

Business Relocation to Cyprus

The Government of Cyprus has implemented a new action plan starting from the 1st of January 2022 to attract foreign businesses to relocate their headquarters and activities to Cyprus.

NEW POLICY FOR THE EMPLOYMENT OF THIRD COUNTRY NATIONALS

The policy for the employment of third country nationals by eligible companies in Cyprus has been simplified and thus has become more attractive and as from the 1st of January 2022 it is no longer obligatory for eligible employer companies in Cyprus to establish a bank account in Cyprus and remit to such a bank account from abroad an amount of €200.000.



The **Business Facilitation Unit (BFU)** of the **Ministry of Energy, Commerce and Industry** in Cyprus will need to give its approval that the prospective employer company is indeed eligible under this policy.

Eligible companies fall under the following categories

- I. Foreign companies operating or intending to operate in Cyprus, that operate in appropriate independent offices in Cyprus, separate from residences or other offices
- II. Public companies listed on any recognised stock exchange
- III. International business companies (ex -offshore companies) which operated under an older policy and the particulars of which are held by Central Bank of Cyprus
- IV. Cypriot shipping companies
- V. Cypriot high-tech innovative companies
- VI. Cypriot pharmaceutical companies or companies active in the sectors of biogenetics and biotechnology
- VII. Companies which belong by majority to persons who have obtained Cypriot citizenship on the basis of economic criteria provided such persons are in a position to show that they still meet the conditions under which they had obtained Cypriot citizenship

Employment permits of third country nationals working for companies which have been approved by the BFU meeting the following criteria

- I. A maximum number of third country nationals is set at 70% of all employees over a period of 5 years from the date of joining the BFU. A threshold has been introduced distinguishing between highly skilled employees and non- highly skilled employees by replacing older distinctions between directors/key personnel/specialists/support staff.

II. The criteria of the **highly skilled personnel** are:

- ❖ university degree or equivalent qualification or confirmation of relevant experience in a corresponding job of at least 2 years duration
- ❖ minimum gross monthly salary of €2.500
- ❖ employment contract of at least 2 years duration

The duration of work permits to be issued is up to 3 years and it will be ready within 1 month from filing of the relevant application with the Migration department.

III. The criteria of the **non-high skilled personnel** (support staff) are:

- ❖ Maximum 30% of all support staff employed
- ❖ employment contract duly ratified by the competent Authority
- ❖ salary level is determined on the basis of the existing applicable legislation.
- ❖ Duration of employment permits are up to 3 years

Family reunification of third country nationals

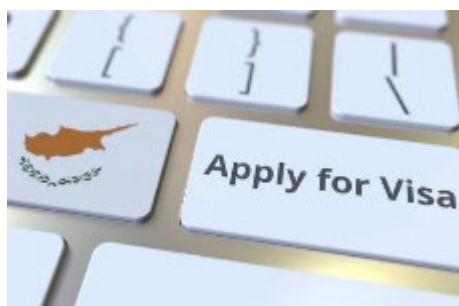
The spouses of highly skilled personnel have an immediate and free access to the labour market once the financial supporter (i.e the employee) has obtained the work permit.

This option is not available for spouses of support staff (i.e who have a gross monthly salary of less than €2.500 per month).



DIGITAL NOMAD VISA

This is a new type of residence visa which is available to third country nationals. It is targeting third – country nationals that are self-employed or salaried employees, working remotely outside Cyprus, through the use of information and communication technologies.



The very essence of this type of visa is the fact that it is merely a residence visa, not an employment visa. It gives the right to holders to stay in Cyprus for up to one year with the right to renew for another two years.

Applicants can be accompanied by family members who are granted a residence permit that expires at the same time as that of the financial supporter.

Unlike the spouses of highly skilled employees of who work at companies which have been approved by the BFU, the spouses of a holder of digital nomad visa are not allowed to engage in any form of economic activity in Cyprus.

The holder of a digital nomad visa and the spouse will be considered as tax residents of Cyprus if they reside in Cyprus for more than 183 days within the same tax year, provided that they are not tax residents in any other country.

