

INFORMATION SHEET 13

Title:	Living in Cyprus: A scrumpTAXious Proposition		
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General

Cyprus has always been an attractive tourist destination, as well as a great place to live and work and call home.

A 'jewel' of the Mediterranean and the mythical birthplace of Aphrodite, the island of Cyprus combines a rich cultural, historical and archaeological heritage with great natural beauty and a friendly, inviting population. Renowned for its gorgeous weather and beaches, amazing food, breath-taking sceneries and an abundance of quality housing, the island has so far won over the hearts of over 180.000 foreign nationals who live and work here, making up 22% of the country's total population.

Now, Cyprus has further reinforced another aspect of its allure: that of personal taxation.

To move or not to move?

When considering a move to another country there are many things to think about apart from the initial thoughts of 'am I doing the right thing?'

Depending on your reasons for moving to Cyprus, whether it is for business purposes, for a new start with your whole family, to retire or whether you wish to find a career opportunity, this publication aspires to offer a solid understanding of the tax aspects of such a move.

What's in it for me?

Cyprus offers considerable incentives for personal tax residency. Complementing the tax legislation are the island's ideal geographical location, its EU membership, its robust legal system and reliable political environment, as well as its well-educated and highly professional workforce. Cyprus' infrastructure utilises the latest technologies in telecommunications. The tax environment boasts an extensive double tax treaty network, one of the lowest corporation tax rates at 12,5%, salary exemptions for newly employed workforce arriving in Cyprus from overseas, and significant tax exemptions, especially through its recently adopted highly attractive domicile provisions. Overall, Cyprus is business and family friendly, rendering it an ideal country for private domiciliation.

With regard to personal taxes, Cyprus has one of the lowest top statutory personal income tax rates of 35% for net income exceeding €60.000 annually and no tax on net income of up to €19.500. At the same time, it also offers a number of very attractive personal tax incentives, through tax exemptions and deductions, in order to attract high net worth individuals of all ages.

Below is an analysis of the main provisions of Cyprus' personal income tax regime as well as the key tax incentives provided to individuals who wish to relocate to Cyprus.

1. TAX RESIDENCY AND DOMICILE

The key to understanding personal taxation in Cyprus lies with the important concepts of 'tax residency' and 'domicile'.

a) Tax Residency

A Cyprus tax resident physical person is any person who is physically present in Cyprus for *more than* 183 days in a calendar year. It does not matter the purpose of being in Cyprus, nor is it a condition that a Cyprus tax resident person owns or rents accommodation in Cyprus. It is literally based on the number of days without any further conditions.

In calculating the days:

- the day of departure is considered a day outside of Cyprus
- the day of arrival is considered a day in Cyprus
- arriving in Cyprus and departing on the same day is considered a day in Cyprus, and
- departing from Cyprus and arriving on the same day is considered a day outside of Cyprus.

Also as of **1 January 2017**, an **individual** will be considered a **Cyprus tax resident** if he/she:

- does not spend more than a total of 183 days in any country within a tax year; **and**
- is not a tax resident of another country within the same tax year

and satisfies the following three conditions:

- a) remains in Cyprus for at least 60 days during the tax year;
- b) **carries on a business** in Cyprus or is **employed** in Cyprus or **holds an office** in a Cyprus tax resident company at any time during the tax year; and
- c) maintains a permanent residence in Cyprus, which can be either owned or rented.

It is important to note that, if the employment/business or holding of an office as per (b) above is terminated, then the individual shall cease to be considered a Cyprus tax resident for that tax year under the 60 days tax residency scheme.

b) Domicile

According to the domicile concept under the tax legislation, every person has at any given time either:

- i. the domicile received by him/her at birth ('domicile of origin'), or
- ii. the domicile (not being the same as the domicile of origin) acquired or retained by him/her by his/her own act ('domicile of choice').

Under (i) above, the *domicile of origin* of a legitimate child is that of the father's, or in the case of an illegitimate child, that of the mother's.

