

Answer-to-Question-_1_

CySoft Ltd program is a copyrighted software and protected by patent rights. Therefore it qualifies as a qualified asset in line with Article 9(1)(k).

Any expenditure incurred for the R&D of the software and of capital nature can be capitalised and amortised over the useful life of the program, for a maximum period of 20 years.

Based on that, the company will be able to claim 80% deduction on qualifying profits subject to the nexus fraction which is determined using the below formula

$$\text{Qualifying Profit} = (\text{Qualifying expenditure} + \text{Uplift Expenditure}) / \text{Overall Expenditure} \times \text{Qualifying income}$$

Qualifying income is defined as the income derived from the exploitation of software less any direct expenses associated with the income.

The Qualifying income will be:

Royalty income to third party

900,000

Embedded income (patent)

400,000

Direct exploitation costs

(120,000)

Amortisation cost

(100,000)

Other Direct exploitation costs

(80,000)

Total Qualifying income

1,000,000

The costs of upfront license fee, insurance compensation and legal & registration are not directly linked to the income. They will be considered as tax deductible operating costs for corporation tax liability.

For the embedded income (patent), a TP should be carried out in order to determine on whether a portion of that income should be excluded and

taxed on normal corporation tax rates

Qualifying expenditure represent all the expenditure use for the development of the software program. It might be of a capital or a revenue nature. Example of qualifying expenditure are R&D expenditure carried out by unrelated parties or internally (employee cost). Director's salaries are allowed to the extent that they are not the controlling parties of the Company.

The Qualyfung expenditure of CypSoft are:

In house developers salaries	300,000
In house costs capitalised	300,000
R&D subcontracted to unrelated party	110,000
Total Qualifying Expenditure	710,000

Non Qualyfung expenditure mainly represent expenditure of both capital and revenue expenditure incurred for the reasearch and development of the product and there linked with related party or pre-existing expenditure. To this extent, this type of expenditure will effectively reduced the qualifying profits and the benefit for CypSoft.

The Non-Qualyfung expenditure of CypSoft are:

R&D expenditure to related group Company Group	80,000
Acquisition of pre-existing sidtware	400,000
Total Non-Qualyfung Expenditure	480,000

Consumables, test data and prototype costs it not directly related to R&D of the software and there will be included in the operating expenses of the company as a deductible expense.

The uplift expenditure will be the lower of:

-30% of Qualifying profits: $710,000 \times 30\% = 213,000$

-expenditure incurred from related party and pre acquisition costs
 $= 480,000$

Based on all the above Qualifying Profit will be calculated as following:

$$QP = (710,000 + 213,000) / (710,000 + 480,000) * 1,000,000 = 775,630$$

Qualifying profits are eligible for a 80% deduction leading to tax saving of $775,630 * (12.5\% - 2.5\%) = 77,563$

The effective tax rate for the IP is 4.74% compared to minimum available of 2.5% which shows the restriction impact of nexus fraction.

As described above the software and the patent which is included as an embedded item represent qualifying assets. Under Article 9(i) (k) the Company is eligible to claim for the 80% deduction on the disposal subject to the limitation described. If no restriction is identified then the estimated profit will be $(1,500,000 - 900,000) = 600,000$ and the effective tax $2.5\% = 15,000$ leading to a tax saving of 60,000

Answer-to-Question-2

Part 1

Mr F will be taxed on her worldwide income based on Article 5(1) of income tax law.

Her employment income including bonus will be subject to income tax progressive tax rates of (0%-35%). Any social insurance paid on employment income at the rate of 8.8% will be considered as a available deduction.

The use of car for private use will be considered as BIK and will taxable benefit. The relevant benefit will be determined using the below formula:

Cost of the car * 17% * days using the car within the year.

The use of car should be subject to GeSY contributions of 2.65%.

Additional care should be taken to assess whether there are additional benefit in relation to the car like fuel or repairs of the car.

Residential accommodation represent also BIK and will be taxable for MS F. The relevant benefit will be determined by using the below formula: (higher of MV of house or Cost)*4%*days using the accommodation facility

The accommodation BIK should be subject to GeSY contributions of 2.65%.

