


Tax Agenda Cyprus July 2023

| No. | Fact | Action |
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| 1 | <p>5% VAT on the Purchase or Construction of a new residence - New Legislation enactment</p> <p>On 8 June 2023, the Cyprus Parliament approved legislation for the application of 5% VAT rate on the purchase or construction of a building to be used as main and permanent residence by individuals.</p> <p>The new enacted legislation sets out two conditions that both need to be fulfilled simultaneously for a reduced 5% VAT rate eligibility. The first condition concerns the square meters area and the second condition, the value.</p> <ul style="list-style-type: none"> First condition: For apartments/houses up to 130 square meters, VAT rate of 5% shall be imposed. For apartments/houses that exceed 130 square meters and are up to 190 square meters, VAT rate of 19% shall apply on the square meters exceeding 130 square meters. For apartments/houses that exceed 190 square meters, VAT rate of 19% shall apply on the whole value. Second condition: For apartments/houses with a value up to €350,000, VAT rate of 5% shall be imposed. For apartments/houses with a value that exceeds €350,000 and is up to €475,000, VAT of 19% shall apply on the amount exceeding the threshold of €350,000. For apartments/houses with a value that exceeds €475,000, VAT of 19% shall apply on the whole value. <p>Hence, for apartments/houses over 190 square meters and/or with a value exceeding €475,000, the standard VAT rate of 19% VAT shall apply on the whole value. Special provisions apply for disabled persons and large families.</p> | <p>People interested in buying or constructing new house /residences should be aware of the new VAT legislation provisions and consider their eligibility for a reduced VAT 5% rate application-</p> |





Use text boxes above the timeline to plan your actions for coming months

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

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| 2 | <p>Tax treaty between Cyprus and the Netherlands enters into force</p> <p>On 30 June 2023, the Cyprus - Netherlands Income Tax Treaty (2021) (the “Treaty”) came into force. The Treaty generally applies from 1 January 2024. The Treaty provides for full relief of withholding taxes on dividend payments to corporate investors, provided they hold directly at least 5% of the capital of the company paying the dividends throughout a 365-day period. This exemption also applies for certain recognized pension funds which are generally exempt under the corporate tax laws of the contracting jurisdictions. The Treaty provides for a maximum 15% withholding tax rate in all other cases. Moreover, the Treaty provides for 0% withholding tax rate for interest and royalties.</p> | <p>Taxpayers which have relevant arrangements that could be affected by the Treaty should become familiar with its provisions.</p>  |
| 3 | <p>New Tax Administration Portal-Tax For All (TFA)</p> <p>The existing TAXISnet system has been gradually replaced by the new online Tax Administration Portal - Tax For All (TFA). The Cyprus Tax Department issued a number of announcements with regards to the practical implementation of the new TFA portal including the below:</p> <ul style="list-style-type: none"> ▶ The deadlines for the submissions of VAT return forms and VAT payments for the quarters December 2022- February 2023 and January 2023- March 2023 were extended to 10 May 2023 and 26 May 2023 respectively. The deadline for the submission of the VIES return covering the month of April 2023 was also extended to 26 May 2023. ▶ As from 27 March 2023, the Cyprus Tax Department has initiated the process of sending emails to all VAT registered taxpayers (i.e., to their registered email address as per the TAXISnet system) for the effective activation of their new TFA account. | <p>Businesses should become aware of the new TFA developments in order to ensure a smooth transition and activation of their TFA account. There are penalties for non-compliance. For more information, please review our Tax Alerts on the matter here TaxLegi 26.4.2023 EY – Cyprus.</p>  |
| 4 | <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>On 10 February 2023, the Cyprus Tax Authority released a set of FAQs which address a number of aspects relating to the application of the new TP legislation that is effective as of 1 January 2022. One of the main points addressed relates to the abolishment of the Interpretive Circular 3 (dated 30 June 2017) on back-to-back financing arrangements. The abolishment is effective as from 1 January 2022.</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> <p>It is important to review the FAQ here TaxLegi 22.2.2023 EY – Cyprus.</p>  |
| 5 | <p>Cyprus Tax Authority publishes 10-year government bond yield rates for NID purposes</p> <p>On 16 March 2023, the Cypriot Tax Department issued an announcement that lists the 10-year government bond yield rates as of 31 December 2022 for a number of countries with respect to the Notional Interest Deduction (NID) on equity. Read more: Cyprus Tax Authority publishes 10-year government bond yield rates for NID purposes (ey.com).</p> <p>On 23 May 2023, the Cypriot Tax Department announced additional 10-year government bond yield rates. Read more: May 2023 Announcement.</p> | <p>Taxpayers should use the yield rates to determine the reference interest rate for claiming NID for the 2023 tax year.</p>  |
| 6 | <p>Contribution of 0.4% levy to the Central Agency for the Equal Distribution of Burdens</p> <p>On 31 March 2023, the Cypriot Tax Department issued Circular 2/2023 which provides guidance in relation to the payment of the 0.4% transfer levy in relation to transfers of immovable property situated in Cyprus and transfers of unlisted shares which directly or indirectly own immovable property situated in Cyprus.</p> | <p>Taxpayers should review the circular for guidance on the application of the 0.4% levy.</p>  |

