

2020 - INDIVIDUALS TAX GUIDE FOR CYPRUS

An individual's tax residence has important consequences in establishing the tax treatment of Cyprus and overseas **income** and **capital gains**.

1. Treatment

All Cyprus tax residents are taxed on all income accrued or derived from all sources in Cyprus and abroad. Individuals who are not tax residents of Cyprus are taxed on income accrued or derived from sources in Cyprus.

Residence: The term 'resident' has been added in the Cyprus Law as from 1.1.2003 implementing the OECD Model that provides the framework for most countries' tax systems and double tax treaties.

'**Resident in the Republic**' means an individual who stays in the Republic for a period **exceeding in aggregate 183 days in the year of the assessment** and 'non resident or outside the Republic' shall be construed accordingly'. Days spent in Cyprus include all actual days irrespective of reason, e.g illness or other exceptional circumstances beyond the individual's control.

Days in and out of Cyprus are calculated as follows:

- ✓ The day of departure from Cyprus counts as a day of residence outside Cyprus.
- ✓ The day of arrival in Cyprus counts as a day of residence in Cyprus.
- ✓ Arrival and departure from Cyprus in the same day counts as one day of residence in Cyprus.
- ✓ Departure and arrival in Cyprus in the same day counts as one day of residence outside Cyprus.

2. Income Tax

Personal Tax Rates

The following income tax rates apply to individuals:

Chargeable Income €	Tax Rate %	Accumulated Tax €
0-19.500	Nil	Nil
19.501-28.000	20	1.700
28.001-36.300	25	3.775
36.301-60.000	30	10.885
Over 60.000	35	

Foreign pension is taxed at the rate of 5%. An annual exemption of €3.420 is granted.

Exemptions

The following are exempt from income tax:

Type of Income	Exemption
Interest	The whole amount
Dividends	The whole amount
Remuneration from any office or employment exercised in Cyprus by an individual who was not resident of Cyprus before the commencement of his employment, for a period of 5 years commencing from 1st January following the year of commencement of the employment	20% of income with a maximum amount of €8.550 annually
Remuneration from any office or employment exercised in the Republic by an individual who was resident outside the Republic before the commencement of his employment in the Republic. The exemption applies for a period of 5 years starting from the first year of employment provided that the above income of the employee exceeds €100.000 per annum	50% of the remuneration
Remuneration from salaried services rendered outside Cyprus for more than 90 days in a tax year to a non-Cyprus resident employer or to a foreign permanent establishment of a Cyprus resident employer	The whole amount
Profits of a permanent establishment abroad under certain conditions	The whole amount
Lump sum received by way of retiring gratuity, commutation of pension or compensation for death or injuries	The whole amount
Capital sums accruing to individuals from any payments to approved funds (e.g. provident funds)	The whole amount
Deposits with Housing Finance Corporations	The lower of 35% of the eligible expenditure and 50% of the taxable income. Any restriction may be carried forward for 5 years.
Profits from the sale of securities	The whole amount

Tax Deductions

The following are deducted from income:

Deductions	Amount
Contributions to trade unions or professional bodies	The whole amount
Loss of current year and previous years	The whole amount
Expenses for letting of buildings	20% of rental income
Donations to approved charities (with receipts)	The whole amount
Expenditure incurred for the maintenance of a building in respect of which there is in force a Preservation Order	Up to €1.200, €1.100 or €700 per square meter (depending on the size of the building)
Social Insurance, provident fund, medical fund, pension fund contributions and life insurance premiums (the allowable annual life insurance premium is restricted to 7% of the insured amount)	Up to 1/5 of the chargeable income
Amount invested each tax year as from 1 January 2017 in approved innovative small and medium sized enterprises either directly or indirectly	Up to 50% of the taxable income as calculated prior to this deduction (subject to a maximum of €150.000 per year)
Eligible infrastructure and technological equipment expenditure in the audiovisual industry	20%

Special Contribution

The Special Contribution covers private sector employees, self employed individuals, private sector pensioners, government, semi government employees and pensioners. The Special Contribution does not apply, amongst others, on retirement benefits, on payments from approved Provident Funds, on remuneration of the crew of qualifying ships, on reimbursements.