Main pre-conditions that will need to be met for a successful application for a digital nomad visa is evidence that he/she has sufficient funds, a stable income to cover living expenses during the stay in Cyprus without recourse to the national social welfare system. The amount of sufficient funds is set at a net of €3.500 per month which is proved by:

- ❖ the employment or works contract or proof of employment for the duration for which the digital nomad visa will be issued
- ❖ bank statements for at least 6 months showing the secured monthly net income of €3.500.
- ❖ evidence of receipt of funds of net amount of €3.500 per month



In the event that it is not possible for the applicant to either provide a bank statement or other evidence verifying the net monthly income of €3.500 then he/she will need to make a responsible declaration confirming that his/her monthly stable net income is not below the minimum threshold required for a successful application for a digital nomad visa.

The net monthly amount of €3.500 is increased by 20% for an accompanying spouse and by 15% for each accompanying minor.

PERMANENT RESIDENCY PERMIT

Up to March 2021, only investors who were interested in investing in residential properties in Cyprus would even consider the permanent residency permit pursuant to regulation 6 (2) of the Aliens and Immigration regulations. In March 2021 three more investment options were introduced widening the options to potential investors.

- ❖ **Investment in a house/apartment:** Purchase of a house or apartment from a development company, which should concern a first sale of at least €300,000 (plus VAT).
- ❖ **Investment in real estate (excluding houses/apartments):** Purchase of other types of real estate such as offices, shops, hotels or related estate developments or a combination of these with a total value of €300,000. The purchase of interest can be the result of a resale.
- ❖ **Investment in Cyprus Company's share capital, with business activities and personnel in the Republic:** Investment worth €300,000 in the share capital of a company registered in the Republic of Cyprus, based and operating in the Republic of Cyprus and having a proven physical presence in Cyprus and employing at least five (5) people.
- ❖ **Investment in units of Cyprus Investment Organization of Collective Investments (forms of AIF, AIFLNP, RAIF):** Investment worth €300,000 in units of Cyprus Investment Organization Collective Investments.

The applicant should, in addition to the above, be able to prove that he has at his disposal a secure annual income of at least €30,000. This annual income increases by €5,000 for each dependent family member and €8,000 for each dependent parent (of the applicant and/or his spouse).

For investing in a house / apartment, the income should derive from abroad and may include salaries or wages, pensions, dividends from shares, fixed deposits, rents, etc. and in calculating the total amount of income, the spouse's income may also be taken into account.

For the other options the total income or part of it may also come from sources coming from activities within Cyprus.



TAX INCENTIVES

Tax incentives have been broadened, applicable to third country national employees in Cyprus. In particular the tax incentives introduced are the following:

- ❖ Exemption of 50% from personal Income tax to new employees with employment remuneration of €55.000 and above for a period of 10 years. This exemption will also be granted to existing employees with employment remuneration between €55.000 and €100.000.
- ❖ Exemption of 50% from personal income tax to existing employees with employment remuneration of €100.000 and above for a period of 17 years (before applicable only for 10 years).



ADDITIONAL INCENTIVES EXPECTED TO BE IMPLEMENTED BY THE CYPRUS GOVERNMENT AS PART OF THE STRATEGY FOR ATTRACTING BUSINESSES AND TALENT IN CYPRUS

The intention of the Cyprus Government in making Cyprus an attractive hub for headquartering of business in Cyprus can be seen by various other incentives expected to be implemented in the near future, indicatively mentioning the following:

- ❖ extend by 31/12/2023 the existing regime of 50% exemption for investments in an approved innovative company by an individual or through an investment fund or through an alternative trading platform. The existing regime was terminated on 30/6/2021.

- ❖ incremental tax allowance on research and development expenditure (e.g by 20%). Eligible research and development expenditure will be deducted from taxable income at 120% of the actual expenditure.
- ❖ having the right to submit an application for naturalization after 5 years of residence and work in Cyprus or after 4 years if they fulfil the criteria for holding a recognised certificate of success in very good knowledge of the Greek language.
- ❖ simplification and speeding up of the procedures for granting work permits under category E.
- ❖ Intensifying efforts for concluding Bilateral agreements with third countries that will be determined by the Ministry of Labour and Social Insurance, so that when a third country national who has paid social security contributions in Cyprus returns to his/her country of permanent residence he/she will be allowed to transfer the contributions paid, on the condition that with these contributions he/she did not acquire any right to a pension for old age, disability or other.



