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CORPORATION TAX & INTERNATIONAL TAX MATTERS

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Corporation Tax in Cyprus

CYPRUS TAX RESIDENT COMPANIES

- All companies tax resident of Cyprus are taxed on all income accrued or derived from all sources in Cyprus and abroad.

NON-CYPRUS TAX RESIDENT COMPANIES

- 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.

- A permanent establishment is a fixed place of business through which the business of an enterprise is wholly or partly carried on. The term permanent establishment includes a place of management, a branch, an office, a factory and a workshop.

Tax Residency Rules of Cyprus Companies

A Company is a tax resident of Cyprus if it is managed and controlled in Cyprus.

There is no exact definition of management and control. However, the basic requirements for management and control are as follows:

- The residency of the majority of the directors. The majority of directors should reside in Cyprus.
- The location where the board meetings of the Company are held. It is recommended to have meetings regularly in Cyprus and have the key operational decisions taken in Cyprus.
- The location of the formation of the general policy and strategy of the Company. It should be in Cyprus with proper minutes kept.

Substance – Basic requirements

- The location where the accounting books and records are stored and maintained. It should be in Cyprus.

- Preparation of audited Financial Statements, submission of tax declarations and payment of tax liabilities.

- Maintaining an office with personnel and declaring them to the Social Insurance department, telephone and fax lines, website, e-mail accounts and signature of contracts in Cyprus.

The above list is not exhaustive but covers in majority the basic requirements for satisfying substance in Cyprus and on the same time securing the tax position of the Company in the case of other countries claiming taxing rights over the profits of the Cyprus Company.

Imposition of Corporation Tax

The Corporation Tax is imposed on the taxable profits of a Cyprus Company at the rate of 12,5% generated during a tax year as follows:

Accounting profit before taxation	
Add: Disallowable expenditure	x
Less: Tax Free income	x
Taxable Profits	(x)
	xx
Corporation Tax Liability:	
Taxable Profits @12,5%	
Less: Temporary Tax Paid during the year	x
Less: Withholding tax imposed overseas	(x)
Tax liability / (Tax Refund)	(x)
	x/(x)

Unilateral Tax Relief

Cyprus provides unilateral tax relief i.e. irrespective of the existence of double taxation treaty, any withholding/underlying tax imposed overseas is deducted from the local tax liability.

Tax imposed overseas is restricted to the tax rate applicable in Cyprus on the particular type of taxable income and at no case can result in tax refund.

Tax imposed overseas can be deducted only from the tax liability applicable in Cyprus on the particular source of income.

Any unrelieved tax imposed overseas remains as a cost which is not deducted from the taxable profits.

Tax Free Income

- Profit from the sale of securities – 100%
- Dividends (excluding, as from the 1 January 2016, dividends which were treated as tax deductible in the hands of the paying company hybrid instruments) – 100%
- Interest not arising from the ordinary activities or closely related to the ordinary activities of the Company (passive) (if related then fully taxable – active)
- Profits of a permanent establishment abroad, under certain conditions

