



CYPRUS COMPANIES
TAX DIARY & COMPLIANCE ISSUES

2021

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A. INTRODUCTION

This present publication analyses the various obligations that a Cyprus company has, along with the various deadlines to be adhered to for the timely compliance with all its obligations towards the various authorities and with the law.

B. CYPRUS INCOME TAX LAW OVERVIEW

Cyprus tax resident companies according to the Income Tax Law of 2002, No. 118 (I) are taxed at a rate of 12.5% under corporation tax but there are types of income which are fully exempt. Additionally, in some cases, a Cyprus company may be liable to Special Defence Tax. The types of income and the applicable Corporation Tax and Special Defence Tax are listed in Appendix I.

A company is taxed on its worldwide income in Cyprus only if it is considered as a Cyprus tax resident. The law considers a company to be a tax resident of Cyprus when its "management and control" is exercised in Cyprus. There is no definition in the Income Tax Law or in any other enactment as to the meaning of the term "management and control". Nevertheless, it has been decided and repeatedly stressed in court precedents that the place where the directors meet in order to reach their decisions on policy, finance and related matters, will be the place of central management and control of the company's business. Additional factors, other than the above, which can be taken into consideration and which strengthen the management and control of a company include:

(1) Permanent residence of directors to be in Cyprus

The residence of the directors is closely connected to the place where board meetings are held. If the intention is to have a tax resident Cyprus company, the directors or at least the majority of them, must be residents of Cyprus. In this way, it is easily proved that the board meetings have been taking place in Cyprus and the management and control is exercised in Cyprus.

(2) Administrative Office

A fully fledged administrative office must be established in Cyprus where the actual management and control of the company's business will be exercised from.

Thus, fundamental policy and management decisions must take place in this office and properly recorded board minutes must be kept.

(3) Signing of Contracts

Signing of contracts, issuing of invoices and any other relevant company documents relating to the management, control and administration of the company must be executed in Cyprus by its directors.

(4) Employees

Employees must be employed and paid reasonable salaries according to market levels.

(5) Stationery

Stationery is to be printed with the letterhead of the company, stating the office address and other contact details such as telephone, fax numbers, email address and website.

(6) Bank accounts

Bank accounts can be opened in Cyprus and managed by the local directors.

(7) Other factual considerations

Any other similar outward indications of local presence and activity must be clearly undertaken by the board of directors residing and meeting in Cyprus.

C. TAX DIARY AND TAX PENALTIES – CHARGES FOR LATE FILING

There are various deadlines that a Cyprus company must meet in order to comply with all its tax obligations. Failure to meet these deadlines will often result in penalties being applied and interest being imposed. All relevant deadlines and the applicable penalties are summarized in the below table:

Date	Action	Applicable Penalties
End of each month	The payment of employees' tax is effected which is deducted directly from the employees' salary (PAYE). The deductions made relate to the salary of the previous month.	
End of each month	Social Insurance contributions are paid monthly for all employees working in Cyprus. Employees of Cyprus companies working outside Cyprus are not obliged to be registered and pay Social Insurance.	
End of each month	For Special Defence Contribution Tax, if interest and dividends, rents (when the tenant is a company, partnership, the state or local authority) are received gross without any deduction at source, any amount due is payable at the end of the month following the month in which they were received or credited.	<ul style="list-style-type: none"> • 5% penalty on unpaid tax liabilities • 1.75% annual interest on unpaid tax liabilities
End of each month	Contributions to the National Healthcare System (withheld at source). The last day of payment is the last day of the month following the month for which the withholding was made.	
31 st January	Submission of declaration of deemed dividend distribution.	
31 st March	Electronic submission of the income tax returns for the year ended 15 months ago. (i.e 31 of March 2020 is the deadline for 2018 Annual Tax Returns)	<ul style="list-style-type: none"> • €100 penalty for late submission • 5% penalty on unpaid tax liabilities

31 st May	Electronic submission of Employer's return as to the total payroll and employees' details of the previous year (IR7 and IR7 Analysis).	
30 th June	Contributions to the National Healthcare System when paid by self-assessment for income generated in the first 6 months of the year.	<ul style="list-style-type: none"> Late payment of GHS due will be subject to interest at the current rate of 2% per annum and to a 5% penalty on the tax due. An additional penalty of 5% on the tax due may be imposed if the tax remains unpaid two months after the above due dates.
31 st July	Submission of provisional income tax declaration for the current year of assessment. The provisional tax liability is payable in 2 equal installments.	
31 st July	Payment of the first installment of provisional income tax liability. (Second installment is paid in December)	<ul style="list-style-type: none"> 1.75% annual interest on first installment if paid at a later stage of current year
1 st August	Filing of self – assessment declaration of final income tax liability for the previous year as determined by the financial statements and income tax returns	

