough Financial and Legal Due Diligence on the Target Company. The Financial Due Diligence is conducted by qualified accountants, auditors or financial advisors of the Buyer and its purports to identify and verify the financial status of the Target Company i.e. recognize any debts, encumbrances or other financial obligations. All assets of the Target Company, including any subsidiaries, are subject to such Financial Due Diligence. The Legal Due Diligence is conducted by Cyprus lawyers and its purpose is to primarily identify and verify ownership of the shares and the capacity of the Seller to sell the shares in accordance with the Law and the Articles of the Buyer (Corporate Due Diligence). In addition, the Legal Due Diligence extends to identifying and verifying any underlying assets, evaluation of any liabilities, litigation



proceedings or encumbrances on the assets. In general, the purpose of the Legal Due Diligence is to identify and verify the legal status of the Target Company, namely its rights and obligations under contract, law or equity. All assets, including subsidiaries, are subject to Legal Due Diligence, hence where subsidiaries are in jurisdictions outside Cyprus such due diligence is conducted by legal counsels competent to practice law in such jurisdictions.

The Financial and Legal Due Diligence reports customarily describe the due diligence process, the documents reviewed and set out legal or financial risks (where identified), the nature, severity and consequences of such risks and possible solutions.

Irrespective of the preliminary considerations, the Sale and Purchase of Shares requires satisfaction of the following requirements:

- a. draft of SPA (between the Seller and the Buyer)
- b. satisfaction of the following legal requirements:
 - i. proper, duly executed Instrument of Transfer of shares (to be delivered to the Target Company)
 - ii. Board Resolution approving the transfer of shares (issued by the Target Company)
 - iii. the transfer of shares must be duly recorded in the register of members of the Target Company
 - iv. the Target Company must issue a new share certificate in relation to the acquired shares (to be delivered to the buyer within 2 months from the registration).

Form of SPA

The most important document in the context of the Sale and Purchase of Shares is the SPA the provisions of which define not only the commercial terms but also the entire process. The SPA commonly provides, inter alia, the purchase price, payment method, conditions precedent, conditions subsequent, long stop date, completion/closing, completion documents (referred herein above), bilateral warranties and other miscellaneous terms. Conditions Precedent are conditions in the SPA that must be satisfied before the Sale and Purchase of Shares can be effective, which may be for instance where the Target Company

is under merger control that a notification is made and an approval is obtained from the competent authority. The deadline to complete such conditions is commonly referred to as “long stop date” and where such conditions are not satisfied by then, the SPA is terminated. Conditions Subsequent are conditions to be satisfied post completion of the Sale and Purchase of Shares which customarily include necessary filings with the Registrar reflecting the transfer.

Signing

Before any person, legal or natural, can sign the SPA, such person must have legal capacity or authority to do so. In cases of natural persons, only the legal owner of the shares can sign the SPA, except where he/she has granted a Power of Attorney (POA) to any third person (the Attorney) to sign on his/her behalf, provided that the said Attorney will produce the original POA to the counterparty. In cases of legal persons entering into the SPA, such legal person must first be permitted by its objects under its constitutional documents. Any person signing on behalf of that legal person must have requisite authority in accordance to its Articles. In Cyprus companies such authority is customarily granted by the Articles to the board of directors of the company who in turn may duly resolve to grant such authority to any one or more of the directors of the company or to any other Attorney (acting on the basis of a valid POA). It is standard, before signing the SPA, to request at least copy of a board resolution authorizing the company to enter into the SPA and designating the authorised signatory.

There is no legal requirement that Cyprus companies must sign the SPA under its seal (for such signature to be valid or effective), except where this is required under their Articles or a specific shareholders or board resolution resolves as such.

Closing

Completion/Closing is a meeting customarily set on a date immediately after the satisfaction of all “Conditions Precedent” where the effect of the Sale and Purchase of Shares takes place i.e. the Buyer pays the price and the Seller releases all completion documents. The date of effect of the Sale and Purchase of Shares is customarily the Completion/Closing date (not the date of signing the SPA) and the date of effect of the transfer of shares is the date the transfer is recorded in the register of members of the Target Company.

Mergers

Cyprus boasts an attractive Merger and Reorganization regime not only locally (i.e. between Cyprus entities), but also at a Cross-Border, EU level. Apart from the apparent and well-known advantages of merging two companies (e.g. the creation of a stronger entity, the avoidance of liquidating group entities, the transfer of assets and liabilities without the need for the novation of contracts or other cumbersome procedures), Mergers in Cyprus are also attractive from a tax perspective, as Mergers and Reorganizations, which fall within the ambit of the law, may well result in a total exemption from tax in Cyprus (refer to Tax section below).

The Cyprus Income Tax Law (118(I)/2002), as amended, (the Income Tax Law) classifies Mergers, Divisions (demergers), Partial Divisions, Asset Transfers and Share Exchanges as Arrangements, all of which are regulated and carried out pursuant to sections 198 to 201 of the Companies Law, relating to compromises and reorganizations.

Cyprus boasts an attractive Merger and Reorganization regime not only locally, but also at a Cross-Border, EU level.

Local Mergers

Section 30 of the Income Tax Law defines Merger between Cyprus companies as an act where:

- a. one or more companies, on its dissolution without going into liquidation, transfer all of their assets and liabilities to another existing company (an acquiring company) in exchange for the issue to their shareholders of shares in the capital of the receiving company and potentially in exchange for cash, not exceeding 10% of the nominal value of the shares or, in the absence of a nominal value, of the accounting par value of the shares
- b. two or more companies, on its dissolution without going into liquidation, transfer all of their assets and liabilities



to a new company that they establish in exchange for their shareholders being issued with shares in the new company's capital and, potentially, in exchange for cash, which should not exceed 10% of the nominal value of the shares or, in the absence of a nominal value, of the accounting par value of the shares

- c. one limited liability company, on its dissolution without going into liquidation, transfers all of its assets and liabilities to a company holding all the shares (100%) representing its capital

Local Mergers must receive Court approval before they can be conducted.

In summary, for a merger of a company to take place, a scheme for the reconstruction and amalgamation of a company pursuant to section 200 of Companies Law needs to be approved by the Court. To give effect to the reconstruction, a scheme is set out by the auditors of the companies who are also responsible for the scheme's approval by the Income Tax Authorities which in turn need to confirm that there will be no tax complications with the proposed

reorganization. The board of directors of each of the related company should pass a resolution setting out the reorganization plan as prepared by the auditors which is then put before shareholders for approval and ratification. It is a prerequisite to hold a general meeting of the shareholders, which determines the extent to which there is a necessity to compromise or arrange the liabilities between the shareholders and the creditors, as the company being acquired shall be wound up without going into liquidation and its assets shall be transferred to the acquiring company.

Further, prior to the general meeting, it is required to inform the shareholders of the acquired company by giving a notice which states the reason for which the meeting shall be held. The notice shall include a special report specifying the effects of the merger. The creditors of the company being acquired shall also receive a notice as they shall provide their consent as well for the merger to proceed. At the general meeting the members examine the restructuring plan of the company, which shall be then approved in order to proceed with the relevant procedures.

The restructuring plan shall also be approved by the general meeting of the acquiring company. The legitimacy of the restructuring process is examined by the court which issues the restructuring order, which also determines the responsibilities of the restructured companies. In particular, the court may order:

1. the transfer to the transferee company of the whole or any part of the undertaking and of the property or liabilities of any transferor company
2. the allotting or appropriation by the transferee company of any shares, debentures, policies or other like interests in that company which under the compromise or arrangement are to be allotted or appropriated by that company to or for any person
3. the continuation by or against the transferee company of any legal proceedings pending by or against any transferor company
4. the dissolution, without winding up, of any transferor company. The provision to be made for any persons, who within such time and in such manner as the Court directs, dissent from the compromise or arrangement
5. such incidental, consequential and supplemental matters as are necessary to secure that the reconstruction or amalgamation shall be fully and effectively carried out

For the Cyprus Courts to allow the restructuring, both the acquiring and the acquired companies shall have fulfilled in full their obligations to the tax authorities of the Republic of Cyprus and the Registrar, including the filing of the annual company reports.

The Registrar is notified of the said order and this marks the completion of the merger process and the scheme is binding on the company and on all parties concerned. To have binding force, such an order must be delivered to the Registrar for registration within seven days. Although a merger is not effective until the Registrar processes the documents filed, once processed, the merger and consequently the dissolution of the absorbed entity takes effect retroactively.





In summary, in order to complete the Local Merger process the following is required:

1. Drafting the restructuring plan
2. Acquiring the consent of the creditors
3. Drafting the notice for the general meeting of the acquiring company and the minutes of the said
4. Preparation and filing of the accounts and annual reports of the acquiring and the acquired company up to the date of the filing of the restructuring application with the court
5. Drafting the restructuring application and appear before the court for the approval of the restructuring
6. Filing of the Court order with the Registrar

It should be pointed out that regarding Public Companies (sections 201A – 201H of the Companies Law), the merger procedure will be the same except for minor changes in the merger plan which must contain:

1. the name
2. the form of the registered office of the companies
3. details about the transfer of shares and the amount of money
4. information about the allocation of shares
5. the exact date when the new shareholders will have the right to profits
6. the date after which the acts of the absorbed company are considered to have been done on behalf of the absorbing or the benefited company
7. all the special privileges that are provided to the experts

Cross - Border Mergers

The Republic of Cyprus adopted the EU Directive on Cross-Border Mergers of Limited Liability Companies, EU Directive 2005/56/EC (the Directive 2005), into national law, by amending the Companies Law (Articles 201I – 201X). By such amendment of the Companies Law, the Cross-Border Merger between a European limited liability company (the Absorbed Company) and a Cyprus limited liability company (the Acquiring Company) is permissible. Following repeal of the Directive 2005 by EU Directive 2017/1132/EC (the Directive 2017) relating to certain aspects of company law, Chapter II of the Directive 2017 applies, which sets out simplified provisions relating to the Cross-Border Mergers of Limited Liability Companies.

Chapter II of the Directive 2017 defines Merger as an act between EU companies where:

- a. one or more companies, on being dissolved without going into liquidation, transfer all of their assets and liabilities to another existing company (an acquiring company) in exchange for the issue to their members of securities or shares representing the capital of the other company and, if applicable, a cash payment not exceeding 10% of the nominal value or, in the absence of a nominal value, of the accounting par value of those securities or shares
- b. two or more companies, on being dissolved without going into liquidation, transfer all of their assets and liabilities to a company that they form, a new company, in exchange for the issue to their members of securities or shares representing the capital of that new company and, if applicable, a cash payment not exceeding 10% of the nominal value or, in the absence of a nominal value, of the accounting par value of those securities or shares
- c. a company, on being dissolved without going into liquidation, transfers all its assets and liabilities to the company holding all the securities or shares (100%) representing its capital

The essential requirement for a Cross-Border Merger is the provision and thus permission through the national laws of each EU based company involved. Cross-

Border Mergers are possible only between types of companies that can merge under the national law of the relevant EU member state and the company taking part in a Cross-Border Merger must comply with the provisions and formalities of the national law to which it is subject.

With regards to Cyprus, all companies have the legal capacity to participate in a Cross-Border Merger, except for the following companies:

- Limited liability companies by guarantee and
- Companies which are under liquidation

In order for the companies to be able to proceed with a Cross-Border Merger the first steps to be followed is the drafting and agreement of the Terms which will 'lead' to the merger between the merging companies and then the approval of such Terms by the General meeting of the merging companies. From the time that the Terms of the Cross-Border Merger are confirmed and approved by each merging company, the said companies are ready and thus able to proceed with the procedure of union, as the Cross-Border Merger can be defined. The Cross-Border Merger in the Cyprus is approved and completed by a Court Order of the District Court of the district where the Cyprus Company maintains its registered office, as the competent Authority on Cross-Border Merger in which a Cyprus Company is participating. The aforementioned Court Order must be submitted for registration with the Registrar in order for the Cross-

Border Merger to be in force. It is important to note that a Cross-Border Merger which has entered into effect in accordance with the aforementioned procedure, cannot be declared null and void. This can also be considered as one of the most crucial benefits of such a procedure, due to the fact that this provides legal certainty.

In summary, in order to complete the Cross-Border Merger process the following is required:

1. Drafting and approving by the management the proposed terms of the merger
2. Filing of the terms of the merger with the Registrar (for the Cyprus company)
3. Publishing the terms of the merger in the Official Gazette of Cyprus.
4. An independent experts' report for each merging company to be obtained, if required
5. Following the expiration of the relevant time-frame, a general meeting must be convened for the shareholders to approve the common draft terms of the cross-border merger
6. Applying to Court to obtain a Court Certificate stating that the pre-merger acts and formalities have taken place and are satisfied (1st Court Order). A similar pre-merger certificate must be obtained by each merging non-Cypriot company in its own jurisdiction

7. Within six months of the issue of the 1st Court Order, applying to Court to obtain a second Court Certificate by which the Court will approve the legality of the completion of the merger and set a date on which the Cross-Border Merger shall be deemed to take effect (2nd Court Order)
8. Filing an official copy of the 2nd Court Order to the Registrar for registration and publication. The Registrar removes any Cyprus companies which have been absorbed in the merger and refers to the date of the commencement of the Cross- Border Merger.

From a tax perspective, an application can be made to the Tax Authorities, accompanied by the merger plan and relevant information on the merging entities, for a reorganisation certificate, confirming the exemption from taxes. The tax authorities retain the discretion to issue a tax exemption certificate if they take the view that the merger or reorganisation was at arm's length and reflected economic reality.

Once the procedure of a Cross-Border Merger has been completed, the outcome is as follows:

- The assets and liabilities of the Absorbed Company are transferred to the Acquiring Company
- The shareholders of the Absorbed Company, become shareholders of the Acquiring Company



- The Absorbed Company ceases to exist

The same applies in the cases of Cross-Border Merger by the incorporation of a new company.

General

It is noted that in the context of Mergers, also the following relevant legislation should be considered:

- a. Concentration of Business Law (22(I)/1999, as amended) (the Concentration of Business Law), incorporating policies to promote competition and fight monopolization:

The scope of this legislation is to concentrations that are considered to be of “major importance” and that is when the aggregate turnover of the business of at least two of the participating enterprises exceeds CYP 2 million (EUR 3,417,203); the commercial activities of at least of one of the participating enterprises of the concentration in question must be within the Republic of Cyprus; the aggregate turnover of the business of all the participating enterprises regarding the supply of goods or services within the Republic of

Cyprus must be at least CYP 2 million (EUR 3,417,203) jointly.

Where a concentration is classified as of major importance and therefore falling within the ambit of the Concentration of Business Law, relevant notifications, evaluations, investigations and decisions are made by the competent authorities of Cyprus i.e. the Commission for the Protection of Competition and the Competition and Consumer Protection Service to determine whether the concentration is harmful to the competitiveness of the Cyprus market.

- b. Employees’ Rights in the event of Transfers of Undertakings Law (104(I)/2000, as amended) incorporating the relevant EU Directives (TUPE):

The companies involved in a merger, that is the old and new employer companies, are obliged to inform the employees who are affected by the merger of the date of the merger, the reasons for merging, the legal and social consequences of such merger and the measures to be taken with respect to the employees. The law provides for the rights of the employees to be protected and maintained by the new employer.

Dissolution and Liquidation

The Cyprus Companies Law provides three methods for winding-up a Cyprus company:

1. voluntary winding-up (either by the members or by the creditors)
2. involuntary winding-up by its creditors
3. voluntary winding-up by the Court or winding-up subject to the supervision of the Court

An alternative way for a company to cease to exist, is by way of striking-off of the Register of Companies, in accordance with section 327 of the Companies Law. The most common methods of dissolving a Cyprus private company limited by shares whose main activities is to act as a holding company is a members' voluntary winding-up and the striking-off of the register.

Strike-off

This is a very straight-forward procedure and is generally used for companies that have terminated all activities and do not intend to carry on any business in the future. These companies are usually considered as dormant companies; however, the financial statements of the company must be prepared until the date that the company ceased activities.

Also, it is essential to submit the relevant income tax return to the Cyprus Tax Authorities which will be examined by the tax office. All the tax liabilities should be settled, and a tax clearance certificate issued. A declaration of solvency must

then be signed by all the directors of the company.

