

CYPRUS

ABOUT RESIDENCY TAXATION

About Residency - Taxation

Residence is probably the most widely used criterion for the taxation of individuals by governments around the world. In Cyprus, until 2017, an individual was considered a tax resident only if he/she was physically present in Cyprus for more than 183 days in a year of assessment. Consequently, if an individual was physically present in Cyprus for less than 183 days in a tax year, he/she was not considered to be tax resident. This is known as the '183-day rule'.

As of 1 January 2017, however, Cyprus amended its tax Income Tax Law (ITL) to provide that an individual who is physically present in Cyprus for more than 60 days in a year of assessment can elect to be tax resident in Cyprus in that tax year, if certain conditions are met.

Cyprus '60-Day Rule' – Conditions

The individual does not stay in any other country for more than 183 days in the same tax year;

The individual is not tax resident in any other country for the same tax year;

The individual exercises any kind of business in Cyprus, and/or is employed in Cyprus, and/or holds an office with a Cyprus tax resident person at any time during the tax year;

The individual maintains a permanent home in Cyprus either by ownership or rental.

The ITL was further amended to clarify that an individual that cumulatively meets all the above conditions under this '60-day rule' will not be treated

as a Cyprus tax resident in the tax year, if during that year the business, employment or office holding situation is terminated.

The provisions of Section 2 of the ITL provides that for the purposes of calculating the days in Cyprus:

A day of departure from Cyprus is considered to be a day out of Cyprus;

A day of arrival into Cyprus is considered to be a day in Cyprus;

Arrival into Cyprus and departure from Cyprus on the same day is considered to be a day in Cyprus;

Departure from Cyprus and return to Cyprus on the same day is considered to be a day out of Cyprus.

To provide evidence, an applicant will need to submit a certified copy of his/her passport, including entry stamps, together with boarding passes for the year of application and electronic tickets.

Non-Domiciled Status

According to the provisions of the Cyprus tax laws, an individual who is a tax resident of Cyprus under the provisions of the ITL – under both the ‘183-day rule’ or the ‘60-day rule’ – but is ‘non-domiciled’ in Cyprus, will be exempt from Special Defence Contribution (SDC).

Under the SDC, dividends and interest income earned by individuals who are tax residents and domiciled in Cyprus are subject to tax at the rate of 17% and 30% respectively, regardless of whether the source of the income is from Cyprus or from abroad. Rental income is also subject to tax at the rate of 3% on 75% of the gross amount.

Domicile in Cyprus is defined under the Wills & Succession Law (WSL) as follows:

A domicile of origin (the domicile received by an individual at birth); and,

A domicile of choice (the domicile acquired by an individual by establishing a home with the intention of a permanent or indefinite stay).

A person who has a domicile of origin in Cyprus will be treated as 'domiciled in Cyprus' for SCD purposes with the exception of:

An individual who has obtained and maintained a domicile of choice outside Cyprus under the provisions of the WSL, provided that this individual was not a tax resident of Cyprus for a period of at least 20 consecutive years prior to the tax year in question; or

An individual who was not a tax resident of Cyprus for a period of at least 20 consecutive years immediately prior to the entry into force of the introduced provisions (i.e. prior to 16/07/2015).

Irrespective of his/her domicile of origin, an individual who remains a tax resident of Cyprus for a period of at least 17 years out of the last 20 years prior to the tax year in question, will become deemed as domiciled in Cyprus for SDC purposes.

Why Cyprus? – Tax Benefits

The tax benefits available to qualifying expatriate individuals relocating to Cyprus are therefore compelling and can now be accessed for as few as 60 days of physical presence per year of assessment. They can be summarised as follows:

No tax on gains arising from the disposal of investments (shares, bonds, etc)

No withholding tax on the repatriation of income as dividends, interest and royalties

Extensive double tax treaty network

Income tax exemptions for taking up employment in Cyprus up to 50% of the remuneration for 10 years for employment income of more than €100,000 per annum

Low social insurance contributions

No tax on worldwide dividend and interest income for non-domiciled individuals for 17 years

No tax on retirement gratuity and special tax regime on foreign pension income

No estate duty, wealth tax, gift tax or inheritance tax

5 Steps to Tax Residency in Cyprus

Step 1

The applicant must be employed in Cyprus – either on his/her own account or by a non-related company. If the former, then the first step is to incorporate a Cyprus company. Both the applicant and the Cyprus company must open a bank account in Cyprus.

Step 2

The Cyprus company must sign an Employment Agreement with the applicant. This will be used to register with the Social Insurance Authority – both the company as an employer and the applicant as an employee. Before proceeding further, the employee must receive payment of salary at least for two months.

Step 3

In order to obtain a non-domiciled status, an application for a registration certificate – Form MEU1, also known as the ‘Yellow Slip’ – must be filed at

the Ministry of Interior by an EU citizen. The applicant will also be required to attend an interview.

Step 4

Having obtained the 'Yellow Slip', an application can be filed at the Tax Department to register the applicant into the Cyprus tax system and obtain the unique individual registration number.

Step 5

The applicant can then submit all this documentation to the Tax Department and apply for the Individual Tax Residency.

Timeframe

Typically two to three months from the date of the incorporation of the Cyprus company.

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Please note that this is material for guidance only and not a tax advice to be relied upon, but you may contact us to advise you to set up the proper level of substance, always depending on the activities of the company, and the nature of services to be provided from Cyprus.

DADLAW would be pleased to advise recipients of this document on how to apply the principles and the provisions of the relevant legislation set out herein to their specific circumstances and requirements

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