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AMP ANDREAS PANTAZIS (ESTATE AGENTS) LTD

Εγκεκριμένοι Εκτιμητές – Σύμβουλοι Ακινήτων – Εγγεγραμμένοι Κτηματομεσίτες
Chartered Surveyors – Property Consultants – Registered Real Estate Agents

CYPRUS TAX
PROVISIONS 2017

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CONTENTS

1. PERSONAL INCOME TAX	2
2. CORPORATION TAX	2
2.1 CORPORATE TAX DEDUCTIONS FOR EXPENSES.....	3
2.2 LOSSES CARRIED FORWARD.....	3
2.3 ANNUAL WEAR AND TEAR CAPITAL ALLOWANCES.....	4
3. CAPITAL GAINS TAX	5
3.1 EXEMPTIONS.....	5
3.2 DETERMINATION OF CAPITAL GAIN.....	6
3.3 LIFETIME EXEMPTIONS.....	6
4. VALUE ADDED TAX (V.A.T)	6
4.1 LEGISLATION RATES	6
4.2 EXEMPTIONS.....	7
4.3 IMPOSITION OF THE REDUCED RATE OF 5% ON THE ACQUISITION AND/OR CONSTRUCTION OF RESIDENCES FOR USE AS THE PRIMARY AND PERMANENT PLACE OF RESIDENCE.....	7
4.4 GRANT FOR ACQUISITION OF FIRST RESIDENCE.....	8
4.5 IMPOSITION OF THE REDUCED RATE OF 5% ON THE RENOVATION AND REPAIR OF PRIVATE RESIDENCES.....	9
4.6 REGISTRATION.....	9
4.7 VAT DECLARATION - PAYMENT/REFUND OF VAT.....	9
5. IMMOVABLE PROPERTY TAX	10
5.1 TAX RATES.....	10
5.2 EXEMPTIONS.....	10
6.0 TRANSFER FEES BY THE LAND AND SURVEYS DEPARTMENT	11
7.0 STAMP DUTY	11
8.0 SOCIAL INSURANCE	12
9.0 CAPITAL DUTY	12
9.1 UPON INCORPORATION OF A CYPRUS COMPANY	12
9.2 UPON SUBSEQUENT INCREASES	12
10.0 2017 TAX DIARY	12
10.1 INTEREST AND PENALTIES.....	14

1. PERSONAL INCOME TAX

The following income tax rates apply to individuals:

Chargeable income for	Tax rate	Accumulated tax
€	%	€
First 19.500	Nil	Nil
From 19.501 - to 28.000	20	1.700
From 28.001 - to 36.300	25	3.775
From 36.301 - to 60.000	30	10.885
Over 60.000	35	

An individual is considered as a tax resident in Cyprus if he spends in Cyprus more than 183 days in any one calendar year. Days in and out of Cyprus are calculated as follows:

- the day of departure from Cyprus counts as a day of residence outside Cyprus
- the day of arrival in Cyprus counts as a day of residence in Cyprus
- arrival and departure from Cyprus in the same day counts as one day of residence in Cyprus
- departure and arrival in Cyprus in the same day counts as one day of residence outside Cyprus
- Foreign taxes paid can be credited against the personal income tax liability.
- Foreign pension is taxed at the rate of 5%. An annual exemption of €3.420 is granted. The taxpayer can, however, elect to be taxed at the normal tax rates and bands set out above and is a choice which may be made year - on - year.

2. CORPORATION TAX

All Cyprus tax resident companies are taxed on their income accrued or derived from all chargeable sources in Cyprus and abroad. A company is a resident of Cyprus if it is managed and controlled in Cyprus. A non- Cyprus tax resident company is taxed on income accrued or derived from a business activity which is carried out through a permanent establishment in Cyprus and on certain income arising from sources in Cyprus.

Foreign taxes paid can be credited against the corporation tax liability.

The corporation tax rate for all companies is 12,5%.