Additional care should be taken to assess whether there are additional benefits link to that (utility bill paid by employer except from cable tv and internet).

Employer contribution to approved pension fund will not be considered as a BIK for Ms F. Therefore there are no tax implications in regards to that.

Part 2

Ms F personal pension contribution it will be considered as an available deduction for income tax purposes and will effectively reduced her taxable income. Attention should be made that the total balance of deductions (social insurance, gesy) will be restricted to 20% of Ms F total income (employment+bonus+BIK).

Charitable donations to approved charities as listed in the tax department website represent a tax deductible expense. It should be mentioned that contribution to charities is not restricted by the 20% rule (see above) since it deducted directly from total income.

Part 3

Dividend income is exempt from income tax purposes as per Article 8(22). Since Ms F is Cyprus resident and domiciled Dividends will be subject to 17% SDC contribution and 2.65% contribution of GeSY.

It is important to mention that GeSY contributions is capped at 180,000 (based on all source of income.)

Passive interest income from bank deposits is also exempted for income tax purposes. It will be however subject to GeSY contribution of 2.65% and 17% SDC withholding at source from the Cypriot bank.

Rental income is a taxable source of income for Ms F. The taxable rental

income is defined as follows:

Gross rental income

Less 20% available allowance exemption

Less any available tax depreciation at 3% of the cost

Less any related interest incurred for the acquisition of the immovable property

Gross rental income is subject to 2.65% GeSY contribution.

Rental income is subject also to 3% SDC contribution, after the 25% deemed deduction.

Part 4

Any gains from the disposal of listed shares is not taxable under Article 8(22).

Any gains arising will also not be subject to any GeSY or SDC contributions.

Since the shares are listed, there are no further considerations on whether any capital gain implications will arise.

Part 5

For special defence contribution purposes a Cyprus tax resident is a resident as defined for income tax purposes and domiciled in Cyprus subject to certain exceptions.

Going forward, If MS is not domiciled in Cyprus and was not a tax resident for the last 17 out of 20 years in the Republic of Cyprus then she should have been considered non tax resident for SDC purposes.

As a conclusion, her interest income, rental income and dividend income would be not subject to SDC withholding.

Answer-to-Question-4

Part 1

Mr E can be considered as Cyprus tax resident under the 183-day rule or under 60-day rule.

Mr E, during 2025 spent 150 in Cyprus and therefore she cannot considered a Cyprus tax resident under the 183-day rule.

Under the 60-days rule she can be considered a Cyprus tax resident if all of the below are satisfied:

- a) spent in the Republic at least 60 days. She spent 150 and therefore the condition is met
- b) carried out a business and/or act as an employee to a Cyprus tax resident company and/or hold an office in a Cyprus resident company. As per info provided, he acts as a director to a Cyprus tax resident company and therefore the condition is met.
- c) maintained a permanent residence, owned or rented during the year of assessment. Mr E rents an apartment and therefore the condition is not met.
- d) not be considered a tax resident in any other country. Under the Columbia domestic law he remains resident in Colombia for 2025. This condition is not met

Considering the above analysis Mr E cannot be considered a tax resident under the 60-day or 183-day rule.

Part 2

Cyprus may challenge Columbia authorities about the tax residency of Mr E. Since both countries follow Article 4 of OECD tie-breaker rules will apply as follow.

- 1) Mr E shall be deemed resident in the country that maintains the permanent residence. In Colombia he maintains an owned apartment compared to Cyprus where he rent an apartment.
- 2) If can be argued that there is permanent residence then the center of vital interest should be examined. His spouse and family lived to Columbia which is a very strong indication. He has also passive income received from Colombia. In Cyprus Mr E receives employment income.
- 3) If can be argued that he has vital interest in both countries, then habitual abode should be examined. Mr E spent 150 days in Cyprus and 160 days in Colombia and therefore has habitual abode in both countries.
- 4) Following habitual abode the we move to nationality test. Mr E is Colombian national.

