

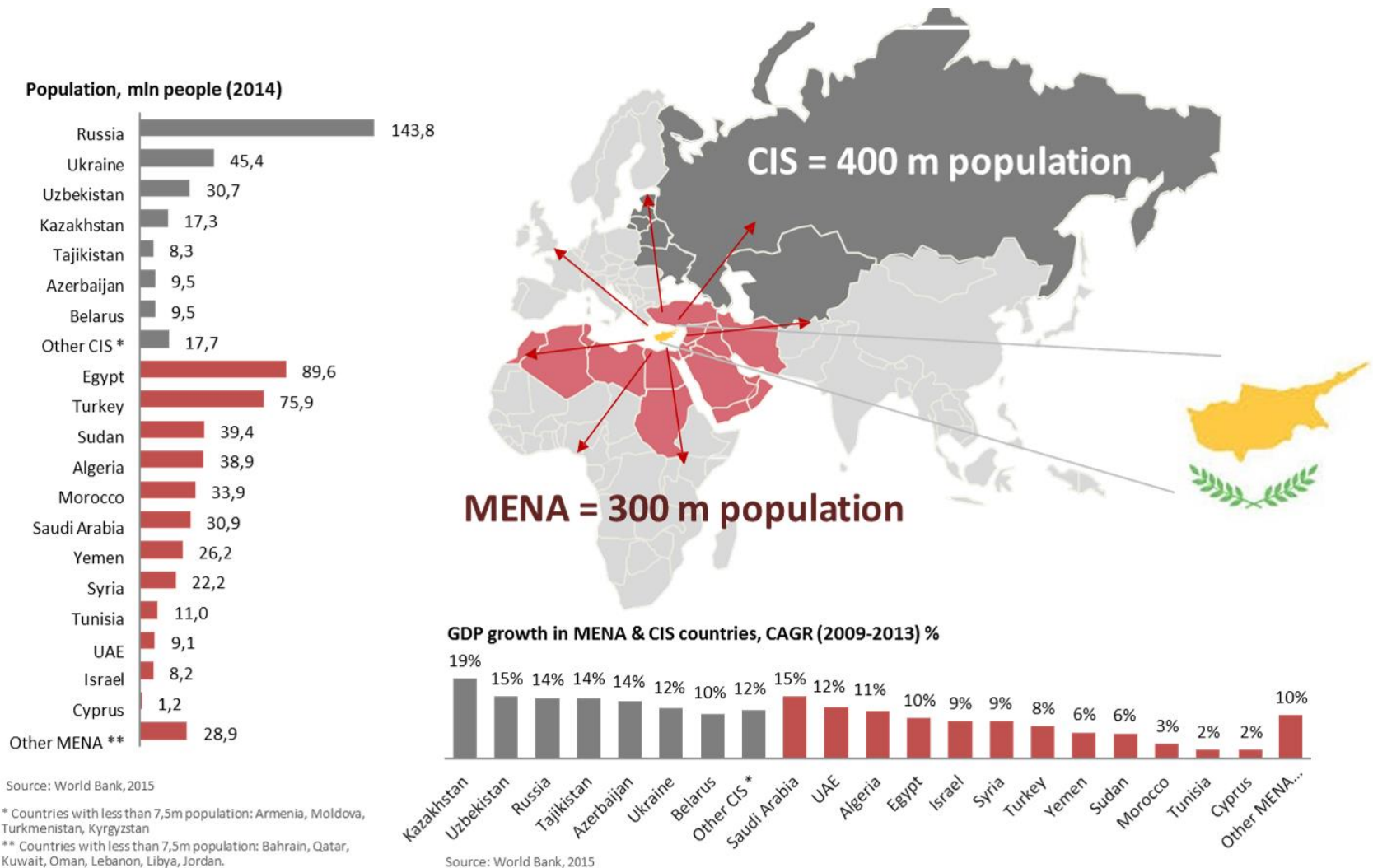


Cyprus – Economy and Tax System

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Strategic Position of Cyprus



Cyprus

- Surface: 9.251 square kilometers;
- Population: approx. 940.100;
- Political system: Presidential Democracy
- Time Zone GMT+2;
- EU / Eurozone Member State;
- One of the lowest corporate tax rate in the EU and Eurozone at 12,5%;
- Credible and highly reputable financial center; full FATF compliance;
- Significant economic memberships such as WTO, World Bank, IBRD, and IMF, EBRD presence;
- Member of the UN, Council of Europe and OSCE;
- Competitive modern and transparent legal, financial and regulatory framework;
- More than 30 years experience as an International Business Centre; International Banking Units and multinational companies have been operating from Cyprus for years;
- Low set-up costs;
- Highly skilled, educated and multilingual workforce at highly competitive fees;
- Excellent telecommunications systems.



