

Tax Agenda Cyprus

November 2023



No.	Fact	Action
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1	<p>Cyprus issues draft legislative proposal on Pillar Two global minimum tax</p> <p>On 3 October 2023, the Ministry of Finance of Cyprus issued a draft legislative proposal on Pillar Two global minimum tax. The draft legislative proposal is aimed at helping Cyprus implement Pillar Two global minimum tax rules. The draft proposal is open for consultation until the close of business on Tuesday, 31 October 2023.</p> <p>Read more: Cyprus issues draft legislative proposal on Pillar Two global minimum tax (ey.com)</p>	<p>Taxpayers which may be affected by the Pillar Two rules should closely monitor new developments on the matter.</p> <p>● ● ●</p>
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2	<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>
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3	<p>Extension to the temporary application of Zero VAT rate (0%) on selected foods and socially significant products</p> <p>On the 13 September 2023, the Cyprus Council of Ministers approved the application of zero (0%) VAT rate on selected food and socially essential products for the period from 1 November 2023 up to 30 April 2024. Certain products were already subject to the zero (0%) VAT rate from a previous temporary order (i.e., started in May 2023 and ending 31 October 2023.) but new products are also included in the new order.</p> <p>Read more: TaxLegi 10.8.2023 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. <p>● ● ●</p>
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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

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4	<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 entered into force on 1 October 2023. The regulation provides that businesses importing specific are subject to carbon pricing.</p> <p>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> 
5	<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> 
6	<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") which provide for a 50% exemption on employment income, was published in the Official Gazette of the Republic.</p> <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> 
7	<p>Tax treatment of income received from renting out via online platforms, self-service resorts</p> <p>The Cypriot Tax Department issued a circular (Circular 10/2023) on 13 September 2023, which clarifies the tax treatment of income received from properties rented out, via online platforms (e.g. Airbnb, Booking) or a website, as self-service resorts which are registered with the Deputy Ministry of Tourism.</p>	<p>Taxpayers who earn such rental income should confirm their current tax treatment.</p> 
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>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>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> <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> 

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9	<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> 
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>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> 
13	<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>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> 
14	<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>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).</p> <p>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.</p> <p>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> 

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15	<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>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> <p></p>
16	<p>Green Taxes updates</p> <p>As part of the Cyprus green taxation reform, a number of environmental taxes are under consultation:</p> <ul style="list-style-type: none"> a) Introduction of taxes to combat air pollution and climate change, i.e., carbon (applicable on top of excise duties) b) Introduction of taxes to combat water pollution (i.e., increase in water tariffs) c) 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> <p></p>
17	<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> <p></p>
18	<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> <p></p>

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