Under (ii) above, a person may acquire a *domicile of choice* by establishing his/her home at any place in Cyprus with the intention of permanent or indefinite residence.

For tax purposes however, a non-domiciled individual will be deemed as domiciled in Cyprus if he/she has been a Cypriot tax resident for at least 17 out of the last 20 years prior to the relevant tax year (deemed domicile rule).

An individual who has a domicile of origin in Cyprus, may still qualify as non-domiciled subject to certain conditions, namely to have not been a Cyprus tax resident for a consecutive period of 20 years.

2. TAXABLE INCOME

A tax resident individual, irrespective of his/her domicile status (you may refer to paragraph 1.b above for more information relating to domiciliation), is subject to income tax on his/her worldwide income, although there are a number of favourable deductions and exemptions in the legislation as explained below.

A non-tax resident individual is subject to income tax on income accruing or arising only from sources within Cyprus and is exempt from any Cyprus tax on dividend and interest income.

However, where a person is non-domiciled in Cyprus, but is a Cyprus tax resident, the following main benefits exist, for a period of at least 17 years, i.e. until the person is deemed domiciled in Cyprus (see above):

- no Cyprus tax is payable on receipt of any dividend income from anywhere in the world (although on foreign dividends, the source country may withhold taxes);
- the provisions whereby a Cyprus tax-resident company must declare at least 70% of its after-tax accounting profits within two years (known as the 'deemed distribution rules'), do not apply to that proportion of shareholding beneficially owned by a non-Cyprus domiciled individual;
- no Cyprus tax is payable on receipt of interest income from anywhere in the world (although on foreign interest, the source country may withhold taxes);

3. INCOME TAX RATES

Taxable income, i.e. gross income less exemptions less deductions, up to €19,500 is exempt from income tax. The taxable income exceeding this amount is subject to progressive tax rates ranging from 20% to 35% (the higher rate being for taxable income exceeding €60,000).

4. EXEMPTIONS

The following exemptions are available for individuals moving to Cyprus to commence employment:

- 20% of the employment income, up to a maximum of €8,550 annually

This exemption applies until the 2020 tax year inclusive, but cannot be granted for a total period exceeding five years. Previously, the exemption was only available for a total period of three years. The exemption applies from the start of the year following the year of employment.

- 50% of the employment income

A 50% exemption applies to salary income of a non-tax resident individual, who takes up residence in Cyprus to work for an employer in Cyprus. The exemption applies for a period of

10 years starting from the first year of employment provided that the annual income of the employee exceeds €100.000 per annum; and

- the exemption will **not** be available where the individual was a Cyprus tax resident in any three of the previous five tax years preceding the commencement of employment in Cyprus, although this only applies to employments that commence on or after 1 January 2015; and
- the exemption will **not** be available where the individual was a Cyprus tax resident in the year preceding the year of commencement of employment in Cyprus, although this only applies to employments that commence on or after 1 January 2015; and
- the exemption will be granted for any tax year in which the annual total gross emoluments from the employment exceed €100.000, regardless if in a specific tax year, these were less than €100.000. This is subject to the total emoluments exceeding €100.000 at the start of the employment and the Commissioner of Taxation being satisfied that the fluctuation in the total gross emoluments is not solely to obtain the exemption.

It is noted that where an individual is benefiting from the 50% exemption, this individual cannot benefit at the same time from the 20% exemption, as stated above.

4.1 Income tax exemption for overseas employment

Where an employee is Cyprus tax resident, then salaries from rendering services outside Cyprus to a non-resident employer or to an overseas permanent establishment of a resident employer for more than 90 days in a tax year are exempt from income tax.

In order for the 90 day rule to apply there must be an employee/employer relationship.

4.2 Exemptions on gains arising from the disposal of securities

Any gains arising from the disposal of shares, bonds and other similar equity financial instruments are exempt from income tax.