The declaration is a confirmation by the directors of the company that the management accounts have been prepared up to date, confirming that the company ceased its operations, has no trading activities, no obligations, no debtors/creditors and no assets and is for all intents and purposes inactive. The statement of assets and liabilities of the company must validate that the company has adequate funds to settle all its debts, and/or outstanding liabilities including the fees charged for the strike-off. The Registrar of Companies will then publish in the Official Gazette of the Republic of Cyprus, the intention of the company to be struck-off and sends a notice to the company that within three months, the company will be removed from the records of the Registrar of Companies.

The Registrar can also proceed with the striking off of a company where he has reasonable cause to believe that the company has ceased to carry on its business (i.e. if a company does not comply with its obligation for filing of the Annual Returns to the Registrar of Companies) and/or when the company omits to pay the annual levy, as provided by the Companies Law, Cap. 113.

It is noteworthy that in case where any member or creditor feels aggrieved by the striking-off of the company, they can apply to the Court for the reinstatement of the company provided that the application will

be done before the 20 years' expiration period, from the publication in the Gazette of the notice.

Members' Voluntary Liquidation

A company may be wound up voluntarily when the period, if any, fixed for the duration of the company by the articles expires, or the event, if any, occurs, on the occurrence of which the articles provide that the company is to be dissolved. Furthermore, a company may be wound up voluntarily if the general meeting resolved the voluntary liquidation of the company either by the passing of a special resolution resolving that the company be wound up voluntarily, or by passing an extraordinary resolution to the effect that it cannot by reason of its liabilities continue its business, and that it is advisable to wind up.

As the first step the auditors of the company should prepare the statement of assets and liabilities of the company, as at the latest practical date before the declaration of solvency. The majority of the Company's directors swear an affidavit before the registrar in the District Court, making a Declaration of Solvency. The Declaration of Solvency must be dated on a date not preceding five weeks from the date of the passing of the extraordinary general meeting. The sworn Declaration of Solvency will attach the Statement of Assets and Liabilities as an exhibit.

Moreover, a decision of the meeting of the board of directors of the Company (or

alternatively a unanimous written resolution of the Board of Directors in lieu of such meeting) needs to be passed, where the directors of the Company will report that a Declaration of Solvency has been made and will resolve to convene an extraordinary general meeting of the Company to approve the liquidation of the Company and to appoint a liquidator. The Extraordinary General Meeting of the Company will mainly resolve and approve the winding up of the Company and the appointment of the liquidator. Once the liquidation commences, the auditors should proceed with the filling of the audited financial statements up to the date of the appointment of the liquidator and it is essential to obtain the Tax Clearance Certificate by the Tax Authorities. Upon receipt the Tax Clearance Certificate, the liquidator should send to the Registrar of Companies the one month notice of the Final General Meeting for publication in the Official Gazette of the Republic of Cyprus, fixing such meeting.

The Final General Meeting is held whereby the liquidator presents the final accounts of the Company for approval and then within a week the Liquidator should file with the Registrar of Companies a copy of the final accounts of the Company and a report of the Final General Meeting. The Company is deemed to be dissolved on the expiration of 3 months from the registration of the said report with the Registrar of Companies and the Registrar of Companies will issue a Certificate of Dissolution.

Ultimate Beneficial Owner (UBO) Registries

On the February 18, 2021, the House of Representatives enacted the Fifth EU Anti-Money Laundering Directive (5AMLD) into law (the New Law). With the enactment of the 5AMLD, Cyprus has complied with the provisions and changes imposed by the EU Directive 2018/843.

The New Law was published in the Official Government Gazette on February 23, 2021 and is now fully effective.

The New Law imposes greater transparency on the financial sector regarding beneficial ownership with a focus on the beneficial ownership of trusts.

The New Law establishes two registers:

- The Companies Register held by the Registrar of Companies (RoC)
- The Trusts and Similar Arrangements Register held by the Cyprus Securities and Exchange Commission (CySec)

The aim of these UBO Registries is to grant access to the public, competent authorities and other persons proving legitimate interest (under certain conditions to be laid down by internal regulations of each the RoC and CySec) on the information that is disclosable, the maintenance and operation of these.

The New Law imposes greater transparency on the financial sector regarding beneficial ownership with a focus on the beneficial ownership of trusts.

Companies Register

This Register will be open to the general public, and all relevant information regarding UBOs as prescribed by the New Law will be available.

Specifically, the public will have access to the name, month and year of birth, nationality, residential address, and the nature and extent of the ownership of the rights held.

Trusts & Other Similar Legal Arrangements Register

This Register will not be open to the general public but to the competent regulatory authorities and persons who can prove a legitimate interest by applying to CySec, justifying why he/she should be granted access and by submitting evidentiary documentation to this end.

Overview

Cyprus is a popular jurisdiction for foreign investors and businessmen. The country is a member of the European Union and taxes in Cyprus are lower than most of the other European countries. The Cypriot government implements favorable tax conditions for current and future investors. Small, medium-sized and large enterprises can use all the benefits of tax planning and legal methods for reducing the amount that they pay in taxes.

The key benefits of the Cypriot tax system are:

1. One of the lowest corporate tax rates in European Union
2. A sophisticated network of double taxation treaties
3. Zero withholding of tax on payments to non-Cypriot tax residents
4. Avoidance of tax liabilities for properly structured holding companies
5. Taxation of income generated in Cyprus only for non-resident companies
6. Tax incentives for new capital injection via cash or benefit in kind
7. Tax incentives for IP companies (provided that R&D takes place in Cyprus)
8. Tax incentives for expatriates, high-salaried executives and first-time Cyprus tax residents

9. Tax incentives for film industry companies

The Cyprus tax system is based on the following main taxes:

1. Corporation tax
2. Personal income tax
3. Special contribution for defense
4. Capital gains tax
5. Immovable property tax

Corporate Income Tax

Basis of taxation

All companies tax residents of Cyprus are taxed on their income accrued or derived from all chargeable sources in Cyprus and abroad. A non-Cyprus tax resident company is taxed 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.

A company is a resident of Cyprus if it is managed and controlled in Cyprus.

Additionally, in accordance with the Cyprus Government Budget for 2021, as from 2021 a Cyprus incorporated company will by default be considered a tax resident of Cyprus, subject to the relevant law being enacted.

Foreign taxes paid can be credited against the Corporation Tax Liability.

Corporation tax rate

The Corporation tax rate is 12.5%.

In relation to Covid-19, in accordance with a Directive issued in 2020, the Cyprus tax authorities will generally follow the OECD non-binding guidance in relation to tax residency of corporations and the existence of permanent establishments.

The application of the Directive remains optional on the taxpayer. Furthermore, the Directive also mentions that each case will be assessed on its own merits.

Exemptions

The following are exempt from corporate taxation (modified nexus fraction).

Type of income	Exemption limit
Profit from the sale of securities (1)	The whole amount
Dividends (excluding, as from 1 January 2016, dividends which are tax deductible for the paying company)	The whole amount (2)
Interest not arising from the ordinary activities or closely related to the ordinary activities of the company (3)	The whole amount (4)
Profits of a foreign permanent establishment, under certain conditions (5)	The whole amount
Gains relating to foreign exchange differences (forex) with the exception of forex arising from trading in foreign currencies and related derivatives.	The whole amount
Profits from the production of films, series and other related audiovisual programs	The lower of 35% of the eligible expenditure and 50% of the taxable income. Any restriction may be carried forward for 5 years.

Notes:

- (1) The term Securities is defined as shares, bonds, debentures, founders' shares and other securities of companies or other legal persons, incorporated in Cyprus or abroad and options thereon. Circulars have been issued by the Tax Authorities further clarifying what is included in the term Securities. According to the circulars the term includes, among others, options on Securities, short positions on Securities, futures/forwards on Securities, swaps on Securities, depositary receipts on Securities (ADRs, GDRs), rights of claim on bonds and debentures (rights on interest of these instruments are not included), index participations only if they result on Securities, repurchase agreements or Repos on Securities, units in open-end or close-end collective investment schemes. The circulars also clarify specific types of participation in foreign entities which are considered as Securities.
- (2) Such dividend income may be subject to Special Contribution for Defense.
- (3) All the interest income of Collective Investment Schemes is considered to be arising from the ordinary activities or closely related to the ordinary activities of the Scheme.
- (4) Such interest income is subject to Special Contribution for Defense.
- (5) With effect as from July 1, 2016, taxpayers may elect to tax the profits earned by a foreign permanent establishment, with a tax credit for foreign taxes incurred on those foreign permanent establishment profits. Transitional rules apply in certain cases on the granting of foreign tax credits where a foreign permanent establishment was previously exempt and subsequently a taxpayer elects to be subject to tax on the profits of foreign permanent establishment.

Corporate tax deductions for expenses

Generally, expenses incurred wholly exclusively in earning taxable income and supported by documentary evidence are deductible for corporate tax purpose, including:

Type of expenditure	Exemption limit
Interest expenses 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.	The whole amount of interest expense if the subsidiary does not own (directly or indirectly) any assets not used in the business. A restricted amount of interest expense is allowed to the extent the subsidiary owns (directly or indirectly) assets used in the business. Moreover as from 1 January 2019 an interest limitation rule applies in accordance with the EU Anti-tax Avoidance Directive
Equity introduced to a company as from 1 January 2015 (new equity) in the form of paid up share capital or share premium is eligible for an annual notional interest deduction (NID). The annual NID deduction is calculated as an interest rate on the new equity. The relevant interest rate is the yield on 10-year government bonds (as at December 31 of the prior tax year) of the country where the funds are employed in the business of the company plus a 3% premium (subject to a minimum amount which is the yield on the 10-year Cyprus government bond as at the same date plus a 3% premium). A taxpayer may elect not to claim all or part of the available NID for a particular tax year. Certain anti-avoidance provisions apply.	The NID deduction cannot exceed 80% of the taxable profit derived from assets financed by new equity (as calculated prior to the NID deduction)
Royalty income, embedded income and other qualifying income derived from qualifying intangible assets in the 'new' Cyprus intellectual property (IP) box (provision applies with effect from July 1, 2016) (1)	80% of the net profit as calculated using the modified nexus fraction (2)
Royalty income, embedded income and other qualifying income derived from qualifying intangible assets in the 'old' Cyprus IP box (3)	80% of the net profit
Tax amortization on any expenditure of a capital nature for the acquisition or development of IP (provision applies with effect from July 1, 2016) (4)	Allocated over the lifetime of the IP (maximum period 20 years)
Donations to approved charities (with receipts)	The whole amount
Employer's contributions to social insurance and approved funds on employees' salaries	The whole amount
Employer's contributions to social insurance, General Health System and approved funds on employees' salaries	1% on employee's remuneration
Any expenditure incurred for the maintenance of a building in respect of which there is a Preservation Order	Up to EUR 700, EUR 1,100 or EUR 1,200 per square meter (depending on the size of the building)
Expenditure incurred for the acquisition of shares in an innovative business (abolished as from 1 January 2017)	Lower of EUR 17,086 or 1% of the gross income of the business

Type of expenditure	Exemption limit
Expenditure incurred for the acquisition of shares in an innovative business.	The whole amount
Eligible infrastructure and technological equipment expenditure in the audiovisual industry	20% for small/ 10% for medium enterprises
But not including: Expenses of a private motor vehicle	The whole amount
Interest applicable to the cost of acquiring a private motor vehicle, irrespective of its use and to the cost of acquiring any other asset not used in the business	The whole amount for seven years from the date of acquisition of the asset

Notes:

- (1) Qualifying intangible assets may be legally or economically owned and comprise patents, copyrighted software, utility models, intangible assets that grant protection to plants and genetic material, orphan drug designations, extensions of patent protection. It also comprises of other intangible assets which are non-obvious, useful and novel, that are certified as such by a designated authority, and where the taxpayer satisfies size criteria (i.e. annual IP related revenue does not exceed EUR 7.5m for the taxpayer, and group total annual revenue does not exceed EUR 50m, using a five-year average for both calculations). Marketing – related intangible assets, such as trademarks, do not qualify.
- (2) A fraction is applied to the net profit based on research and development (R&D) activity of the taxpayer; the higher the amount of R&D undertaken by the taxpayer itself (or via a taxable foreign permanent establishment or via unrelated third-party outsourcing), the higher the amount of R&D fraction (modified nexus fraction).
- (3) The term 'qualifying intangible assets' under the old Cyprus IP box includes copyrights, patents and trademarks. The old Cyprus IP box closed as from June 30, 2016. Under transitional/grandfathering rules, taxpayers with intangible assets that were already included in the old Cyprus IP box as at June 30, 2016 continue to apply the old Cyprus IP box provisions for a further five years i.e. until June 30, 2021 for those intangible assets. A much shorter transitional/grandfathering period to December 31, 2016 is applied in the case of intangible assets acquired directly or indirectly from related parties during the period January 2, 2016 – June 30, 2016, unless at the time of acquisition such intangible assets were already benefiting from an IP box (including the Cyprus IP box) or were not acquired with the main purpose (or one of the main purposes) being tax avoidance. Embedded income and income earned from intangible assets economically but not legally owned will only qualify in the relevant transitional/grandfathering period if earned from those type intangible assets that would qualify for the new Cyprus IP box (i.e. patents, copyrighted software, etc.). Additionally, any expenditure of a capital nature incurred for the acquisition or development of such intangible assets may be claimed as a tax deduction in the year in which it was incurred and the immediate four following years on a straight-line basis.
- (4) Excluding goodwill and intangible assets falling under the transitional rules of the old Cyprus IP box which continue with that box's tax amortization (see 3 above). A taxpayer may elect not to claim all or part of the available tax amortization for a particular tax year.





Losses carried forward

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.

The current year loss of one company can be set off against the profit of another subject to conditions provided the companies are Cyprus tax resident companies of a group (1). Group is defined as:

- One Cyprus tax resident company holding directly or indirectly at least 75% of the voting shares of another Cyprus tax resident company
- Both of the companies are at least 75% (voting shares) held, directly or indirectly, by a third company

As from January 1, 2015 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

Note:

(1) As from January 1, 2015 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 utilize its losses in its country of residence or in the country of any intermediary EU holding company.

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).

A partnership or a sole trader transforming a business into a company can carry forward tax losses into the company for future utilization.

Losses from a permanent establishment abroad can be set off with profits of the company in Cyprus. Subsequent profits of an exempt permanent establishment abroad are taxable up to the amount of losses allowed.

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.

Annual wear and tear allowances on tangible fixed assets

The following allowances which are given as a percentage on the cost of acquisition are deducted from the chargeable income:

Fixed assets

Plant and machinery (1)	%
Plant and machinery	10
Furniture and fittings	10
Industrial carpets	10
Boreholes	10
Machinery and tools used in an agricultural business	15
Buildings (2)	%
Commercial buildings	3
Industrial, agricultural and hotel buildings (3) (4)	4
Flats	3
Metallic greenhouse structures	10
Wooden greenhouse structure	33 1/3

Notes:

- (1) Plant and machinery, vehicles (excluding private motor vehicles) and other assets acquired during the tax years 2012 – 2018 (inclusive) are eligible to accelerated tax depreciation at the rate of 20% per annum (excluding such assets which are already eligible for a higher annual tax rate of tax depreciation).
- (2) The rates stated for buildings are for new buildings. Rates are amended in the case of second-hand buildings.
- (3) In the case of industrial and hotel buildings which are acquired during the tax years 2012 - 2018 (inclusive), an accelerated tax depreciation at the rate of 7% per annum applies.
- (4) Buildings for agricultural and livestock production acquired during the tax years 2017-2018 (inclusive) are eligible for accelerated tax depreciation at the rate of 7% per annum.

