

Cyprus Non-Domicile Tax Rules for individuals

The new Non-Domicile tax status exempts all non-Cypriot domiciled individuals from the Special Contribution for the Defence (SDC) Tax, irrespective of where the income is generated from or remitted to. As a result Non-Domiciled individuals do not pay tax on dividends, rent of interest.

The main aim of introducing the Non-Domicile concept is to constitute Cyprus as a prime choice of destination for persons (both EU and non-EU) wishing to move their personal tax residency to another country. The non-domicile concept offers significant tax advantages and already enjoys a great interest and dynamic.

Any national individual can apply for the Non-Dom Tax Residency under the new 60 day or the previous 183 day rule. A Cypriot Tax resident under the 60- or 183-day rule is subject to tax in Cyprus on their worldwide income.

According to the Cyprus legislation, an individual who spends more than 183 days on Cyprus territory is considered to be a Cypriot Tax resident. As from the 2017 tax year, the new, 60 day rule can be additionally applied for individuals who want to acquire the Non-Domicile Status.

Foreigners who decide to move their personal tax residency to Cyprus, will automatically be considered as non-domiciled in Cyprus for a maximum of 17 years. For tax purposes, non-domicile persons who become Cypriot tax residents will now be completely exempt from Special Defence Contribution tax (SDC).

SDC generally applies on dividends and interest. As SDC tax does not apply in the case of Cypriot tax resident individuals who are non-domiciled in Cyprus, dividend and interest earned by such persons will now be completely tax exempt in Cyprus. It is noted that the main income of high net worth individuals is generally dividends and interest.

Definition Of Non-Domiciled Persons

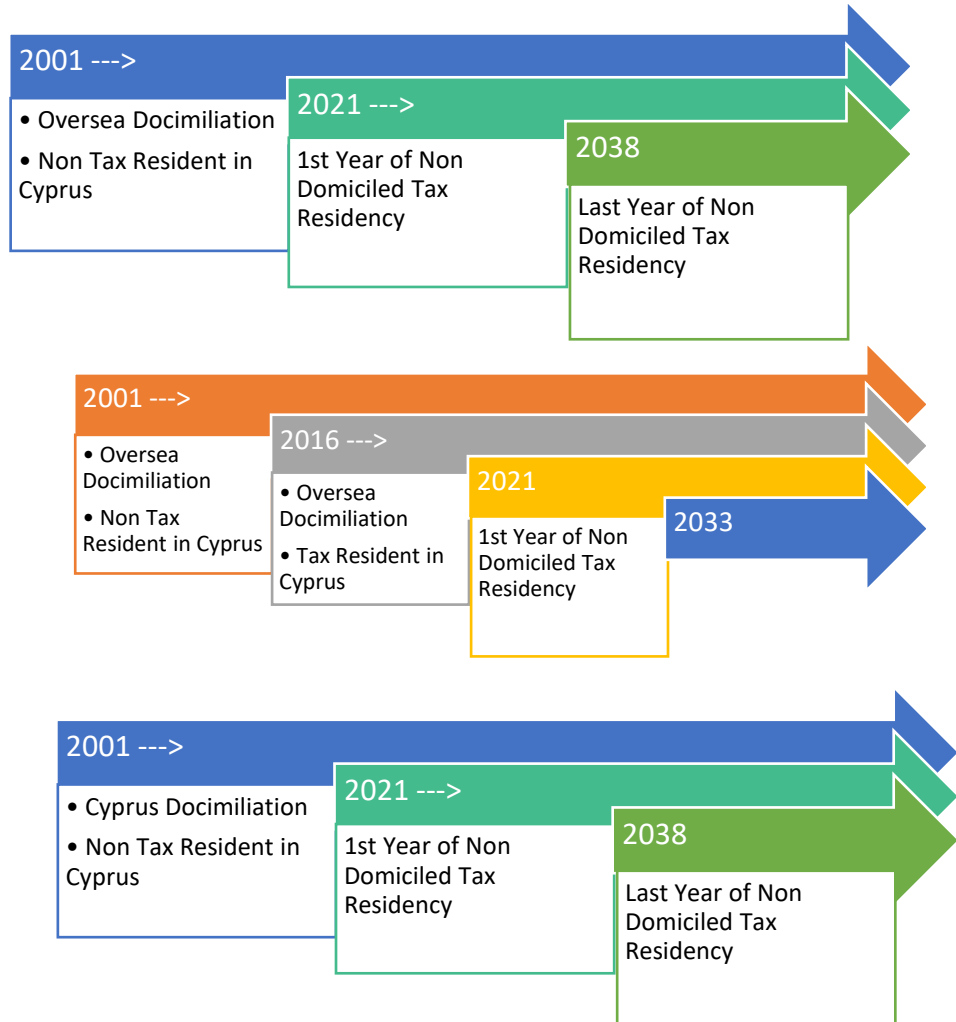
In accordance with the provisions of the Wills and Succession Law, there are two kinds of domicile:

