



RELOCATION AND RETIREMENT IN CYPRUS THE TAX ASPECT

2018

Contents	Pages
A. INTRODUCTION.....	2
B. TAXATION IN GENERAL	2
C. INCOME TAX.....	3
D. SPECIAL DEFENCE CONTRIBUTION TAX (SDCT)	5
E. SOCIAL INSURANCE CONTRIBUTIONS.....	6
F. CAPITAL GAINS TAX.....	7
G. INDIRECT TAX.....	8
H. OTHER TAXES	8
I. HOW KINANIS CAN ASSIST	9
J. CONCLUSION.....	10
K. DISCLAIMER.....	14

A. INTRODUCTION

Since 2004, Cyprus is a full Member State of the European Union. This fact, along with its good strategic location, highly skilled human capital, excellent infrastructure, reliable communications, relatively low cost of living, sound and stable legal system, warm climate and hospitality of its people, are some of the advantages which contribute to Cyprus' continuous development as a competitive international financial, tourist, retirement and relocation centre.

The Government of Cyprus has for many years implemented policies to attract foreign investments and foreigners to Cyprus. One of the most important policies is the newly introduced notion of resident but not domicile which puts Cyprus in the map of jurisdictions that are considered ideal for HNWI to reside in.

We present herein below an outline of the main tax issues an individual wishing to relocate or retire in Cyprus will encounter.

This outline does not deal with the tax aspects applicable to legal person but refers only to physical persons. For relevant information on legal persons kindly refer to our publication, "*Cyprus Tax Legislation on Companies (The Foreign Investors' Approach)*".

B. TAXATION IN GENERAL

The Cyprus tax system may impose taxes only to tax residents of Cyprus or persons who have income from sources in Cyprus.

I. Tax Residents in Cyprus:

Tax resident of Cyprus, in the case of a physical person, means:

- 1). Any individual who resides in Cyprus for one or more periods which exceed in total 183 days in the financial year, or
- 2). Any individual who stays in Cyprus for at least 60 days in the year of assessment, provided that:
 1. He/she is not tax resident in another country
 2. He /she maintains a permanent residence in Cyprus which can be owned or rented
 3. He/she conducts any business or is employed in Cyprus or is a director in a Cyprus company as at the 31st of December in the year of assessment.

All Cyprus tax residents, as identified above, either Cypriots or foreign nationals, are taxed in Cyprus on their worldwide income accrued or derived from all sources in Cyprus **and** abroad.

As from 2015, a person who is a tax resident of Cyprus but his/her place of domicile is outside Cyprus can enjoy significant tax benefits as analysed in section D below.

A tax resident of Cyprus may be subject to the following type of taxes or deductions on income:

- Income Tax (Analysed in Section C)
- Special Defence Tax (Analysed in Section D)
- Social Insurance Contributions (Analysed in Section E)
- Capital Gains Tax (Analysed in Section F)

II. Non Tax Residents in Cyprus:

Individuals who are not tax residents of Cyprus are taxed on income accrued or derived only from sources in Cyprus, if any.

C. INCOME TAX

Income tax is imposed on the chargeable income. Chargeable income includes the following types of income:

- Employment Income and Benefit in Kind
- Business Income (as a sole trader)
- Royalty Income from Intellectual Property
- Active Interest Income
- Pension and Annuities
- Rental Income from Property
- Trading Goodwill

I. Obligation for preparation and submission of Audited Financial Statements by individuals:

Cyprus or Non Cyprus tax residents, who generate gross income in Cyprus from the carrying out of a business activity (i.e. having Business Income as sole traders) which equals or is in excess of EURO 70.000 per annum, are obliged to prepare and submit annual audited Financial Statements to the Tax Department and issue invoices and receipts in connection with the transactions and collections.

Cyprus or Non Cyprus tax residents, generating total gross income less than EURO 70.000 per annum, are not required to prepare and submit audited financial statements, but are obliged to maintain books and records.

II. Individual Tax Rates:

The following tax rates apply for physical persons who are tax residents of Cyprus:

Taxable Income	Tax Rate	Tax Amount	Accumulated Tax
EURO	%	EURO	EURO
0 - 19500	0	NIL	NIL
19.501 – 28.000	20	1.700	1.700
28.001 – 36.300	25	2.075	3.775
36.301 – 60.000	30	7.110	10.885
Over 60.000	35		

The law provides for some expenses to be deductible from a physical person's taxable income. The list of such expenses can be found in Schedule 1.