Benefits of Cyprus

- Dividend income and profit on sale of shares and other securities is tax exempt (non domiciled scheme);
- The VAT on acquisition of new residential property can be as low as 5%;
- There are no transfer fees if the transaction is subject to VAT and 50% if not;
- Immovable Property Tax (IPT) was fully abolished from January 2017;
- Can provide an EU Passport with a minimum investment of €2 million;
- 50% tax exemption to all newcomers employees with annual salary at least €100.000;
- Tax on overseas pensions with one of the lowest rate 5%;
- One of the lowest corporate tax rates in EU, 12,5%;
- Special reduced VAT for private yachts;
- No withholding tax on outgoing payments (dividends-interest-royalties);
- Strong legal and tax system - part of European Union;
- Its economy is back to growth and sectors like energy, professional services, tourism, mutual funds, shipping, construction and real estate are enhancing this trend;
- Developed educational system with schools teaching in English language.

Why Cyprus?

Beyond the tremendous economic and tax advantages offered to investors, Cyprus also offers an extremely attractive lifestyle

- Security and safety for the whole family;
- Excellent public and private international schools;
- High standard of living and healthcare;
- Exclusive golf resorts;
- High quality tourist facilities;
- Gastronomy;
- Culture, history and art;
- Fabulous weather.





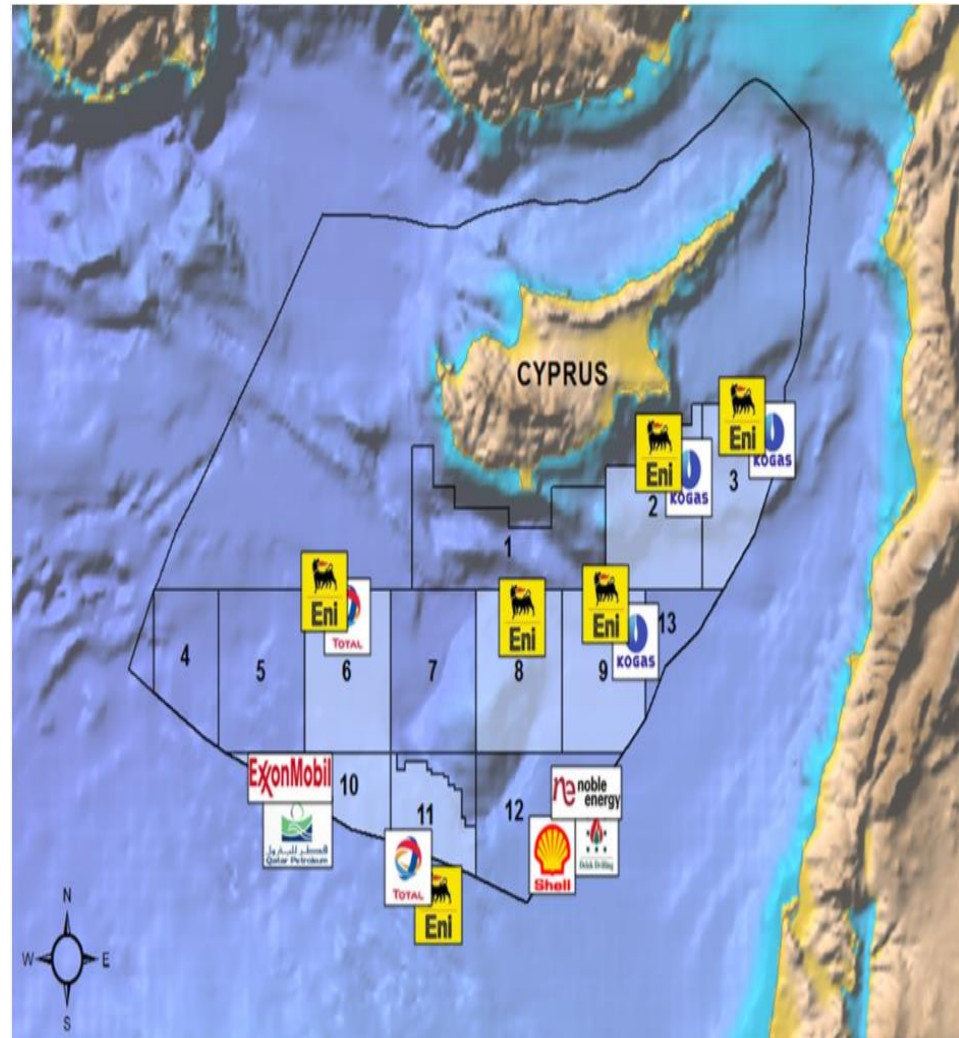
Cyprus – An overview of Cyprus' Economy

Current Situation

- According to the Flash Estimate compiled by the Statistical Service, the GDP growth rate in real terms during the third quarter of 2018 is positive and is estimated at +3,6% over the corresponding quarter of 2017. Based on seasonally and working day adjusted data, GDP growth rate in real terms is estimated at +3,6%.
- General Government fiscal results for January-September 2018 show that total revenue amounted €5.826,3 mn (8,5% increase as compared to the corresponding period of 2017), while total expenditure reached €5.056,6 mn (2,4% increase), resulting in a surplus of €769,7 mn as compared to a surplus of €431,2 mn in the corresponding period of the previous year.
- On 19th October 2018 **Fitch's** upgraded its assessment of Cyprus to BBB- from BB+ with the rating agency saying the outlook was 'positive'. On 14th September 2018, **Standard & Poor's** has raised Cyprus' credit grade by a notch to BBB-, lifting the country back into investment grade.