The special contribution bands are as follows:

Gross monthly emoluments (€)	Government and semi-government employees and pensioners	Private sector employees, self employed individuals and private sector pensioners ⁽¹⁾
0 – 1.500	Nil	Nil
1.501 – to 2.500	2.5% ⁽²⁾	2.5% (min amount €10)
2.501 – to 3.500	3.0% ⁽²⁾	3.0%
Above 3.500	3.5% ⁽²⁾	3.5%

1. The recipient of the remuneration is liable for half the Special Contribution and the employer for the other half.
2. The Special Contribution rate 3%, 3,5% and 4% respectively for highly ranked civil service officials/employees within their respective scale.

3. Capital Gains Tax

Capital Gains Tax is imposed at the rate of 20% on gains from the disposal of immovable property situated in Cyprus including gains from the disposal of shares in companies which own such immovable property excluding shares listed in any recognised stock exchange.

Exemptions

The following disposals of immovable property are not subject to Capital Gains Tax:

- ✓ Transfers arising on death.
- ✓ Gifts made from parent to child or between husband and wife or between up to third degree relatives.
- ✓ Gifts to a company where the company's shareholders are members of the donor's family and the shareholders continue to be members of the family for five years after the day of the transfer.
- ✓ Gifts by a family company to its shareholders provided such property was originally acquired by the company by way of donation. The property must be kept by the donee for at least three years. For gifts that were made from the company to its shareholders and took place before 28 May 1999, the exemption applies irrespective of how the immovable property was originally acquired by the company.
- ✓ Gifts to charities and the Government.
- ✓ Transfers as a result of reorganisations.
- ✓ Exchange or disposal of immovable property under the Agricultural Land (Consolidation) Laws.
- ✓ Expropriations.
- ✓ Exchange of properties, provided that the whole of the gain made on the exchange has been used to acquire the other property. The gain that is not taxable is deducted from the cost of the new property, i.e. the payment of tax is deferred until the disposal of the new property

Determination of capital gain

Liability is confined to gains accruing since 1 January 1980. The costs that are deducted from gross proceeds on the disposal of immovable property are its market value at 1 January 1980, or the costs of acquisition and improvements of the property, if made after 1 January 1980, as adjusted for inflation up to the date of disposal on the basis of the consumer price index in Cyprus.

Expenses that are related to the acquisition and disposal of immovable property are also deducted, subject to certain conditions e.g. transfer fees, legal expenses etc.

Lifetime Exemptions

Exemptions	€
Disposal of private residence (subject to certain conditions)	85.430
Disposal of agricultural land by a farmer	25.629
Any other disposal	17.086

The above exemptions are given only once and not for every disposal. An individual claiming a combination of the above is only allowed a maximum exemption of €85.430.

Reasons for becoming Tax Resident in Cyprus

One of the key benefits of Cyprus is that it has double-tax treaties with well over 45 other countries, including most major Western 'high-tax' countries and most Central and Eastern European states. This is unusual for a low tax jurisdiction and means that Cyprus is a very good choice for holding and investment companies as well as for individuals. It's also on the OECD 'white list' and has implemented numerous tax information exchange agreements.

Income tax rates vary from 20% to 35%, although there is a special 5% rate for pensioners and there is a generous €17.086 exemption for each individual.

However, the beauty of Cyprus is in the exemptions. All of the following are free of income tax:

- ✓ Interest received by individuals
- ✓ Dividends
- ✓ Profits of permanent establishments carrying on a trade abroad
- ✓ Profits from the sale of shares
- ✓ Income from employment services provided abroad to a non resident employer.