Further, there are some types of income which are exempted from taxation which can be found in Schedule 2.

Tax credit relief is granted if on a particular income, taxation has already been paid abroad provided that the taxpayer provides the tax authorities with the original tax receipts evidencing the payment of such foreign tax.

D. SPECIAL DEFENCE CONTRIBUTION TAX (SDCT)

In 2015 the notion of Domicile was introduced into the Special Defence Contribution Tax. With this introduction Cyprus tax resident individuals are classified either as Resident and Domiciled in Cyprus or as Resident but not Domiciled in Cyprus. The term "Domiciled in Cyprus" is defined as an individual who has a Domicile of Origin, in accordance with the Wills and Succession Law, in Cyprus but it does not include:

- i. An individual who has obtained and maintains a Domicile of Choice outside Cyprus in accordance with the Wills and Succession Law, provided that the individual was not a Cyprus tax resident for a period of 20 consecutive years preceding the tax year under examination.
- ii. An individual who has not been a Cyprus tax resident for a period of at least 20 consecutive years before the commencement of the law.

A physical person who is considered as Cyprus tax resident as defined by the Income Tax Law for at least 17 years throughout the 20 years period preceding the year of assessment is considered as "Domiciled in Cyprus" for SDCT purposes and will therefore be subject to the relevant taxation if and when this condition will be met.

i) Cyprus "domiciled" tax resident individuals

Such physical persons will be subject to SDCT. The tax rates are as follows:

- Dividends 17%;
- Passive interest 30%;
- Trading Interest – Nil (this type of interest is subject to income tax at the above indicated rates mentioned in section C.)
- Rental income 3% on the 75% of the total rental income.

Tax credit relief is granted if on the particular income, taxation has already been paid abroad provided that the taxpayer provides the tax authorities with the original tax receipts, as above.

ii) Cyprus "non domiciled" tax resident individuals

Such physical persons will be **EXEMPTED** from Special Defence Tax. Therefore, dividend, interest and rental income received, is exempt from taxation.

E. SOCIAL INSURANCE CONTRIBUTIONS

Employed and self-employed persons who obtain employment income in Cyprus, are subject to Social Insurance Contributions.

The Social Insurance Contributions deducted from the emoluments of the employee/self-employed person comprises the following:

I. For Employees:

- Social Insurance at 7.8%

The Social Insurance Contributions are applicable on the amount of the annual gross employment income of the employee, up to a maximum annual insurable income of EUR 54.396.

The contributions are withheld by the employer on a monthly basis, and are paid on behalf of the employee to the Social Insurance Office, at the end of the following month in which the deduction is made.

II. For Self Employed persons:

- Social Insurance at 14.6%

The Social Insurance Contributions are applicable on the fixed insurable earnings, in accordance to the category of business income of the self-employed person, subject to a compulsory minimum and a maximum insurable income, as defined by the Social Insurance Office.

The self-employed person is responsible for the calculation and payment of the Social Insurance Contribution, directly to the Social Insurance Office, on a quarterly basis.

III. For the Employer:

The employer is liable to pay contributions for every employee on a monthly basis, to the Social Insurance Office, at the end of the following month in which the contribution relates to.

The contributions that an employer must pay for each employee, and the applicable rates are as follows:

- Social Insurance at 7.8%
- Redundancy Fund at 1.2%
- Industrial training Fund at 0.5%
- Social Cohesion Fund at 2.0%

- Central Holiday Fund at 8%

The Contributions are applicable on the amount of the annual gross employment income of the employee, up to a maximum annual insurable income of EURO 54.396, except for contributions to the Social Cohesion Fund. The contributions to Social Cohesion Fund are applicable on the amount of the annual gross employment income.

The employer can get an exemption from the Central Holiday Fund, if he offers paid leave benefits.