- The European Commission, in its Autumn forecast stated that Real GDP growth is expected to reach 3,9% in 2018 and then to moderate gradually to 3,5% in 2019.

Current Situation (Con't)

- Italian oil & gas giant ENI has announced a promising gas discovery in Cyprus' Block 6, noting that the discovery confirms the extension of the "Zohr like" play in Cyprus' Exclusive Economic Zone (EEZ). Additional studies will be carried out to assess the range of the gas volumes in place and define further exploration and appraisal operations.
- ENI is the Operator of Block 6 with 50% of participation interest while Total is partner with the remaining 50%. ENI has been present in Cyprus since 2013 and detains interests in six licenses located in the EEZ of Cyprus (in Blocks 2, 3, 6, 8, 9 and 11), five of which are operated.
- Cyprus should see a total net revenue of \$9,5b from the sale of natural gas from the Aphrodite plot to Egypt's Idku LNG terminal under an agreement between the Energy Ministry and the Noble-Shell-Delek consortium. The calculations are based on projected average prices over a period of 18 years, beginning in 2024.



Current Situation (Con't)

- For the period of January – October 2018 **arrivals of tourists** totaled 3.673.377 compared to 3.408.473 in the corresponding period of 2017, recording an increase of 7,8% and outnumbering the total arrivals ever recorded in Cyprus during the first ten months of the year. For the period of January – September 2018 **revenue from tourism** is estimated at €2.268,5 mn compared to €2.216,7 mn in the corresponding period of 2017, recording an increase of 2,3%. **For 2018, arrivals reached almost 4 million.**
- According to data from the Registrar of Companies and Official Receiver, during the year 2017, **applications for company registrations** have reached 13.672 showing an increase of 0,2% from 13.645 in the year 2016. In October 2018 new registrations were 12.004. The total number of companies as at August 2018 was **215.285**.
- According to the data published by the Cyprus Department of Lands and Surveys in 2017 the **total number of sale contracts** reached 8.734, recording an increase of 24% in compared to 2016. In January – October 2018 the total number of sale contracts was 7.517 compared to 6.291 in the corresponding period in 2017, recording an increase of **19%**.

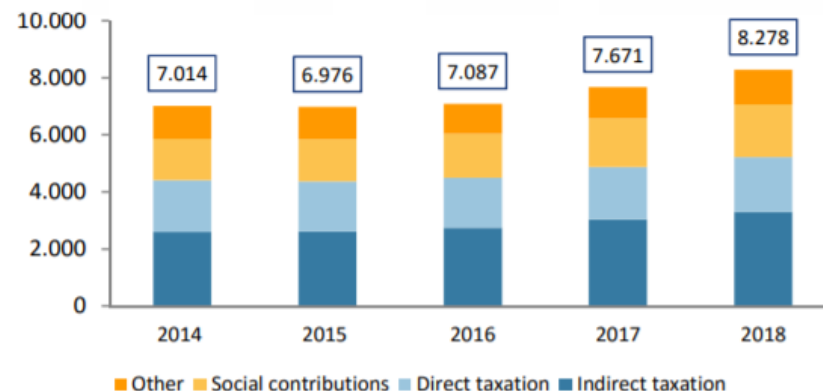
Current Situation (Con't)