<p>1st August</p>	<p>Payment of the previous year's final corporation tax under the self-assessment method.</p>	<ul style="list-style-type: none"> • 5% penalty on unpaid tax liabilities • 1.75% annual interest on unpaid tax liabilities
<p>31st December</p>	<p>Contributions to the National Healthcare System when paid by self-assessment for income generated in the second half of the year.</p>	<ul style="list-style-type: none"> • Late payment of GHS due will be subject to interest at the current rate of 2% per annum and to a 5% penalty on the tax due. An additional penalty of 5% on the tax due may be imposed if the tax remains unpaid two months after the above due dates.
<p>31st December</p>	<p>Payment of the second installment of the provisional tax liability</p>	<ul style="list-style-type: none"> • If the estimated tax paid during the current year is less than 75% of the actual tax accrued from the financial statements / annual tax returns then there is 10% additional charge on the difference between the estimated tax paid and the actual tax due.

D. PREPARATION OF FINANCIAL STATEMENTS – TAX RETURNS

Annual financial statements must be prepared and filed with the Registrar of Companies showing the true and fair picture of the company's affairs and explaining its transactions. The financial statements must be prepared according to International Financial Reporting Standards and must be filed with the Registrar of Companies.

It is important to note that all Cyprus companies whether Cyprus tax resident or not, are obliged to prepare financial statements and file a tax return with the relevant authorities. According to the respective law, the books of the company should be kept updated no later than four months from the month a transaction was made and be ready in case the tax authorities decide to perform a tax inspection.

The issuance of invoices must be made within thirty days from the day the transaction was made, unless an exception was granted by the Commissioner of Income Tax. Full disclosure of the operations/activities of the company for the year under consideration must be submitted to the accountants/auditors of the company in time, in order to meet the time limits for the preparation and filing of the relevant financial statements and tax returns.

Also, based on the results of the financial statements, the annual tax returns must be prepared and filed with the Income Tax authorities.

I. Time limits regarding financial statements – annual tax returns

The first financial statements must be prepared, at the latest, within 18 months from the date of the company's incorporation and thereafter once a year. The following rules regarding time limits apply:

(a) If a company is registered before the 30th of June, (inclusive) in a current year, (first six months of the year) then, the first period for which financial statements need to be prepared is from the date of incorporation until the 31st of December of the current year.

The tax return of the company should also be prepared from the date of incorporation until the 31st of December of the current year.

Filing of these financial statements and tax returns with the Cypriot authorities has to take place by the 31st December of the following year. For example, a company registered on the 1.5.2020 has to prepare financial statements and tax returns for the period 1.5.2020 until the 31.12.2020 and file them electronically by the 31.03.2022.

(b) If a company registered after the 1st of July in a current year, then the first period for which financial statements need to be prepared is from the date of its incorporation until the 31st of December of the following year. Filing of these financial statements with the Cyprus authorities has to take place by the 31st December of the subsequent year. For example, a company registered on 1.8.2020 has to prepare financial statements for the period 1.8.2020 until the 31.12.2021 and file them by the 31.12.2022.

However, companies falling under category (b) above may choose to follow the provisions of the time limits specified in category (a) above and file their first financial statements for the first year of their incorporation.

Nevertheless, the tax return for a company registered after the 1st of July needs to be prepared from the date of incorporation until the 31st of December of the current year and filed them 15 months after the end of the year.

II. Criminal offences and liabilities

If a company does not comply with its legal obligation to prepare and file financial statements and annual returns within the specified timeframes of the law, then these amounts to a criminal offence and the company as well as its directors are liable to criminal prosecution accordingly.

III. Information and documentation to be provided on an annual basis to the accountants /auditors

In particular, the following information and documentation must be disclosed to the company's accountants/auditors every year for the preparation of the financial statements:

- Bank statements and credit/debit notes for the financial year under consideration
- All concluded contracts/agreements
- Invoices that have been issued by the company
- Bills / invoices received by the company
- Information and documentary evidence as to subsidiaries
- Audited financial statements of subsidiaries
- Dividends received from subsidiaries
- Information and documentary evidence as to the operation and expenses, bank statements of branches and representative offices
- Titles to any movable or immovable purchased by the company
- Any other document evidencing income or expense on behalf of the company
- Documents proving payments of tax outside Cyprus to any tax authority for tax credit in Cyprus
- Share Certificates for investments in subsidiaries or otherwise

IV. Audited financial statements

The following companies must submit their financial statements to be audited by qualified auditors duly registered with the appropriate professional body in Cyprus: authorized by the Cyprus Government:

- Public companies
- Any company which is obliged to prepare consolidated accounts
- All Private Cyprus Companies

Even if a company had no operations for a particular year, it is still necessary to prepare and file financial statements / tax returns as specified above.