F. CAPITAL GAINS TAX

There is a 20% tax on gains from the disposal of immovable property situated in Cyprus, including gains from the disposal of shares in non- listed companies which directly or indirectly own immovable property in Cyprus. Disposal of shares of listed companies does not impose any capital gains tax even if the listed company owns immovable property in Cyprus.

The taxable gain is estimated taking into consideration various factors as it is specified in detail in the relevant Capital Gains Law.

Any profit made from the sale of immovable property abroad is not taxable in Cyprus. This means that residents of a country that does not impose capital gains tax to non-residents may benefit from selling property after immigrating to Cyprus and upon acquiring tax residency in Cyprus.

The following transactions are exempt from capital gains tax:

- Transfers arising on death;
- Gifts made from parent to child or between husband and wife or between relatives up to the third degree;
- Gifts to a limited liability company where the company's shareholders are members of the donor's family and the shareholders continue to be members of the donor's family for five years after the day of the transfer;
- Gifts by a limited liability company to its shareholders, whose shareholders belong to the same family, provided such property was originally acquired by the company by way of donation/gift. The property must be kept by the donee for at least three years;
- Gifts to charities and the Government;

Lifetime Exemptions:

Every physical person is eligible to receive lifetime exemptions when disposing immovable property in Cyprus. Lifetime exemptions are deducted from the chargeable capital gain, hence reduce the capital gains tax.

The lifetime exemptions available are as follows:

- Sale of own residence EURO 85.430 (subject to conditions)
- Sale of agriculture land by a farmer EURO 25.629 (subject to conditions)
- Other sales EURO 17.086

The lifetime exemptions are granted over the lifetime of the physical person until fully exhausted.

The combination of the lifetime exemptions cannot exceed the amount of EURO 85.430

G. INDIRECT TAX

Types of indirect taxes include VAT, excise tax and customs duty (import duty and export duty).

VAT is imposed:-

- a. on the provision of goods or services in Cyprus;
- b. on the acquisition of goods in Cyprus from other Member States;
- c. on the importation of goods in Cyprus from any place outside the EU countries.

The current VAT rates are as follows

- 0% Zero rate
- 5% Reduced rate
- 9% Reduced rate
- 19% Standard rate

H. OTHER TAXES

Other type of taxes comprises the Wealth Tax, Inheritance Tax and Succession Law, and Immovable Property Tax, none of which is applicable in Cyprus.

I. HOW KINANIS CAN ASSIST

- Preparation, completion and submission of Permanent Residency or Citizenship application and relevant supporting documentation
- Introduction of real estate agents in Cyprus
- Registration with Migration department
- Registration with the Tax Department as a resident but non domicile individual
- Completion and submission of annual tax returns
- Obtaining tax residency certificate
- Opening of Bank accounts in Cyprus
- Assistance to tax and legal related matters
- Accounting and Payroll Services

J. CONCLUSION

Immigrating to any country is not an easy decision to make, various considerations must be taken into account. With this publication we try to give a brief outline of the possible tax aspects and effects of such immigration on the income of individuals.

With careful pre-immigration tax planning any adverse taxation effect might be reduced or even eliminated. One though must consider very carefully his/her personal aspects and factual situation and decide on the appropriate tax planning steps.

Schedule 1- Tax deductions

Tax Deductions	
a) Contributions to trade unions or professional bodies	All
b) Loss of current or previous years (losses of the previous five years only may be deducted) in respect of taxable income	All
c) Rental Income	20% of rental income
d) Donations in approved charities (with receipts)	All
e) Expenses for the maintenance of a building in respect of which there is a preservation order	Subject to the area of the building
f) Social insurance contributions, life insurance premiums and contributions in approved provident funds, pension funds or medical funds	up to the 1/6 of the chargeable income prior to the deduction of the relevant contributions
Note 1: In the case of life insurance, the life insurance must be for the benefit of the taxable person and not for his / her spouse.	
Note 2: The allowable deductions on the annual premiums for life insurance are restricted to 7% of the insured amount.	
Note 3: The life insurance allowance is granted provided that the life insurance company is either a Cyprus company or a foreign company which is licensed to exercise insurance business in Cyprus.	