- The number of **building permits** authorized by the municipal authorities and the district administration offices during August 2018 stood at 415. The total value of these permits reached **€349,7** million and the total area 148,0 thousand square metres. These building permits provide for the construction of 453 dwelling units.
- Total **deposits** in October 2018 recorded a net increase of €299,7 million, compared with a net decrease of €230,4 million in September 2018. The annual growth rate reached 3,8%, remaining unchanged compared with September 2018. The outstanding amount of deposits reached **€47,8** billion in October 2018.
- Total **loans** in October 2018 exhibited a net decrease of €976,5 million, compared with a net decrease of €5,2 million in September 2018. The annual growth rate stood at -2,8%, compared with -0,6% in September 2018. The outstanding amount of total loans reached **€39,9** billion in October 2018.

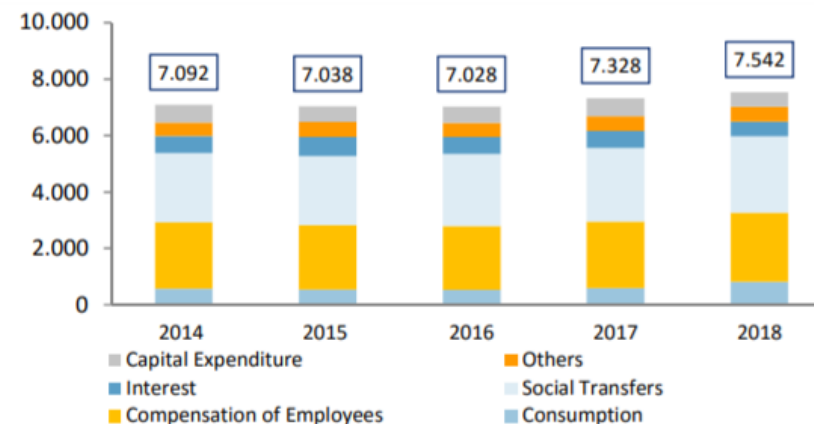
Fiscal Performance

- Government budget was in surplus in 2018 at 3,2% of GDP compared to 1,8% the year before.
- The revenue side increased by 7,7% vis-à-vis the corresponding period of 2017. This improvement can be attributed to higher income tax receipts reflecting primarily indirect tax revenue and secondarily, tax revenue on income and wealth.
- The expenditure side increased at a rate of 2,3% vis-à-vis 2017. An increase was recorded in compensation of employees, attributed to higher employment in education, health and security sectors. Intermediate consumption increased mostly due to expenditure relating to water supply and pharmaceuticals.
- During Jan-Feb 2019 the fiscal position continued to be in surplus at 1,9% of GDP compared to 1,2% of GDP of the corresponding period of the previous year.

Budget revenue breakdown, EUR million



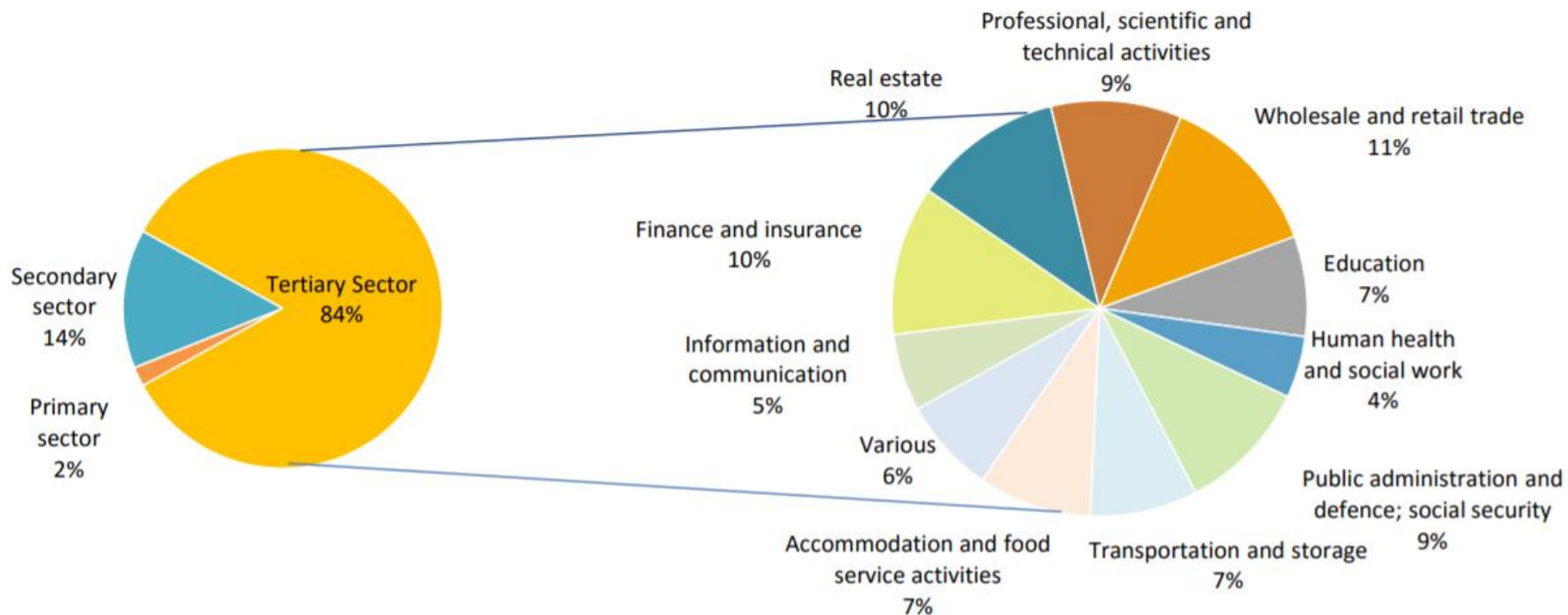
Budget expenditure breakdown, EUR million



