

## Cyprus: Anticipated tax measures to be implemented including adoption of withholding taxes on payments made to EU non-cooperative jurisdictions

---

### EY Tax News Update: Global Edition

EY's Tax News Update: Global Edition is a free, personalized email subscription service that allows you to receive EY Global Tax Alerts, newsletters, events, and thought leadership published across all areas of tax. Access more information about the tool and registration [here](#).

Also available is our [EY Global Tax Alert Library](#) on ey.com.

---

### Executive summary

The Cypriot Council of Ministers approved the Draft Budgetary Plan (DBP) 2021 on 22 October 2020. The DBP will now be laid before the Cyprus House of Representatives. The DBP contains an analysis of the Cypriot economy and forecasts which are based on the latest available results of 2020 (i.e., the cut-off date for the macroeconomic and fiscal forecasts was 29 September 2020), as well as the Budget Bill for 2021 that was submitted to the House of Representatives on 9 October 2020.

### Detailed discussion

#### Current and anticipated Cyprus tax revenues

According to the DBP, Cyprus's revenue from taxes on production and imports is expected to decrease by 6% during the year 2020 and marginally increase as a percentage of gross domestic product (GDP) to 15.3% compared to 15.2% in 2019. The forecasted negative growth of this revenue category is stemming from expected losses from reduced value-added tax (VAT) receipts due to the restrictive measures taken by the Cyprus Government related to the COVID-19 crisis, as well as from the estimated impact from the reduction of the special VAT rates as of 1 July 2020 until the end of the year, of about 0.1% of GDP.

In 2021, revenue from taxes on production and imports are expected to grow by 5.4% and remain unchanged as a percentage of GDP. Current taxes on income and wealth receipts are expected to exhibit a decrease of 5.4% in 2020, in line with the related to the crisis developments in the labor market. As a percentage of GDP, current taxes on income and wealth are expected to record a marginal increase of 0.1% of GDP reaching 9.6% of GDP compared to 9.5% of GDP in 2019 and remain at the same level the year after.

## **Tax measures expected in 2021**

### **Withholding tax on non-cooperative jurisdictions and incorporation test for tax residency**

The DBP 2021 highlights the support by Cyprus of the European Commission's initiatives to fight aggressive tax planning, including the adoption of the European Union (EU) Anti-Tax Avoidance Directive II and the EU Directive on Administrative Cooperation Vol. 6. In addition to the European and international measures, Cyprus unilaterally announced two additional measures to address aggressive tax planning, namely by the introduction of:

- ▶ Withholding tax on dividends, interest and royalty payments to countries in Annex I of the EU list of non-cooperative jurisdictions on tax matters (currently the countries on the list are American Samoa, Anguilla, Barbados, Fiji, Guam, Palau, Panama, Samoa, Trinidad and Tobago, US Virgin Islands, Vanuatu, Seychelles).
- ▶ Corporate tax residency test based on incorporation, in addition to the existing "management and control." The purpose of this measure is to expand the definition of "resident of the Republic" to include companies incorporated in Cyprus but whose management and control are exercised outside of Cyprus, unless such company is a tax resident in any other state (other than the states included in Annex I of the EU list of non-cooperative jurisdictions on tax matters).

Respective draft bills have been sent to the Attorney General's office for legal vetting. It is expected that these bills will be submitted to the House of Representatives in the near term and will be voted on before the end of 2020, with effect as of 1 January 2021.

### **Spontaneous exchange of information**

In relation to the actions taken by the Cyprus Government to address the concerns that the "Citizenship" and "Residence by investment" schemes may circumvent the Common Reporting Standard initiative, Cyprus is in the process of developing the appropriate infrastructure to promptly enable the spontaneous exchange of information mechanism regarding individuals that have obtained residence rights through the "Citizenship by Investment" and "Residence by Investment" programs with all original jurisdictions of tax residence.

### **Digital transformation**

The Cyprus Government intends to follow a new approach for accelerating the digital transformation and as of 1 March 2020, a new Deputy Ministry has been established with the mandate, inter alia, to lead Cyprus into the digital era, through the promotion of scientific excellence, the support and facilitation of innovative entrepreneurship, and the implementation of a digital transformation program.

For taxation, the target is to establish a new information system for the Cyprus Tax Department in order to simplify the processes and procedures and to utilize more modern Tax Department methods to increase personnel productivity and improve operational efficiency.

For additional information with respect to this Alert, please contact the following:

**Ernst & Young Cyprus Limited, Limassol**

- ▶ Philippos Raptopoulos          philippos.raptopoulos@cy.ey.com
- ▶ Myria Saparilla                  myria.saparilla@cy.ey.com
- ▶ Olga Chervinskaya              olga.chervinskaya@cy.ey.com

**Ernst & Young Cyprus Limited, Nicosia**

- ▶ Petros Liassides                petros.liassides@cy.ey.com
- ▶ Petros Krasaris                 petros.p.krasaris@cy.ey.com

**About EY**

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit [ey.com](http://ey.com).

© 2020 EYGM Limited.  
All Rights Reserved.

EYG no. 007519-20GbI

1508-1600216 NY  
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

**[ey.com](http://ey.com)**