Schedule 2 –Tax exemptions

Tax Exemptions	
a) Interest	The whole amount of passive interest received or credited is exempted from income tax. Passive interest – Is the interest which is acquired not in the execution of any trade but such as in fixed deposit bank accounts. Trading interest – Is the interest which is acquired from the ordinary activities of the person or is closely related to his / her business. Trading interest is liable to income tax, as per the tax rates referred to in Section C.
b) Dividends	The whole amount of dividend income is exempt from income tax.
c) Lump sum received by way of retiring gratuity, computation of pension or compensation for death or injuries	The whole amount of such lump sum is exempt from income tax.
d) Capital sums accruing to individuals from any payments from approved funds (e.g. provident funds) or other funds or a lump sum from life insurance	The whole amount of such capital sums is exempt from income tax.
e) Profits from the sale of titles i.e. shares, bonds, debentures, founders' shares and other titles of companies or other legal persons, incorporated in Cyprus or abroad and options thereon.	The whole amount of such profit is exempt from income tax. If a non-listed company whose shares are being sold is the owner of immovable property situated in Cyprus then there is capital gains tax at the rate of 20% on net profit calculated in a particular way as specified in the relevant law. For more details refer to section F concerning capital gains tax. The above provision does not apply to listed companies whose shares are traded on the Stock Exchange.
f) Income from the provision of salaried services abroad for a total number of more than 90 days to an employer who is not a tax resident of Cyprus or by employment by a permanent establishment abroad of an employer who is a tax resident of Cyprus	The amount of the salaried income that is attributable to the salaried services rendered abroad is exempt.
g) Income of a person from employment in Cyprus who was not tax resident of Cyprus before his / her employment.	A rate of 20% (up to a maximum of Euro 8.550) of the remuneration received from any position or employment exercised in Cyprus by an individual who was resident outside Cyprus prior to the commencement of his employment, is exempted from taxation. The exemption applies only for a period of 5 years as from the 31st of January of the year that follows his / her employment in Cyprus and it is valid until 2020. This exemption cannot be claimed in addition to the exemption provided in point h) below.

Schedule 2 –Tax exemptions

Tax Exemptions	
h) Income from employment of high salary employees who undertake tax residency in the Republic.	Non tax resident person who are taking up the residency in Cyprus for employment are entitled to an exemption of 50% of their annual salary earned from income tax. This exemption is granted to employees with salaries exceeding EURO 100.000 employment exercised in Cyprus, annually and it is valid for a period of 10 years from the year of commencement of employment, provided that the person is not a Cyprus tax resident the year preceding the employment, and is not a Cyprus tax resident the 3 out of the 5 years preceding the employment.
i) Pensions	The income of any individual from a foreign pension which exceeds Euro 3.420 is taxed in Cyprus at the flat rate of 5%. Irrespectively of the amount of the pension, the first Euro 3.420 is tax free. A person may however, elect to be taxed at the normal tax rates as identified above in section C. The option to be taxed either at 5% per annum or according to the normal tax rates can be exercised every year.

K. DISCLAIMER

This publication has been prepared as a general guide and for information purposes only. It is not a substitution for professional advice. One must not rely on it without receiving independent advice based on the particular facts of his/her own case. No responsibility can be accepted by the authors or the publishers for any loss occasioned by acting or refraining from acting on the basis of this publication.

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Kinanis LLC, a law and consulting firm, is one of the leading and largest business law firms in Cyprus and advises for over 35 years the international investor and private clients on all aspects of law, tax and accounting.

Kinanis LLC absorbed the business of its shareholders which are in the legal and consulting profession since 1983, with local and international dimensions.

Experience and practice over the years brought forward the need for transformation from a traditional law firm to a more innovative multidisciplinary firm providing a full range of services combining law and accounting with the extensive expertise in corporate and tax advice to ensure that our clients will obtain the best possible spherical advice adopting the principle as to the services offered "All in one place", so that the client will find a quick, correct and efficient solution to its daily legal, accounting and tax issues in a trustworthy environment.

This combination of legal, accounting and tax services through our well qualified personnel and our involvement and participation in international transactions over the years, have established our firm as one of the key players in the field. Our involvement in international financial transactions has also provided us with the extensive expertise in representing groups, corporations, funds as well as the private client.

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We always look to give solutions in a simple and as possible quick way focusing on the needs of each client trying to anticipate the issues before becoming a problem.

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