Source: Cyprus Statistical Service, Ministry of Finance

Note: The budget outcomes of 2014-15 and 2018 exclude government contributions for the Cyprus Cooperative Bank.

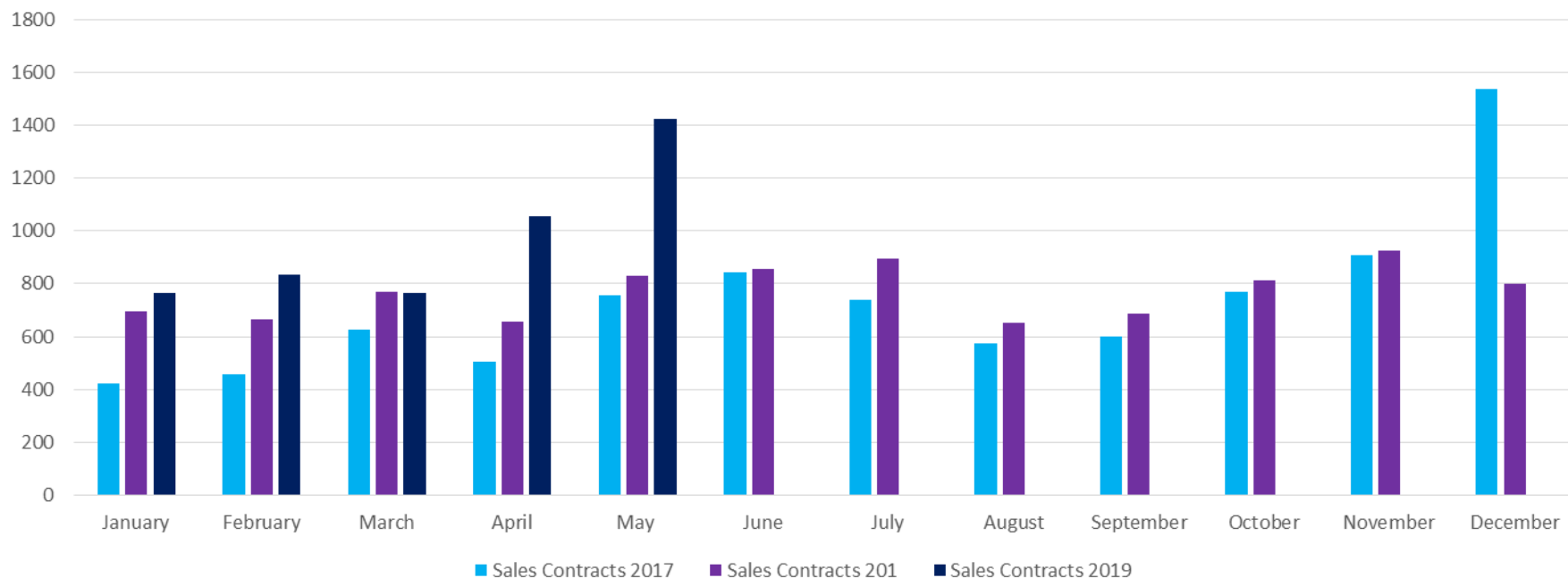
Structure of Cypriot Economy (Current Prices, % of GVA)