Vehicles and Means of Transportation (1)	%
Commercial motor vehicles	20
Motorcycles	20
Excavators, tractors, bulldozers, self-propelled loaders and drums for petrol companies	25
Armoured Motor Vehicles (e.g. used by Security Services)	20
Specialized Machinery for the laying of Railroads (e.g. Locomotive engines, Ballast wagons, Container wagons and Container Sleeper Wagons)	20
New Airplanes	8
New Helicopters	8
Sailing vessels	4,5
Motor Yachts	6
Steamers, tugs and fishing boats	6
Shipmotor launches	12.5
New cargo vessels	8
New passenger vessels	6
Used cargo/passenger vessels	Over their useful lives
Vehicles and Means of Transportation (1)	%
Televisions and videos	10
Computer hardware and operating systems	20
Application software	33 1/3
Expenditure on application software less than EUR 1,709 is written off in the year of acquisition	100
Wind Power Generators	10
Photovoltaic Systems	10
Tools in general	33 1/3
Videotapes property and video clubs	50



Special type of companies

1. Shipping companies

The Merchant Shipping Legislation fully approved by the EU provides for exemption from all direct taxes and taxation under tonnage tax regime of qualifying ship-owners, charterers and ship managers, from the operation of qualifying community ships (ships flying a flag of an EU member state or of a country in the European Economic Area) and foreign (non-community) ships (under conditions), in qualifying activities.

The legislation allows non-community vessels to enter the tonnage tax regime provided the fleet is composed by at least 60% community vessels. If this requirement is not met, then non-community vessels can still qualify if certain criteria are met.

The legislation includes an “all or nothing” rule, meaning that if a ship-owner/ charterer/ ship manager of a group elects to be taxed under the tonnage tax regime, all ship-owners/ charterers/ ship managers of the group should elect the same.

Exemption is also given in relation to the salaries of officers and crew aboard a Cyprus ship.

2. Ship-owners

The exemption applies to:

- Profits derived from the use / chartering out of the ships
- Interest income relating to the working capital of the company
- Profits from the disposal of qualifying ships
- Dividends received from the above profits at all distribution levels
- Profit from the disposal of ship owning companies and its distribution

The exemption also applies to the bareboat charterer of a vessel flying the Cyprus flag under parallel registration.

Bareboat charter out agreements remain eligible for tonnage tax, with restrictions introduced for bareboat charter agreements to third parties.

The legislation provides a definition, as well as a specific list, of what are ancillary services. Moreover, it clarifies that the revenue from the ancillary services may fall



under the tonnage tax regime, provided that the income therefrom does not exceed 50% of the total income generated from Maritime Transport Activities ('Core Activities').

3. Charterers

Exemption is given to:

- Profits derived from the operation of chartered in ships
- Interest income relating to the working capital of the company
- Dividends received from the above profits at all distribution levels

The law grants the exemption provided that the option to register for Tonnage Tax is exercised for all vessels and provided a composition requirement is met: at least 25% (reduced to 10% under conditions) of the net tonnage of the vessels owned or bare boat chartered in.

4. Ship managers

The tax exemption covers:

- Profits from technical and /or crew management

- Dividends paid out of these profits at all levels of distribution
- Interest income relating to the working capital of the company

In order to qualify ship managers must satisfy the following additional requirements:

- Maintain a fully-fledged office in Cyprus with personnel sufficient in number and qualification
- At least 51% of all onshore personnel must be community citizens
- At least two-thirds of total tonnage under management must be managed within the community (any excess of one-third taxed under corporation tax)

The application of the tonnage tax system is compulsory for owners of Cyprus flag ships and optional for owners of non-Cyprus flags ships, charterers and ship managers. Those who choose to enter the Tonnage Tax regime must remain in the system for at least 10 years unless they had a valid reason to exit such as disposal of their vessels and cessation their activities.

5. Insurance companies

Profits of insurance companies are liable to corporation tax similar to all other companies except in the case where the corporation tax payable on taxable profit of life insurance business is less than 1.5% of the gross premiums. In this case the difference is paid as additional corporation tax.

The Cyprus Alternative Investment Funds (AIFs) and Undertakings for Collective Investment in Transferable Securities (UCITS)

The Alternative Investment Funds Law 124(I)/2018, to the extent amended (hereinafter, the *AIF Law*), defines alternative investment funds as any collective investment undertakings, including investment compartments thereof, which, collectively:

- Raise capital from a number of investors, with a view to investing it in accordance with a defined investment policy for the benefit of those investors
- Do not require authorization pursuant to Section 9 of Law 78(I)/2012, as amended (hereinafter, the *UCI Law*), or pursuant to the legislation of another member state that harmonizes the provisions of Article 5 of the Directive 2009/65/EC, as amended

The AIF Law allows for three types of AIFs to be established in Cyprus which are as follows:

- Alternative Investment Funds with Limited Number of Persons (Up to 50) (AIFLNPs)
- Alternative Investment Funds with Unlimited Number of Persons (AIFs)
- Registered AIFs (RAIFs)

Cyprus AIFs may be established with limited or unlimited duration and can take various legal forms depending on structuring orientations and tax considerations. The various legal forms in which an AIF can manifest are as follows:

AIF with a limited number of investors:

- Variable Capital Investment Company (VCIC)
- Fixed Capital Investment Company (FCIC)
- Limited Partnership (LP)

AIF with no limitation as to the number of investors:

- Variable Capital Investment Company (VCIC)
- Fixed Capital Investment Company (FCIC)
- Limited Partnership (LP)
- Common Fund (CF)

UCITs can take the following legal forms:

- Common Fund
- Variable Capital Investment Company

Taxation of Funds

Funds that are opaque for tax purposes and that are managed and controlled in Cyprus are tax residents in Cyprus and are subject

to the general provisions of the Cyprus tax framework.

In the case of funds that 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 capital gains tax 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

- 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 authorized under the Alternative Investment Fund Managers Law 56(I)/2013, as amended (hereinafter, the AIFM Law)
- Internally managed AIFs authorized under the AIFM Law
- UCITS Management Companies authorized under the UCI Law
- Internally managed UCITS authorized 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 a flat rate of 8%, with a minimum tax liability of EUR 10 per annum.

This special mode of taxation is available for a period of 10 years.

Personal Income Tax

Basis of taxation

All Cyprus tax residents are taxed on all chargeable income accrued or derived from all sources in Cyprus and abroad. Individuals who are not tax residents of Cyprus are taxed on certain income accrued or derived from sources in Cyprus.

An individual is tax resident in Cyprus if he spends in Cyprus more than 183 days in any one calendar year.

With effect as from January 1, 2017, an individual may also be considered tax resident in Cyprus if he satisfies the 60-day rule. The 60-day rule applies to individuals who in the relevant tax year:

- do not reside in any other single state for a period exceeding 183 days in aggregate, and
- are not tax resident in any other state, and
- reside in Cyprus for at least 60 days, and
- have other defined Cyprus ties.

To satisfy this condition the individual must carry out any business in Cyprus and/ or be employed in Cyprus and/or hold an office (director) of a company tax resident in Cyprus at any time in the tax year, provided that such is not terminated during the tax year. Further the individual must maintain in the tax year a permanent residential property

in Cyprus which is either owned or rented by him.

For the purposes of both the 183-days rule and the 60-day rule, days in and out of Cyprus are calculated as follows:

- The day of departure from Cyprus counts as a day of residence outside Cyprus
- The day of arrival in Cyprus counts as a day of residence in Cyprus
- Arrival and departure from Cyprus in the same day counts as one day of residence in Cyprus
- Departure and arrival in Cyprus in the same day counts as one day of residence outside Cyprus

Personal Tax Rates

The following income tax rates apply to individuals:

Chargeable income EUR	Tax rate %	Accumulated tax EUR
First 19.500	Nil	Nil
From 19.501 to 28.000	20	1.700
From 28.001 to 36.300	25	3.775
From 36.301 to 60.000	30	10.885
Over 60.000	35	

Foreign pension income is taxed at a flat rate of 5% on amounts over EUR 3.42. The taxpayer can, however, on an annual basis elect to be taxed at the normal tax rates and bands set out above.

Cyprus source widow(er)'s pension is taxed at a flat rate of 20% on amounts over EUR 19.50. The taxpayer can, however, on an annual basis elect to be taxed at the normal tax rates and bands set out above.

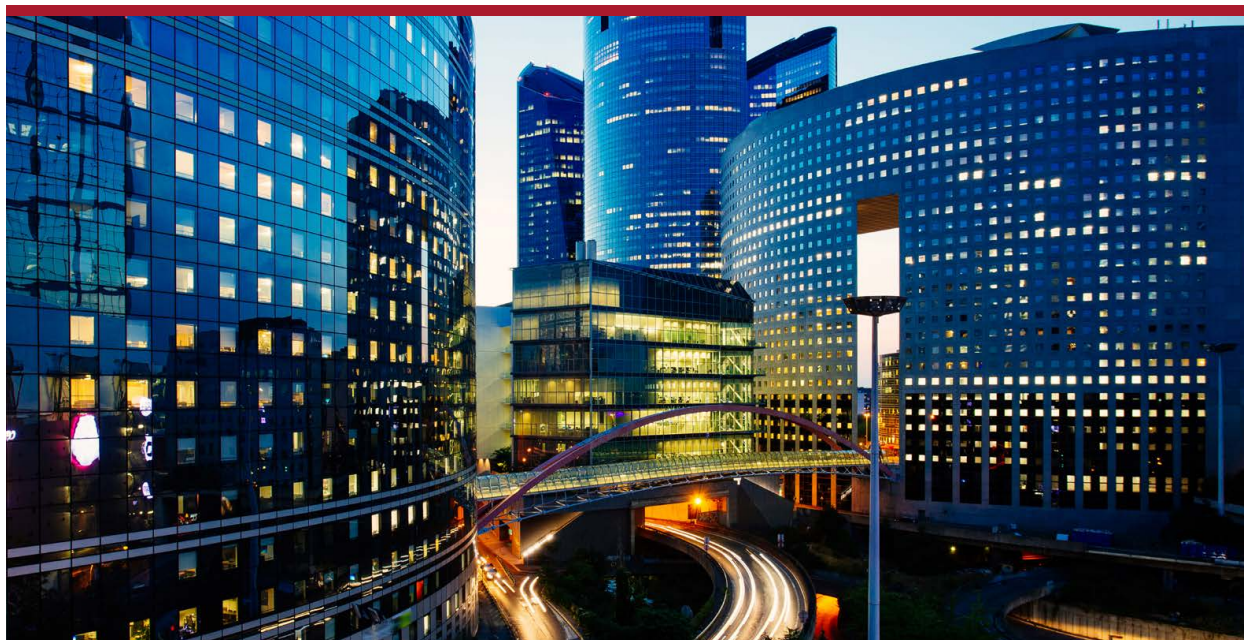


Exemptions

Type of income	Exemptions
Interest, except for interest arising from the ordinary business activities or closely related to the ordinary business activities of an individual	The whole amount (1)
Dividends	The whole amount (1)
Remuneration from any employment exercised in Cyprus by an individual who was not a resident of Cyprus before the commencement of the employment. The exemption is available for a period of 5 years for employments commencing during or after 2012 and it applies from the tax year following the year of commencement of the employment, with the last eligible tax year being 2030. This exemption may not be claimed in addition to the immediately above mentioned 50% exemption for employment income.	50% of the remuneration
Remuneration from any employment exercised in Cyprus by an individual who was not a resident of Cyprus before the commencement of the employment. For employments commencing during or after 2012 the exemption applies for a period of 5 years starting from the tax year following the year of commencement of the employment with the last eligible tax year being 2020. This exemption may not be claimed in addition to the immediately above mentioned 50% exemption for employment income.	20% of the remuneration with a maximum amount of EUR 8,550 annually
Remuneration from salaried services rendered outside Cyprus for more than 90 days in a tax year to a non-Cyprus resident employer or to a foreign permanent establishment of a Cyprus resident employer.	The whole amount
Profits of a permanent establishment under certain conditions (2)	The whole amount
Lump sum received by way of retiring gratuity, commutation of pension or compensation for death or injuries	The whole amount
Capital sums accruing to individuals from any payments to approved funds (e.g., provident funds)	The whole amount
Profits from the sale of securities (3)	The whole amount
Profits from the production of films, series and other related audiovisual programs	The lower of 35% of the eligible expenditure and 50% of the taxable income. Any restriction may be carried forward for 5 years.

Notes:

- (1) Such dividends and interest income is subject to Special Contribution for Defense. Refer to the Special Contribution for Defense section on page 29.
- (2) With effect, as from July 1, 2016, taxpayers may elect to tax the profits earned by a foreign permanent establishment, with a tax credit for foreign taxes incurred on those foreign permanent establishment profits. Transitional rules apply in certain cases on the granting of foreign tax credits where a foreign permanent establishment was previously exempt and subsequently a taxpayer elects to be subject to tax on the profits of the foreign permanent establishment.
- (3) The term Securities is defined as shares, bonds, debentures, founders' shares and other securities of companies or other legal persons, incorporated in Cyprus or abroad and options thereon. Circulars have been issued by the Tax Authorities further clarifying what is included in the term Securities. According to the circulars the term includes, among others, options on Securities, short positions on Securities, futures/forwards on Securities, swaps on Securities, depositary receipts on Securities (ADRs, GDRs), rights of claim on bonds and debentures (rights on interest of these instruments are not included), index participations only if they result on Securities, repurchase agreements or Repos on Securities, units in open-end or close-end collective investment schemes. The circulars also clarify specific types of participation in foreign entities which are considered as Securities.



Tax deductions

The following are deducted from income:

Exemptions	Deduction
Contributions to trade unions or professional bodies	The whole amount
Loss of current year and previous years (for individuals required to prepare audited financial statements, current year losses and losses of the previous five years only may be deducted)	The whole amount
Rental income	20% of rental income
Donations to approved charities (with receipts)	The whole amount
Expenditure incurred for the maintenance of a building in respect of which there is in force a Preservation Order	Up to EUR 1,200, EUR 1,100 or EUR 700 per square meter (depending on the size of the building)
Social Insurance, General Health System medical fund, private medical fund insurance contributions (maximum 1.5% of remuneration), pension and provident fund contributions (maximum 10% of remuneration) and life insurance premiums (maximum 7% of the insured amount)	Up to one-fifth of the chargeable income
Amount invested each tax year as from January 1, 2017 in approved innovative small and medium sized enterprises either directly or indirectly.	Up to 50% of the taxable income as calculated prior to this deduction (subject to a maximum of EUR 150,000 per year) (1)
Eligible infrastructure and technological equipment expenditure in the audiovisual industry	20%

Note:

(1) Unused deduction can be carried forward and claimed in the following five years, subject to the cap of 50% of taxable income (and overall maximum of EUR 150,000 per year).

Non-resident

The taxation system applicable in Cyprus states that no withholding taxes are imposed on the following sources of income, provided that such income is payable to non-tax residents in Cyprus:

- dividends
- interests
- royalties

When royalties are deriving from Cyprus, the taxation legislation stipulates that the withholding tax will be imposed at the standard rate of 10%. However, investors performing activities in the film industry will be imposed with a withholding tax on royalties applicable at the rate of 5%.

An important aspect related to the payment of withholding taxes on royalties refers to the fact that the tax can be eliminated under the stipulations of the double taxation treaties signed by Cyprus.

Other types of withholding taxes in Cyprus

Non-residents performing business activities in Cyprus will be imposed with a rate of 10% on technical services. However, the investors can be exempted from paying this tax if their services are provided through a permanent establishment.

Companies operating in the field of public entertainment (which can refer to theatres or sports club) will be imposed with a 10% withholding tax rate on the gross income.

The activities carried out by non-residents in Cyprus related to the exploitation and extraction of continental shelf will also be required to pay the withholding tax applicable at the rate of 5%, as long as the respective activity does not derive from a permanent establishment.

Indirect Taxes

Value Added Tax (VAT)

VAT is imposed on the supply of goods and provisions services in Cyprus, as well as on the acquisition of goods from the European Union (EU) and the importation of goods into Cyprus. Taxable persons charge VAT on their taxable supplies (output tax) and are charged with VAT on goods or services which they receive (input tax). If output tax in a VAT period exceeds total input tax, a payment has to be made to the state. If input tax exceeds output tax, the excess input tax is carried forward as a credit and set off against future output VAT.

An important aspect related to the payment of withholding taxes on royalties refers to the fact that the tax can be eliminated under the stipulations of the double taxation treaties signed by Cyprus.