E. REGISTRAR OF COMPANIES – FILING OF FINANCIAL STATEMENTS

I. Annual General Meeting

The company must hold an Annual General Meeting (AGM) every year and not more than 15 months should lapse between the first AGM and the subsequent one.

The first AGM may be held within a time limit of 18 months from the date of incorporation of the company. If a company holds its first AGM within 18 months from its incorporation, then there is no need to hold this first AGM during the year of its incorporation or the subsequent year.

II. Annual Return (HE32)

Every company must prepare and file an Annual Return (HE. 32) once a year with the Registrar of Companies and which must include, among others the below information with regards to:

- The registered office of the company
- The shareholders
- Debentures
- Liabilities
- The directors
- The secretary

The company must prepare this Annual Return (HE.32) within 14 days after the AGM and within a time limit of 28 days from that date it must be submitted with the Registrar of Companies. In effect, the Annual Return must be completed and filed with the Registrar of Companies within a time limit of 28 days from the date of when the AGM of the company was held.

III. Financial Statements filed with Annual Returns

Since 2004, a copy of the financial statements of the previous year must be filed with the Registrar of Companies together with the Annual Return of the current year. For example, the Annual Return for the year 2021 must be accompanied with the financial statements of the company for the year 2020 otherwise the Annual Return will not be accepted by the Registrar of Companies and the company will be in default of its annual obligations.

Financial statements for the year 2003 onwards must be filed with the Registrar of Companies and which are open to public inspection. In effect, financial statements of companies become public documents.

Companies have a legal obligation to prepare financial statements and annual tax returns and must ensure that these are kept up to date. The Registrar of Companies will refuse to issue any certificates relating to the Annual Returns of the company and the information listed therein, as the Annual Returns will not be accepted for filing without the accompanying financial statements. Similarly, the Commissioner of Inland Revenue will refuse to issue any kind of certificate regarding the company if the company is not in order with its obligations towards the Inland Revenue Department.

F. CONSOLIDATED FINANCIAL STATEMENTS WITH SUBSIDIARIES

Section 142(I) (b) of the Companies' Law, Cap.113, imposes an obligation upon Cypriot companies which have subsidiaries, to consolidate their financial statements with the financial statements of their subsidiaries according to

International Financial Reporting Standards. These consolidated financial statements are to be presented at the general meeting of the parent company for review and approval.

A subsidiary and holding company are defined in section 148 of the Companies' Law Cap. 113 as follows:

A company is deemed to be a subsidiary of another if, **but only if,**

- i. it either
 - (a) is a member of it and controls the composition of its board of directors;
or
 - (b) holds the majority of the voting shares (rights) ; or
 - (c) is its member and controls the majority of the voting shares (rights) by agreement which has been signed with other members.
- ii. the first mentioned company is a subsidiary of any company which is that other's subsidiary.

A company controls the composition of the board of directors if, but only if, that other company can appoint or remove the holders of all or the majority of the directorship without the consent or concurrence of any other person. For the purposes of the provisions of the Companies' Law, a company shall be deemed to be another's holding company if, but only if, that other is its subsidiary.

I. Exclusion from the obligation to prepare consolidated financial statements

Following an amendment to the law, which took place in August 2007, the requirements for exemption from preparing consolidated financial statements, has been substantially widened. As a result, the number of Cypriot companies required to prepare consolidated financial statements has been significantly reduced.

According to this amendment, a company whose parent or ultimate holding company prepares consolidated financial statements in accordance with generally accepted accounting principles is itself relieved from the obligation to prepare consolidated financial statements.

More importantly, the new law as amended provides that a company does not need to prepare consolidated financial statements if it qualifies as a small or medium group. A small or medium group is a group in which the companies that are being consolidated:

- Are not public companies;
- The preparation of consolidated financial statements is not governed by any other legislation and
- On a consolidated basis, at the closing balance sheet date of the parent company, at least two out of the three following size criteria are met:
 - Total gross assets less than €20m
 - Turnover less than €40m
 - Total number of employees in a reporting period is less than 250 persons.

G. OTHER IMPORTANT ASPECTS TO CONSIDER

- **Taxable Losses**

In cases of a loss, which would have been taxed under corporation tax if it were a gain or profit, can be set off against other taxable income. If the amount of loss cannot be wholly set off against taxable profits it can be carried forward for 5 years and set off against future taxable profits.

In case there is change in the company's ownership and substantial change of the in the nature of the company's business within three years from the year of the loss, then this loss cannot be carried forward.

- **Group Relief**

Losses of one company can be set-off against profits of the corresponding year of another company within the same group.

The surrendering company who will surrender the loss, may be a company which has its base and is tax resident of another member state, provided, it has exhausted

all possibilities of setting off the loss or carrying it forward, in the member state of its residence or with any intermediary holding company existing between the surrendering company and the claimant company who will set off / accept the losses.