Source: Cyprus Statistical Service and Cyprus Ministry of Finance

Sales Contracts in Cyprus submitted to the Land Registry (2017-2019)

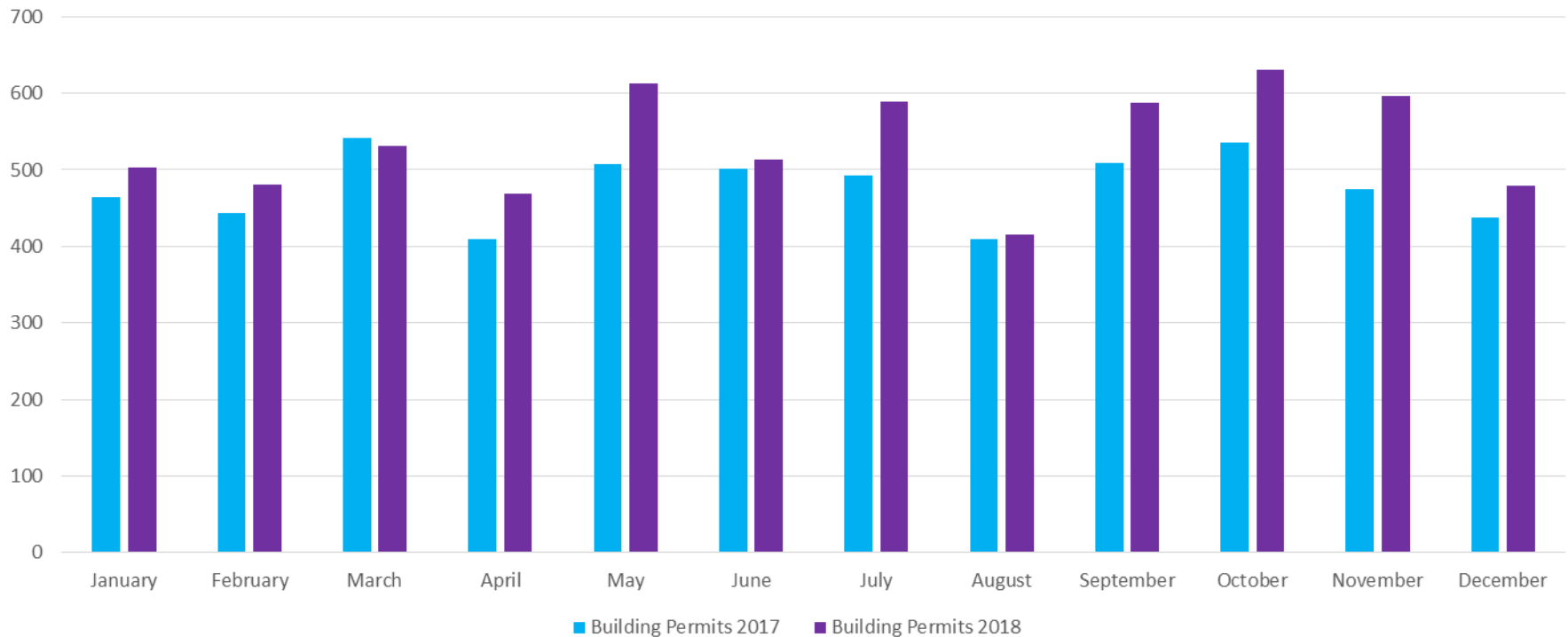
	January	February	March	April	May	June	July	August	September	October	November	December	Total
Sales Contracts 2016	327	501	539	514	474	657	625	451	556	634	651	1.134	7.063
Sales Contracts 2017	423	456	626	506	756	843	739	572	602	768	906	1.537	8.734
Sales Contracts 2018	695	666	768	655	826	858	896	653	687	811	925	800	9.242



Source: www.moi.gov.cy

Building Permits (2017 - 2018)