Any income from a buy-back or redemption of units in funds is also exempt from income tax.

4.3 Exemption from capital gains tax on sale of real estate

Profit arising from the disposal of immovable property situated outside Cyprus is exempt from any taxation (including capital gains tax) in Cyprus, although the foreign property may be subject to tax in the jurisdiction where it is located.

Furthermore, a specific capital gains tax exemption was introduced on profits relating to the disposal of an immovable property located in Cyprus, if this property was acquired within the period 16 July 2015 and 31 December 2016. The date of the future disposal is irrelevant.

5. ADVANTAGES AVAILABLE TO PENSIONER EXPATRIATES ON PENSION INCOME

A Cyprus tax resident receiving a pension from abroad can choose one of the following two options to be taxed on the pension income, the choice being available every year:

- the pension can be taxed under the progressive income tax rates with the first €19.500 of net taxable income being tax-free; or
- the first €3.420 of the foreign pension being tax free, with the remaining balance being taxed at a flat rate of 5%.

Any lump sum received as a retirement gratuity is exempt from tax.

6. SOCIAL SECURITY CONTRIBUTIONS

Employees should contribute 7,8% of their salary up to a monthly ceiling of €4.533 (for 2015, 2016 and 2017) to the Social Insurance Fund. No employee contributions are due to the Redundancy Fund and the Training Development Fund.

7. SPECIAL CONTRIBUTION

Private sector employees, self-employed persons and pensioners were obliged to pay a special contribution. The taxable base for the contribution is the gross monthly salary or pension. The rate of the contribution range from 0% (on gross monthly salary or pension income up to €1.500) to 3,5% (on gross monthly salary or pension income over €3.500) with a minimum contribution of €10.

The special contribution was abolished on 31/12/2016.

8. DEDUCTIONS

In general, the below deductions are available for Cyprus tax resident individuals:

- donations to charities that have been approved by the Department of Taxation ;
- payments relating to special contribution;
- payments relating to contributions to the Social Insurance Fund and similar contributions, even when paid abroad;
- payment relating to premiums for life insurance (limited to 7% on the insured capital amount) and contributions to pension plans.
- there is an overall limit on personal allowance deductions (i.e. deductions for life-insurance premiums and contributions to funds including pension and social insurance) of 1/6 of the taxable income before these deductions.
- payments relating to premiums paid to approved medical funds are tax deductible, provided that they do not exceed 1,5% of the gross salary income.

9. WEALTH, GIFT, INHERITANCE, ENDOWMENT AND EXIT TAXES

Cyprus generally does not impose wealth, gift, inheritance, endowment or exit taxes.

9.1 Wealth Tax

There is no net wealth tax in Cyprus.

9.2 Gift Tax

There is no gift tax in Cyprus. The following gifts or donation of real estate property are exempt from Capital Gains Tax:

- i. Transfer by reason of death.
- ii. Gifts to relatives within the third degree of kindred.
- iii. Gift to a company of which the shareholders are and continue to be members of the disposer's family for five years after such gift.
- iv. Gift by a company, of which all the shareholders are members of the same family, to any of its shareholders when the property gifted had been acquired by the company as a gift. The property must remain in the hands of the donee for a period of at least three years.
- v. Gift to the Republic or to a local authority for educational or other charitable purposes or to approved charitable institutions.

9.3 Inheritance Tax

There is no inheritance tax in Cyprus. Income received from individuals by way of an inheritance is not subject to any taxation in Cyprus.

9.4 Endowment Tax

There is no endowment tax in Cyprus. The income arising from a scholarship, exhibition or any other educational endowment held by an individual receiving full-time instruction at a university, college, school or other recognized establishment is exempt from tax.

9.5 Exit Tax

Cyprus does not have an exit tax.

10. HOW DOES IT WORK? PRACTICAL EXAMPLES

a) Example 1 - Dividend and Interest Income

A non-Cyprus domiciled individual relocates to Cyprus in December 2015. During 2016, while being a Cyprus tax resident, she received €150.000 dividends from Cyprus companies and €750.000 from foreign companies.