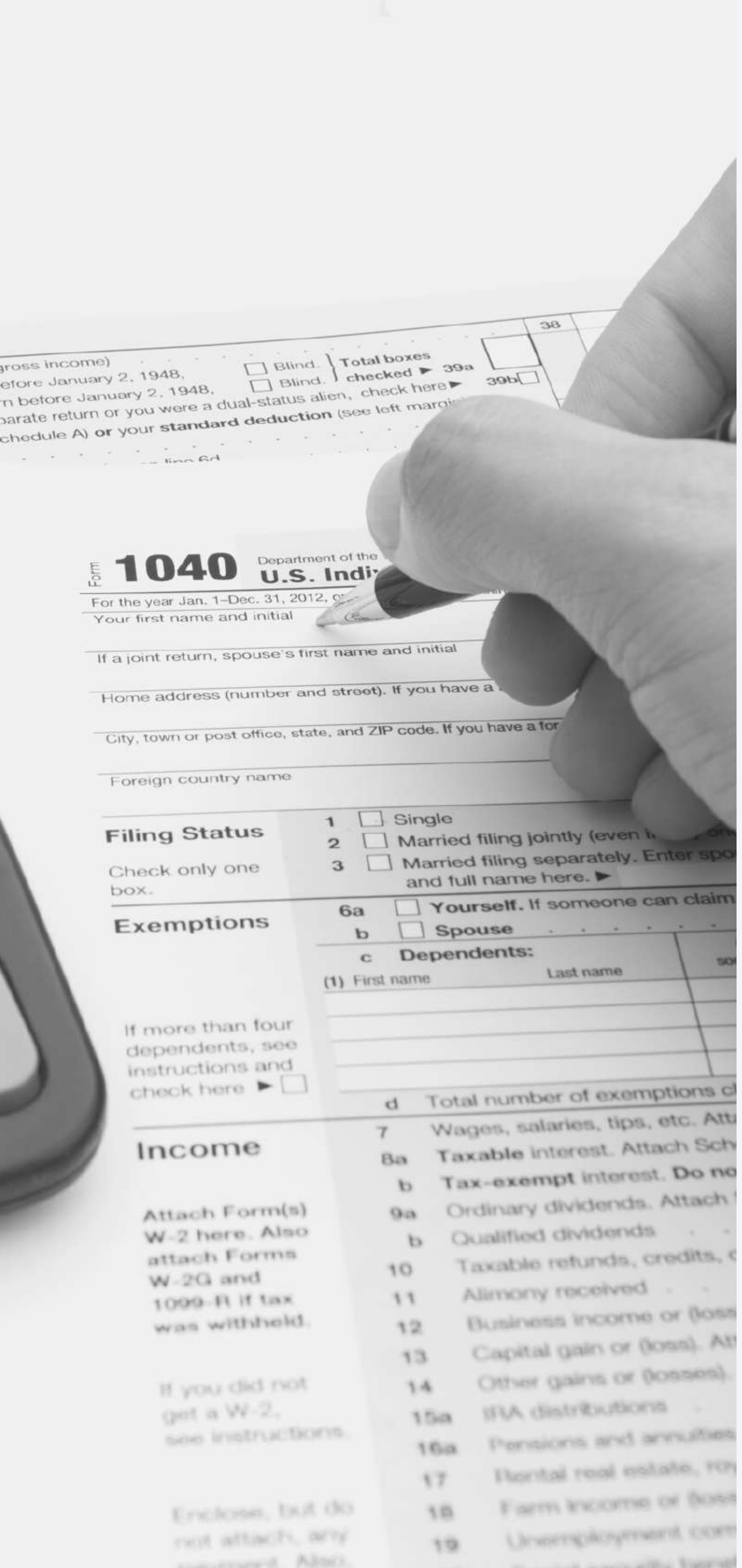
  (more than 50% of the income of the permanent establishment abroad derives from trading activities or the tax rate applicable overseas is not significantly lower than the tax rate applicable in Cyprus, also as from 1st of January 2016 taxpayer may elect to tax the profits earned by a permanent establishment overseas with a tax credit for foreign taxes incurred on this permanent establishment profits) – 100%
- Rental income from a preserved building – 100%

  Foreign exchange gains, either realised or unrealised, with the exception of foreign exchange gains arising from trading in foreign currencies (persons trading in foreign currencies have an option to make an irrevocable election to be subject to tax only on the realised foreign exchange differences) – 100%

Tax Deductible Expenditure

All expenses incurred, which are wholly, exclusively and necessarily for the purpose of the trade and are supported with adequate documentary evidence issued in the name of the Company are tax deductible including the following:

- Donations to approved charities – 100%
- Bad debts of any business (provided it is supported with adequate documentation like bankruptcy certificate, liquidation certificate, court order, letters to the debtor etc.) – 100%
- Entertaining expenses for business purposes – Lower of € 17.086 or 1% of the gross income of the business
- Expenditure for scientific research – 100%
- Employer’s contribution to social insurance, national health system and approved funds on employees’ salaries – 100%
- Expenditure on patents or patent rights or royalties – 100%