Type of income	Exemption limit
Profit from the sale of securities	Whole amount
Dividends (excluding as from 1 st January 2016 dividends which are tax deductible for the paying company)	Whole amount (1)
Interest not arising from the ordinary activities or closely related to the ordinary activities of the company (2)	Whole amount (3)
Profits of a permanent establishment abroad under certain conditions	Whole amount (4)

Gains relating to foreign exchange differences (forex) with the exception of forex arising from trading in foreign currencies and related derivatives.	Whole amount
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NOTES:

1. Such dividend income may be subject to Special Contribution for Defence.
2. All the interest income of Collective Investment Schemes is considered to be arising from the ordinary activities or closely related to the ordinary activities of the Scheme.
3. Such interest income is subject to Special Defence Contribution.
4. With effect from 1st July 2016, taxpayers may elect to tax the profits earned by foreign permanent establishments with a tax credit for foreign taxes incurred on those foreign permanent establishment profits. Transitional rules apply in certain cases on the granting of foreign tax credits where a foreign permanent establishment was previously exempt and subsequently a taxpayer elects to be subject to tax on the profits of the foreign permanent establishment.

2.1 CORPORATE TAX DEDUCTIONS FOR EXPENSES

Generally expenses incurred wholly and exclusively in earning taxable income and supported by documentary evidence are deductible for corporate tax purposes.

2.2 LOSSES CARRIED FORWARD

The tax loss incurred during a tax year and which cannot be set off against other income, is carried forward subject to conditions and set off against the profits of the next five years.

The current year loss of one company can be set off against the profit of another, subject to conditions, provided the companies are Cyprus tax resident companies of a group (1). Group is defined as:

- One Cyprus tax resident company holding directly or indirectly at least 75% of the voting shares or another Cyprus tax resident company.
- Both of the companies are at least 75% (voting shares) held, directly or indirectly, by a third company.

As from 1st January 2015 interposition of a non - Cyprus tax resident company or companies will not affect the eligibility for group relief as long as such company or companies is tax resident of either an EU country or in a country with which Cyprus has a double tax treaty or an exchange of information agreement (bilateral or multilateral).

A partnership or a sole trader transferring a business into a company can carry forward tax losses into the company for future utilization.

Losses from a permanent establishment abroad can be set off with profits of the company in Cyprus. Subsequent profits of an exempt permanent establishment abroad are taxable up to the amount of losses allowed.

N.B: *As from 1 January 2015 a Cyprus tax resident company may also claim the tax losses of a group company which is tax resident in another EU country, provided such EU company firstly exhausts all possibilities available to utilize its losses in its country of residence or in the country of any intermediary EU holding company.*

2.3 ANNUAL WEAR AND TEAR CAPITAL ALLOWANCES

The following allowances, given as a percentage on the cost of acquisition, are deducted from the chargeable income:

Vehicles and Means of Transportation	%
Commercial motor vehicles	20
Motor cycles	20
Excavators, tractors, bulldozers, self-propelled loaders and drums for petrol companies	25
Armored Motor Vehicles (e.g. used by Security Services)	20
Specialized Machinery for the laying of Railroads	20
New Airplanes	8
New Helicopters	8
Sailing vessels	4,5
Motor Yachts	6
Steamers, tugs and fishing boats	6
Ship motor launches	12,5
New cargo vessels	8
New passenger vessels	6
Fixed assets	
Plant and Machinery	%
Plant and Machinery (1)	10
Furniture and fittings	10
Industrial carpets	10
Boreholes	10
Machinery and tools used in an agricultural business	15
Buildings	%
Commercial Buildings	3
Industrial, agricultural and hotel buildings (2)	4
Flats	3

Metallic Greenhouse structure	10
Wooden greenhouse structure	33 1/3
Other	%
Televisions and Videos	10
Computer hardware and operating systems	20
Application Software	33 1/3
Expenditure on application software less than €1.709, is written off in the year of acquisition	
Wind Power Generators	10
Photovoltaic systems	10
Tools in general	33 1/3

N.B i): *Plant and machinery and non- private motor vehicles acquired during the tax years 2012- 2016 are eligible to accelerated tax depreciation at the rate of 20% (excluding such assets which are already eligible for a higher annual tax rate of tax depreciation).*

N.B ii): *In the case of industrial and hotel buildings acquired during the same tax years i.e. 2012- 2016, an accelerated tax depreciation at the rate of 7% per annum is applicable.*

N.B iii): *The rates stated for buildings are for new buildings. Rates are amended in the case of second – hand buildings.*

3. CAPITAL GAINS TAX

Capital Gains Tax (CGT) is imposed (when the disposal is not subject to income tax) at the rate of 20% on gains from the disposal of immovable property situated in Cyprus including gains from the disposal of shares in companies which own such immovable property directly , excluding shares listed on any recognized stock exchange. Furthermore as from 17.12.2015 shares of companies which indirectly own immovable property situated in Cyprus and at least 50% of the market value of the said shares derive from such immovable property are subject to CGT.

