



CAMERA DI COMMERCIO ITALO-CIPRIOTA
ΙΤΑΛΟΚΥΠΡΙΑΚΟ ΕΜΠΟΡΙΚΟ ΕΠΙΜΕΛΗΤΗΡΙΟ

Cyprus Overview- Oil & Gas Perspective

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Emilianides Katsaros



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The **Italian-Cypriot Chamber of Commerce**, recognized at government level and recorded in the Register of the Italian Foreign Chambers held by **UNIONCAMERE**, aims to contribute to the development of economic, commercial, technical, legal, scientific and cultural cooperation between Italy and Cyprus, as well as among the operators of the aforementioned countries and to encourage the creation of a climate of trust and effective collaboration between the institutions and Italian and Cypriot entrepreneurs.



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Presentation Outcomes



- General overview of Cyprus
- Regulatory and tax framework for Cypriot companies and individuals
- General facts on labor and real estate matters
- Oil and Gas Industry facts, legal and tax frameworks
- Oil and Gas and Covid-19 impact
- Benefits from future developments in the industry





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Cyprus – Historical Facts

- Presidential Republic since 1960 (previously English Colony)
- Member of the European Union since 2004
- Member of the Eurozone since 2008
- Greek Official Language (English widely used at all levels)
- Number of inhabitants: 947,000 (2016 figure)
- Turkish occupation in the north part since 1974 (Nicosia is the last divided capital of the world)
- Green Line manned by a UN quota opened in 2003





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Noteworthy Elements

- Economic Growth: 3.8% (2018) 3.3% (2019)
- Growth Sectors: Energy, Construction, Shipping, Financial (Fund Industry), Tourism, Real Estate
- Located in the Eastern Mediterranean at the hub of three continents linking Europe, the Middle East, Asia and Africa
- As an important European and regional financial and business services hub, Cyprus has an open-market economy with the private sector comprising the main pillar of the economic activity





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Strategic Geographical Location

- Cyprus' strategic position plays a key role in shaping its history and in developing the island into a convenient center for trade and international business.





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Cyprus as an International Business and Shipping Center

- EU and European Monetary Union Member State
- Simple and low tax system
- Strategic geographical location, attractive for expansion and development in different markets
- Highly developed in socio-economic infrastructure
- Wide range of high quality financial and commercial services including legal, tax, accounting and investment services
- Operation of Stock Exchange and forceful Securities and Exchange Commission





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Cyprus as an International Business and Shipping Center (continued)

- Pleasant and solid business environment
- Simple administrative procedures for businesses
- Low-cost set up and operational expenses
- Prestigious international shipping center
- Admirable quality of life
- Highly educated, qualified and multilingual professionals





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Regulatory Context: Sources of Law

- European Union Law (5th Amendment to the Constitution Law 127 (I)2006)
- Constitution of the Republic of Cyprus Conventions / Treaties / International Agreements
- Formal Laws (approved by the House of Representatives)
- Regulatory Acts (issued by the government)
- Law of the Supreme Court
- Common Law





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Private Company Limited by Shares (LTD) as a business vehicle

- Simple and fast incorporation procedure
- No Minimum Capital required (usually 1000 Eur)
- Minimum 1 - Maximum 50 members
- Liability limited to the subscribed shares
- Possibility of issuing different classes of shares
- Unclassified corporate purpose (holding / operating)
- Possibility to hold the shares through a Fiduciary (nominee shareholder) and to use a Fiduciary Administrator (nominee director)

Since 18 December 2018, the registration tax was abolished on capital first equal to 0.6% and today is therefore no longer due even in the event of an increase.





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Fiscal Background for Companies

- Tax system perfectly harmonized with European legislation and OECD standards (Cyprus adheres among others to the MAAT, BEPS, CRS conventions)
- There are over 60 Treaties in place, preventing the double taxation
- Non-application of CFC rules (in the process of applying ATAD directive)
- Tax Residence based on the place of «Management and Control»
- Full application of IFRS principles
- Financial statements are subject to compulsory audits





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Tax Rates for Companies

- 12.5% Corporate Tax Profit
- No Tax on the distribution of dividends to non-residents
- No Tax on dividends received from other companies (local or foreign)
- No Tax on capital gains deriving from the sale of investments or liquidation
- No Tax on capital gains deriving from activities carried out outside Cyprus
- Special schemes for companies in the Shipping, Oil and Gas, Insurance, Financial (Fund Industry), and Cinematographic sectors





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Tax Rates for Individuals

- Tax rates in 2018 (worldwide principal for domiciled residents)

Tax %	Tax Base (EUR)
0	Up to 19.500
20	19.501 – 28.000
25	28.001 – 36.300
30	36.301 – 60.000
35	Over 60.001

- Retirement income abroad is taxed at a fixed rate of 5% on the amount exceeding 3.420 EUR.