Immediate refund of excess input VAT can be obtained in the following cases:

- A period of eight months has elapsed from the date the VAT became refundable
 - Input VAT which cannot be set off against output VAT until the last VAT period of the year which follows the year in which the VAT period in which the credit created falls
 - The input VAT relates to zero and rated transactions
 - The input VAT relates to the purchase of capital assets of the company
 - The input VAT relates to transactions which are outside the scope of VAT but would have been subject to VAT had they been carried out within Cyprus
 - The input VAT relates to exempt financial and insurance services provided to non-EU resident clients (services for which the right to recover the related input VAT is granted)
- For intra-community acquisition of goods (with the exception of goods subject to excise duty) the trader does not pay VAT on receipt of the goods in Cyprus but instead accounts for VAT using the acquisition accounting method. This involves a simple accounting entry in the books of the business whereby it self-charges VAT and at the same time claims it back, provided it relates to supplies for which the right to recover input VAT is granted, thereby creating no cost to the business.

In cases the acquisition relates to a transaction for which the right to recover the input VAT is not granted, the trader must pay the VAT that corresponds to the acquisition.

VAT rates

The legislation provides for the following four tax rates:

- Zero rate (0%)
- Reduced rate of five per cent (5%)
- Reduced rate of nine per cent (9%)
- Standard rate of 19% as from January 13, 2014

Exemptions

Certain goods of services are exempt from VAT. They include:

- 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 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 funds

VAT on immovable property

A number of recent amendments to Cyprus VAT Legislation concerning transactions in real estate were enacted during 2017, these amendments comprise of:

1. Imposition of VAT on leasing of immovable property (land and commercial buildings, other than residential buildings) when used by lessee in making taxable supplies. The lessor has the right to opt not to impose VAT on the specific property. The option is irrevocable.

2. The imposition of 19% VAT on the sale of non- developed building land, as from January 2, 2018, which is defined as a land intended for the construction of one or more structures in the course of carrying out a business activity. No VAT will be imposed on the purchase or sale of land located in a livestock zone or areas which are not intended for development such as zones/areas of environmental protection, archaeological and agricultural.
3. The application of reverse charge on transactions relating to transfers of immovable property during the process of loan restructuring and for compulsory transfer to the lender, as from January 2, 2018.

Imposition of the reduced rate 5% on the acquisition and/or construction of residences for use a primary and permanent place of residence

The reduced rate of 5% applies to contracts that have been concluded from October 1, 2011 onwards provided they relate to the acquisition and/or construction of residences to be used as the primary and permanent place of residence for the next 10 years.

Following a legislative amendment, the restriction that existed for the imposition of the reduced rate of VAT on the first 200 square meters for private residences up to 275 square meters no longer applies.

Based on the amendment, the reduced rate of VAT of 5% applies on the first 200

square meters whereas for the remaining square meters as determined based on the building coefficient, the standard VAT rate is imposed.

The reduced rate is imposed only after obtaining a certified confirmation.

The eligible person must submit an application on a special form, which will state that the house will be used as the primary and permanent place of residence. The applicant must attach a number of documents supporting the ownership rights on the property and evidencing the fact that the property will be used as the primary and permanent place of residence. The application must be filed prior to the actual delivery of the residence to the eligible person.

As from June 8, 2012 eligible persons include residents of non-EU Member States, provided that the residence will be used as their primary and permanent place of residence in the Republic.

The documents supporting the ownership of the property must be submitted together with the application. The documents supporting the fact that the residence will be used as the primary and permanent place of residence (copy of telephone, water supply or electricity bill or of the municipal taxes) must be submitted within six months from the date on which the eligible person acquires possession of the residence.

A person who ceases to use the residence as his primary and permanent place of

residence before the lapse of the 10-year period must notify the Commissioner of Taxation, within thirty days of ceasing to use the residence, and pay the difference resulting from the application of the reduced and the standard rate of VAT attributable to the remaining period of 10 years for which the property will not be used as the main and primary place of residence.

In addition, based on the amendment, persons who have already acquired a residence on which the reduced VAT rate was imposed, can re-apply and acquire a new residence on which the reduced VAT rate will be imposed, irrespective of whether the 10-year prohibition period for using the residence provided or in the legislation has lapsed or not. A condition for this to apply is that in case the 10-year period of using the residence as the main and permanent place of residence has not lapsed, the persons must pay back to the Tax Department the difference in the VAT between the standard and reduced VAT rates applicable at the time of the acquisition or construction of the residence.

As from June 8, 2012 eligible persons include residents of non-EU Member States, provided that the residence will be used as their primary and permanent place of residence in the Republic.

Persons who make a false statement to benefit from the reduced rate are required by law to pay the difference of the additional VAT due. Furthermore, the legislation provides that such persons are guilty of a criminal offence and, upon conviction, are liable to a fine, not exceeding twice the amount of the VAT due, or imprisonment up to three years or may be subject to both sentences.

Imposition of the reduced rate of 5% on the renovation and repair of private residences

As from December 4, 2015 the renovation and repair of old private residences (for which a period of at least three years has elapsed from the date of their first use) is subject to VAT at the reduced rate of VAT of 5%, excluding the value of materials which constitute more than 50% of the value of the services.

In addition, as from December 4, 2015 the renovation and repair of old private residences (for which a period of at least three years has elapsed from the date of their first use) and which are used as the place of residence of vulnerable groups or residences that are used as the place of residence and which are located in remote areas are subject to VAT at the reduced rate of VAT of 5%.

Difference between zero rate and exempt supplies

The difference between zero rate and exempt supplies is that businesses that make exempt supplies are not entitled to recover the VAT charge on their purchases, expenses or imports.



Irrecoverable input VAT

As an exception to the general rule, input VAT cannot be recovered in a number of cases which include the following:

- Acquisitions used for making exempt supplies;
- Purchase, import or hire saloon cars;
- Entertainment and hospitality expenses (except those relating to employees and directors).

Registration

Registration is compulsory for businesses with (a) turnover subject to VAT in excess of EUR 15,600 during the 12 preceding months or (b) expected turnover subject to VAT in excess of EUR 15,600 within the next 30 days.

Businesses with turnover of less than EUR15,600 with supplies that are outside the scope of VAT but for which the right to claim the amount of the related input VAT

is granted, have the option to register on a voluntary basis.

An obligation for registration also arises for businesses which make acquisition of goods from other EU Member State in excess of EUR 10,251.61 during any calendar year. In addition, as from January 1, 2010 an obligation for VAT registration arises for businesses engaged in the supply of intra-community services for which the recipient must account for VAT under the reverse charge provisions. Furthermore, an obligation for VAT registration arises for businesses carrying out economic activities from the receipt of services from abroad for which an obligation to account for Cyprus VAT under the reverse charge provision exists subject to the registration threshold of EUR 15,600 per any consecutive 12-month period. No registration threshold exists for the provision of intra-community supplies of services.

VAT registered persons have the right to request for a different filling period.

Exempted products and services, and disposals for items of capital nature are not taken into account for determining annual turnover for registration purposes. Registration is affected by completing the appropriate application form.

VAT declaration – payment/refund of VAT

VAT returns must be submitted quarterly, and the payment of the VAT must be made by the 10th day of the second month that follows the month in which the VAT period ends.

VAT registered persons have the right to request for a different filling period. For this to happen, the approval of the VAT authorities is required. The VAT Commissioner also has the right to request from a taxable person to file his VAT returns for a different period.

Where in a quarter input tax is higher than output tax, the difference is refunded or is transferred to the next VAT quarters.

As from February 19, 2013 taxpayers who make a claim for VAT refund will be entitled to repayment of the principal amounts together with interest, in the event that the payment is delayed for a period exceeding four months from the date of the submission of the claim.

The grace period for the VAT Authorities to reply the refundable amounts is extended by four months (i.e. eight months in total) in the event that the Commissioner is carrying out an investigation in relation to the submitted claim.

Thresholds and penalties	Amount in Euro (EUR)
Registration threshold (taxable supplies in Cyprus)	15,600
Registration threshold for distance sales (sale of goods to persons not subject to VAT registration in Cyprus, by suppliers resident in another EU Member State)	35,000
Registration threshold for acquisition of goods in Cyprus from suppliers resident in another EU Member States	10,251.61
Registration threshold for intra-community supply of services	No threshold
Registration threshold for receipt of services from abroad for which the recipient must account for VAT under the reverse charge provisions	15,600
Penalty for late submission of VAT return	51 for each return
Penalty for omission to keep books and records for a period of 6 years	341
Penalty for late submission of VIES return	50 for each return
Penalty for late submission of corrective VIES return	15 for each return
Omission to submit the VIES return constitutes a criminal offence with a maximum penalty of	850
Penalty for late registration with the VAT authorities	85 per month of delay





Real Estate Taxes

Immovable Property Tax

Immovable Property Tax (IPT) has been abolished as from January 1, 2017. Up to tax year of 2016, the owner of immovable property situated in Cyprus was liable to pay an annual IPT which was calculated on the market value of the property as at January 1, 1980, at the varying rates as noted in the table below, which applied per owner and not per property.

Tax rates

Property value (as at January 1, 1980 EUR)	Rate %	Accumulated tax EUR
First 40,000*	6	240
From 40,001 – to 120,000	8	880
From 120,001 – to 170,000	9	1,330
From 170,001 – to 300,000	11	2,760
From 300,001 – to 500,000	13	5,360
From 501,000 – to 800,000	15	9,860
From 800,001 – to 3,000,000	17	47,260
Over 3,000,000	19	

*Property owners whose property had a total value of EUR 12,500 or less (using values of January 1, 1980) were exempt from Immovable Property Tax.

Exemptions

The following are not subject to Immovable Property Tax:

- Public cemeteries
- Churches and other religious buildings (partly exempt)
- Public hospitals
- Schools
- Immovable property owned by the Republic
- Foreign embassies and consulates
- Common use and public places
- Property under Turkish occupation
- Buildings under a Preservations Order
- Buildings of charitable organisations
- Agricultural land used in farming or stock breeding, by farmer or stock breeder residing in the area

Capital Gains Tax

Capital Gains Tax (CGT) is imposed (when the disposal is not subject to income tax) at the rate of 20% on gains from the disposal of immovable property situated in Cyprus including gains from the disposal of shares in companies which directly own such immovable property. Further, as from December 17, 2015 shares of companies which indirectly own immovable property located in Cyprus and at least 50% of the

market value of the said shares derive from such immovable property are subject to Capital Gains Tax. In the case of share disposals only that part of the gain relating to the immovable property situated in Cyprus is subject to CGT.

Disposal for the purposes of CGT specifically includes exchange, leasing, gifting, abandoning use of right, granting of right to purchase, and any sums received upon cancellation of disposals of property.

Shares listed on any recognized stock exchange are excluded from these provisions.



Exemptions

The following disposals of immovable property are not subject to CGT:

- Subject to conditions, land as well as land with buildings, acquired in the period July 16, 2015 up to December 31, 2016 will be exempt from CGT upon its disposal subject to certain anti-avoidance provisions

- Transfers arising on death
- Gifts made from parent to child or between husband and wife or between up to third degree relatives
- Gifts to a company where the company's shareholders are members of the donor's family and the shareholders continue to be members of the family for five years after the day of the transfer
- Gifts by a family company to its shareholders, provided such property was originally acquired by the company by way of donation. The property must be kept by the donee for at least three years
- Gifts to charities and the Government
- Transfers as a result of reorganizations
- Exchange or disposal of immovable property under the Agricultural Land (Consolidation) Laws
- Expropriations
- Exchange of properties, provided that the whole of the gain made on the exchange has been used to acquire the other property. The gain that is not taxable is deducted from the cost of the new property, i.e. the payment of tax is deferred until the disposal of the new property
- Donations to a political party

Determination of capital gain

Liability is confined to gains accruing since January 1, 1980. The cost that is deducted from gross proceeds on the disposal of immovable property are its market value at January 1, 1980, or the cost of acquisition and improvements of the property, if made after January 1, 1980, as adjusted for inflation up to the date of disposal on the basis of the consumer price index in Cyprus.

Expenses that are related to the acquisitions and disposal of immovable property are also deducted, subject to certain conditions e.g. interest costs on related loans, transfer fees, legal expenses etc.

Lifetime exemptions

Individuals can deduct from the capital gain the following:

Disposal of private residence (subject to certain conditions)	85,430 EUR
Disposal of agricultural land by a farmer	25,629 EUR
Any other disposal	17,086 EUR

The above exemptions are lifetime exemptions subject to an overall lifetime maximum of EUR 85,430

Transfer fees by the department of land and surveys

The fees charged by the Department of Land Surveys to the acquirer for transfers of immovable property are as follows:

Value EUR	Rate %	Fee EUR	Accumulated fees EUR
First 85,000	3	2,550	2,550
From 85,001 – to 170,000	5	4,250	6,800
Over 170,000	8		

However:

- No transfer fees are payable if VAT is applicable upon purchasing the immovable property.
- The above transfer fees are reduced by 50% in case the purchase of immovable property is not subject to VAT.

In the case of free transfers of property, the transfer fees are calculated on the value of the property as follows:

- from parents to children – Nil
- between spouses – 0.1%
- between third degree relatives – 0.1%
- to trustees EUR 50

Value in these cases refers to values as at January 1, 2013.

Mortgage registration fees are 1% of the current market value.

In the case of companies' reorganizations, transfers of immovable property are not subject to transfer fees or mortgage registration fees.

Further, certain debt-for-asset swap arrangements may under conditions be exempted from transfer fees.

Stamp duty

Stamp duty is payable on all property purchases within one month from the date of signing the relevant agreement, and is calculated as follows:

Property value	Tax rate
From EUR0 to EUR 5,000	0%
From EUR 5,001 to EUR 170,000	0.15%
Over EUR 170,000	0.20%*

* Up to a maximum amount of EUR 20,000

Inheritance and Gift Taxes

Gift tax in Cyprus

Gift tax is a transfer tax applied to an individual who gives anything of value to another person. For something to be considered as a gift, the transfer must be gratuitous (without compensation) or the receiving party must pay an amount less than the item's full value. The person who gives a gift is required to pay gift tax.

The general purpose of gift tax, as defined by Cyprus tax law and practice, is to prevent the use of gifts as a means of avoiding estate taxes (inheritance taxes) that are due on the death of a wealthy individual by giving away most of their money before they die.

Gift tax exists in order to prevent people from having an easy way to avoid or bypass estate tax. If people could make unlimited gifts to their heirs, few taxpayers would ever be subject to estate tax.

Estate tax in Cyprus

An individual's estate is the total value of their assets less any debts at the time of their death. In general, if an individual die with a large estate and its value is above the relevant threshold limit the estate is subject to inheritance tax.

Most countries have inheritance tax and the tax rate in this regard can be quite high. However, Cyprus has no inheritance tax (was abolished on January 1, 2000).

Persons to be entitled to the benefits of Cyprus's lack of inheritance tax, must prove that they are domiciled in Cyprus.

An individual's estate is the total value of their assets less any debts at the time of their death.

The word ‘domicile’ in this context means more than a permanent resident and refers to an individual who not only lives in Cyprus but can prove to the tax authorities in their country of origin that they intend to spend the rest of their life in Cyprus.

The following factors may be considered in this regard:

- an individual’s intentions
- an individual’s permanent residence
- an individual’s business interests
- an individual’s social and family interests
- an individual’s property
- an individual’s will

Benefits and importance

- high-net-worth individuals are affected and can benefit by reducing or eliminating taxation if or when they want to transfer assets to their family or others
- individuals and families that want to apply to the Cyprus Investment Programme (and gain EU citizenship) must seek expert advice to estimate possible taxation when they acquire assets or want to transfer said assets after a certain period of time
- individuals and families that want to acquire permanent residency in Cyprus and/or tax residency may be eligible for tax returns, tax reductions or other benefits

The simplicity of Cyprus’s tax system, especially with regard to estate and gift tax, is one of the major attraction points for the many high-net-worth individuals and companies that choose Cyprus as their place of business and or residence.

M&A

Acquisitions

From tax point of view, the advantages on a Sale and Purchase of Shares transaction are:

- a. no withholding tax is payable on distributions.
- b. no VAT arises on the sale of shares.
- c. historic losses are carried forward in the Target Company for up to five years to reduce future taxable profits.
- d. Group relief is available if there is a 75% or greater holding.

However, if the Target Company directly or indirectly owns immovable property situated in Cyprus, capital gains tax is payable on any gain attributable to the property (unless reorganization relief is available, see below).

Mergers

From a tax point of view, in general, transactions, including mergers, falling within the statutory definition of “Arrangements” as reorganization relief, are exempt from tax.