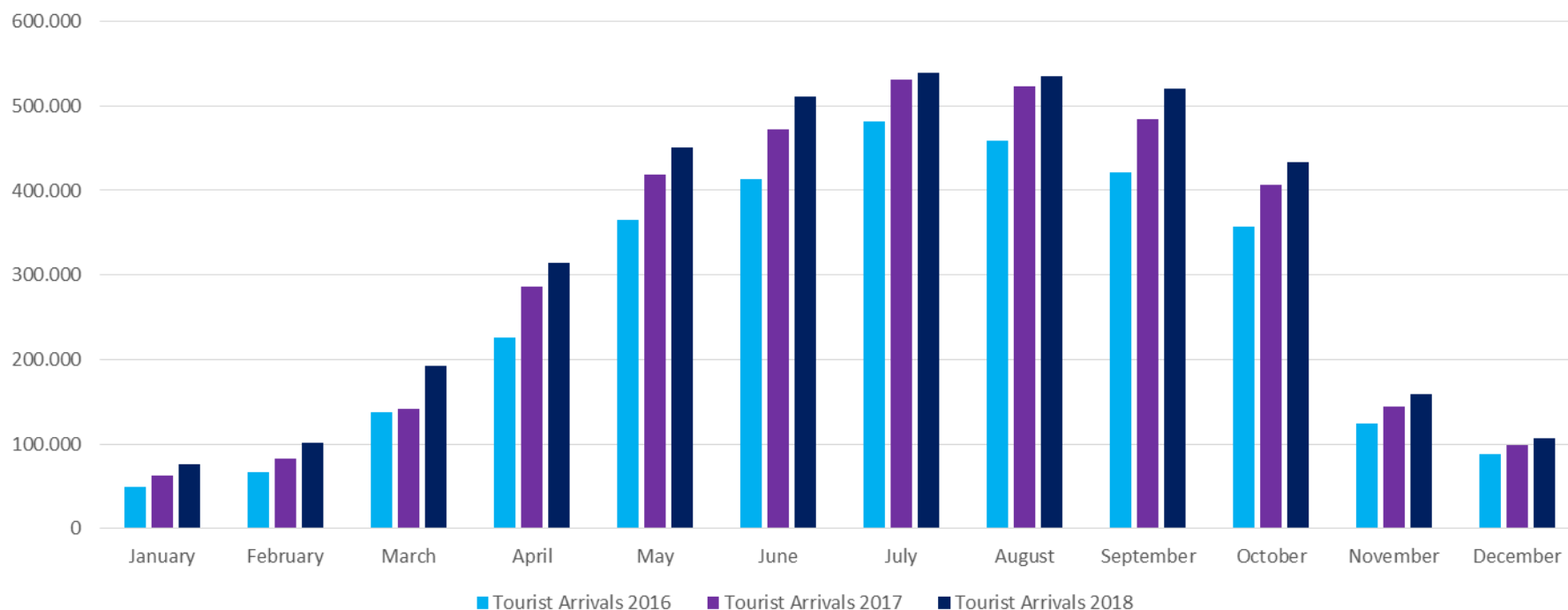
	January	February	March	April	May	June	July	August	September	October	November	December	Total
Building Permits 2017	465	444	542	410	507	502	492	410	509	536	474	437	5.728
Building Permits 2018	503	481	531	469	612	514	589	415	588	630	597	479	4.114



Source: www.moi.gov.cy

Tourism Arrivals by month (2016 - 2018)

	January	February	March	April	May	June	July	August	September	October	November	December	Total
Tourist Arrivals 2016	48.607	65.988	137.013	225.575	364.943	413.114	482.132	458.645	421.201	357.194	124.192	87.927	3.186.531
Tourist Arrivals 2017	62.611	82.209	140.873	286.331	418.732	472.450	531.030	523.651	483.716	406.870	144.676	98.924	3.652.073
Tourist Arrivals 2018	75.867	101.481	192.090	314.143	450.495	511.073	539.626	534.847	520.138	433.617	158.685	106.563	3.938.625



Source: CYPSTAT

Banking System

The banking sector has refocused its operations and improved its corporate governance. The regulatory and supervisory framework has been revamped. Decisive actions for addressing the NPE challenge in 2018



Source: Cyprus Ministry of Finance

Projections

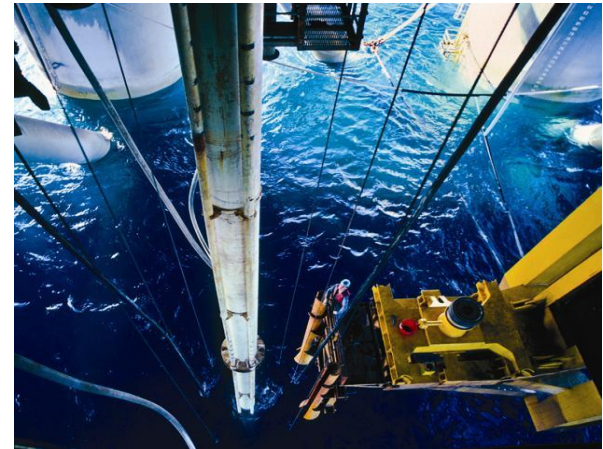
Main indicators	2018	2019 <i>f</i> ⁽¹⁾	2020 <i>f</i>	2021 <i>f</i>	2022 <i>f</i>
Real GDP (% change)	3,9%	3,8%	3,4%	3,0%	3,0%
Unemployment rate	8,4%	7,0%	6,0%	5,5%	5,0%
Public debt (% of GDP)	103%	96%	89%	83%	78%
Fiscal Balance (% of GDP)	3,2% ⁽²⁾	3,0%	2,6%	2,4%	2,2%