- ❖ **domicile of origin**; i.e. the domicile received at birth (generally dependent on the father's side), or
- ❖ **domicile of choice**; i.e. domicile acquired by establishing physical presence in a particular place and by demonstrating sufficient intention to make it the place of permanent residence

Irrespective of the domicile of origin or choice, individuals who have been tax residents in Cyprus for at least 17 out of the last 20 years prior to the tax year in question, will be deemed to be domiciled in Cyprus for the purposes of the SDC Law.

In the case of persons who have their domicile of origin in Cyprus, they will nevertheless be considered as non-domicile in the following cases:

- ❖ If they have acquired and maintained a domicile of choice outside Cyprus, provided that they were not tax residents in Cyprus for any continuous period of at least 20 consecutive years prior to the tax year in question; or
- ❖ If they were not tax residents in Cyprus for a period of at least 20 consecutive years immediately prior to the entry into force of the non-domicile provisions (i.e. between the years 1995 and 2014 inclusive).



Tax Benefits Of Non-Domiciled Persons

As per the provisions of the Cyprus SDC Law, dividends and bank deposit interest earned by individuals who are tax residents in Cyprus are subject to SDC tax at the rate of 17% and 30% respectively, regardless of the source of the income (i.e. from Cyprus or from abroad). SDC tax applies only for individuals who are both Cypriot tax residents and domiciled in Cyprus. Therefore, non-domiciled tax residents will be completely tax exempt from any dividends and interest received in Cyprus (except for minimal GeSY contributions), Since 1 March 2019, Dividend income is subject to GeSY contributions, (at the rate of 1.7% from 1 March 2019 until the 29 February 2020, then increased to 2.65% from March 1, 2020), restricted to a maximum of EUR180,000 income annually.

Other Cypriot Tax Advantages For Individuals

- ❖ Dividends and interest are exempt from Cyprus income tax and subject only to SDC in the case of domiciled tax residents.
- ❖ Profit from sale of shares and other qualifying titles is specifically exempt from Cyprus taxation, provided that the underlying assets do not include immovable property located in Cyprus.
- ❖ First €19,500 of taxable income is tax exempt. Any taxable income in excess of this amount is taxed at progressive rates ranging from 20% to 35% (for incomes over €60,000).
- ❖ 50% exemption for remuneration from employment exercised in Cyprus by persons who were resident outside Cyprus before commencement of their employment. The exemption applies for 10 years commencing from the year of employment, if such income exceeds €100,000 per year.
- ❖ In case of Cypriot remuneration, which is less than €100,000, a 20% exemption is granted, up to a maximum of €8,550, for a period of 5 years commencing from the 1st January of the year following the year of employment, and until the year 2020.
- ❖ 100% exemption on remuneration for salaried services rendered outside Cyprus for more than 90 days in a tax year to a non-Cyprus resident employer.
- ❖ In case of Cypriot immovable property acquired up to 31st December 2016, profit from subsequent future disposal of such property will be exempt from the 20% Capital Gains Tax.
- ❖ Pension received in respect of past employment outside Cyprus is taxed in Cyprus at the flat rate of 5% for amounts in excess of €3,420.
- ❖ 100% exemption on lump sum repayments from life insurance schemes or from approved provident funds.
- ❖ No Capital Gains Tax on the sale of immovable property located outside Cyprus.
- ❖ No inheritance tax, no wealth tax, no gift taxation.
- ❖ In case of individuals who are beneficiaries to a Trust, such individuals would be exempt from tax in Cyprus, to the extent that the income at/from the Trust would be in the form of interest or dividends.