3.1 EXEMPTIONS

The following disposals of immovable property are not subject to Capital Gains Tax:

- Lands or land with buildings acquired between 16th July 2015 and 31st December 2016 are exempt from CGT (subject to certain conditions) upon their disposal.
- Transfers arising on death.
- Gifts made from parent to child or between husband and wife or between up to third degree relatives.
- Gifts to a company where the company's shareholders are members of the donor's family and the shareholders continue to be members of the family for five years after the day of the transfer.

- Gifts by a family company to its shareholders, provided such property was originally acquired by the company by way of donation provided that it is kept by the donee for at least three years.
- Transfers as a result of reorganizations.
- Gifts to charities and the Government.
- Compulsory Acquisitions.
- Exchange or disposal of immovable property under the Agricultural Land (Consolidation) Laws.
- Exchange of properties, provided that the whole of the gain made on the exchange has been used to acquire the other property. The gain that is not taxable is deducted from the cost of the new property, i.e. the payment of tax is deferred until the disposal of the new property.

Example	€	€
Sale price in October 2013	600.000	
Cost of acquisition as at 1 January 1991	(90.000)	
Indexation allowance January 1991 to October 2013 €90.000 @ 227,74/119,43)- €90.000	(81.620)	
Capital gain		428.380
Legal and estate agency expenses		(5.000)
Taxable Capital Gain		423.380
Capital Gains Tax (20%)		84.676

3.2 DETERMINATION OF CAPITAL GAIN

Liability is confined to gains accruing since 1st January 1980. The costs that are deducted from gross proceeds on the disposal of immovable property are its market value as at 1st January 1980 or, the cost of acquisition and improvements of the property if made after 1st January 1980, as adjusted for inflation up to the date of disposal on the basis of the consumer price index in Cyprus.

Expenses that are related to the acquisition and disposal of immovable property are also deducted, subject to certain conditions e.g. estate agency fees, legal expenses etc.

3.3 LIFETIME EXEMPTIONS

Individuals can deduct from the capital gain the following:	€
Disposal of private residence (subject to certain conditions)	85.430
Disposal of agricultural land by a farmer	25.629
Any other disposal	17.086

N.B: *The above exemptions are lifetime exemptions subject to an overall lifetime maximum of €85.430.*

4. VALUE ADDED TAX (V.A.T)

4.1 LEGISLATION RATES

The legislation provides for the following four tax rates:

- Zero rate (0%).

- Reduced rate of five per cent (5%).
- Reduced rate of nine per cent (8% up to 12 January 2014)
- Standard rate 19% as from 13th January 2014 (15% up to 29th February 2012, 17% from 1st March 2012 up to 13th January 2013, 18% from 14th January 2013 to 12th January 2014).

N.B: *The difference between zero rate and exempt supplies is that businesses that make exempt supplies are not entitled to recover the VAT charged on their purchases, expenses or imports.*

4.2 EXEMPTIONS

Certain goods or services are exempt from VAT such as:

- the letting of immovable property (the letting of immovable property with the right of purchase is not exempt);
- most banking and financial services and insurance services.
- most hospital, medical and dental care services.
- certain cultural educational and sports activities.
- supplies of real estate (except supply of new buildings before their first use) including supplies of land and of second-hand buildings.
- postal services provided by the national postal authority.
- lottery tickets and betting coupons for football and horse racing.
- management services provided to mutual funds.

4.3 IMPOSITION OF THE REDUCED RATE OF 5% ON THE ACQUISITION AND/OR CONSTRUCTION OF RESIDENCES FOR USE AS THE PRIMARY AND PERMANENT PLACE OF RESIDENCE

The reduced rate of 5% applies to contracts that have been concluded from **1st October 2011** onwards provided they relate to the acquisition and/ or construction of residences to be used as the primary and permanent place of residence for the next 10 years. Following a legislative amendment, the restriction that existed for the imposition of the reduced rate of VAT on the first 200m² for private residences up to 275m² no longer applies. Based on the amendment, the reduced rate of 5% VAT applies on the first 200m² whereas for the remaining square meters, as determined based on the building coefficient, the standard VAT rate is imposed.