What the future holds for Cyprus – Growth Di

Growth Drivers

- **Gas Exploration and Exploitation**
- **Tourism**
- **EU Funds**
- **Cyprus Shipping Industry**
- **International Business**
- **Construction Industry**
- **Farming and Agriculture**
- **Audiovisual (Budget 2018)**



Growth opportunities – Tourism

- Specific foreign investments were recently directed to the tourism industry;
- The tender process for the **casino resort** has been finalized and the government has granted the casino license to the multinational consortium consisting of the companies **Melco and Cyprus Phassouri (Zakaki) Limited**;
- Construction of a new marinas;
- Golf resorts, exclusive hotels and wellness tourism products and services are **growing**;
- Strong links with major tour operators, a significant expansion in flight destinations and the development of niche tourism, all indicate the **sector will continue to flourish**;
- Substantial foreign investments have been attracted during the last two years;
- Huge prospects for medical and sports tourism.



Growth opportunities – Shipping

More than 140 ship owning and ship management related companies operating in Cyprus

- Cyprus has the 10th largest merchant fleet globally and the 3rd largest in the EU, with approximately 1.022 vessels under the Cyprus flag;
- Cyprus Tonnage Tax System (TTS) is offering numerous advantages to ship operators, owners and charterers;
- This TTS is unique as it facilitates ship owning, ship management and ship chartering at the same time.





The Cyprus Tax System – Main Features

The Cyprus Tax System at a Glance

- Taxation is based on residency status;
- Tax residents are taxed on income earned both in Cyprus and abroad, whereas non-tax residents are taxed on certain income earned from Cypriot sources only;
- 12,5% corporate tax on corporate trading profits as from 1.1.2013;
- One of the lowest income tax regimes in Europe with taxation reaching up to a maximum of 35%;
- Interest expense on 100% corporate acquisitions permitted;
- Notional Interest Deduction on new equity invested;
- Fully reformed Intellectual Property Regime;
- Capital gains on sale of securities: 100% exemption;
- Capital gains from the sale of immovable property situated outside Cyprus are tax exempt;
- No withholding tax on outgoing payments (dividends-interest-royalties);
- No taxes on corporate dividend income or on profit on sale of shares;
- Applicability of all EU directives;
- Advance ruling practice exists;
- Extensive and constantly expanding network of attractive Double Tax Treaty network.

Reform of the tax regime

1. Transfer Fees Exemption:

- A 50% exemption from transfer fees under the Land and Surveys (Fees) Law will apply, to all transfer applications;
- According to existing law, in case where the property sale is subject to VAT, there is a 100% exemption from transfer fees.

2. Immovable Property Tax:

- Immovable Property Tax (IPT) in 2016 was reduced to 25% of 2015 tax paid;
- IPT was fully abolished from January 2017.

3. Non-Domicile Regime:

- Individuals can become Cyprus Tax Residents but for the first 17 years be non Cyprus Domicile, meaning that no taxes will be paid on dividend income (specifically exempt from income tax and for non domicile exempt from special contribution) and no special contribution is paid on rental income.

Reform of the tax regime

4. Cyprus Tax Residency:

The Parliament of Cyprus approved a bill that gives the right to an individual to be considered as a tax resident in Cyprus, provided that he meets cumulatively certain conditions.

Specifically, the Income Tax Law has been amended so that an individual, who does not remain in any of their state for one or more periods which altogether exceed 183 days in the same tax year and who is not tax resident in any other state for the same tax year, be considered to be a tax resident of Cyprus, provided that the following conditions are cumulatively met:

- He/she should remain in Cyprus for at least 60 days during the tax year;
- He/she should pursue any business in Cyprus and/or to work in Cyprus and/or to be a director in a company tax resident in Cyprus at any time during the tax year;
- He/she should maintain a permanent residence in Cyprus, which can be either owned or rented by him/her.

It is clarified that an individual who cumulatively fulfils the above conditions is not considered as a tax resident of Cyprus in the tax year, if in that year the exercise of any business and/or employment in Cyprus and/ or the holding of a post to a taxable person of Cyprus have ceased.



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