

Tax Agenda Cyprus

October 2023



No.	Fact	Action
1	<p>Income Tax Return Form (TD4) for Companies released by the Cypriot Tax Department</p> <p>On 28 August 2023, the Cypriot Tax Department announced that the Income Tax Return template for companies for the tax year 2022 is has been released on Taxisnet and is available for submission.</p>	<p>Taxpayers should submit TD4 form by 31 March 2024.</p> <p>●</p>
2	<p>EU Carbon Border Adjustment Mechanism enters into force from 1st October 2023</p> <p>The first transitional period of the Carbon Border Adjustment Mechanism (CBAM) regulation enters into force on 1 October 2023. The regulation provides that businesses importing specific goods into the European Union must report information on such imports and emissions on a quarterly basis. Read more: TaxLegi 26.4.2023 EY - Cyprus</p>	<p>Considering the new regulation, businesses must prepare for the relevant reporting obligations and should also start looking into how the new legislation and the related payment obligations will affect their daily operations, costs and sales prices</p> <p>● ● ●</p>
3	<p>Extension of the EU Emissions Trading System to maritime transport from 2024</p> <p>The EU ETS Amending Directive 2023 amends the Main EU ETS Directive to also include/cover emissions from maritime transport activities. (i.e., emissions caused by ships carrying cargo or passengers for commercial purposes).</p>	<p>Shipping companies covered by the EU ETS must review the new legislation so as to be compliant with their new obligations and take all necessary business steps for its application (i.e., adaption of contract(s), update of ships monitoring plans, monitor greenhouse gas emissions, preparation of emission reports etc.)</p> <p>● ● ●</p>

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

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

Income Tax Law – Amendment of article 8(23A) – 50% Exemption

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:

- ▶ 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.

Read more: [TaxLegi 3.7.2023 | EY - Cyprus](#)

Employers should ensure compliance with the amended provisions so as to withhold the correct pay-as-you-earn (PAYE) tax.

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**Transfer pricing (TP)**

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.

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.

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.

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.

The simplification measures are applicable as of 1 January 2022.

Develop a thorough understanding of the new TP documentation rules and assessment of the impact of the new transfer pricing requirement for your group.

It is important to review the FAQ here [TaxLegi 22.2.2023 | EY - Cyprus](#).

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.

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.

For more information, please review our Tax Alert on the matter [here](#).

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**Stamp Duty Exemption for Registered Aircraft**

The House of Representatives has voted for an amendment in the Stamp Duty Law (L77(I)/2023) which was published in the official Gazette of the Republic on 21 July 2023.

The amending Law aims to exempt from stamp duty various documents relating to transactions for aircrafts registered in the Cyprus Aircraft Register

Read more: [TaxLegi 10.8.2023](#)




Taxpayers should be aware of this exemption as it is relevant for agreements relating to aircrafts.

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No.	Fact	Action
7	<p>Russia suspends main provisions of double tax treaties with state designated by the Russian Federation as 'unfriendly', including Cyprus</p> <p>On 8 August 2023, Russia published the Presidential Decree No. 585 "On the Suspension of the Validity of Certain Provisions of International Treaties of the Russian Federation on Taxation Issues" ('the Decree'). The Decree suspended certain main articles of 38 double tax treaties concluded by Russia with state designated by the Russian Federation as 'unfriendly', including Cyprus.</p> <p>Read more: TaxLegi 10.8.2023</p>	<p>Taxpayers which have relevant arrangements that could be affected by the Decree should become familiar with it.</p> 
8	<p>Introduction of 3% VAT rate & new goods added to 0% VAT</p> <p>On 21 July 2023, the Cyprus Parliament implemented a super reduced 3% VAT rate and extended the application of 0% VAT for goods used by people with disabilities.</p> <p>Read more: TaxLegi 3.7.2023</p>	<p>Businesses trading in goods – services affected by this legislation should consider wider obligations including aspects around stock taking, VAT treatment and tax points before implementing new VAT rates.</p> 
9	<p>Amendment to the Special Defence Contribution Law</p> <p>On 9 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> 
10	<p>Guidance on the 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> 
11	<p>Guidance on the 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> 
12	<p>5% VAT on the Purchase or Construction of a new residence</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> 
13	<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> 

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14	<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). Read more: TaxLegi 26.4.2023</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> 
15	<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) . 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> 
16	<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. On 1 September 2023, the Cypriot Tax Authorities issued an announcement stating that, it has sent letters requesting certain information from relevant taxpayers who during the period 22 February 2021 to 18 November 2022 proceeded with the transfer of shares of companies which directly or indirectly own an immovable property in Cyprus. The announcement also notes that the 0,4% transfer levy is payable without interest and penalties up until 31 December 2023.</p>	<p>Taxpayers should review the circular for guidance on the application of the 0.4% levy. Taxpayers that have not received a letter from the Tax Department but entered a transaction that is subject to the Real Estate Transfer Levy and Capital Gains Tax are required to proceed with the payment of the 0,4% transfer levy and Capital Gains Tax (as applicable) and should submit to the local Tax Office the relevant Tax Declaration Form for transferring of shares (i.e., T.D.402 Form).</p> 
17	<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. The tax authorities are in the process of issuing a tax circular with respect to the new withholding tax provisions.</p>	<p>Review compliance with the requirements of the new law on outbound payments of interest, dividends and royalties. Affected taxpayers should monitor for any new guidance on this matter.</p> 
18	<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> 
19	<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> 

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20	<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.</p> <p>Read more: TaxLegi 22.2.2023</p>	<p>Relevant individuals should become familiar with the new criteria and how these may affect them.</p> 
21	<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>The Personal Income Tax Return (Form T.D.1), for the tax year 2022, is now available for electronic submission through the TaxisNet online platform.</p>	<p>Individuals should ensure compliance by timely completing and submitting their personal income tax return and paying any due tax arising.</p> 
22	<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. 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). 

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