N.B: *The reduced rate is imposed only after obtaining a certified confirmation from the Tax Commissioner.*

The eligible person must submit an application on a special form, issued by the Tax Commissioner, which will state that the house will be used as the primary and permanent place of residence. The applicant must attach a number of documents supporting the ownership rights on the property and evidencing the fact that the property will be used as the primary and permanent place of residence. The application must be filed prior to the actual delivery of the residence to the eligible person.

As from **8th June 2012** eligible persons include residents of **non EU Member States**, provided that the residence will be used as their primary and permanent place of residence in the Republic of Cyprus.

The documents supporting the ownership of the property must be submitted together with the application. The documents supporting the fact that the residence will be used as the primary and permanent place of residence (copy of telephone, water supply or electricity bill or of municipal taxes) must be submitted within six months from the date on which the eligible person acquires possession of the residence.

A person who ceases to use the residence as his primary and permanent place of residence before the lapse of the 10 year period must notify the Tax Commissioner within thirty days of ceasing to use the residence and pay the difference resulting from the application of the reduced and the standard rate of VAT attributable to the remaining period of 10 years for which the property will not be used as the main and primary place of residence.

The private residences must be used as the main and permanent place of residence for a period of 10 years. In addition, based on the amendment, persons who have already acquired a residence on which the reduced VAT rate was imposed, can re – apply and acquire a new residence on which the reduced VAT rate will be imposed, irrespective of whether the 10 year prohibition period for using the residence provided or in the legislation has lapsed or not. A condition for this to apply is that in case the 10 year period of using the residence as the main and permanent place of residence has not lapsed, the persons must pay back to the Tax Department the difference in the VAT between the standard and reduced VAT rates applicable at the time of the acquisition or construction of the residence.

N.B: *Persons who make a false statement to benefit from the reduced rate are required by law to pay the difference of the additional VAT due. Furthermore, the legislation provides that such persons are guilty of a criminal offence and, upon conviction, are liable to a fine, not exceeding twice the amount of the VAT due, or imprisonment up to 3 years or both.*

4.4 GRANT FOR ACQUISITION OF FIRST RESIDENCE

For contracts concluded **up to 30th September 2011** for the acquisition and/ or construction of residences for use as the primary and permanent place of residence, the eligible person must apply for a grant. The grant is given to eligible persons for the construction, or purchase or transfer of a new residence which is used as the main and primary place of residence. The application for the grant is submitted to the Ministry of Finance, in relation to residences for which an application has been submitted for the issue of a planning permission after 1st May 2004. Persons entitled to this grant are individuals who are citizens of the Republic of Cyprus or of any other EU Member State, who reside permanently in the Republic of Cyprus and who have reached the age of 18 at the time of application. The grant is given for residences, the total covered area of which, does not exceed 250 m². The level of the grant is limited to 130 m² (extended for families with four and more children) and depends on the type of the property and on whether the house was constructed or purchased. The relevant legislation provides that the level of the grant will be adjusted annually for the increase in the Retail Price Index.

4.5 IMPOSITION OF THE REDUCED RATE OF 5% ON THE RENOVATION AND REPAIR OF PRIVATE RESIDENCES

As from 4th December 2015 the renovation and repair of old private residences (for which a period of at least three years has elapsed from the date of their first use) is subject to VAT at the reduced rate of VAT of 5%, excluding the value of materials which constitute more than 50% of the value of the services.

In addition as from 4th December 2015 the renovation and repair of old private residences (for which a period of at least three years has elapsed from the date of their first use) and which are used as the place of residence of vulnerable groups or residences that are used as the place of residence and which are located in remote areas are subject to VAT at the reduced rate of VAT of 5%.

4.6 REGISTRATION

Registration is compulsory for businesses with (a) turnover subject to VAT in excess of €15.600 during the 12 preceding months or (b) expected turnover subject to VAT in excess of €15.600 within the next 30 days. Businesses with turnover of less than €15.600 or with supplies that are outside the scope of VAT but for which the right to claim the amount of the related input VAT is granted, have the option to register on a voluntary basis.

An obligation for registration also arises for businesses which make acquisition of goods from other EU Member States in excess of €10.251, 61 during any calendar year. In addition as from 1 January 2010 an obligation for VAT registration arises for businesses engaged in the supply of intra-community services for which the recipient must account for VAT under the reverse charge provisions. Furthermore an obligation for VAT registration arises for businesses carrying out economic activities from the receipt of services from abroad for which an obligation to account for Cyprus VAT under the reverse charge provision exists subject to the registration threshold of €15.600 per any consecutive 12 month period. No registration threshold exists for the provision of intra-community supplies of services.