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Tax Rates for Individuals: 60 – Day Rule

- As of 1st January 2017, the new 60-day rule can be applied, offering individuals the option to become a tax resident of Cyprus, after spending only 60 days in the island.
- This rule comes as an amendment to the initial, 183-day rule and provides an incentive to individuals seeking to change their tax residency to Cyprus, but at the same time continue living in a different jurisdiction for the majority of the year.





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Tax Rates for Individuals: 60 – Day Rule (continued)

The '60 day rule' for Cyprus tax residency is satisfied for individuals who, cumulatively, in the relevant tax year:

- do not reside in any other single state for a period exceeding 183 days in aggregate;
- are not considered tax resident by any other state;
- reside in Cyprus for at least 60 days; and
- have other defined Cyprus ties.

To satisfy the last criteria, the individual must carry out any business in Cyprus and/or be employed in Cyprus and/or hold an office (director) of a company tax resident in Cyprus at any time in the tax year, provided that such is not terminated during the tax year. The individual must also maintain in the tax year a permanent residential property in Cyprus that is either owned or rented by the individual.





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Value – Added Tax (VAT)

- Scope of application: Transfer of goods and services in the State, and imports of goods
- Standard rate 19% (Vies / intrastate system for sales invoices)
- NO Taxable property below a turnover of 15,600 Eur
- Reduced rate 9% for catering, hotel accommodation services and transport of people by land or sea within the country
- Reduced rate 5% for food products, pharmaceuticals, books and newspapers and building renovations (under certain conditions)
- Rate 0 on exports and special regimes in shipping and aviation
- Exemption for real estate leases, financial and insurance services, medical and educational services





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Cost of Labor

Contributions for social insurance and other related funds are calculated on the gross remuneration with the following percentages:



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	Employer %	Employee %	Self-Employer %
Social Insurance Fund	8,3	8,3	15,6
Redundancy Fund	1,2	-	-
Industrial Training Fund	0,5	-	-
Social Cohesion Fund	2,0	-	-
Contribution to the General Healthcare System (GHS):			
- From 01/03/2019	1,85	1,70	-
- From 01/03/2020	2,65	2,90	-
Total Contributions:	20,3%		

(Gross Salary 1000 Eur. = Contributions 203 Eur)



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Real Estate

- The tax on Real Estate has been abolished since January 2017.
- Real Estate capital gains tax is 20% (also applied in the case of capital gains from sales of investments with assets made up of more than 50% by Real Estate)
- The transfer of Real Estate is instead taxed with a tiered system according to the value of the property with rates between 3% and 8% of the market value (not applicable if the transfer is carried out as part of a company restructuring or if it is subject to VAT)
- VAT on Real Estate transfers (when applicable): 19% which can be reduced to 5% in the case of a first home purchase
- Donations to spouses or relatives within the third degree: Tax rate 0.1%
- Donations to children: No Tax
- Contribution to Trust: Tax in a fixed amount





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Oil & Gas Industry

- The Energy Sector in Cyprus is rapidly developing and transforming constantly due to the natural gas discoveries and planned drillings.
- The fast growing oil and gas industry of Cyprus is considered as one of the greatest opportunities and attracts a lot of attention from foreign investors, following the recent discoveries of hydrocarbons within the island's Exclusive Economic Zone (EEZ) and the massive discovery of the Zohr gas field in its immediate neighbor within the Egyptian waters.
- Cyprus's location, being close to the Suez Canal and at the southeast tip of the EU, makes it an ideal destination and an important fuel hub.
- Cyprus is seen as an energy interconnection node of the electricity grids between Eastern Mediterranean and North Africa with Europe.
- Major multinational oil and gas companies implicated in the EEZ of Cyprus strengthen the industry in the country.





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Oil & Gas Industry – Progress

- Many exploratory licenses have been granted.
- The first license concerned Block 12, named Aphrodite, and was granted to Noble Energy in October 2008.
- In June 2015 the Aphrodite gas field was declared commercial.
- Noble's partners to Block 12 now include Royal Dutch Shell, and the Israeli companies Delek and Avner.
- The Cypriot Government is constantly conducting discussions and negotiations regarding the infrastructure required for landing the gas in Cyprus and for liquefaction for export, while exploring all the alternatives for Cyprus gas exports, through collaboration with other countries in the Eastern Mediterranean region.