Tax Deductible Expenditure

- Interest for the acquisition of wholly owned subsidiaries either directly or indirectly provided that the assets of the subsidiary constitute business assets – 100%
- Profits generated from licensing and/or disposal of intellectual property (IP Tax Regime) – 80%
- Any expenditure incurred for the maintenance of a building in respect of which there is a Preservation Order - Up to €700, €1.100 or €1.200 per square meter (depending on the size of the building)
- Equity introduced to a Company in the form of share capital and/or share premium as from the 1st of January 2015 is entitled to deemed interest deduction which is calculated as the 10 years government bond rate, as at the end of the year preceding the relevant tax year, of the country in which the equity is invested increased by 3%. The applicable rate is the minimum of 10 year Cyprus Government bond rate increased by 3% - Up to 80% of the taxable profits derived from assets financed by the new equity as calculated prior the deemed interest deduction (Notional Interest Deduction – NID)

Disallowable expenditure

- Expenses for private use of directors – 100%
- Expenses of a private motor vehicle – 100%
- Expenses incurred (interest and legal fees) for the acquisition of investments – 100%
- Administrative expenses related to activities generating tax exempted income like trading in securities, holding of investments etc. - Pro Rata depending on the value of the asset generating the exempted income in relation to the total assets as reflected in the Balance Sheet
- Payments of a voluntary nature – 100%
- Fines and penalties – 100%
- Mortgage fees - – 100%
- Unrealised and realised foreign exchange losses as from 1 January 2015 are not tax deductible excluding realised foreign exchange losses deriving from trading in foreign currencies and related derivatives – 100%
- Payment for immovable property tax – 100%

Disallowable expenditure

- General provision of doubtful debts – 100%
- Rent of owned premises - – 100%
- Taxes (including annual levy) – 100%
- Expenses of a capital nature – 100%
- Any expenses not made wholly and exclusively for the purpose of the trade – 100%
- Any expenses which are not supported by invoices and relevant receipts – 100%
- Losses generated from the use of the IP Tax regime are offset against gains from other sources or to be carried forward (only 20% is allowable) – 80%
- Wages and salaries related to services offered within the tax year but for which the necessary contributions have not been paid to the Republic in the year in which they were due will not be treated as tax deductible. In case the above contributions are paid in full within two years following the due date then such salaries will be treated as tax deductible in the tax year of payment – 100%

Tax Losses

The tax loss incurred during the year, which cannot be set off against other income, is carried forward to be utilized from the first available future taxable profits of the next five years.

In case there is any change in the ownership of the shares of a company and a substantial change in the nature of business of the company, within any three-year period from the year of the loss, then the loss cannot be carried forward to the following years.

Group Tax losses:
Set-off of group losses are allowable only with profits of the corresponding fiscal year. Both Companies should be Cypriot tax resident Companies and should be members of the same group for the whole year of assessment. As from the 1st of January 2012, losses can be transferred between members of the group for Companies incorporated during the year as well.

<u>Two companies are deemed to be members of the group if:</u>

- One is by 75% subsidiary of the other; and
- Both companies are by 75% subsidiaries of a third company (direct and indirect control).

Tax Losses

- A partnership or a sole trader converted to a limited liability company can transfer tax losses into the company for future utilization.

- Losses from permanent establishment overseas can be set off with profits of the Company in Cyprus.

- However, when profits arise from such permanent establishment overseas, an amount equal to the losses that have been utilized in the past against profits arising in the Republic will be included in the taxable income.

International Tax Matters

International tax cases arise due to:

- Nationality: This is the right of the resident state of taxing the profits and/or income due to tax residency rules.
- Territoriality: This is the right of the source state of taxing the profits and/or income generated on its own territory.

In general, the source state has the taxing right since the profits / income is generated on its territory and the resident state will either provide tax credit relief i.e. deducting the overseas tax from its domestic tax or exempt the profits / income from the taxable profits of the tax resident (credit rule or exemption rule).

International Tax Matters

- To solve the issue of double taxation, the Countries signed Double Taxation Treaties (DTT). The majority of these treaties are based on the OECD Model Tax Treaty and provide for the tax credit rule or tax exemption rule.

- Double Taxation Treaties are important since they provide the mechanism to avoid double taxation, they limit the percentages of withholding taxes imposed by the source state, promote co-operation and exchange of information, provide certainty, prevent tax evasion and discrimination as well as promote trade and investments.

- In the absence of DTT, a Country may facilitate the use of unilateral tax relief. In such a case, the withholding tax that the source state will impose is in accordance with its domestic tax rules and is often higher from the one stated in the DTT.