UK Statutory Residence Test for UK Tax Residency

The Statutory Residence Test (SRT) applies for the purposes of establishing an individual's UK residence status, or the UK residence status of another person where that is relevant, for:

- ❖ Income tax
- ❖ Capital Gains tax, and where relevant
- ❖ Corporation tax, and
- ❖ Inheritance tax

The test allows you to work out your residence status for a tax year. Each tax year is looked at separately, so you may be resident in the UK in one year but not the next, or vice versa.

The SRT takes into account:

- ❖ the amount of time you spend and, where relevant, work in the UK
- ❖ the connections you have with the UK

It is split into the following parts:

- ❖ automatic overseas tests
- ❖ automatic UK tests
- ❖ sufficient ties test
- ❖ application of the SRT to deceased persons
- ❖ split years

If you've been in the UK for 183 or more days you'll be a UK resident. There is no need to consider any other tests.

You'll be resident in the UK for a tax year and at all times in that tax year if:

- ❖ you do not meet any of the automatic overseas tests
- ❖ you meet one of the automatic UK tests or the sufficient ties test

Take the following steps to find out your residence status under the SRT:

1. if you've been in the UK for less than 183 days in the tax year go to step 2
2. if you meet any of the automatic overseas tests you will not be resident in the UK for that tax year. If you do not meet any of these tests go to step 3
3. if you meet any of the automatic UK tests or the sufficient ties test, you will be UK resident for that tax year. If you do not meet any of these tests you will not be UK resident for that tax year

Your UK day count may be reduced to take into account days spent in the UK due to exceptional circumstances. Your day count may also be increased due to the deeming rule.

You'll not be considered resident in the UK for the whole tax year if you do not meet any of the following:

- ❖ the automatic overseas tests
- ❖ the automatic UK tests
- ❖ the sufficient ties test

2. Automatic overseas tests

There are 3 tests to consider.

2.1 First automatic overseas test

You'll be non-UK resident for the tax year if you were resident in the UK for one or more of the 3 tax years before the current tax year, and you spend fewer than 16 days in the UK in the tax year.

2.2 Second automatic overseas test

You'll be non-UK resident for the tax year if you were resident in the UK for none of the 3 tax years before the current tax year, and spend fewer than 46 days in the UK in the tax year.

2.3 Third automatic overseas test

You'll be non-UK resident for the tax year if you work full-time overseas over the tax year and:

- ❖ you spend fewer than 91 days in the UK in the tax year

- ❖ the number of days on which you work for more than 3 hours in the UK is less than 31
- ❖ there is no significant break from your overseas work

A significant break is when at least 31 days go by and not one of those days is a day where you:

- ❖ work for more than 3 hours overseas
- ❖ would have worked for more than 3 hours overseas, but you did not do so because you were on annual leave, sick leave or parenting leave

If you have a significant break from overseas work you'll not qualify for full-time work overseas.

The test:

- ❖ can apply to both employees and the self-employed
- ❖ does not apply to voluntary workers or workers with a job on board a vehicle, aircraft or ship

3. Automatic UK tests

There are 3 tests to consider.