The benefits of Mergers are:

- a. corporate tax exemption on profits derived by the dividends/ transfer of assets during the merger.
- b. VAT exemption; mergers fall outside the scope of VAT.
- c. stamp duty exemption on agreements concluded for merger purposes.
- d. capital gains tax exemption on profits generated from the transfer of immovable properties during the merger.
- e. transfer fees exemption on the transfer of immovable properties during the merger.
- f. mortgage fees exemption on the transfer of mortgaged immovable properties during the merger.

Transfer Pricing

On June 30, 2017 the Cyprus Tax Authorities issued a circular providing guidance for the tax treatment of all relevant existing and future intra-group financing transactions. The Circular is effective as from July 1, 2017, and closely follows the application of the arm's length principle of the OECD Transfer Pricing Guidelines.

According to the circular, the remuneration arising from intra-group financing transactions should comply with the arm's length principle and correspond to the price that would have been accepted by independent parties in comparable

transactions carried out in the open market in comparable circumstances.

The circular requires a comparability analysis to be performed for the purpose of:

- Accurate description (delineation) of the transaction. This stage involves several analyses to be followed such as Substance over form analysis, Functional analysis, Risk analysis etc.
- Determination of the arm's length remuneration. Once the transaction has been accurately delineated then the arm's length remuneration is determined by identifying comparable transactions observed in the open market at the time of undertaking the transactions and considering the remuneration that would have been agreed on the open market.

Simplification Measure for pure intermediary entities

The Simplification Measure may be followed, at the option of the taxpayer, where a taxpayer meets the substance requirements (as set out above) and pursues a purely intermediary activity of granting financing to related parties which is financed by related party loans/advances.

Under the Simplification Measure transactions are deemed to comply with the arm's length principle if at least a 2% return after-tax on assets is received.

Under the Simplification Measure transactions are deemed to comply with the arm's length principle if at least a 2% return after-tax on assets is received. This percentage will be regularly reviewed by the Cyprus Tax Authorities.

Exchange of information

Use of the Simplification Measure, as well as tax rulings (or advance pricing arrangements), will be subject to the exchange of information rules set under the EU Directive on Administrative Cooperation.

Transfer Pricing report requirements

The Circular prescribes the required content of a Transfer Pricing report and provides that such reports should be prepared by a Transfer Pricing expert. It is expected that the Transfer Pricing report is submitted to the Cyprus Tax Authorities by a licensed company auditor who is required to carry out an assurance control confirming its quality.

The taxpayer must ensure that an appropriate Transfer Pricing policy and relevant Transfer Pricing documentation are in place.

Other Taxes

Special contribution for defense

Special Contribution for Defense is imposed on dividend income, passive interest income and rental income earned by companies' tax resident in Cyprus and by individuals who are both Cyprus tax resident and Cyprus domiciled. It is charged at the rates shown in the table below:

	Tax rates Individuals (1) %	Tax rates Legal entities (1) %
Dividend income from Cyprus resident companies	17 (5)	Nil (2)
Dividends income from non-Cyprus resident companies	17 (5)	Nil (3)
Interest income arising from the ordinary activities or closely related to the ordinary activities of the business	Nil (4)	Nil (4)
Other interest income ("passive")	30 (5)	30 (5)
Rental income (reduced by 25%)	3 (5)(6)	3 (5)(6)

DAC6

On March 18, 2021, the Cyprus parliament voted into law the provisions of EU Council Directive 2018/822 (DAC6), and it was published in the Official Government Gazette on March 31, 2021.

The Directive increases transparency in the area of direct taxation, with a view to combating tax avoidance and tax evasion in the EU. The obligation to report potentially

aggressive tax planning aims to balance the disproportionateness of information between tax authorities and taxpayers, enabling EU member states to prevent harmful tax practices and close any gaps. Despite the fact that the law was enacted only recently, DAC6 has retroactive applications as of June 25, 2018. This implies that intermediaries and taxpayers must review the necessary information relating to transactions implemented on or after that date, in order to fulfill their reporting obligations.

Notes:

(1) Legal entities are subject to Special Contribution for Defense if they are tax resident in Cyprus (see page 4). Prior to July 16, 2015 individuals were subject to Special Contribution for Defense if they were tax resident in Cyprus (see page 1). As from July 16, 2015 individuals are subject to Special Contribution for Defense if they are both Cyprus tax resident and Cyprus domiciled. An individual is domiciled in Cyprus for the purposes of Special Contribution for Defense if he has a domicile of origin in Cyprus per the Wills and Succession Law (with certain exceptions) or if he has been a tax resident in Cyprus for at least 17 out of the 20 tax years immediately prior to the tax year of assessment. Anti-avoidance provisions apply.

(2) Dividends received by a Cyprus tax resident company from other Cyprus tax resident companies are exempt, subject to certain anti-avoidance provisions.

(3) As from January 1, 2016 this section only applies to dividends which are not deductible for tax purposes by the paying company. Dividends which are deductible for tax purposes by the paying company are subject to Corporation Tax and not Special Contribution for Defense.

The exemption of this section does not apply if:

- more than 50% of the paying company's activities result directly or indirectly in investment income and
- the foreign tax is significantly lower than the tax burden in Cyprus. The tax authorities have clarified through a circular that "significantly lower" means an effective tax rate of less than 6,25% on the profit distributed.

When the exemption does not apply, the dividend income is subject to Special Contribution for Defense at the rate of 17%.

(4) Such interest income is subject to personal Income Tax / Corporation Tax.

(5) The Special Contribution for Defense rate on interest income of 30% is effective for interest received or credited from April 29, 2013 onwards.

Interest income earned by individuals from Cyprus government savings bonds and development bonds as well as all interest earned by a provident fund is subject to Special Contribution for Defense at the rate 3% (instead of 30%)

In the case where the total income of an individual (including interest) does not exceed EUR 12,000 in a tax year, then the rate is reduced to 3% (instead of 30%)

For Cyprus sourced rental income where the tenant is a Cyprus company, partnership, the state or local authority Special Contribution for Defense on rental income is withheld at source and is payable at the end of the month following the month in which it was withheld. In all other cases the Special Contribution for Defense on rental income is payable by the landlord in 6 monthly intervals on June 30 and December 31 each year.

For Cyprus, sourced interest and dividends Special Contribution for Defense due is withheld at source and is payable at the end of the month following the month in which they were paid.

However, for foreign sourced dividends, interest and rental income Special Contribution for Defense is payable in 6-month intervals on June 30 and December 31 each year.

(6) Rental income is also subject to personal income tax / corporation tax.

(7) Foreign taxes paid can also be credited against the Special Contribution for Defense Tax Liability.

Deemed dividend distribution

A Cyprus tax resident company is deemed to distribute as a dividend 70% of its accounting profits (as adjusted for Special Contribution for Defense purposes and net of Corporation Tax, Special Contribution for Defense on company incomes, Capital Gains Tax and unrelieved foreign taxes) two years from the end of the tax year in which the profits were generated.

Such a deemed dividend distribution is reduced with payments of actual dividends paid during the relevant year the profits were generated or paid during the two following years.

On the remaining net amount (if any) of deemed dividend 17% Special Contribution for Defense is imposed to the extent that

the ultimate direct/indirect shareholders of the company are individuals who are both Cyprus tax resident and Cyprus domiciled (see page 16). Prior to July 16, 2015 the imposition applied to the extent the ultimate direct/indirect shareholders of the company were Cyprus tax resident individuals. Instead of the rate of 17% a rate of 3% is applicable on deemed dividend distribution of Collective Investment Schemes.

When an actual dividend is paid after the deemed dividend distribution date, then if Special Contribution for Defense is due on such a dividend, the tax is imposed only on the amount of the actual dividend paid which is over and above the dividend that was previously deemed to have been distributed and previously suffered Special Contribution for Defense.

Note:

A number of adjustments to the accounting profit are required for deemed distribution purposes, including for tax years 2012, 2013 and 2014 if the company has acquired in those years' plant, machinery or buildings (excluding private motor vehicles) for business purposes, the cost of these assets will be deductible against the accounting profits.

Disposal of assets to shareholder at less than market value

When a company disposes of an asset to an individual shareholder or a relative of his up to second degree or his spouse for a consideration less than its market value, the difference between the consideration and the market value will be deemed to have been distributed as a dividend to the shareholder. This provision does not apply for assets originally gifted to the company by an individual shareholder or a relative of his up to second degree or his spouse.

Company dissolution

The cumulative profits of the last five years prior to the company's dissolution, which have not been distributed or deemed to have been distributed, will be considered as distributed on dissolution and will be subject to Special Contribution for Defense at the rate of 17% (3% for Collective Investment Schemes).

This provision does not apply in the case of dissolution under a Reorganization.



Reduction of capital

In the case of a reduction of capital of a company, any amounts paid or due to the shareholders over and above the previously paid-in equity will be considered as dividends distributed subject to Special Defense Contribution at the rate of 17% after deducting any amounts which have been deemed as distributable profits.

The redemption of units or shares in a Collective Investment Scheme is not subject to the above provisions.

Prior to July 16, 2015 the above three provisions applied only to the extent that the ultimate shareholders (direct or indirect) are Cyprus tax resident individuals. As from July 16, 2015 the above provisions apply only to the extent that the ultimate shareholders (direct or indirect) are individuals who are both Cyprus tax resident and Cyprus domiciled.

Capital duty

Upon incorporation of a Cyprus company

Authorized share capital	EUR 105 and no capital duty
Issued share capital	There is no capital duty payable if the shares are issued at their nominal value. There is a EUR 20.00 flat duty if the shares are issued at a premium

Upon subsequent increases

Authorised share capital	NIL
Issued share capital	EUR 20 flat duty on every issue, whether the shares are issued at nominal value or at a premium

Stamp duty

The following table gives the amount or rate of duty payable on certain documents. Transactions which fall within the scope of reorganizations are exempt from stamp duty. Also, documents relating to assets situated outside Cyprus or business affairs that take place outside Cyprus are exempt from stamp duty.

Nature of documents

Receipts (if not exempt) – for sums of over EUR 4	7 cents
Cheques	5 cents
Letters of credit	EUR 2
Letters of guarantee	EUR 4
Bills of exchange (payable within three days, on demand or at sight)	EUR 1
Contracts with a fixed amount as from March 1, 2013: - the first EUR 5,000 - between EUR 5,001 – EUR 170,000 - above EUR 170,000	0% 1.5% 2%*
Contracts without fixed sum	EUR 35
Customs declaration documents (depending on document type)	EUR 18 – EUR 35
Bills of lading	EUR 4
Charterparty	EUR 18
Powers of attorney - general - limited	EUR 6 EUR 2
Certified copies of contracts and documents	EUR 2

* Up to a maximum amount of EUR 20,000.

Overview

Employment law in Cyprus is a mixture of statutes and case law, based on Article 25 of the Cypriot Constitution which guarantees the right to work. The main statutory instruments are the Termination of Employment Law 1967, the Annual Paid Leave Law 1967 and the Social Insurance Law 1980, as amended. Specific matters arising from the employment relationship are governed by specific statutes such as the Protection of the Maternity Law 1997, the Equal Treatment at Work and Employment Law 2004 and the Safety and Health at Work Law 1996. General contractual principles governing the employment relationship are derived from the Contract Law, Cap. 149.

Employment law in Cyprus is a mixture of statutes and case law, based on Article 25 of the Cypriot Constitution which guarantees the right to work.

Employment Contracts

According to the law (Employment Relationship Law), the employer is obliged to inform the employee in writing, within one month after the beginning of the employment, of the basic terms applicable to his contract of employment or employment relationship.

The basic terms of an employment contract or employment relationship, that the employer is obliged to inform in writing the employee are the following:

- The place of his work
- His duties, his grade or category of work, as well as the content and object of his work
- The starting date of the contract or the employment relationship and its probable duration, in the case of employment on a fixed term
- The duration of paid leave, to which the employee is entitled, as well as the method and time in which it may be taken.
- The probation period, if any
- All types of remuneration to which the employee may be entitled and the time schedule for their payments.
- The duration of his daily or weekly work including break time
- Mention of any collective agreements which govern the terms of the employment

Salaries

The salary is negotiated between the employer and the employee. However, the Ministerial Council has set the minimum salary for certain occupations.



The Minimum Wage Order of 2012 applies to clerks, salespersons, school aids, child and infant minders, nursing aids, care workers and from the April 1, 2012 is EUR 870. After six months of employment with the same employer, the minimum salary is increased to EUR 924. The minimum hourly salary for security guards is EUR 4.90 and after six months of employment in the same employer, it becomes EUR 5.20. The minimum hourly salary for cleaners of business is EUR 4.55 and after six months of employment in the same employer, it becomes EUR 4.84.

Working Hours

Normal weekly working hours are provided for either in collective agreements, or by an agreement between the employer and the employee. In general, normal weekly working hours based on collective agreements, usual practice and agreement between employer and employee range between 38 and 40 hours.

Under the Working Time Law, which applies to all employees except for employees in specific occupations, the number of working hours for a five-day week should not exceed

48 hours per week, including overtime. Where the employer requires the worker to work longer than 48 hours, this may be done only by prior mutual agreement. The worker has the right to refuse, without any detriment to his employment. Where, with the worker's consent, the work exceeds the maximum weekly working time (48 hours), the employer has to (a) keep a record of the names of all workers working longer than 48 hours, and (b) make this record available to the Ministry of Labor and Social Insurance, together with the workers' particulars, including their consent to perform work exceeding the maximum of 48 hours.

Employees are generally entitled to a minimum of 11 continuous hours of rest per day, 24 continuous hours of rest per week and either two rest periods of 24 continuous hours each or a minimum of 48 continuous hours within every 14-day period. When the daily work exceeds six working hours, the employee is entitled to a break of a continuous period of 15 minutes. The period of a break and the technical specifications thereof are determined by an agreement between the employer and the employee.



For specific occupations such as clerks, hotel & catering employees, shop employees, quarry workers and miners, different fixed hours apply regulated by specific laws, regulations or orders. For example, for every person employed as a clerk or in an executive or administrative capacity, including low rank employees and messengers, but excluding employers, partners, company directors or officials, in offices at which any trading or banking business or liberal profession is carried out (with the exception of persons employed in offices that are located in industrial undertakings, doctor's practices, hospitals or shops), the total number of hours of work cannot exceed 44 per week (including overtime) or eight per day.

Termination of Employment

According to the Termination of Employment Law:

- a. An employer who intends to terminate an employee, who has completed at least 26 weeks of continuous employment with that employer, has an obligation to give minimum written notice as follows:
 - From 26 weeks work to 51 weeks (six months – one year): one-week notice
 - From 52 weeks work to 103 weeks (one year – two years): two weeks' notice
 - From 104 weeks work to 155 weeks (two years – three years): four weeks' notice
 - From 156 weeks work to 207 weeks (three years – four years): five weeks' notice
 - From 208 weeks work to 259 weeks (four years – five years): six weeks' notice
 - From 260 weeks work to 311 weeks (five years – six years): seven weeks' notice
 - From 312 weeks' work or more (six years +): eight weeks' notice

An employer can dismiss an employee without notice in the cases of:

- a serious offence by the employee in the course of his duty
- a criminal offence without the agreement, expresses or implied consent by his employer

- improper behavior by the employee in the course of his duties
- serious or repeated violation or disregard of work regulations or other rules in relation to the employment

If the employer does not exercise his right of dismissal within a reasonable period following the matter which gave rise to this right, the dismissal may be considered as unlawful.

An employee who is dismissed unlawfully by an employer, with whom he has been continuously employed for not less than 26 weeks, has a right to compensation payable by the employer. An employee is also entitled to compensation in the case where he terminates his employment due to the behavior of the employer against him. An employee is not entitled to compensation for termination of employment if before the date of termination of his employment he has attained the pensionable age.

- b. An employee, who intends to terminate his employment, should give his employer a minimum period of notice depending on the period of his employment as shown below:
- From 26 weeks work to 51 weeks (six months – one year): one-week notice
 - From 52 weeks work to 259 weeks (one year – five years): two weeks' notice
 - From 260 weeks work and over (five years +): three weeks' notice

International Mobility

The rules applicable to worker mobility in Cyprus depend on whether the nationals are from a Member State of the EU or from outside of it.