International Tax Matters

- **DTT Cyprus – Russia:**

For many years it was the cornerstone of Cyprus development of financial services since it attracted many investors from Russia to incorporate Cyprus Companies and benefit from the reduced withholding tax rates (5% - 10% on payment of dividends from Russia to Cyprus and 0% on payment of interest from Russia to Cyprus). However, Russia started procedures for increasing the withholding tax rates so as to have greater tax revenues on its own state. Cyprus has finally accepted and thus the new rates are:

- Dividends: From 5% - 10% to 15%.
- Interest: From 0% to 15%.

Russia started same procedures of amending DTT with other Countries as well (Malta, Luxemburg, Netherlands e.t.c.). The changes in the DTT start since 01/01/2021.

International Tax Matters

- Arm’s length principle: This principle states that transactions between associated parties (transfer pricing) should have the same terms with transactions conducted with third parties. Transfer pricing is used by the associated parties in order to shift profits from high tax jurisdictions to low tax jurisdictions. A way to combat transfer pricing is through the arm’s length principle.
- BEPS Project: The Base Erosion profit Shifting project is currently in process and include in total 15 actions to counter tax avoidance.
- EU Parent – Subsidiary Directive and EU Interest – Royalties Directive: Eliminate withholding tax on payments from a Company in a Member State to another Company in other Member State of dividends and interest – royalties if a 10% shareholding and 25% shareholding respectively apply.

Advantages of Cyprus Tax System in a nutshell

- Generally low and stable tax jurisdiction. Efficient tax system which provides equality, certainty, convenience of payment and economy in collection.
- No withholding tax on payment of dividends, interest and royalties to non-Cyprus tax residents.
- No tax on gains from disposal of securities, no tax on dividends and exemption from profits of a permanent establishment overseas.
- 80% deemed deduction on profits from intellectual property and 80% deemed interest on equity introduced on Cyprus Companies.
- Ability to obtain tax exemption from Special Defence Contribution (SDC is imposed on dividends, interest and rental income) for 17 years by foreign individuals becoming Cyprus tax residents but non-domiciled in Cyprus.
- Tax Losses are carried forward for 5 years.
- The first Eur 19.500 taxable income exempts from individuals in a tax year.

Advantages of Cyprus Tax System in a nutshell

- Foreign individuals becoming Cyprus tax residents are eligible for up to 50% exemption from remuneration in Cyprus for a period of 10 years if it exceeds Eur 100.000.
- Unilateral tax relief exemption introduced in the Cyprus tax legislation.
- High network of Double Taxation Treaties.
- White listed for AML and part of EU.
- Tax incentives granted gradually by the tax authorities.

Reporting Requirements

A Cyprus Company has the following reporting requirements:

1. Keep proper books and records and prepare audited Financial Statements which should be submitted to Registrar of Companies with the HE32 until the end of next year (31/12).
2. Submit tax declaration (called TD4) to the tax authorities (a period of 15 months is granted since beginning of the following year) i.e. for the tax year 2019 TD 4 form should be submitted until 31/03/2021.
3. Pay temporary tax on the estimated taxable profits of the current year in two equal installments (31/07 and 31/12).
4. Any unpaid tax of a relevant tax year should be paid by 1st of August of the following tax year. If tax refund, then this is refunded by the tax authorities with any accrued interest.
5. Submit employer's return (called TD 7) detailing employees salaries of a tax year by 31 July of the following year.
6. Submit and pay social insurances on employees salaries on a monthly basis. It should be submitted and paid by the end of the following month.
7. Submit VAT declarations (if registered for VAT purposes) on a quarterly basis within 40 days after the end of each quarter. Any VAT liability should be paid as well within 40 days.