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| 7 | <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 or resident in jurisdictions listed by the EU as non-cooperative jurisdictions on tax matters. Effective as of 31 December 2022.</p> | Review compliance with the requirements of the new law on outbound payments of interest, dividends and royalties. | |
| 8 | <p>European Union updates the list of non-cooperative jurisdictions for tax purposes</p> <p>On 14 February 2023, the Council of the European Union (EU) updated the list of non-cooperative jurisdictions (EU List). Specifically, British Virgin Islands, Costa Rica, Marshall Islands and Russia were added to Annex I of the EU List. The revision of the EU List may have potential reportability obligations for Cypriot DAC6/MDR purposes, especially regarding hallmarks C.1.b.(ii) and D.1 of the Cypriot DAC6/MDR Law. Read more: TaxLegi 22.2.2023 EY - Cyprus.</p> | Cypriot companies should assess potential reporting obligations under the Cypriot DAC6/MDR legislation as result of the revision of the EU list of non-cooperative jurisdictions. | |
| 9 | <p>Green Taxes updates</p> <p>As part of the Cyprus green taxation reform, a number of environmental taxes are under consultation:</p> <ol style="list-style-type: none"> Introduction of taxes to combat air pollution and climate change, i.e., carbon (applicable on top of excise duties) Introduction of taxes to combat water pollution (i.e., increase in water tariffs) Introduction of taxes to enhance management and circular economy, i.e.: landfill tax, tourism tax and pay-as-you-throw scheme for citizens | Businesses (and citizens) should monitor the legislative proposals of such new green taxes and understand their impact as well as any compliance obligations. | |
| 10 | <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> | Review compliance with the expanded definition of corporate tax residency. | |
| 11 | <p>Register of Ultimate Beneficial Owners (UBOs)</p> <p>The Registrar of Companies in Cyprus has adopted the new legislation regarding the Register of UBOs. All Cyprus Companies have the obligation to comply with this regulation and to report the Ultimate Beneficial Owners to the Registrar of Companies.</p> | Businesses should ensure compliance with the new filing obligations which include: <ol style="list-style-type: none"> 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. For companies incorporated after 12 March 2021, initial reporting should be done within 30 days from the incorporation date. Companies that had changes in their shareholders need to report within 14 days. Annual confirmation (more details to be provided by the Registrar). | |
| 12 | <p>Introduction of a super R&D deduction for years 2022-2024</p> <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> | Taxpayers should examine whether the new increased deduction can be availed to them and explore potential tax efficiencies. | |

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| 13 | <p>New Policy for Permanent Residence by Investment</p> <p>The criteria regarding Permanent Residence (PR) permits for Non-EU investors under Regulation 6(2), have been amended in an effort to address some identified weaknesses and flaws in the policy as it was implemented so far. The new criteria are in effect starting 2 May 2023. The most important of the revised criteria are as follows:</p> <ul style="list-style-type: none"> ▶ When investing in house/apartment or other real estate, receipts for at least EUR 300,000 (excl. any applicable VAT) should be presented. ▶ Parents and in-laws are not covered anymore as Dependents for PR. ▶ Required minimum annual income is now set to EUR 50,000, plus EUR 15,000 for dependent spouse and EUR 10,000 for dependent children. ▶ Police Clearance Certificates, for adult applicants, need to be presented from both the country of origin as well as the country of residence, in case they differ. ▶ In order to maintain their Immigration status, holders of PR 6(2), have to prove they meet a number of criteria on an annual basis. <p>Read more: TaxLegi 2.5.2023 EY - Cyprus</p> | <p>Relevant individuals should be familiar with the new criteria and how these may affect them.</p>  |

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| 14 | <p>Amendment of 20% and 50% exemptions of the Income Tax Law</p> <ul style="list-style-type: none"> ▶ 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. ▶ New provisions have been introduced which provide for a 20% tax exemption or EUR8,550, whichever is 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. ▶ 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. ▶ 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 1 January 2022. The tax exemption is granted for a period of seventeen tax years and is granted in any year in which the remuneration from employment in Cyprus exceeds EUR55,000 annually. 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>Read more: TaxLegi 28.11.2022 EY - Cyprus.</p> | <p>Employers should ensure compliance with the amended provisions so as to withhold the correct pay-as-you-earn (PAYE) tax.</p>  |
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15

Personal Income Tax Return (Form T.D.1)

It is expected that the Personal Income Tax Return (Form T.D.1), for the tax year 2022, will be released during the next few weeks. It is expected that an extension will be granted in relation to the filing deadline of Form T.D.1.

Individuals should ensure compliance by timely completing and submitting their personal income tax return.



Temporary application of Zero VAT rate (0%) to selected food and socially significant products

On Tuesday 2 May 2023, the Cyprus Council of Ministers approved the application of zero VAT rate on selected food and socially important products. The measure is temporary and applies from 5 May 2023 up to 31 October 2023.

Products subject to Zero VAT rate are the following:

- ▶ Bread: All types of bread fresh or frozen with or without leaven. Pastries, baked or dried products and any bread with additional ingredients such as raisins, nuts, aromatics are excluded from "bread definition" for the purposes of 0% VAT
 - ▶ Milk: fresh milk, sweetened, condensed, long-life, flavored milk, plant milk
 - ▶ Eggs
 - ▶ Baby food: in powder, dry or even liquid form intended for consumption by children. Snacks are not subject to 0% VAT
 - ▶ Baby and Adult diapers
 - ▶ Products for feminine hygiene protection
- Read more: [TaxLegi 22.2.2023 | EY - Cyprus](#)

Affected Businesses need to:

- ▶ Carry out a stock counting (by the end of the business day before the change in the VAT rate) of their products to be placed under the 0% VAT.
- ▶ Consider that they have the option to choose which VAT rate (old - 5/19% /new - 0%) to apply on the goods impacted by the rate change. Such right is applicable where the basic tax point (goods delivery) occurred before the VAT rate change and the actual tax point (invoice/payment) occurred afterwards (or vice versa).



16

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