

Tax Agenda Cyprus

September 2022



No.	Fact	Action
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1	<p>Payment of temporary tax for the tax year 2022</p> <p>As per the Assessment and Collection of Taxes Law, every company or individual must pay by 31st of July 2022 an estimate of the taxable profit for (corporate) income tax purposes and the resulting tax liability for the year 2022. Even though according to the law, the due date for the payment of the 1st installment is 31 July 2022, as long as the first instalment is paid before 31 August 2022, there should neither be a monetary charge nor any interest for late payment of tax.</p>	<p>Taxpayers should ensure compliance with their obligation for estimating and paying their 1st instalment of temporary tax for the year 2022.</p> <p>● ●</p>
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2	<p>Payment of the final tax for the tax year 2021</p> <p>As per the Assessment and Collection of Taxes Law, the final tax (i.e. the difference between the estimated tax liability as per the 2021 temporary tax calculation and the final tax liability that arises based on audited financial statements) of the previous tax year, shall be paid to by the 1st of August 2022. Even though according to the Law, the due date for the payment of the final tax liability is 1 of August 2022, as long as the execution of the payment is made before 31 August 2022, there should neither be a monetary charge nor any interest for late payment of tax.</p>	<p>Consider potential impact and monitor developments.</p> <p>● ●</p>
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Use text boxes above the timeline to plan your actions for coming months

● Compliance ● Risk management ● Cash-flow / ETR impact

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3	<p>Transfer Pricing (TP)</p> <p>Cyprus introduced Transfer Pricing rules and documentation requirements effective as of 1 January 2022. The legislation is broadly in line with the OECD TP Guidelines and requires domestic and cross-border intra-group transactions to be documented for Cypriot TP purposes. The TP documentation files include Local and Master file as well as the Summary Information Table.</p>	<p>Develop a thorough understanding of the new TP documentation rules and assessment of the impact of the new transfer pricing requirement for your group.</p>
4	<p>EU Amendments on VAT rates</p> <p>On 05 April 2022, the European Council adopted Council Directive (EU) 2022/542 which introduces reforms to currently applicable VAT rates. Annex III of the EU VAT Directive indicating the goods and services that can be subject to reduced VAT rates was updated to include among others digital services, goods /equipment for the protection of public health, items that have a positive impact on EU's climate change and diverse products and services deemed appropriate and useful by Member states which are driven by the general interest of public policy objectives.</p> <p>According to the new rules, Member States will:</p> <ul style="list-style-type: none"> ▶ Continue to apply a standard rate of VAT above 15% ▶ Be able to apply two reduced rates as low as 5% to goods and services included in the Annex III of the Directive ▶ Be able to apply one reduced rate lower than 5% and one exemption ("zero rate") to a maximum of seven categories on the list considered to cover basic needs, such as foodstuffs, medicines, pharmaceutical products 	<p>Businesses should monitor any legislative amendments on VAT rates as they may have a great impact on their business affairs/VAT Compliance obligations.</p>
5	<p>Green Taxes updates</p> <p>As part of the Cyprus green taxation reform, a number of green/environmental taxes are discussed/proposed to be implemented:</p> <ol style="list-style-type: none"> a) Introduction of taxes/charges to combat air pollution & climate change i.e. Carbon tax for heavy CO2 emitting industries, Carbon tax on fossil fuels under the excise duty scheme in Cyprus (applicable on top of excise duties) and Road user charges b) Introduction of taxes/charges to combat water pollution i.e. Increase in water tariffs i.e. through the increase of Environmental & Resource fees and Manure tax on commercial animal husbandry units that own and manage livestock c) Introduction of taxes/charges to combat waste i.e. landfill tax to all operating landfills, tourism tax on hotel accommodation to be collected from tourists with overnight stay, and Development of Pay as You Throw scheme for citizens. 	<p>Businesses (and citizens) should monitor the legislative proposals of such new green taxes and understand their impact as well as any compliance obligations.</p>
6	<p>Civil Registry and Migration</p> <p>Following the relevant decision of the Council on Ministers dated 15 October 2021, revised criteria apply for employment at International Business Companies, as of January 2022.</p>	<p>The most important of the revised criteria are as follows:</p> <ol style="list-style-type: none"> 1. Amendment of the International Business Companies (IBC) policy for Companies that will be part of the newly established Business Facilitation Unit - main changes: <ul style="list-style-type: none"> ▶ Required minimum salary is now €2500 per month, up from €2000 ▶ Required minimum employment contract duration is now 2 years, up from one year

