



Cyprus Tax Update – Year 2018

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TAX AND OTHER INCENTIVES FOR THE FILM INDUSTRY

On 11th December 2018, an amendment to the Income Tax Law (ITL) was published in the Official Government Gazette, providing tax incentives to companies involved in film productions.

The incentives are offered within the context of implementing a scheme approved by the Council of Ministers on 27th September 2017, aiming to attract film production companies to Cyprus. In addition to the two tax incentives provided in the ITL, the scheme provides for other (non-tax) incentives as well.

Those interested in the tax incentives, should review our tax alert in conjunction with the detailed provisions of the scheme and contact us to discuss how we can assist them.

Tax Incentives

The Directive reflects the objectives of Action 12 of the BEPS Action Plan and is designed to enhance transparency to prevent aggressive cross-border tax planning.

(i) Tax exemption

A company involved in film production can enjoy a tax exemption of up to 50% of its taxable income. The exemption is restricted to 35% of the “eligible expenditure” incurred by the company. Any amount not claimed as tax deductible in the year the expenditure is incurred due to the restriction, can be carried forward and claimed in the following five years.

(ii) Tax deduction

Individuals, small as well as medium sized enterprises investing in film infrastructure and equipment are entitled to deduct the amount of the investment from their taxable income in the year of the investment. The tax deduction cannot exceed 20% of the “eligible expenditure” for individuals and small enterprises and 10% for medium sized enterprises. In order to be eligible to enjoy the deduction, the investment in equipment would need to remain in Cyprus for at least 5 years. Any amount not claimed as tax deductible in the year the expenditure is incurred due to the restriction, can be carried forward and claimed in the following five years.

Other Incentives

Cash rebate

As an alternative to the tax exemption, companies can claim a cash rebate of up to 35% of “eligible expenditure” incurred in Cyprus. The maximum annual cash rebate cannot exceed €650,000 per production and €1,500,000 for all productions.

The final percentage of the rebate will be determined based on a “cultural test” that takes into account certain criteria like the participation of local actors, the use of the Greek language and highlighting Cypriot culture in the production.

It is important to note that any company claiming the cash rebate incentive cannot also claim the income tax exemption.



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VAT refund on eligible production expenditure

Companies and individuals from third countries incurring “eligible expenditure” on film productions, are entitled to a VAT refund in the same way as those from EU Member States in accordance with the EU Directive 9/2008.

The refund shall arise within 6 months from the end of the last deadline for submitting the VAT declaration for the period during which the expense occurred, or from the date on which the application for the VAT refund is filed.

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