However, Cyprus does levy a 'special contribution for defence' on certain types of income for residents. Interest income is usually subject to a 30% charge (reduced to 25% for low earners) whereas dividends are subject to a 17% charge.

Cyprus also offers an attractive capital gains tax (CGT) regime. CGT is levied at the rate of 20% on gains arising from the disposal of land and property situated in Cyprus or the disposal of shares in a company (excluding

shares of listed companies) which owns land or property situated in Cyprus. There is also an exemption from CGT on the transfer of such assets between close family members (eg between spouses or children).

Therefore if a Cypriot resident owns property overseas there's no CGT payable in Cyprus when sold. So a **disposal of UK property wouldn't be subject to Cypriot tax if you're a Cypriot resident.**

Cyprus is a good choice for Europeans as it's not too far from home but offers an excellent low-tax environment with a low cost of living. In fact it's one of the cheapest countries in Europe and this is a big advantage for potential emigrants, particularly pensioners.

It's a totally different environment when compared with the Caribbean tax havens which are, by and large, developing countries albeit with some highly developed areas.

Cyprus is a well developed country with excellent communication and transport links and a good choice of restaurants, department stores and everything else to make it a home from home. (In other words you won't have to go without your favourite snacks and other home comforts!)

Weather wise, from March to November you'll be looking at glorious sunshine. The rest of the year will be cooler and there'll probably be a fair bit of rain in January and February – although after experiencing 40 degrees every day you'll probably be glad for the change.

All in all, it's a Mediterranean climate with a lot of sunshine. Cyprus is also a good choice for parents with young children as the schools are generally good and you can choose between state and private schools.

The crime rate is very low, particularly compared with other western European states. It's also easier for European residents to establish residence in Cyprus now that it's part of the EU. In order to be classed as a Cypriot resident you need to spend at least 183 days in the country during the tax year (as explained above).

Pensioners in particular are in a tax privileged position in Cyprus. **This is particularly the case for UK retirees as the tax treaty ensures that any UK pensions are taxed in Cyprus rather than the UK. Given that Cyprus has a special low 5% tax rate for pensions it's no surprise that many well informed senior citizens are moving there.**

Unlike the UK and the US the shareholders are not liable to income tax on dividends when profits are extracted from a company, although any resident shareholders must pay the 15% special contribution to defence (if you're non-resident you're exempt from this).

It's also worth noting that a number of the treaties have tax sparing provisions. A tax-sparing provision means that, even if income is tax free in Cyprus, it can still be given as a tax credit in the other country as if it had already been paid (in other words, you get a tax credit without incurring the tax charge)

These tax-sparing provisions are usually given by developed countries to developing countries to encourage investment and economic development. The types of situations where this will be given is where tax is paid in the UK or Canada on interest on a loan that is used for economic development in Cyprus.

In summary, Cyprus is one of the top tax jurisdictions for UK pensioners and anyone wanting to wipe out a big capital gains tax bill. Its popularity has increased due to the lifestyle, low cost of living and booming property prices. Cypriot offshore companies are also popular, particularly for investment in Eastern Europe and holding companies.

4. Recent Developments

A. Cypriot Citizenship

EXCEPTIONAL CASES FOR OBTAINING CYPRIOT CITIZENSHIP

According to the Minutes of the Ministerial Council dated 11-07-2007, the Republic of Cyprus defined the prerequisites for foreign investors for granting the Cyprus citizenship.

The Ministerial Council decided to approve the below referenced Criteria for the derogative naturalization of foreign investors relying on Par. 2 of 3rd Table of the Records of Population Act 2002-2004.