Exempted products and services, and disposals of items of capital nature are not taken into account for determining annual turnover for registration purposes. Registration is effected by completing the appropriate application form.

4.7 VAT DECLARATION - PAYMENT/REFUND OF VAT

VAT returns must be submitted quarterly and the payment of the VAT must be made by the 10th day of the second month that follows the month in which the tax period ends.

VAT registered persons have the right to request for a different filing period. The approval of the Commissioner of Taxation is required. The Commissioner of Taxation also has the right to request from a taxable person to file his VAT returns for a different period. Where in a quarter input tax is higher than output tax, the difference is refunded or is transferred to the next VAT quarters.

As from 19th February 2013 taxpayers who make a claim for VAT refund will be entitled to repayment of the principal amounts together with interest in the event that the repayment is delayed for a period

exceeding four months from the date of the submission of the claim. The grace period for the Tax Department to repay the refundable amounts is extended by four months (i.e. eight months in total) in the event that the Tax Commissioner is carrying out an investigation in relation to the submitted claim.

5. IMMOVABLE PROPERTY TAX

Immovable Property Tax has been abolished as from 1st January 2017. Until 2016 Immovable Property Tax was imposed on the market value as at 1st January 1980 and applied to the immovable property owned by the taxpayer on 1st January of each year.

As from 1st January 2013, the bands and rates for Immovable Property Tax for properties situated in Cyprus had been revised as per the table below which applied on a per owner basis (**not per property**). Property owners whose property had a total value of €12.500 or less (on the basis of 1.1.1980 values) were exempt from Immovable Property Tax.

5.1 TAX RATES

Property value (as at 1st January 1980) €	Rate %	Accumulated tax €
First 40.000	6	240
From 40.001 - to 120.000	8	880
From 120.001 - to 170.000	9	1.330
From 170.001 - to 300.000	11	2.760
From 300.001 - to 500.000	13	5.360
From 500.001 - to 800.000	15	9.860
From 800.001 - to 3.000.000	17	47.260
Over 3.000.000	19	

5.2 EXEMPTIONS

The following are not subject to Immovable Property Tax:

- Schools
- Churches and other religious buildings (partly exempt)
- Public cemeteries
- Public hospitals
- Immovable property owned by the Republic
- Common use and public places
- Foreign embassies and consulates
- Property under Turkish occupation
- Buildings of charitable organizations
- Buildings under a Preservation Order

- Agricultural land used in farming or stock breeding, by farmer or stock breeder residing in the area.

6.0 TRANSFER FEES BY THE LAND AND SURVEYS DEPARTMENT

The fees charged by the Department of Land and Surveys to the purchaser for transfers of property are as follows:

Market Value €	Rate %	Fee €	Accumulated fee €
First 85.000	3	2.550	2.550
From 85.001 - to 170.000	5	4.250	6.800
Over 170.000	8		

N.B i): *If, however, VAT is applicable upon purchasing a property then no transfer fees are payable.*

N.B ii): *The above transfer fees are reduced by 50% in case the purchase of a property is not subject to VAT.*

In the case of free transfers of property the transfer fees are calculated on the value of the property as at 1st January 2013 as follows:

- from parents to children : Nil
- between spouses: 0,1%
- between third degree relatives : 0,1%
- to trustees : €50

Mortgage registration fees are 1% of the current market value.

In the case of companies' reorganizations, transfers of immovable property are not subject to transfer fees or mortgage registration fees.

7.0 STAMP DUTY

The following table gives the amount or rate of duty payable on certain documents. Transactions which fall within the scope of reorganizations are exempt from stamp duty and so are documents relating to assets situated outside Cyprus or business affairs that take place outside Cyprus.

Nature of documents

Contracts with a fixed amount

- the first €5.000 0
- between €5.001 – to €170.000 1,5‰
- above €170.000 2‰*

Contracts without fixed amount €35

Charterparty €18

Receipts (if not exempt)-for sums of over €4 7 cents

Cheques 5 cents

Letters of credit €2

Letters of guarantee: €4

Bills of exchange (payable within three days, on demand or at sight): €1

Customs declaration documents (depending on document type): €18 - €35

General Powers of Attorney: €6

Limited Powers of Attorney: €2

Certified copies of contracts and documents: €2

***Capped at a maximum of €20.000.**

8.0 SOCIAL INSURANCE

	%
Employer's contribution	7,8 *
Employee's contribution	7,8 *
Social cohesion fund	2,0**
Redundancy fund	1,2***
Industrial training fund	0,5***
Holiday fund (if not exempt)	8,0***