Employment of EU nationals in Cyprus

(a) Freedom of movement:

The free movement of workers is a fundamental principle enshrined in Article 45 of the Treaty on the Functioning of the EU and developed by EU secondary legislation and Court of Justice case law. Law 7(I) of 2007 (the right of EU citizens and their family members to move and reside freely within the Republic of Cyprus) is the main legislative instrument regulating the free movement of EU nationals working in Cyprus. When employment requires EU nationals to remain in Cyprus for more than three months, the statute requires them to register with the competent authority, i.e., the Ministry of Interior, and calls for registration

(b) Social insurance:

The rules for determining which Member State's legislation applies are set out in Articles 11 to 16 of Regulation 883/2004, and the related implementing provisions are set out in Articles 14 to 21 of Regulation 987/2009.

The guiding principle is that EU nationals are subject to the legislation of a single Member State for the purposes of social insurance. For employees, the legislation of the Member State where the activity is carried out usually applies (*lex loci laboris*).

People receiving certain short-term cash benefits based on their employment or self-employment are also subject to the legislation of the Member State of activity. Any other person is subject to the legislation of the Member State of residence.

(c) Posting of workers:

Posting Directive 96/71/EC, concerning the posting of workers for the provision of services, as amended (PWD), aims to facilitate aspects of the freedom of movement of workers. The Enforcement Directive of 2014 (yet to be transposed in Cyprus) supplements the PWD by addressing shortcomings related to implementing existing rules. Cyprus transposed the PWD into the Cypriot legislation in the form of the Posting of Workers in the Framework of the Provision of Services Law of 2002, L. 137(I) of 2002 (PWL).

Under PWL, a worker is any person working for another person, either under an employment contract or under circumstances from which the existence of an employer-worker relationship can be inferred, irrespective of that person's title in the country of origin.

This could be seen as encouraging attempts to circumvent employment or social security legislation. A Cypriot subsidiary could be used to post EU nationals of one country to another, with a view toward saving on wages. These issues are expected to be addressed through the transposition of the 2014 Enforcement Directive.

Employment of third-country nationals

The Constitution guarantees equal treatment rights to non-nationals. The main legislative instrument regulating the employment of third-country nationals is the Aliens and Immigration Law, Cap. 105 of the laws of Cyprus. Moreover, Cyprus has adhered to Article 19 of the Revised European Social Charter (i.e., the right of migrant workers and their families to protection and assistance). Third-country nationals can apply to obtain an immigration permit (temporary or permanent).

If no particular circumstances exist for special adjustments or an ad hoc policy, the basic precondition for granting a permit for employment of third-country nationals is the absence of Cypriot or EU candidates to meet the employer's specific needs. That determination will be made after an investigation by the competent authorities. Subject to exceptions, third-country nationals can remain for employment for a maximum of four years.

Employment law in Cyprus is a mixture of statutes and case law, based on Article 25 of the Cypriot Constitution which guarantees the right to work.



Social Security

The Social Insurance Scheme covers compulsorily every person gainfully occupied in Cyprus either as an employed person or as a self-employed person. Persons working abroad in the service of Cypriot employers and persons who interrupt their compulsory insurance are allowed, under certain conditions, to be insured voluntarily. The insured persons are classified in three categories; employed persons, self-employed persons and voluntary contributors.

The Social Insurance Scheme is financed by contributions paid by the employers, the insure persons and the State as a percentage on the insurable earnings.

The rate of contribution for the employed persons as from the January 1, 2019 is 21.5%, of which 8.3% is paid by the employee, 8.3% by the employer and 4.9% from the Consolidated Fund of the Republic, for the next 5 years. Thereafter, the rate will increase every 5 years until it reaches 26.7% as from January 1, 2039, which 10.3% will be paid by the employee, 10.3% by the employer and 6.1% from the Consolidated Fund of the Republic.

The employer makes the following other contributions based on employee's emoluments:

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

The rate of contribution for self-employed persons as from the 1st January 2019 is 20.5%, of which 15.6% is paid by the self-employed and 4.9% from the Consolidated Fund of the Republic for the next 5 years. Thereafter, the rate will increase every 5 years until it reaches 25.7% from 1 January 2039, of which 19.6% will be paid by the self-employed and 6.1% from the Consolidated Fund of the Republic.

A self-employed person is liable to pay contributions for each contribution week in which he/she has worked as a self-employed person.

The rate of contribution for voluntary insured persons working abroad in the service of Cypriot employer as from the January 1, 2019 is 21.5%, of which 16.6% is paid by the voluntary insured person and 4.9% from the Consolidated Fund of the Republic. Thereafter, the rate will increase every five years until it reaches 26.7% from January 1, 2039, of which 20.6% is paid by the voluntary insured person and 6.1% from the Consolidated Fund of the Republic.



The rate of contribution for voluntary insured persons who exercised their right to continue to be insured under the Cyprus Social Insurance Scheme, following termination of their employment, as from the January 1, 2019 is 18.4%, of which 14% is paid by the voluntary insured person and 4.4% from the Consolidated Fund of the Republic. Thereafter, the rate will increase every five years until it reaches 23.6% from January 1, 2039, of which 18% is paid by the voluntary insured person and 5.6% from the Consolidated Fund of the Republic.

The Scheme provides cash benefits for marriage, maternity, sickness, unemployment, widowhood, invalidity, orphan hood, old age, death and employment injury. The Scheme provides also free medical treatment for persons receiving invalidity pension and for employed persons who sustain injuries as a result of an employment accident or an occupational disease.

The implementation of a new National Health System (NHS), aims to provide to the population equal access to a holistic health care system introduced in Cyprus in 2017

and has been in effect from March 1, 2019. Employers, employees and self-employed persons are obliged to contribute as follows:

- Employers: 1.85% (March 1, 2019 – February 29, 2020) and 2.90% as from March 1, 2020
- Employees: 1.70% (March 1, 2019 – February 29, 2020) and 2.65% as from March 1, 2020
- Self-employed: 2.55% (March 1, 2019 – February 29, 2020) and 4.00% as from March 1, 2020
- Pensioners: 1.70% (March 1, 2019 – February 29, 2020) and 2.65% as from March 1, 2020
- Persons holding office: 1.70% (March 1, 2019 - February 29, 2020) and 2.65% as from March 1, 2020
- Republic of Cyprus or Natural/Legal person responsible for the remuneration of persons holding an office: 1.85% (March 1, 2019 - February 29, 2020) and 2.90% as from March 1, 2020

- Persons earning rental, interest, dividend and other income: 1.70% (March 1, 2019 - February 29, 2020) and 2.65% as from March 1, 2020
- Republic's Consolidated Fund: 1.65% (March 1, 2019 - February 29, 2020) and 4.70% as from March 1, 2020
- NHS contributions are capped at €180.000 total annual income.

Workers Representatives and Trade Unions

Workplace representatives

Workplace representation in Cyprus is through the unions. Arrangements at workplace level depend on the particular circumstances that apply in each workplace.

Apart from the area of health and safety, where a committee should be elected by all employees in workplaces where more than 10 are employed, there is no other body representing employees.

Workplace representation is also, in line with the rest of the Cyprus industrial relations system, not closely regulated by legislation. However, the industrial relations code makes specific reference to consultation stating that the employer should engage in joint consultation in any case where the union or the employees believe that a decision may adversely affect them or may have a repercussion on their relations with their employer. In addition, legislation introduced in 2005 to implement the EU directive on information and consultation has strengthened the legal framework for workplace representation.

The numbers involved depend on the union and the particular circumstances. They will generally work through joint meetings with management.

Union workplace committees will typically deal with issues such as health and safety, work organization, discipline and the implementation of the collective agreement. The committee also provides the link to the union structures, encouraging employees to join the union, getting support and advice from the full-time officials where necessary.

Trade union representatives at the workplace are elected by a meeting of the members. Typically, the term of office is one year.

There are no specific legal protections against dismissal for workplace trade union representatives but discrimination on grounds of trade union activity is unlawful.

Trade unions

Cyprus has a relatively high level of trade union organization. The three major trade union confederations are PEO and SEK which are of broadly similar size, as well as one smaller DEOK. In addition, there are important unions outside the confederations, in particular PASYDY which covers public servants, ETYK which organizes bank staff, OELMEK which organizes secondary teachers, and POED, another teachers' union.

Overview

Anti-trust matters in Cyprus are regulated by the Protection of Competition Laws of 2008 and 2014. Anti-trust law is an integral part of the business world, ensuring fair competition between competitors and guarding against one company dominating the market, regulating anti-competitive behavior and practices with the aim of ensuring healthy competition in the market.

Following an association agreement between Cyprus and the European Economic Community, Cyprus was obliged to establish legislation for the protection of competition and regulate unfair competition practices, which is regulated by the following two legal frameworks:

- the Protection of Competition Law of 1989
- the Concentration of Business Law

Merger Control

The Cyprus Merger Control Regime is regulated by the Control of Concentrations between Undertakings Law 83(I)/2014, which is largely based on the EU Merger Regulation 139/2004. The Commission for the Protection of Competition, an independent, quasi-judicial body, has exclusive jurisdiction to review and rule as to the compatibility of a concentration with the Cyprus competitive market.

This legislation focuses on Merger & Acquisition transactions.

Cyprus has very low jurisdictional thresholds compared to the other European member states. A transaction is deemed as a 'concentration of major importance' if it meets these jurisdictional thresholds, and consequently requires clearance from the Commission for the Protection of Competition.

The thresholds are as follows:

- at least two of the undertakings concerned have a global turnover of at least EUR 3.5 million each
- at least two of the undertakings concerned achieve a turnover in Cyprus
- at least EUR 3.5 million from the aggregate turnover of all undertakings concerned is achieved in Cyprus

Where the jurisdictional thresholds are met, notification is obligatory despite the participating undertakings having no physical presence in Cyprus or having no actual connection to Cyprus other than by achieving a turnover within the Republic of Cyprus that meets the thresholds.

There is a suspension period, preventing the transaction from being implemented until the Commission for the Protection of Competition has given its approval. There is no possibility of a derogation to the suspension requirement until the initial phase of the Commission for the Protection of Competition examination of the notification has been completed.



Where a concentration of “major importance” is not notified with the Commission for the Protection of Competition, there is a risk of the transaction being caught. Under our Merger Control Law, there is no limitation of action and therefore the Cyprus Commission for the Protection of Competition may monitor merger transactions which have been partially or wholly implemented for an indefinite period of time. In the event that a transaction is caught, the Commission for the Protection of Competition may impose significant administrative fines, taking into account, amongst other factors, the duration of the breach. The Merger Control Law also introduces sanctions for offences concerning omission to provide information pursuant to an obligation imposed by the law and for providing false or misleading information.

Unfair Competition and Misleading Advertising

The Protection of Competition Law (207 (I)/1989) was established for the protection of competition and the regulation unfair competition practices.

Following the provisions of the Competition Law, all practices between undertakings that intend to prevent, restrict or distort competition are prohibited, and specifically those that:

- fix purchase or selling prices or influence any other trading conditions
- restrict or affect production, supply, technical development, or investment
- share markets or sources of supply geographically or otherwise
- apply different conditions to equivalent transactions, in this manner placing other undertakings at a competitive disadvantage
- make the conclusion of contracts subject to acceptance by other parties of supplementary obligations which, by their nature or according to commercial use, have no connection with the subject of such contracts

The Competition Law provides an exemption for certain concerted acts which would otherwise be prohibited and invalid under the following conditions:

- these actions contribute to improving the production or distribution of goods or to promoting technical or economic development while allowing consumers a fair share of the resulting benefit
- these actions do not enforce, on the undertakings concerned, restrictions that are not indispensable to the attainment of these objectives
- they do not afford undertakings the possibility of eliminating competition in respect of a significant part of the product in question

Overview

Real estate in Cyprus is a profitable and sound investment, with a guaranteed rental income as well as excellent conditions for comfortable and safe living. Buying property in Cyprus is a reliable investment. Along with the acquisition of residential or commercial real estate, application can be made for the Cyprus Investment Program to obtain Cyprus citizenship.

Buying property in Cyprus is a reliable investment.

Procedure to Acquire a Real Estate Property

The procedure for acquiring a real estate property in Cyprus involves the following steps:

1. Identification the suitable property on the desired location either through personal search or through an expert advisor/ agent. A due diligence process can be also considered useful at this stage.
2. Conclusion of a preliminary contract which will enable the buyer to reserve the selected option for an agreed period (usually 1 to 1,5 months). Normally this will also involve an initial deposit.
3. Opening a bank account in Cyprus for the relevant payments and for arranging a mortgage loan if necessary.
4. Preparation of the final sale contract based on the agreed terms between the seller and the buyer.
5. Registration in the District Land Department. A package of documents is collected and submitted by a lawyer. After registration, information about the purchased property is entered in the Land Registry. This serves as a confirmation of the ownership right until the title of the owner is obtained.
6. The buyer will be required to present a bank reference and a final completion certificate from the local authorities in order to receive the new property title from the Land Registry.

Types of Property Investments

Permanent Residence Permit (fast track by investment) Regulation 6(2)

This scheme applies to Non – EU nationals that wish to permanently reside in Cyprus by way of investing in residential property in Cyprus but will not undertake any employment in the country and possess secured annual income from abroad which will provide a decent living without having to engage in any form of business or trade, profession or employment. A person who acquires a Permanent Residence Permit (PRP) will have no visa requirements or other traveling restrictions when traveling to Cyprus and by implication this facilitates traveling across the EU.

Qualifying for a PRP specifically requires a minimum investment of EUR 300,000

(plus VAT), brought legally from abroad, into brand new property sold by a development company for the first time. The investment can be made into two properties maximum purchased by the same developer, provided they sum up to the EUR 300,000 minimum. EUR 200,000 out of the investment of EUR 300,000 must be paid in advance and the whole amount must be finally settled in Cyprus bank. A deposit of minimum EUR 30,000 into a Cyprus bank account, brought legally from abroad, that will be pledged for a period of minimum three years, is also a requirement. Furthermore, the applicant must prove a secure annual income of at least EUR 30,000 for him and EUR 5,000 for every dependent person of his family (spouse and children) and EUR 8,000 for every dependent parent or parent-in-law.

The PRP covers the applicant's entire family from his parents, parents-in-law to the dependent children who are up to 18 years old. Unmarried children between 18 and 25 may be eligible for PRP under the applicant,

subject to conditions. Grown children over 25 who are not financially dependent on the applicant may under circumstances be entitled to PRP provided that the market value of the acquired real estate attributed to each such child is at least EUR 300,000 plus VAT (e.g., in the event the applicant has a child that is 30 years the applicant must purchase real estate valued at EUR 600,000 and if the applicant has two adult children the applicant must purchase real estate valued at EUR 900,000).

The PRP is granted within two months and is valid for life.

Four Qualifying Investment Categories

On March 24, 2021, the Ministry of Interior announced new revisions relating to investment criteria effective same date. The new investment criteria essentially initiate a fast track procedure for third country nationals to obtain a Permanent Residency Permit, subject to the criteria being met.



An applicant may proceed with an investment of at least EUR 300,000 in any one of the following categories:

1. Investment in a residential house or an apartment, from a land developing/ construction company for a minimum amount of EUR 300,000 plus VAT. This must relate to a first-time sale, that is, a new property and not a re-sale.
2. Investment in a property (excluding residential houses/apartments) such as shops, offices, hotels or similar developments, or a combination of these, of a total amount of at least EUR 300,000 such properties can be first-time sales or re-sales.
3. Investment in the share capital of a Cypriot registered company with activities and staff situated in Cyprus. The investment in the company's share capital must be at least EUR 300,000 and the company must have a minimum of five employees with an actual physical presence in Cyprus.
4. Investment in shares of a Cyprus Collective Investment Organization (AIF, AIFLNP, RAIF) of at least EUR 300,000.

Along with the application, each of the chosen investment routes must be evidenced by particular supporting documentation as set out in the respective regulations.

In addition to the above investment criteria, applicants must be able to demonstrate a secured annual income of at least EUR 30,000 and may derive from sources of income, shares, pensions, dividends, rental income and so forth. Note though, under investment category 1, the investor's income must strictly originate from abroad.

Tax Related Matters

Capital Gains Tax (CGT) is imposed (when the disposal is not subject to income tax) at the rate of 20% on gains from the disposal of immovable property situated in Cyprus including gains from the disposal of shares in companies which directly own such immovable property. Further, as from December 17, 2015 shares of companies which indirectly own immovable property located in Cyprus and at least 50% of the market value of the said shares derive from such immovable property are subject to Capital Gains Tax. In the case of share disposals only that part of the gain relating to the immovable property situated in Cyprus is subject to CGT.