In effect, taxable losses can be surrendered by a company which is tax resident and has its base, in another EU member state to the place of residence of the claimant company which will be Cyprus.

Such losses when surrendered to a Cyprus company must be calculated on the basis of Cyprus law.

- **Meaning of Group**

As per the provisions of the law two companies are considered as members of the same group if the one is by 75% dependent on the other or both jointly or independently are by 75% dependant of a third company.

The link can be established if that other company is tax resident:

- Of Cyprus
- In another EU member state;
- In jurisdictions where Cyprus has signed a double tax treaty; and
- In a country where Cyprus has signed a treaty for the exchange of information.

- **Tax Credit**

Tax credit is given in case the Commissioner of Income Tax is satisfied that the company has paid tax abroad. Tax paid abroad can be set off against tax to be paid in Cyprus only on that income which has been taxed outside Cyprus. Such credit cannot be set off against other taxes to be paid in Cyprus or any unused tax cannot be carried forward for the following years.

In order for the Commissioner of Income Tax to be satisfied and allow such tax credit, the company must present the original receipt of the tax that was paid abroad to the tax authorities and which must be translated in Greek or English, by an official translator in the event that it is in other language.

- **Tax Refund**

In case of any overpaid tax, then the overpaid amount is refunded by the Income Tax Office to the tax payer with interest at a rate of 3.5%.

- **VAT Returns and obligation to register with Cyprus VAT authorities**

Under certain conditions specified in the relevant VAT Law, Cypriot companies have an obligation to register with the VAT authorities in Cyprus and have an obligation to submit VAT returns on a quarterly basis.

For further information and details on VAT issues, kindly see our brochure on Value Added Tax – VAT (The International Investors’ Approach).

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Appendix I- Types of Income

Type of income	Corporation Tax	Special Defence Tax	With - holding Taxes
Company Trading profits	12.5%	0%	-
Profits from Sale of Shares	0%	0%	-
Dividends	0%	0% but the exemption is not granted if the income of the non-tax resident company paying the dividend is more than 50% investment income AND the foreign tax rate payable for the income of the company paying the dividend is substantially lower than 12.5%. If the exemption is not granted then dividend income is taxed at the rate of 17%	0%

Type of income	Corporation Tax	Special Defence Tax	With - holding Taxes
Profits from permanent establishment	0% but the exemption is not granted if the income of the permanent establishment is more than 50% investment income AND the foreign tax rate payable for the income of the company paying the dividend is substantially lower than 12.5%. If the exemption is not granted profits from permanent establishment are taxed at 12.5%		0%
Interest income	Active Interest: 12.5% corporation tax on net profit. For Back-to-back loans between related companies the margin to be taxed in Cyprus should be at arm's length.	Passive Interest: 30% SDC on income	0%
Royalties	If the company holds a qualifying IP then 80% of Royalty profit under some conditions is deemed to an expense. Max effective tax rate is 2.5%.12.5% in all other cases.	0%	0% if arising from sources outside Cyprus and 10% if arising from sources

Type of income	Corporation Tax	Special Defence Tax	With - holding Taxes
			withing Cyprus
Cyprus International trust	0%	0%	-
Ship Owning Companies	Only tonnage tax once they meet certain conditions	0%	-
Charterers	Only tonnage tax once they meet certain conditions	0%	-
Ship Management Companies	Only tonnage tax once they meet certain conditions	0%	-
For Reorganizations (Mergers, De-mergers, Transfer of assets and exchange of shares)	0%	0%	-
Collective investment Schemes - Mutual Funds	Normal rates BUT special provisions apply for various items	-	
Personal income Tax:			-
€0-€19.500	0%	0%	-
€19501 - €28000	20%	0%	-

Type of income	Corporation Tax	Special Defence Tax	With - holding Taxes
€28001 - €36300	25%	0%	-
€36300 - €60000	30%	0%	-
€60000 and over	35%	0%	-
Foreign pension (Annual exemption €3420)	5%	0%	-
Rental income for companies	12.5%	3% on 75% of Rental Income	-

OUR FIRM

We are a Law Firm with offices in Cyprus and Malta and a representative office in Shanghai China comprising of more than 70 lawyers, accountants and other professionals who advise, international and local clients.

The Firm has been offering legal and consulting services since 1983 evolving from a traditional law firm to an innovative cutting-edge multidisciplinary law firm combining exceptional expertise in law, tax, vat and accounting.

From its establishment the Firm's focus has been heavily business oriented and always abreast with the latest global developments and innovations. Drawing from our pool of experienced professionals we provide our clients' businesses full legal and accounting support on an everyday basis as well as customized solutions in today's global financial and legal challenges.

We consider ourselves as 'traditional pioneers' and our motto is to foresee and anticipate any issues that may potentially impact our clients' business and to offer effective advice and solutions proactively.

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