3.1 First automatic UK test

You'll be UK resident for the tax year if you spend 183 days or more in the UK in the tax year.

3.2 Second automatic UK test

You'll be UK resident for the tax year if you have, or have had, a home in the UK for all or part of the year and the following all apply:

- ❖ there is or was at least one period of 91 consecutive days when you had a home in the UK
- ❖ at least 30 of these 91 days fall in the tax year when you have a home in the UK and you've been present in that home for at least 30 days at any time during the year
- ❖ at that time you had no overseas home, or if you had an overseas home, you were present in it for fewer than 30 days in the tax year

If you have more than one home in the UK you should consider each of those homes separately to see if you meet the test. You need only meet this test in relation to one of your UK homes.

3.3 Third automatic UK test

You'll be UK resident for the tax year if all the following apply:

- ❖ you work full-time in the UK for any period of 365 days, which falls in the tax year
- ❖ more than 75% of the total number of days in the 365 day period when you do more than 3 hours work are days when you do more than 3 hours work in the UK
- ❖ at least one day which has to be both in the 365 day period and the tax year is a day on which you do more than 3 hours work in the UK

4. Sufficient ties test

Use the sufficient ties test to work out your UK residence status for the tax year if you do not meet either any of the:

- ❖ automatic overseas tests
- ❖ automatic UK tests

You'll need to consider your connections to the UK, known as 'ties', to work out if your ties, taken together with the number of days you spend in the UK, will make you resident in the UK for that particular tax year.

If you were not UK resident in any of the 3 tax years before the one you are considering, you'll need to check if you have any of the following:

- ❖ a family tie
- ❖ an accommodation tie
- ❖ a work tie
- ❖ a 90 day tie

If you were resident in the UK in one or more of the 3 tax years before the one you are considering, you'll also have to check whether you have a country tie.

Each of the ties has its own set of conditions or qualifying criteria attached to them.

The more UK ties you have, the fewer days you can spend here before you become UK resident. The following tables show this.

Table A: UK ties needed if you were UK resident for one or more of the 3 tax years before the tax year under consideration

Days spent in the UK in the tax year under consideration	UK ties needed
16 - 45	At least 4
46 - 90	At least 3
91 - 120	At least 2
Over 120	At least 1

Table B: UK ties needed if you were UK resident in none of the 3 tax years before the tax year under consideration

Days spent in the UK in the tax year under consideration	UK ties needed
46 - 90	All 4
91 - 120	At least 3
Over 120	At least 2

5. Application of the SRT to deceased persons

The first automatic overseas test cannot apply to a deceased person, but the other automatic overseas tests can apply.

There are 2 further automatic overseas test that only apply to deceased persons. They are the:

- ❖ fourth automatic overseas test
- ❖ fifth automatic overseas tests

Each has a set of conditions that must be met for that test to apply.

All the automatic UK tests can apply to a deceased person. There is also one further automatic UK test – the fourth test. This applies only to a deceased person. This test has its own set of conditions which must be met for that test to apply.

The UK ties test may need to be considered in respect of a deceased person. For a deceased person who has been resident for one or more of the previous 3 tax years, the number of days shown in 'Table A' must be reduced proportionately.

For a deceased person who was not resident in any of the 3 previous tax years, the number of days shown in 'Table B' must also be reduced proportionately.

6. Split years

You'll be resident in the UK for the whole of a tax year, but that year may be split into a UK and an overseas part.

If, in a year in which you are UK resident, there is an actual or deemed departure from the UK, then you will need to consider whether any of the split year cases 1-3 apply.

If, in a year in which you are UK resident, there is an actual or deemed arrival in the UK then you will need to consider whether any of the split year cases 4-8 apply.

You must consider all cases of split year that might apply to you. Each has its own set of conditions, and you need to meet all those conditions for the case to apply. If more than one case applies to you the priority ordering rules show which case of split year will apply and what date the year will be split from.

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