In all the steps above the indications that he is a Colombian tax resident are stronger than in Cyprus. If residency is solved from the first step then there is no reason to proceed further.

As a conclusion he will not be considered as a Cyprus tax resident. He will be taxed only on the income generated in Cyprus.

Part 3

As a non Cyprus tax resident Mr E will be taxed only on Cyprus sources of income.

Mr E salary will be taxable since was earned by a Cyprus tax resident employer.

The gross salary is more than 55,000 gross salary and Mr E will be eligible for the 50% remuneration exemption under Article 8(23) of income tax law.

Social insurance contributions and GeSY withheld at source from his salary will be considered as available deduction.

His taxable income will tax tax on the personal progressive tax rates.

Considering the DTA between the countries, DTR will be provided to Colombia on tax paid in Cyprus in regards to employment income.

Dividend income, rental income and interest income from Colombian sources will not be taxable in Cyprus but only to the country of residency ie Colombia

Capital gains from disposal of properties is also an oversea income that will be taxed in Colombia.

Answer-to-Question-5

Part1-2

Article 11B of the Cyprus VAT law refers to the construction services provided within the Republic allowing vat registered persons not charged VAT when they provide construction services to person that will use the property to generate vatable activities.

This provision of the law helps a lot of company manage their liquidity since they can avoid the timing difference between they time of construction (where the vat should have normally be paid) and the sale of the property (which can take 1-2 years).

A constructor can charge under the article 11B only if the property will be used for vatable tranaction (sale as a new residence)

ADev Ltd receives construction services from SubA Ltd. To the extent that the company principal activity is to sell houses then this represent a vatable activity and the SubA ltd should issue the invoice under the Article 11B. ADev Ltd should subsequently record the invoice under the reverse charge mechanism.

Construction services provided from ADev Ltd to Inco Ltd should be accounted under the Article 11B since it relates to a commercial office developepment which is expected to have vatable activities. By applying the article 11B, InCo Ltd avoided payment of vat amounting 665,000.

Part 3

The sale of newly constructed property can be made both on 19% and 5%. If the transaction remains vatable then there is no impact on Article 11 B from the application of reduced rate.

An approved vat reduced rate certificate should be delivered to the developer company in order to enable him charge under the reduced rate.

Part 4

The place of supply of such transaction is where the property is located.

If the architectutal services refer to a property situated in Cyprus then the Italian firm has the obligation to registered in Cyprus and

charge ADev Ltd under the article 11B.

Answer-to-Question-6

Part 1

As per income tax law, the beneficiary of the trust is liable for income tax despite the fact the tax assessment is issued on the name of the beneficiary.

Any deductions/exemptions of the beneficiaries apply to the income.

A Trust's beneficiaries are not cyprus tax residents and not domiciled in the Republic for 2025. Any income derived from the trust is not subject to any income tax (tax neutral) or SDC under the condition that the trust has non income from Domestic sources.

IF A Trust has some sources of income in Cyprus then those specific sources of income will be subject to cyprus income tax. However no SDC will apply since the beneficiaries non cyprus residents and also non-domiciled.

The tax residency of a Trust is defined by the tax residency of beneficiaries only.

Part 2

Trusts are considered transparent entities for income tax purposes and as mentioned in point 1 the beneficiaries will eligible to apply for any deductions and exemptions like if they were physical person.

If the beneficiaries of A Trust intents to take up Residency in Cyprus, then Cyprus will have taxing rights on the worldwide income of the Trust.

Considering the non-domiciles status of the beneficiaries, they can be considered as non-resident for special defence contribution purposes.

Therefore the beneficiaries will be exempted from any contribution made to them from the A trust which was subject to SDC (i.e dividend income, rental income, interest income).

Part 3

As described in point 1 the tax assessment is issued on the name of the trustee as representative of the the beneficiary however the trustee is not liable to any tax obligations.

The tax residency o trustees is irrelevant for income tax purposes.

As representative to tax authorities the trustee should facilitate the communication with beneficiaries and facilitate and process of submitting and paying tax liabilities.