She also received €15.000 interest income from her Cypriot personal savings account and €25.000 interest income from a notice account held with a foreign bank. No foreign tax was withheld on the interest income received from the foreign banks.

The individual did not have any other income.

The total interest and dividends income received will be exempt from Cyprus tax.

Description	€
Dividend Income – Cyprus sourced	150.000
Dividend Income – Overseas sourced	+750.000
Total Dividend Income	900.000

Interest Income – Cyprus sourced	15.000
Interest Income – Overseas sourced	+25.000
Total Interest Income	40.000
TOTAL INCOME	940.000
Total income which is exempt from taxation (both income tax and special contribution for defence) in Cyprus	940.000
TOTAL TAX PAYABLE IN CYPRUS ON DIVIDEND AND INTEREST INCOME	0

b) Example 2 - Remuneration

Mr. Ivanovic relocated to Cyprus in December 2014 and started working in Welcome-To-Cyprus Ltd from 1/1/2015 as a Senior Regional Manager earning an annual gross salary of €110.000. His annual salary of €110.000 relates to employment services rendered within Cyprus. Mr. Ivanovic also travelled to Dubai, of the UAE, to work for Welcome-To-Cyprus Ltd's Dubai permanent establishment for an aggregate period of 4 months. During the period of the overseas work in Dubai, Mr. Ivanovic received an extra salary of €25.000 and an overseas special allowance of €7.500.

Calculation of Mr. Ivanovic' 2015 income subject to tax in Cyprus is as follows:

Description	€	€
Basic salary relating to Cyprus employment		110.000
Salary relating to UAE employment		25.000
Overseas special allowance relating to UAE employment		7.500
TOTAL INCOME		142.500
Exemptions		
50% of the Cyprus sourced remuneration	(55.000)	
Exempt overseas remuneration – 90 days rule	(25.000)	
Overseas special allowance	(7.500)	(87.500)
Less:		
Social Insurance Contributions (7.8% \times €54.396*)	(4.243)	
Special contribution	(1.520)	(5.763)
TOTAL TAXABLE INCOME		49.237
Personal Income Tax Calculation		
From €0 up to €19.500	0%	0
From €19.501 up to €28.000	20%	1700
From €28.001 up to €36.300	25%	2075
From €36.301 up to €60.000	30%	3.881

From €60.001 and over	35%	-
Income Tax		7.656
Special Contribution		1.520
Social Insurance		4.243
TOTAL INCOME TAX, SPECIAL CONTRIBUTION AND SOCIAL INSURANCE		13.419

11. SUMMARY – TAXATION OF MAIN SOURCES OF INCOME OF CYPRUS TAX RESIDENT INDIVIDUALS BUT NON-DOMICILED

SOURCE OF INCOME	INCOME TAX LAW	SPECIAL CONTRIBUTION FOR DEFENCE LAW
Employment income	Taxable in Cyprus but exemptions could apply	Exempt
Dividends	Exempt	Exempt
Interest	Exempt	Exempt
Rents	Taxable in Cyprus (20% allowance on gross rent available)	Exempt
Royalties	Taxable in Cyprus – 80% exemption may apply under conditions	Exempt
Trading goodwill	Taxable in Cyprus	Exempt
Professional income	Taxable in Cyprus, exempt in case of a foreign permanent establishment	Exempt
Foreign Pensions	Taxed at normal rates or optionally at 5% (reduced by €3.420)	Exempt

NOTE

The information in this document is intended as a guide only and every reasonable effort was made to ensure the accuracy and timeliness of the information. In no circumstances shall we be legally bound by any information contained in this document, and shall accept no liability in respect of loss caused by reliance on such information.

Our own in-house consultants and our network of associates in Cyprus and worldwide are at your disposal to assist you with the above.