* The rate of Social Insurance contributions is applied to a maximum level of emoluments which **for 2016 and 2015 is €54.396 (weekly €1.046/monthly €4.533).**

**Social cohesion fund is calculated on total emoluments and has no maximum level.

***Restricted to the maximum level of emoluments as with the social insurance contributions.

N.B: *The rate of 7,8% applies for both the employee and the employee up to 31st December 2018.*

9.0 CAPITAL DUTY

9.1 UPON INCORPORATION OF A CYPRUS COMPANY

Authorized share capital: €105 plus 0,6% on the authorized share capital.

Issued share capital: There is no capital duty payable if the shares are issued at their nominal value. There is a €20 flat duty if the shares are issued at a premium.

9.2 UPON SUBSEQUENT INCREASES

Authorized share capital: 0,6% on the additional share capital

Issued share capital: €60 flat duty on every issue, whether the shares are issued at nominal value or at a premium.

10.0 2017 TAX DIARY

End of each month

- Payment of tax deducted from employees salary (PAYE) in the preceding month.
- Payment of special contribution for defense withheld on payments of dividends, interest or rents (when the tenant is a company, partnership, the state or local authority) made to Cyprus tax residents in the preceding month.
- Payment of tax withheld in the preceding month on payments to non- Cyprus residents.

31st January 2017

- Submission of declaration of deemed dividend distribution (TD623) for the year ended 31st December 2014.

31st March 2017

- Electronic submission of the 2015 corporation tax return (TD4) for accounting periods ending on 31 December 2015 (TD4).
- Electronic submission of the 2015 income tax return of physical persons preparing audited financial statements (i.e individuals whose annual turnover exceeds €70.000).

30th April 2017

- Payment of premium tax for life insurance companies - first instalment for 2017.
- Non - electronic submission of 2016 personal tax returns of individuals whose incomes do not include income from a trade / business, rents, dividends, interest, royalties nor income relating to trading goodwill .

30th June 2017

- Payment of special contribution for defence for the first six months of 2017 on rents and on dividends or interest from sources outside Cyprus.
- Payment of 2016 personal income tax under the self-assessment method by individuals not preparing audited financial statements (i.e individuals whose annual turnover does not exceed €70.000).
- Non-electronic submission of 2016 personal tax returns of individuals not required to prepare audited financial statements(i.e individuals whose annual turnover does not exceed €70.000) but whose incomes exceed €19.500 and include income from a trade/business, rents, dividends, interest, royalties or income relating to trading goodwill.

31st July 2017

- Electronic submission by employers of the total 2016 payroll (Form TD7).
- Submission of the 2017 provisional tax return and payment of the first Instalment (Form TD6).
- Electronic submission of 2016 personal tax returns of individuals whose incomes exceed €19.500 and do not include income from a trade/business, rents, dividends, interest, royalties nor income relating to trading goodwill.

1st August 2017

- Payment of 2016 final corporation tax under the self-assessment method.
- Payment of 2016 personal income tax under the self-assessment method by individuals preparing audited financial statements (i.e individuals whose annual turnover exceeds €70.000).

31st August 2017

- Payment of premium tax for life insurance companies - second instalment for 2017.

30th September 2017

- Electronic submission of 2016 personal tax returns of individuals not required to prepare audited financial statements (i.e individuals whose annual turnover does not exceed €70.000) but whose incomes exceed €19.500 and include income from a trade/business, rents, dividends, interest, royalties or income relating to trading goodwill .

31st December 2017

- Payment of provisional tax - second and last instalment for 2017.
- Payment of special contribution for defense for the last six months of 2017 on rents (if such tax is not withheld at source by tenant) and on dividends or interest from sources outside Cyprus.
- Payment of premium tax for life insurance companies - third and last instalment for 2017.

10.1 INTEREST AND PENALTIES

The official interest rate, as set by the Finance Minister, for all amounts due after 1st January 2017, is **3.5%** per annum (**4%** for 2015 - 2016, **4,5%** for the year 2014, **4, 75%** for the year 2013, **5%** for years 2012 and 2011, **5, 35%** for the year 2010, **8%** for the years 2009-2007 and **9%** up to 31st December 2006). In addition to the interest, penalties are also charged depending on the circumstances.

DISCLAIMER:

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