

August 2023






No.	Fact	Action
1	<p>Income Tax Law – Amendment of article 8(23A) – 50% Exemption</p> <p>On 30 June 2023, the Income Tax (Amending) (No.8) Law of 2023, which relates to amendments in the existing Article 8(23A) of the Income Tax Law (“ITL”), was published in the Official Gazette of the Republic. The main amendments relate to the following:</p> <ul style="list-style-type: none">Individuals who meet the conditions for the 50% exemption (based on article 8(23A) of the Income Tax Law) are permitted to continue to benefit from this exemption even if they change employer during the years which they are entitled to claim the 50% exemption.The number of years that an individual must not have been resident in the Republic before commencing his first employment in the Republic has been increased from 10 to 15 consecutive tax years.Also, prior to the publication of the Income Tax (Amending) (No.8) Law of 2023, section 8(23A) provided that the exemption is granted in the tax year of termination of employment in the Republic or at the end of the seventeen-year period, provided that the remuneration from employment in the Republic during the last twelve months exceeds €55.000. According to the said Amending Law, this provision has been deleted.Furthermore, individuals who during the year 2022 claimed the 50% exemption based on the initial provisions of article 8(23A), and in accordance with the Income Tax (Amending) (No.8) Law of 2023 do not qualify for the 50% exemption, have the right to continue claiming the 50% exemption provided that the conditions of article 8(23A) which were in force before the said Amending Law came into force are met. <p>Read more: TaxLegi 3.7.2023 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> <div><div></div><div></div><div></div></div>




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


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

Compliance Risk management Cash-flow and ETR impact

No.	Fact	Action
2	<p>Cyprus tax authorities issue transfer pricing simplification measures</p> <p>On 6 July 2023, the Tax Department issued a tax circular (the Circular) introducing simplification measures for various types of intercompany transactions thus effectively introducing certain safe harbor rates. The simplification measures apply to transactions with a value less than €750,000 per annum (the threshold is applied on an aggregate basis per category of transaction). The Circular also provides guidance regarding the minimum documentation requirements for transactions falling under the simplification measures.</p> <p>The introduction of simplification measures may have DAC6 /MDR implications. More specifically, the simplification measures may constitute a "unilateral safe harbour" for the purposes of the relevant DAC6 legislation. If there is a cross-border arrangement involving the use of "unilateral safe harbour rules", this may be considered as a reportable cross-border arrangement for the purposes of Hallmark E1.</p> <p>The simplification measures are applicable as of 1 January 2022,</p>	<p>Taxpayers considering to apply any of the simplification measures should ensure the eligibility and application of such measures, while adequate documentation should be maintained to ensure their compliance.</p> <p>Moreover, taxpayers should also consider the DAC6 implications, considering that the application of simplification measures may trigger the reportability of a cross-border arrangement for the purposes of Hallmark E1.</p> <p>For more information, please review our Tax Alert on the matter here.</p> 
3	<p>Application of the interest limitation rules</p> <p>On 5 July 2023, the Tax Department issued a tax circular providing guidance on the application of the interest limitation rules. The said rules were introduced in 2019 as part of the adoption of the EU Anti-Tax Avoidance Directive.</p>	<p>Taxpayers should review their tax position and ensure there is compliance with the positions adopted by the Cypriot tax authorities through the relevant circular.</p> 
4	<p>Comparable Uncontrolled Price</p> <p>On 7 July 2023, the Tax Department issued a tax circular taking the position that as of 2023 tax year, the Comparable Uncontrolled Price is the preferred method for documentation. Moreover, as per the circular, the use of any other method can only be accepted in exceptional circumstances and provided certain conditions are met.</p>	<p>Taxpayers should review their existing transfer pricing documentation and determine whether the use of any other methods (such as CAPM) is appropriate in the light of the newly issued circular.</p> 
5	<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. The newly enacted legislation sets out two conditions that 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>	<p>People interested in buying or constructing new houses /residences should be aware of the new VAT legislation provisions and consider their eligibility for applying a reduced VAT rate of 5%.</p> 
6	<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> 
7	<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).</p> <p>For more information, please review our Tax Alerts on the matter here TaxLegi 26.4.2023 EY - Cyprus.</p>	<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.</p> 

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8	<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 a 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> 
9	<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> 
10	<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> 
11	<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>	<p>Review compliance with the requirements of the new law on outbound payments of interest, dividends and royalties.</p> 
12	<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>	<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.</p> 
13	<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 	<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> 

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14	<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> 
15	<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>	<p>Taxpayers should examine whether the new increased deduction can be availed to them and explore potential tax efficiencies.</p> 
16	<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 become familiar with the new criteria and how these may affect them.</p> 

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17	<p>Personal Income Tax Return (Form T.D.1)</p> <p>On 9 June 2023, the Council of Ministers issued a decree (183/2023) extending the deadline for the electronic submission of personal income tax returns and the settlement of the relevant income tax liability for the tax year 2022. The filing deadline has been extended from 31 July 2023 to 02 October 2023 and applies to employees and pensioners whose total gross annual income exceeds €19.500, as well as to self-employed persons with turnover below €70.000 who do not have an obligation to submit audited accounts.</p> <p>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.</p>	<p>Individuals should ensure compliance by timely completing and submitting their personal income tax return and paying any due tax arising.</p>  
18	<p>Temporary application of Zero VAT rate (0%) to selected food and socially significant products</p> <p>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.</p> <p>Products subject to Zero VAT rate are the following:</p> <ul style="list-style-type: none"> ▶ 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 <p>Read more: TaxLegi 22.2.2023 EY - Cyprus</p>	<p>Affected Businesses need to:</p> <ul style="list-style-type: none"> ▶ 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).    
19	<p>Amendment to the Special Defence Contribution Law</p> <p>On 09 June 2023, an amendment (L40(1)/2023) to the Special Contribution for the Defence Law the "Law" of 2002 until (No. 2) of 2022 was published in the Official Gazette of the Republic.</p> <p>In accordance with the amendments made in the Law, every person (defined in the Law as a company, partnership, the Republic and a local authority) who pays rent should pay in two instalments the Special Defence Contribution ('SDC') withheld during the first and second semester of the year, by the 30th of June and by the 31st of December of each year, respectively.</p>	<p>Persons paying rent should ensure SDC on rental payments is withheld and paid in a timely manner.</p>    

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