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7	<p>Mandatory Disclosure Regime</p> <p>On 17 March 2022, the Cypriot Tax Department published a list of Frequently Asked Questions (FAQs) on its website, providing further clarifications and practical insights regarding the interpretation of key terms and provisions of the Cypriot Mandatory Disclosure Rules (MDR) Law and further elaborating on the content of the Cypriot MDR guidelines - See more.</p>	<p>Assess cross-border arrangements from a MDR perspective. Evaluate the impact of MDR measures both on a group and at an entity level and assess the need to introduce new policies or procedures. In addition, businesses should consider the use of technology solutions and enablers to help comply with MDR obligations.</p>
8	<p>Withholding Tax on outbound payments of interest, dividend and royalty</p> <p>Withholding tax on outbound payments of interest, dividends and royalties made to companies registered/resident in jurisdictions listed by the EU as non-cooperative jurisdictions on tax matters. Effective as of 31 December 2022.</p>	<p>Review compliance with the requirements of the new law on outbound payments of interest, dividends and royalties.</p>
9	<p>Amendment to the definition of corporate tax residency</p> <p>Introduction of the incorporation test - a company which is incorporated or registered in Cyprus, and its management and control is exercised outside Cyprus, should be considered a resident of Cyprus for tax purposes unless it is a tax resident in another country. This test should be in addition to the management and control test aiming to capture the so-called stateless companies. Effective as of 31 December 2022.</p>	<p>Review compliance with the expanded definition of corporate tax residency.</p>
10	<p>Register of Ultimate Beneficial Owners</p> <p>The Registrar of Companies in Cyprus has adopted the new legislation regarding the Register of UBO's. All Cyprus Companies have the obligation to comply with this regulation and to report the Ultimate Beneficial Owners to the Registrar of Companies.</p>	<p>Businesses should ensure compliance with the new filing obligations which include:</p> <ol style="list-style-type: none"> 1. For existing Companies incorporated before 12 March 2021, the deadline for the initial reporting to the interim solution was end of July. The Registrar will not impose any penalties for now, until the final solution is available 2. For new incorporated Companies incorporated after 12 March 2021, initial reporting should be done within 30 days from incorporation date 3. Companies that had changes in their shareholders need to report within 14 days 4. Annual confirmation (more details to be provided by the Registrar)
11	<p>New requirements on companies established as VCIC</p> <p>The Companies Law has introduced amendments relating to entities as VCIC relating to their Memorandum and Articles of Association, share capital (issuance/ conversion), redemption of shares and preparation of financial statements.</p>	<p>Entities established as Variable Capital Investment Companies must submit a special resolution to the RoC by 05 November 2022, with which the VCIC amends its Memorandum and Articles of Association to be compliant with the provisions of the new Part XA of the Companies Law.</p>
12	<p>E-commerce VAT Rules</p> <p>The new VAT rules for e-commerce in B2C regime entered into force on 1 July 2021 across all EU member states See more. In Cyprus, the amendments were introduced in the local legislation on 6 December 2021 with a retrospective effect.</p>	<p>Entities with digital offerings should evaluate VAT implications and ensure compliance with e-commerce rules in place as applicable from July 2021.</p>

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13	<p>Amendment of 20% exemption – Article 8(21) of the Income Tax Law</p> <p>The article 8(21) has been amended and the provisions of the 20% exemption are now applicable for employment which commenced up until the 26 July 2022.</p> <p>Read more: TaxLegi 28.07.2022 EY - Cyprus</p>	Employers should ensure compliance with the amended provisions so as to withhold the correct PAYE tax.	● ● ●
14	<p>Introduction of a new 20% exemption – Article 8(21A) of the Income Tax Law</p> <p>New provisions have been introduced which provide for a 20% tax exemption or €8,550, whichever is the lower, for remuneration derived from “first employment” in Cyprus by a person who was employed outside Cyprus for an employer not resident in Cyprus for three consecutive years prior to the commencement of his employment in Cyprus. The exemption is granted for seven tax years following the year of employment in Cyprus and applies to “first employment” which commenced in Cyprus during the period 26 July 2022 and 31 December 2027.</p> <p>Read more: TaxLegi 28.07.2022 EY - Cyprus</p>	Employers should ensure compliance with the new provisions of the law so as to withhold the correct PAYE tax.	● ● ●
15	<p>Amendment of 50% exemption – Article 8(23) of the Income Tax Law</p> <p>The article 8(23) has been amended and the provisions of the 50% exemption are now applicable for employment which commenced up until 26 July 2022.</p> <p>Read more: TaxLegi 28.07.2022 EY - Cyprus</p>	Employers should ensure compliance with the amended provisions so as to withhold the correct PAYE tax.	● ●
16	<p>Introduction of new 50% exemption – Article 8(23A) of the Income Tax Law</p> <p>New provisions have been introduced which refer to the application of the 50% tax exemption for remuneration from first employment which is exercised in Cyprus by a person who was resident outside Cyprus for a period of at least 10 consecutive years prior to the commencement of his employment in Cyprus and the first employment in Cyprus commenced after 1st January 2022.</p> <p>The tax exemption is granted for a period of seventeen tax 17 years, and is granted in any year in which the remuneration from employment in Cyprus exceeds €55,000 annually.</p> <p>Certain provisions have been introduced in order the 50% tax exemption to be available for employments which commenced in Cyprus during the years 2016-2021 (subject to conditions).</p> <p>Read more: TaxLegi 28.07.2022 EY - Cyprus</p>	Employers should ensure compliance with the new provisions of the law so as to withhold the correct PAYE tax.	● ●
17	<p>The Cypriot Income Tax Law has been amended to grant a new increased deduction on research and development expenses for the years 2022, 2023 and 2024. Eligible research and development expenses that will be deducted from the taxable income of the economic owner of the IP assets will equal to 120% of the actual R&D expenses incurred.</p> <p>This increased deduction should not be available to taxpayers that claim a deemed deduction under the provisions of the Cypriot IP Box regime.</p> <p>Read more: TaxLegi 28.07.2022 EY - Cyprus</p>	Taxpayers should examine whether the new increased deduction can be availed to them and explore potential tax efficiencies.	● ● ●

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