ANTI-TAX AVOIDANCE DIRECTIVE ATAD 3 - IMPACT ON CYPRUS HEADQUARTERING

The European Commission on the 22nd of December 2021 published a legislative proposal for a Directive to be issued, the Third Anti-Tax Avoidance Directive, known as "ATAD 3", which sets forth rules to prevent the misuse of shell companies for tax purposes.

The Directive should be adopted early 2022 by the Council and be implemented by Member States by 30 June 2023 at the latest. The provisions should subsequently be effective in all Member States from 1 January 2024.

The Directive lays down a uniform test that will help Member States to identify undertakings that are engaged in an economic activity, but which do not have minimal substance and are misused for the purpose of obtaining tax advantages. Once these minimum substance requirements are not met, the undertaking will be classified as "shell entity" and will sustain certain adverse tax consequences.

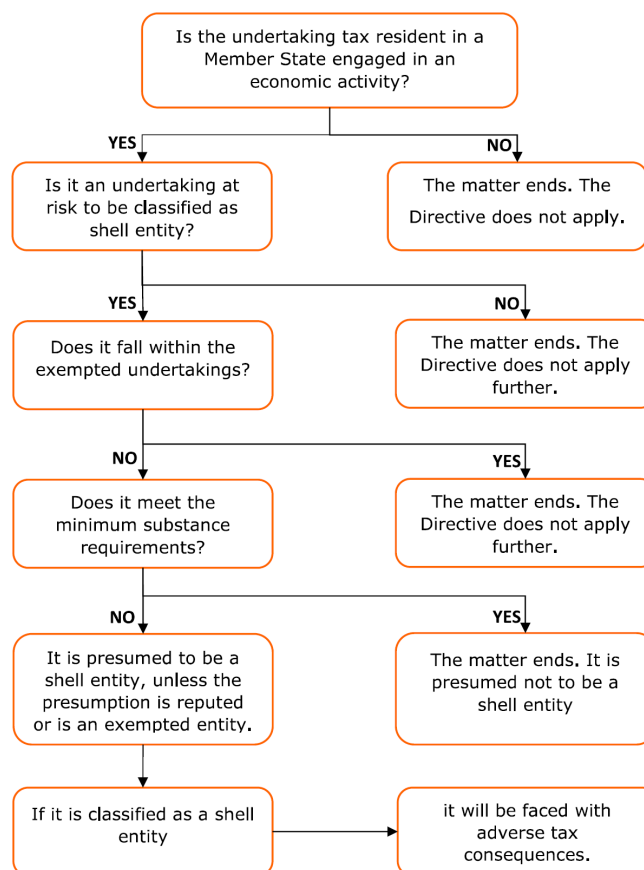
The proposed Directive will be applied the following step by step methodology:

At first, undertakings, tax residents of member states which are engaged in economic activity, will be examined whether they meet cumulatively the following three conditions:

- Whether the undertaking has passive income more than 75% of its revenues, such as interest, dividends and royalties; and
- Whether it is engaged in cross border activity; and
- Whether it outsources its management and administration to third parties.

Once ALL of the above prerequisites are met, the undertaking is considered as at risk to be classified as shell entity and misused to obtain tax advantages by reference to a set of features common in such entities. Once this is observed, the undertaking must report the following, in order to examine if it meets minimum substance requirements:

- i. Whether the undertaking has an office space, (owned or rented), through which it exercises its activities;
- ii. Whether the undertaking has an active EU bank account; and
- iii. Whether at least one of its directors is an in-house director properly qualified to handle the business of the undertaking or the majority of its full - time employees
- iv. reside in the same country as the undertaking.



Certain undertakings, such as listed companies, regulated financial undertakings and undertakings with at least 5 full - time employees, are exempted from this reporting.

Once the undertaking does not meet the minimum substance requirements and does not fall among the categories of exempted undertaking, it is presumed to be a shell entity.

The presumption can be rebutted if the undertaking can prove that it is conducting a genuine economic activity and / or it can prove that the undertaking does not create a tax benefit to itself, its group of companies or to its shareholders, despite the fact that it does not meet the substance requirements.

If the undertaking does not meet the substance requirements and has not rebutted the presumption, certain adverse tax consequences will follow.

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