- ✓ **INSTANT/CURRENT INVESTMENTS:**
The applicant must have instant/current investments in Cyprus for the minimum amount of €25.629.021, i.e immovable property, factories etc
or
- ✓ **ENTERPRISING ACTIVITIES**
The applicant must incorporate a company/companies in Cyprus and the total amount of turnover/revenue must be at least €85.430.072 of the year prior to the application,
or
- ✓ **INTRODUCTION OF NEW AND IMPORTANT INNOVATIVE TECHNOLOGIES, RESEARCH CENTRES**
The applicant must prove that he will introduce new and important innovative technologies in vital fields of Cyprus Economy or that he will set up research centre for the performance of local research.
or
- ✓ **DEPOSITS TO BANKS**
The applicant must have personal deposits to Cypriot Banks or deposits to Private Owned Companies in Cyprus with the minimum amount of €17.086,014 for a fixed period of 5 years.
or
- ✓ **COMBINATION OF INSTANT INVESTMENTS, ENTERPRISING ACTIVITIES AND DEPOSITS TO BANKS**
The applicant must avail €25.629.021 that comes from the combination of the above.

Furthermore, the Ministerial Council decided that:

- ✓ The applicant must be 30 years and over,
- ✓ No Criminal Record

Residence in Cyprus

The applicant must have permanent private resident in Cyprus

However, none of the above affects the discretionary power of the Ministerial Council to take a decision.

B. IMMIGRATION PERMIT:

PERMANENT PERMIT - USUAL METHOD

Aliens may make an application to obtain a permanent Immigration Permit on the basis of one of the Categories referred to in Regulation 5 of the Aliens and Immigration Regulations of 1972. An Immigration Permit will not be granted to anybody unless the Immigration Control Board recommends to the Minister of Interior that such person belongs to one of the following Categories:

Category A:

Persons who intend to work as self-employed in agriculture, cattle breeding, bird breeding or fish culture in the Republic, provided that they have in their possession adequate land or a permit to acquire same, they have fully and freely at their disposal capital of €427,150 and such an employment should not negatively affect the general economy of the Republic.

Category B:

Persons who intend to work as self-employed in mining enterprises in the Republic, provided that they have in their possession a relative permit, they have fully and freely at their disposal capital of €341.720 and such an employment should not negatively affect the general economy of the Republic.

Category C:

Persons who intend to work as self-employed in a trade or profession in the Republic, provided that they have in their possession a relative permit, they have fully and freely at their disposal capital of €256,290 and such an employment should not affect negatively the general economy of the Republic.

Category D:

Persons who intend to work as self-employed in a profession or science in the Republic, provided that they have academic or professional qualifications, for which there is demand in Cyprus. Possession of adequate funds is also necessary.

Category E:

Persons who have been offered permanent employment in the Republic, which will not create undue local competition.

Category F:

Persons who possess and have fully and freely at their disposal a secured annual income, high enough to give them a decent living in Cyprus, without having to engage in any business, trade or profession. The annual income required should be at least €9.568 for a single applicant and moreover at least €4.613 for every dependent person, but the Immigration Control Board may demand additional amounts as necessary. Most applicants come under this Category, the majority of them being pensioners or retired persons.

For the granting of an Immigration Permit application is submitted to the Civil Registry and Migration Department directly or through the District Aliens and Immigration Branches of the Police. The application should be accompanied by the appropriate documents, depending on the Category for which it is submitted. Applications for Category F which are the most usual should be accompanied by the original of documents regarding the income of the applicants. Applicants who are abroad may submit an application directly to Cyprus, as stated above or through the local Consular Authorities of the Republic of Cyprus. The applications are examined by the Immigration Control Board which submits a relevant suggestion to the Minister of the Interior for a decision to be taken.

Fees

The fees for the granting of Immigration Permit amount to €119,60 and are paid against a receipt following the approval of the application and before the issue of the Immigration Permit.

PERMANENT PERMIT - EXCEPTIONAL METHOD- Update

The Minister of Interior, on **18-02-2009** decided that for persons who come from non-EU Countries to issue a permanent immigration permit for someone who acquires property for residence purposes only and the value of the property should be not less than **€300.000**.

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