Disposal for the purposes of CGT specifically includes exchange, leasing, gifting, abandoning use of right, granting of right to purchase, and any sums received upon cancellation of disposals of property.

Shares listed on any recognized stock exchange are excluded from these provisions.

Overview

The courts and authorities in Cyprus adhere strictly to the relevant provisions of the law so as to ensure the protection of intellectual property rights against piracy and infringement. The constant flow of judicial decisions and the widespread interest in the subject following the ubiquity of the new technologies have made intellectual property an increasingly amorphous and fast-developing area of law, making it difficult to give clear-cut and enduring definitions. In practice, intellectual property is usually divided into two main categories, namely:

1. Copyright and related rights
2. Industrial property (e.g., patents, industrial designs, geographical indications and designations of origin, plant and seed varieties, trademarks, service marks, and trade names)

Intellectual Property

The protection of Copyright in Cyprus is governed by the Copyright Law 59/76 and its subsequent amendments. Copyright is recognized on scientific, literary, musical, artistic and cinematographic works, photographs, sound recordings and broadcasts. The Law grants protection to Cypriot nationals for published works globally and foreign nationals for works published in Cyprus.

According to the Law, Copyright does not require registration and it is protected automatically, unlike Trademarks and

Patents. Another difference is that while copyright protects the expression of an idea, Patent Law protects the idea itself.

Cyprus copyright law provides:

- Protection to literary (including computer software), dramatic, musical, artistic, scientific works and films (for the duration of life of the author or creator plus 70 years). Also, protection to database (duration 15 years), sound recordings and programs (duration: 50 years), and publications of otherwise unpublished works (duration: 25 years).
- Recognition of neighbouring rights
- Licensing and royalty payments
- Infringement leading to damages or even high criminal penalties



Industrial Property

Trademarks, patents and industrial designs fall under this category. The authority through which applications are filed and certificates are issued is the Department of the Registrar of Companies and Official Receiver, which falls under the Ministry of Energy, Commerce, Industry and Tourism.

In Cyprus, the registration of Trademarks and Service Marks is carried out in accordance with the Trademarks Law Cap. 268, as amended, in conjunction with the Paris International Convention for the Protection of Industrial Property (Laws 63/65 and 66/83).

Patents are protected under the Patents Law (N.16 (I)/98). In Accordance to the legislation, any natural or legal person can file an application requesting protection of new inventions.

A registered trademark provides a monopoly to its proprietors.

Trademarks in Cyprus

According to Cyprus Trademark Law, Trademarks are "... any signs capable of being represented graphically, particularly words, including personal names, designs, letters, numerals, the shape of goods, provided that such signs are capable of distinguishing goods and services of one undertaking from those of other

undertakings". A registered trademark provides a monopoly to its proprietors. The protection will prevent others from trading at the expense of the proprietor's business reputation and thus registering one's trademark(s) is essential for ensuring that its exploitation by the proprietor results to an increase in the trademark's value and reputation.

The Intellectual and Industrial Property Section is the official governmental body authorized to register trademarks filed in Cyprus. This body is responsible for the protection, examination and finally the issuing of a trademark Certificate of any sign/mark that is filed, and which is capable of being presented graphically and satisfies the examiners that it distinguishes the goods or service of one proprietor (the applicant) from those of another. The Certificate of registration of a trademark in Cyprus is valid for ten years from the application date and can be further renewed every 14 years.

Community Trademark (CTM – EU)

Cyprus also became a member of The European Intellectual Property Office (EUIPO) and the EUTM for the registration and protection of Trademarks and Industrial Designs within the European Community. This means that an Individual or legal entity can apply for the registration of a Community Trade Mark or a Community Industrial Design at OHIM and finally, simply through this application, acquire a Registration Certificate that secures the protection of such IP right (Trade Mark or Industrial Design) in all twenty seven member states of the European Union.

Cyprus became a member of the World Intellectual Property Organization (WIPO) and of numerous other International Conventions and Treaties regarding Intellectual Property Rights.

Our firm undertakes the registration of community Trademarks with the Office for Harmonization in the Internal Market (OHIM) and the registration of international trademarks with the World Intellectual Property Organization (WIPO).

Patents

The Cyprus legislation concerning Patents includes the Patent Law, Law-16(I)/1998, as amended. The Patent Law provides for:

- Applications for a patent, including issues of priority date and the appropriate examination by the Cyprus Patent Office.
- Registering and issuing a Patent Certificate of an invention that has already been granted by the EPO and indicates Cyprus as a designated state, if filed within the time limits set by the Law.

The duration/life of a patent is 20 years from its filing date, with the exception of pharmaceuticals that may be granted a Supplementary Protection Certificate (SPC) of a maximum further period of five years.

Industrial Designs

The Legal Protection of Industrial Designs and Models Law, Law-4(I)/2002, as amended provides that:



- A design will be protected as long as it is new, shows individuality and is filed according to the provisions of the Law.
- A person who seeks protection must file an application at the Office of the Registrar of Industrial Designs.
- As soon as the application of the drawing is examined and is found to be proper, from a procedural point of view, the Registrar will grant, within four months from the date of filing, the relevant Certificate. However, the applicant secures the exclusive right to “use” the design and to prohibit its use by anyone else, from the time of the filing of the application.
- The design or model is protected for the period of five years, as from its filing date, which may be renewed every five years upon the payment of the relevant fees, for a maximum period of 25 years.

There are provisions for a civil action in which injunctions, damages and the destruction of infringing goods may be claimed.

Contracting and Licensing

The transfer of the ownership of an intellectual property from one person to another can be affected by an assignment of intellectual property agreement.

The transfer of the right for the use of an intellectual property from one person to another without infringing the owner's intellectual property rights can be affected by a license of intellectual property right agreement.

In both cases, this should always be in writing by means of a formal agreement, as many intellectual property rights cannot be properly assigned without a written document.

Common issues to consider when drafting an intellectual property agreement are:

- the definition of the intellectual property that is being licensed or assigned
- warranties and indemnities given by the licensor or assignor in relation to the intellectual property
- the circumstances, if any, in which a licence may be canceled, or the rights assigned revert
- the treatment of related moral rights

Data Protection and Privacy

EU Regulation 2016/679 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data (GDPR) applies as of May 25, 2018.

On July 31, 2018, Cyprus adopted the Protection of Natural Persons with Regard to the Processing of Personal Data and for the Free Movement of Such Data Law 125(I)/2018 for the effective implementation of certain provisions of the GDPR.

The Council of Ministers, upon the recommendation of the Minister, appoints the Commissioner of Personal Data who must possess the qualifications for the appointment of a Supreme Court Judge, being the supervisory authority for the purposes of the GDPR and is responsible for monitoring the application of the GDPR and of the above national law in the Republic and of other legislative measures relating to the processing of personal data.

Except for the administrative fines that the Commissioner has the power to impose pursuant to regulation 83 of the GDPR (up to 4% of annual worldwide turnover or EUR 20 million depending on which is the higher), the national law also prescribes several criminal offences and strict penalties providing for imprisonment up to one year, three years or five years and fines up to EUR 10,000, EUR 30,000 or EUR 50,000, depending on the nature of the offense.

Overview

Cyprus was under British rule from 1878 until 1960, when the island acquired its independency. As a result of British rule, the English legal system was introduced in Cyprus and many laws were enacted to import the doctrines of common law and equity into Cyprus e.g. the adoption of the Criminal Code, the Contract Law and the Civil Wrongs Law (contract, tort (negligence, personal injury, accidents) evidence, company, crime). In addition, practical and wide considerations advocated the preservation of the English legal system after 1960, when Cyprus became independent. A few exceptions exist, where the Cyprus legal system has followed the European Continental legal system, i.e. Administrative and Family laws have developed by following the Greek system.

Cyprus Courts apply the Constitution of Cyprus (which is the supreme law of the country), the laws retained based on the Constitution of Cyprus, the principles of Common Law and Equity and the English Laws which were applicable in Cyprus before 1960. English case-law is closely followed and all statutes regulating business matters and procedures are based essentially on English laws.

As of May 1, 2004, when Cyprus became a full member of the European Union, European Law supersedes Cyprus Law in case of any conflict.

The human rights aspect of the Constitution of Cyprus is based on the European Convention of Human Rights and its

application is based on US and European Constitutional Law Principles.

The only method of dispute resolution in Cyprus other than Litigation is Arbitration. All matters relating to Arbitration proceedings in Cyprus are governed by the Arbitration Law, Cap. 4, which applies to domestic arbitration. International arbitration is based on the UNCITRAL Model Law and is governed by the International Commercial Arbitration Law 101/1987. The Labor Dispute Law, Cap. 187, applies to labor arbitration.

As of May 1, 2004, when Cyprus became a full member of the European Union, European Law supersedes Cyprus Law in case of any conflict.

Civil Litigation

Court system

In Cyprus, there are two types of courts, the Supreme Court and the First Instance Courts. The Supreme Court is at the top of the pyramid of judicial power and all other First Instance Courts are subordinate to the Supreme Court.

The Supreme Court operates as: (a) Appellate Court (civil, administrative and criminal), (b) Admiralty Court (this jurisdiction will soon be undertaken by special First

Instance Court), (c) Electoral Court, (d) Constitutional Court and (e) with exclusive jurisdiction to issue prerogative writs. The Supreme Court has the authority to review all the evidence or hear or receive further evidence, to draw its own inferences and to give judgment or make any order such as an order for retrial.

First Instance Courts are divided as follows:

(a) District Courts (Civil & Criminal Courts) which exercise civil and criminal jurisdiction, respectively, (b) Assize Courts, which try serious criminal offences under the law, (c) Family Courts, dealing with all family matters such as divorces, custody disputes, property provisions, and issues regarding child custody, (d) Rental Control Courts dealing with matters arising from rented premises subject to special conditions specified by the Rent Control Law, (e) Labour Courts, dealing with claims that concern the relationship between employers and employees, (f) Military Courts, dealing with military offences under the Military Criminal Code and offences committed by members of the armed forces, (g) Administrative Courts, dealing with the whole realm of governmental and administrative action in the public sector and the (h) Administrative Court of International Protection, dealing with cases related to asylum seekers.

All proceedings in all courts in Cyprus are conducted in Greek.

The Cyprus Courts apply a scale allocation system in which the actions before the Courts are allocated according to the value of the claim. There are three ranks of District Court Judges: District Judges, Higher District Judges and Precedents of District Courts, who judge issues in accordance to the value of the claim.

Civil Litigation Procedures

All proceedings in all courts in Cyprus are conducted in Greek. Court judgments are issued in the Greek language. Juries do not take part in any court proceedings in Cyprus. Court hearings are held in public. There are, however, some exceptions where the Court might order otherwise.

In civil actions, there are no required pre-action proceedings that a party is obliged to follow before he/she files his/her legal action. However, the parties can exchange letters between them and as a general practice, a Plaintiff will send a legal notice to his opponent before he/she proceeds with any litigation.

Civil Litigation Procedure in Cyprus is governed by the Civil Procedure Rules. To start the litigation procedure the Plaintiff must file a Writ of Summons (generally endorsed or specially endorsed), or an Application for originating Summons, or a Petition, with the Court Registrar. Each document serves a different purpose (e.g., the Writ of Summons generally endorsed, must be filed for actions for libel, slander, malicious prosecution, false imprisonment, seduction or breach of promise of marriage, and actions in which fraud is alleged by



the Plaintiff). The overwhelming majority of originating processes in Cyprus begin with a Writ of Summons – specially endorsed. Applications for originating Summons are used for claims under a deed, will, or other written instruments for the determination of any question of construction arising under the instrument, and for a declaration of the rights of the persons interested. Petitions are used in divorce proceedings, bankruptcy and winding up.

The Limitation of Actions Law, Cap. 15, sets down various limitation periods depending on the nature of the claim. Time ends for limitation purposes with the filing of the case. The running of time can be suspended if both sides agree. Time limits are treated under Cyprus law as a procedural law issue and give the Defendant right to file a preliminary objection requesting the rejection of the action against him if the claim has not been filed within the specified time limit.

Following the filing, the Plaintiff must serve the initiating document to the Defendant, through an authorised court server within 12 months from the date when the action

was filed. If the Defendant resides outside Cyprus, the Plaintiff must apply for leave to seal the “Writ of Summons” and for leave to serve it outside the jurisdiction.

After the writ has been duly served the exchange of pleadings procedure commences. The Defendant must file a Note of Appearance. In the absence of Note of Appearance within the prescribed period, the Plaintiff gains the procedural right to apply to the court for a decision. Depending on the type of the writ, the Plaintiff may be obliged to file a “Statement of Claim” and the Defendant his/her “Defense. In cases where the Defendant has a cause of action against the Plaintiff and instead of bringing separate proceedings, he/she can do it by way of counterclaim in the existing action. This pleading is known as Defense and Counterclaim. Thereafter, the Plaintiff may file a Reply after receiving the Defense, but it is not compulsory. If the Defendant has filed a Defense and Counterclaim, the Plaintiff must file a Reply to the Defense and Defense to the Counterclaim. The Civil Procedure Rules provide for specific timeframes for the filing of each pleading.



Pleadings are formal documents through which the parties state material facts in summary form and define the matters to be decided by the court. Pleadings should not contain the evidence by which the material facts are to be proven. The court also has the power to issue orders for discovery and inspection of documents. With the completion of the above pleadings exchange procedure, the case is ready for hearing. It is then up to the time schedule of the court and parties to start the hearing.

During the trial, both parties produce evidence and their submissions so that a judgment may be issued. Under Cyprus law, evidence consists of information by which certain facts are proven or disproven. Types of evidence include oral evidence (witnesses on oath, expert witnesses, hearsay evidence); documentary evidence (public and private documents); and real evidence (inspection of physical objects by the court). Witnesses normally give oral evidence usually on oath or affirmation. Following a recent amendment of Cyprus' evidence law, a witness can now make a written witness statement. Witnesses giving evidence at trial are cross-examined before the Court by the

opposite party and re-examined by the party calling him, and after re-examination, they may be questioned by the Court. Witnesses are served with a witness summons in order to attend for examination, or to produce any document. In case a witness has been duly summoned but refuses to attend the Court, a warrant of arrest may be issued compelling him to appear before it.

Cyprus Courts have the power to:

- a. issue Judgments in Default and Summary Judgments.
- b. award damages for loss suffered, including financial loss. They are also empowered to award punitive and exemplary damages under certain circumstances. In monetary judgments involving a contract, the Court usually awards interest, as provided for in the contract or from the date when the Judgment is given, as provided by the relevant legislation.
- c. grant specific injunctions/orders such as: Mareva Injunctions (restraining a party from removing his assets out of the jurisdiction), Prohibitory Injunctions (prohibiting a party from doing an act), Mandatory Injunctions (ordering a party to perform an act), Mandamus Orders (commanding the Defendant to fulfill any public duty in the fulfillment of which the Plaintiff is personally interested) and Anton Pillar Orders (enabling the Plaintiff to secure the preservation of relevant evidence which might otherwise be destroyed by the Defendant).

d. grant interim injunctions. The Court, while exercising its civil jurisdiction, has the power to grant an interim injunction if there appears to be a probability that the Plaintiff is entitled to relief and if it will be difficult or impossible to do complete justice at a later stage without granting an interlocutory injunction. Applicable law confers power upon the Court, upon an application being made by any party, to issue an injunction without notice to the other party (ex- parte) upon proof of urgency or other specific circumstances.

With regards to costs, there are statutory regulations according to which there are minimum charges for each stage of the litigation, depending on the scale of the claim. As a general rule, the costs follow the event. That is, the successful litigant is awarded an order against the unsuccessful litigant to pay the costs of the litigation. However, the costs which are taxed by the Court Registrar in favor of the winning party do not always cover the fees that are paid to his lawyer. Insurance is not available to cover all or part of a party's legal costs. Under Cyprus applicable law, a Plaintiff ordinarily resident outside Cyprus or the EU may be ordered to give security for costs, though he may be temporarily resident in Cyprus or in the EU. Where the Court orders security for costs to be given, the proceedings in the action are stayed until such security is given. In the event of the security not being given by the appointed time, the action may be dismissed. Legal aid applies in Cyprus conferring the right upon any individual to ask for legal aid from the State if that individual is financially unable to

pay his/her legal costs in a judicial process. It applies to specific types of claims including cross-border disputes.