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Oil & Gas Industry – Legal Framework

- The hydrocarbon exploration and exploitation activities in Cyprus are governed by the Hydrocarbon (Prospection, Exploration and Exploitation) Law of 2007 (No.4(I)/2007) and the Hydrocarbon (Prospection, Exploration and Exploitation) Regulations of 2007 and 2009 (No.51/2007 and No.113/2009).
- The legal framework applies to the territorial waters, the continental shelf and the Cyprus' EEZ.
- Hydrocarbon activities are subject to general Cypriot laws and regulations on environmental protection, health and safety.
- For oil and gas activities in Cyprus, the European Union Directive on the conditions for granting and using authorizations for the prospection, exploration and production of hydrocarbons (Directive 94/22/EC) and other relevant EU legislation is applicable.
- Back in 1988, Cyprus also ratified the United Nations Convention on the Law of the Sea (UNCLOS '82).





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Oil & Gas Industry – Legal Framework (continued)

- Many agreements have been signed between the Republic of Cyprus and its neighboring countries.
- The Delimitation of the EEZ of Cyprus has been agreed and signed with Egypt based on the median-line principle and in accordance with the provisions of the United Nations Convention on the Law of the Sea (1982).
- The Delimitation agreements have been signed with each of Lebanon and Israel.
- Cyprus and Egypt have also signed a Framework Agreement concerning the development of cross-median line hydrocarbon resources.





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Oil & Gas Industry – Taxation

- The Cypriot Income Tax Law does not include any particular regime in relation to the oil & gas industry.
- Profits which are taxable resulting from trading operations in this industry are taxable at the normal corporate income tax rate.
- In late 2015, the definition of the term "Republic" in the Cypriot Income Tax Law was amended so as to more explicitly describe the intended meaning. The new definition clearly includes the territorial waters, the EEZ and the continental shelf of the Republic of Cyprus.
- The definition of “permanent establishment” in Cyprus was also amended to include oil and gas exploration and exploitation activities. Services carried out in Cyprus which are not considered as a permanent establishment are liable to 5% withholding tax, subject to treaty relief (*There are currently discussions being held with the Ministry of Finance to abolish the withholding tax provision*).





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Oil & Gas Industry – VAT

- The relevant law on VAT in Cyprus is based on the framework of the relevant EU VAT Directive.
- Since January 2014, the standard VAT rate in Cyprus is 19%.
- The VAT authorities in Cyprus support that Cyprus' EEZ falls within the territory of Cyprus for VAT purposes.
- In regards to customs duties, Cyprus applies the Community Customs Code, meaning that no customs duties apply to goods traded in Cyprus's EEZ beyond its territorial waters.





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Oil & Gas Industry and impact of COVID-19

- Major international oil and gas companies faced huge profit reductions at the end of the first quarter of 2020 due to the pandemic.
- In fact, ExxonMobil reported its first loss, \$610million, in over 30 years and Shell cut its dividend by two-thirds, for the first time since World War II.
- Since then oil and gas markets deteriorated even further, plagued by a massive drop in demand and unprecedentedly low prices, hitting the international oil and gas companies badly.
- In the first quarter of 2020, with international oil and gas companies postponing drilling and activities in its EEZ until 2021 – should conditions allow it – Cyprus energy was facing an uncertain future.
- However, very recently, oil and gas companies have assured the Cypriot Government they remain committed to their projects in Cyprus' EEZ and will commit to schedules revised due to the pandemic situation.
- It is anticipated that the delays owing to the pandemic will not be repeated and that their programme will continue normally, under the timetables agreed.
- Whereas energy companies have had to discontinue several projects across the world, Cyprus is not among these.
- More updates are expected soon but general, positive outcomes are expected for the industry in Cyprus.





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Benefits & Potentials from Future Developments

- Monetary revenues
- Possibility of direct foreign investment in significant infrastructure projects such as a liquefaction plant and the pipeline facilities will create the need for a great number of other support services.
- Generating new job opportunities and expanding business
- Enhancement of the construction industry and property market
- Advantageous indirect effect on other sectors of the economy (financial, professional services etc.)
- Increased regional cooperation
- Cyprus becoming a major strategic player in the energy field



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Thank you for your attention!



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