QUESTIONS TIME

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2019

	Note	**2019** **€**	2018 €
Revenue	8	**614.749**	550.197
Cost of sales		**(18.523)**	(9.343)
Gross profit		**596.226**	540.854
Other operating income	9	**77.838**	102.947
Administration expenses		**(6.315)**	(7.658)
Other expenses	10	**(2.389.647)**	(44.091)
Operating (loss)/profit	11	**(1.721.898)**	592.052
Finance costs		**(9.352)**	(9.378)
Net finance costs	12	**(9.352)**	(9.378)
(Loss)/profit before tax		**(1.731.250)**	582.674
Tax	13	**(3.622)**	(4.055)
Net (loss)/profit for the year		**(1.734.872)**	578.619
Other comprehensive income			
Financial assets at fair value through other comprehensive income - Fair value Loss		**-**	(73.116)
Other comprehensive income for the year		**-**	(73.116)
Total comprehensive income for the year		**(1.734.872)**	505.503

STATEMENT OF FINANCIAL POSITION
31 December 2019

	Note	2019 €	2018 €
ASSETS			
Non-current assets			
Investments in associates	14	**7.295**	7.295
Capital in joint ventures	15	**44.720**	44.720
Non-current loans receivable	16	**-**	179.785
		52.015	231.800
Current assets			
Receivables	17	**26.652**	579.332
Financial assets at fair value through profit or loss	18	**3.410.245**	3.174.865
Cash at bank and in hand	19	**1.056.521**	2.305.277
		4.493.418	6.059.474
Total assets		**4.545.433**	6.291.274
EQUITY AND LIABILITIES			
Equity			
Share capital	20	**1.000**	1.000
Other reserves		**-**	80.575
Retained earnings		**4.533.262**	6.187.559
Total equity		**4.534.262**	6.269.134
Current liabilities			
Trade and other payables	21	**4.044**	8.329
Current tax liabilities	22	**7.127**	13.811
		11.171	22.140
Total equity and liabilities		**4.545.433**	6.291.274

On 27 July 2020 the Board of Directors of Vagobyni Ltd authorised these financial statements for issue.

....	....	....
Iakynthos Management Services Limited	Pauns Management Services Limited	Terpsis Management Services Limited
Director	Director	Director

DETAILED INCOME STATEMENT
Year ended 31 December 2019

	Page	2019 €	2018 €
Revenue			
Dividend income		**25.136**	518.974
Interest income		**28.071**	31.823
Net gain/(loss) on trading in financial instruments		**46.822**	(600)
Net fair value gains on financial assets at fair value through profit or loss		**514.720**	-
Total revenue		**614.749**	550.197
Cost of sales	27	**(18.523)**	(9.343)
Gross profit		**596.226**	540.854
Interest on bank current accounts		**12.738**	18.646
Realised foreign exchange profit		**50.806**	-
Unrealised foreign exchange profit		**14.294**	84.301
		674.064	643.801
Operating expenses			
Administration expenses	28	**(6.315)**	(7.658)
		667.749	636.143
Other operating expenses			
Bad debt written off		-	(44.091)
Waiver of receivable balances		**(2.389.647)**	-
Operating (loss)/profit		**(1.721.898)**	592.052
Finance costs	29	**(9.352)**	(9.378)
Net (loss)/profit for the year before tax		**(1.731.250)**	582.674

ADMINISTRATIVE EXPENSES
Year ended 31 December 2019

	2019 €	2018 €
Administration expenses		
Licenses and taxes	**350**	350
Auditors' remuneration	**1.428**	1.190
Accounting fees	**1.428**	1.190
Other professional fees	**1.508**	2.865
Fines	**1.601**	2.063
	6.315	7.658

FINANCE EXPENSES
Year ended 31 December 2019

	2019	2018
	€	€
Finance costs		
Sundry finance expenses		
Bank charges	**9.352**	9.113
Net foreign exchange losses		
Realised foreign exchange loss	-	265
	9.352	9.378

COMPUTATION OF CORPORATION TAX
Year ended 31 December 2019

	Page	€	€
Net loss per income statement	26		(1.731.250)
Add:			
Waiver of receivable balances		2.389.647	
Fines		1.601	
Brokerage fees		18.523	
			2.409.771
			678.521
Less:			
Profit from sale of financial assets at fair value through profit or loss		46.822	
Fair value gains on financial assets at fair value through profit or loss		514.720	
Dividends received		25.136	
Realised foreign exchange profit		50.806	
Unrealised foreign exchange profit		14.294	
			(651.778)
Chargeable income for the year			26.743

Calculation of corporation tax	Income €	Rate %	Total € c
Tax at normal rates:			
Chargeable income as above	26.743	12,50	3.342,88
Tax paid provisionally	4.400		(550,00)
			2.792,88
10% additional charge			279,29
TAX PAYABLE			3.072,17

THANK YOU