In relation to enforcement there are several ways of enforcing a judgment available to a litigant. A Cyprus judgment may be enforced: by seizure and sale of movable property; by sale of immovable property; by attachment and sequestration; by attachment of debt or property; by writ of possession of the land ordered to be delivered to the judgment creditor; by writ of delivery of the goods ordered to be delivered to the judgment creditor; by committal for breach of an order or undertaking; by registration of a charging order over the immovable property of the judgment debtor (memo) or over his chattels; by oral examination for the repayment of the debt by monthly payments; or by bankruptcy proceedings against the judgment debtor.

The enforcement of foreign judgments is governed by bilateral or multilateral treaties to which Cyprus is a party. With regard to the registration of foreign judgments the Foreign Judgments, (Reciprocal Enforcement) Law, 1935, Cap. 10 is applicable. Further, Cyprus is party to Council Regulation (EC) no. 44/2001 on jurisdiction and the Recognition and Enforcement of Judgments in Civil and Commercial Matters which provides for the enforcement of judgments throughout the European Union. Cyprus is also party to Council Regulation (EC) no. 805/2004 on creating a European Enforcement Order for uncontested claims, which provides that when a judgment has been certified as a



European Enforcement Order by the Court of origin, it should, for enforcement purposes, be treated as if it had been delivered in the Member State in which enforcement is sought.

No appeal from any interlocutory order, or from an order, whether final or interlocutory, in any matter not being an action, shall be brought after 14 days, and no other appeal shall be brought after 42 days, unless the Court or judge at the time of granting the order or at any time subsequently, or the Supreme Court, increase the time. The said respective periods are calculated from the time that the judgment or order becomes binding on the intending appellant, or in the case of the refusal of an application, from the date of such refusal. The grounds where the parties may appeal are, firstly, against the decisions of law and, secondly, against findings of fact in the event of insufficient evidence or in the event of a wrong decision.

Arbitration

In Cyprus, all commercial matters, including competition law, are arbitrable (where there is an Arbitration Agreement between the

parties). Disputes concerning criminal and family matters are non-arbitrable. There are no specific dispute resolution institutions in Cyprus. The Arbitration Court is a private tribunal of the parties' own choice.

In order for a dispute to be referred to arbitration, there must be an agreement between the parties, which must contain an arbitration clause. Such agreement must be in writing. If the Arbitration Agreement and any relevant rules are silent, the appointing authority or the competent District Court can appoint a sole arbitrator. There are no restrictions on the right to challenge the appointment of an arbitrator.

In case the parties commence legal proceedings in any Court against the Arbitration Agreement, the Courts have the power to stay these proceedings and refer the case to be tried by an arbitrator. However, this power is discretionary and if the Courts are satisfied that there are good and sufficient reasons why the matter in dispute should not be referred to arbitration, then they will not exercise their power.

No substantive requirements are contained in Cyprus law regarding the procedure to be followed. The UNCITRAL Model Law's procedural requirements should be followed in international arbitration.

After the application of any party, the Court can intervene during arbitration by removing Arbitrators for misconduct, by ordering security for costs, by granting interim relief, by setting aside or rectifying an award and by enforcing an award.

The Arbitrators do not have powers to grant interim relief. As mentioned above, only Courts have such authority.

The award must be delivered within a reasonable time. Failure to deliver on time means that the Arbitrator will be liable to be removed for misconduct upon the application of one or both parties. The award's form is not regulated.

An award can be appealed to the Court on the grounds stated in local applicable law. International awards can be appealed only on the grounds specified in the UNCITRAL Model Law.

The registration of an arbitration award is affected by an application by summons being filed by the creditor supported by an affidavit accompanied with a true copy of the award and the Arbitration Agreement with which obtains leave from the Court to execute the award. The application can be opposed by the debtor by raising grounds of defense with regard to the validity of the award. When the arbitration award is

finally registered, then it is considered to be a Court judgment which means they are fully binding and can be executed by the same methods as Court judgments. Enforcement of a foreign award can be made by the creditor with application by summons supported with an affidavit to the court requesting the recognition and enforcement of the award. It is almost the same procedure as the one for recognition and enforcement of foreign judgments. After leave of the court, the enforcement of a foreign arbitration award is the same as the enforcement of a Court judgment.

With regards to costs, a successful party can recover its costs, if the Arbitrator orders it and if it has not been agreed otherwise by the parties. If the parties ask the Arbitrator to tax the costs, the Arbitrator may do so.

The use of arbitration proceedings in Cyprus has increased in recent years and it is expected that these will take place increasingly frequently. Currently, the trend is to use arbitration in specialized cases, especially in building contract disputes. In recent years, Judges in Cyprus have been more reluctant to proceed with the hearing of a case where specialized or technical matters or scientific issues, which require specialized and particular knowledge, are involved and as a result they usually recommend that parties appoint an Arbitrator in order to examine the disputed issue. The Judge will usually follow the opinion and/or decision of the appointed Arbitrator.

11. Restructuring

Overview

Personal insolvency is governed by the Bankruptcy Law and the Bankruptcy Rules. Corporate insolvencies and reorganizations are governed by the Companies Law. Section 203 of the Companies Law provides three methods of winding up as detailed below.

Sections 198 to 201 of the Companies Law set out procedures for compromises with members and creditors, either within or outside formal insolvency proceedings, and for mergers and divisions of public companies.

Restructuring – Out of Court and Formal Proceedings

The Cyprus Companies Law recognizes three formal procedures for companies in financial difficulties:

- a reorganization plan of the company and/or a settlement between the company and its creditors may be affected following the approval of the Court
- voluntary liquidation by the members or the creditors
- liquidation by the Court/monitored by the Court

A company in financial difficulties may implement and propose to its shareholders a reorganization plan. Two companies may be merged or a new company may be incorporated with new desirable tasks

and a new financial strategy. The old company will be dissolved and its liabilities will be transferred to the new company. The current shareholders will be given shares in the new company and the new arrangement and reorganization plan will be sent for approval by the old shareholders in separate general meetings for shareholders of different classes of shares. Provided that the reorganization scheme receives the shareholders' approval, a petition for approval of the plan to the Court will be followed and an order will be issued to that effect. The above way gives a company in financial difficulties the flexibility and a chance to restructure its sphere of business tasks and objectives and to take advantage of a new chance for a more productive and better designed corporate financial policy.

Personal insolvency is governed by the Bankruptcy Law and the Bankruptcy Rules.

The members of a company may decide that the best solution to the financial difficulties they face is to voluntarily dissolve the company. That is the case when the company is solvent and the members are of the opinion that the company will be able to repay its creditors in 12 months, from the date specified on the resolution for the dissolution. On the other hand, if the members believe that the company will be unable to satisfy its creditors, the winding-

up of the company must be undertaken by them. Either way an administrator will be appointed in order to liquidate the assets of the company and satisfy its creditors.

The Court may issue a liquidation order of a company followed by a petition filed by a creditor, the company, a contributor, the Official Receiver and/or the General Attorney. In practice, the most common phenomenon is for a creditor to file such a petition if he has already served the company with a formal signed letter, claiming his money. The letter must be given to the company's registered office address 21 days before the filing of the petition. If the company fails to satisfy the creditor, then the right to apply to the Court is being granted by the Law. The Court examines the petition for liquidation and if it is of the opinion that the company is unable to pay its debts, then issues a liquidation order for the satisfaction of the applicant creditor.

Trading in Distressed Situations

A company may wish to carry on business during a reorganization process in order to achieve a sale of the business and assets as a going concern, or to complete work in progress in order to be able to sell it at a better price than would otherwise be achieved.

In case the company decides to apply a reorganization plan the directors remain in control of the company. In case the services of an administrator or a liquidator are not needed, the management of the company remains in the hands of the already

appointed board of directors who are obliged to manage the company according to the approved plan. The shareholders' rights remain unaffected unless the approved scheme provides differently.

The situation is different when an administrator, a receiver or a liquidator has been appointed. The administrator, the receiver and/or the liquidator oversees the company and working towards the task he was appointed. The powers of the board of directors are not in force, neither are the shareholders' rights.

The Board of Directors of a company in financial difficulties may seek further funding, if it's needed, from its current sources of funds and lenders, informing them that they are in the process of reorganization or under liquidation. The costs of the liquidation process are covered from the liquidated assets of the company.



Creditor's Rights

There is a common principle met in all reorganization or liquidation procedures. There is a hierarchy of priorities in the distribution and satisfaction of the creditors. Unsecured creditors are in the lowest rank in that hierarchy of priorities. An administrator either appointed by the Court, the members or the creditors will satisfy first the secured creditors. If liquefied assets remain available, then the unsecured creditors will be satisfied. An unsecured creditor may initiate an action for recovery against the company to the Court and if such judgment is obtained then he may enforce it like any other civil judgment. Unsecured creditors may have a better chance to get satisfied in a case where directors make a declaration of solvency according to which the entire company will satisfy all the creditors.

The order of distribution of assets in all forms of winding-up and in receivership is as follows:

- First, the costs of the winding-up.
- Second, the preferential debts. Preferential claims are defined in section 300 of the Companies Law and comprise:
 - all government and local taxes and duties due at the date of liquidation and having become due and payable within 12 months before that date and, in the case of assessed taxes, not exceeding one year's assessment.

- all sums due to employees, including wages, up to one year's accrued holiday pay, deductions from wages (such as provident fund contributions) and compensation for injury.

Claims of employees who are shareholders or directors may not rank as preferential depending on the nature of the shareholding or directorship (section 300(1), Companies Law).

A person who has advanced funds for the purpose of paying employees will have a subrogated preferential claim to the extent that the employees' direct preferential claims have been diminished because of the advances (section 300(2), Companies Law).

- Third, any amount secured by a floating charge.
- Fourth, the unsecured ordinary creditors.
- Fifth, any deferred debts such as sums due to members in respect of dividends declared but not paid.
- Finally, any share capital of the company. Where there are different classes of share capital, such as preference shares, their respective rankings will be determined by the terms on which they were issued.

Within each category of claim, creditors rank equally and abate in equal proportions if there are insufficient funds to pay them in full (section 300(3), Companies Law).

Secured creditors are payable out of the proceeds of sale of the assets subject to the charge. If the charge is a floating charge the charge holder ranks behind the preferential creditors. If there is a surplus from the sale of the assets subject to the charge it becomes part of the general pool of assets. If there is a shortfall the creditor concerned will have an unsecured claim for the shortfall.

Director's and Officer's Obligations and Liabilities

Cyprus law does not contain any wrongful trading provisions requiring directors to commence insolvency proceedings as soon as they knew or ought to have known that the company would be unable to pay its debts. The principal way in which directors and officers may be made liable for the company's debts is under a claim for fraudulent trading as set out in section 311 of the Companies Law. Because of the high standard of proof required, successful claims for fraudulent trading are extremely rare.

Distressed M&A

In addition to the financial restructuring of a company which is viable but subject to short-term liquidity problems, company arrangements are used in Cyprus to effect a wide range of mergers and reorganizations of companies, owing to the favorable tax treatment of reorganizations.

The procedure applies to all Cyprus-registered companies apart from banks and insurance companies, which are subject to special procedures.

Where a compromise or arrangement is proposed between a company and its creditors, or between the company and its members or any class of them, the company or any creditor or member or, in the case of a company being wound up, the liquidator may apply to the court for an order for a meeting of the creditors or the members of the company to be convened in whatever way the court directs in order to consider the proposals (according to the Article 198 of the Companies Law).





The notices of the meetings sent to creditors and members must be accompanied by a statement explaining the effects of the proposals. This statement must identify any interests of the directors and the effect of the proposals on those interests.

To be binding, the compromise or arrangement must be passed by a majority in value of the creditors or members present and voting at the meeting of creditors or members. The approval of the court is required for the convening of any meetings and to sanction the resolutions passed at those meetings.

Subject to the sanction of the court, any compromise or arrangement passed by a majority in number representing three-quarters in value of the creditors or members present and voting at the meeting of creditors or members will be binding on:

- all the creditors or members
- the company
- in the case of a company being wound up, on the liquidator and contributories (those persons liable to contribute to the assets) of the company

The reorganization procedure is flexible and fast, and with proper planning reorganizations can be completed within weeks.

The court order approving the compromise or reconstruction must be delivered to the Registrar of Companies for registration and a copy must be annexed to every copy of the memorandum or other document comprising or defining the constitution of the company issued after the order has been made.

12. Public and Regulatory

Overview

Administrative Law is the set of rules of law relating to the legal means of action of the Public Administration and which regulate the organization and functioning of the State in the narrow sense and of the other bodies of public authority. Administrative Law is part of Public Law. Cypriot Administrative Law has been created and formatted according to the standards of the Greek Administrative Law, which in turn was developed based on the principles of the French Administrative Law.

Public Administrations Involved

In Cyprus, the executive power is exercised by the President of the Republic, the Council of Ministers and the Ministers. In

Cyprus, there are currently the following ministries:

- Ministry of Foreign Affairs
- Ministry of Interior
- Ministry of Defense
- Ministry of Finance
- Ministry of Justice & Public Order
- Ministry of Education and Culture
- Ministry of Labour and Social Insurance
- Ministry of Agriculture, Natural Resources and Environment
- Ministry of Communications and Works

- Ministry of Commerce, Industry and Tourism
- Ministry of Health

Each Ministry has specific functions which are determined by the relevant law.

Each Ministry has specific functions which are determined by the relevant law. The Council of Ministers exercise executive authority on all matters that are not specifically delegated to another body. The governance of the Republic of Cyprus is exercised by the Public Service, as well as by the institutions of Self Administration (Special and Local). In Cyprus, there are two types of Local Self Administration: Municipalities and Community Authorities.

Permits and Authorizations

The Supreme Court and the Administrative Courts have certain jurisdictions over matters related to the Public sector.

The Supreme Court of Cyprus has the following, inter alia, authorities:

- Adjudicating upon Recourses of the President or the Vice President of the Republic against the decision or law of the House of Representatives, if they are discriminatory to one of the two communities



- Pre-emptive control of the Constitutionality of the Laws
- Repressive Control of the Constitutionality of the Laws
- Adjudicating upon applications by the Attorney General, with reference to whether there is reason which prevents the President of the Republic from actively fulfilling his duties
- Interpreting the Constitution in case of vagueness and resolving inconsistencies between two texts of the Constitution
- Adjudicating upon references of the Public Service Commission
- Adjudicating upon electoral objections
- Exclusive jurisdiction of annulling and controlling the validity of administrative decisions, acts and omissions, in accordance with Article 146 of the Constitution, which means that they have the exclusive jurisdiction to decide for every recourse which is filed against a decision, act or omission of any organ, authority or person exercising an executive or administrative function.

The Administrative Courts after trying a recourse, may:

- ratify in whole or in part the act or omission challenged
- annul in whole or in part the act or decision challenged
- declare the omission in whole or in part void

The Administrative Courts have the following authorities:

The Administrative Court proceeds to review the legality of the administrative decision or act and not to exercise a purposive control. It may annul an administrative decision or act but cannot amend or replace it with its own decision. Of course, it is up to the Administration to comply with the decision of the Administrative Court. For the above reasons, the relative judicial proceeding should be referred to more correctly as “Application for Annulment” instead of “Recourse”. The judicial proceeding is known as “Recourse”, but the correct way to refer to is “Application for Annulment”.

The Application for Annulment is made within 75 days from the date of when the decision or act was published or, if not published and in the case of an omission, from the date when it came to the knowledge of the person making the recourse. If the application has not been filed within the said time limit, the recourse should fail as filed out of time. The “Application for Annulment” can only be filed against executory administrative acts and omissions. The following cannot be challenged by a recourse:

- Regulatory Administrative Acts
- Acts of Private Law
- Acts of the Government
- Administrative measures of internal nature
- Preparatory Acts

The “Application for Annulment” can only be filed against executory administrative acts and omissions.

- Acts of Execution
- Opinions – Acts of an informative nature
- Confirmatory Acts

The Applicant can only be a person who has a present immediate and personal legitimate interest.



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