

CYPRUS: INDIVIDUAL TAX RESIDENT

An individual will be considered as a Cyprus Tax Resident if any of the below rules are applied.

The 183 days Rule:

Individuals are considered tax resident in Cyprus if they physically reside in Cyprus for a period or periods exceeding in aggregate 183 days in the year of assessment (1 January – 31 December).

The 60 days Rule:

As of 1st January 2017, the above tax residency rules have been amended to also provide that, an individual who does not stay in any other country, for one or more periods exceeding in aggregate 183 days in the year of assessment and is not tax resident in any other country for the same year, is deemed as a resident in Cyprus in that tax year, if all of the following conditions are met:

- The individual stays in Cyprus for at least 60 days in the year of assessment and
- Maintains permanent home in Cyprus that is either owned or rented and
- Has other defined Cyprus ties such as to satisfy this condition the individual must carry out any business in Cyprus and/or be employed in Cyprus and/or hold an office (director) of a company tax resident in Cyprus at any time in the tax year.

If the employment/ business or holding of an office is terminated during the year, then the individual would cease to be considered a Cyprus tax resident for that tax year.

Tax residency in Cyprus is calculated as follows:

- The day of departure from Cyprus is considered one day outside Cyprus;
- The day of arrival in Cyprus is considered one day in Cyprus;

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- Arrival in Cyprus and departure from Cyprus within the same day is considered one day in Cyprus; and
- Departure from Cyprus and return to Cyprus within the same day is considered one day outside Cyprus.

Cyprus tax resident individuals are taxed on their worldwide income, subject to allowing a tax credit for any tax suffered in a foreign location on foreign income.

Cyprus tax applies some exemptions on the income tax for physical persons thus making the country an attractive destination for professionals and entrepreneurs willing to operate from Cyprus.

1. Cyprus tax residents are liable to income tax on their worldwide income, but the first €19,500 is tax free

Chargeable Income (€)	Tax Rates (%)
0 - 19,500	0
19,501 – 28,000	20
28,001 – 36,300	25
36,301 – 60,000	30
Over 60,000	35

2. Dividend income is exempt from tax in Cyprus
3. Passive interest income is exempt from tax in Cyprus.
4. Profit from the sale of securities is exempt from tax in Cyprus.

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5. Securities are defined as:

Ordinary shares, founder shares, preference shares, options on shares, debentures, bonds, short position on titles to include futures, forwards, swaps and participation in companies.

6. The 50% exemption rule:

Individuals who take up employment in Cyprus with an annual income in excess of €100,000 will be eligible for an exemption from taxation of 50% of their emoluments for a period of 10 years, commencing from the year of employment. Also there is no restriction to the amount of deduction granted.

The exemption is given to an employee who was not Cyprus tax resident for any three out of the last five tax years prior to commencement of employment in Cyprus and at the same time was not Cyprus tax resident in the previous tax year.

7. The 20% exemption rule:

Individuals who take up employment in Cyprus with an annual income in below of €100,000 will be eligible for an exemption from taxation of 20% of their emoluments or €8,550 (whichever is lower) for a period of 5 years, commencing from 1st January of the year following the year of commencement of such employment. Also it is applied up to and including the year 2020.

The exemption is given to an employee who was not Cyprus tax resident before the commencement of employment in the Republic.

8. The 90 day rule exemption:

The remuneration from the rendering outside Cyprus of salaried services for an aggregate period in the year of assessment of more than 90 days to an employer not resident in Cyprus or to a permanent establishment outside the Republic of an employer in the Republic shall be exempt from tax.

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9. Foreign sourced pensions:

The Cyprus tax resident individual has two options (annual election):

- Option 1:
Either the taxpayer to be taxed in the normal way or
- Option 2:
The pensions are taxed under special mode whereby the first €3,420 are tax free and any balance be taxed at a flat rate of 5%

10. Widows pension:

The Cyprus tax resident individual has two options (annual election):

- Option 1:
Either the taxpayer to be taxed in the normal way or
- Option 2:
The widows pensions are taxed under special mode whereby the first €19,500 are tax free and any balance be taxed at a flat rate of 20%.

11. Lump sum received by way of retiring gratuity, commutation of pension or compensation for death or injuries.
12. Capital sums paid to individuals out life insurance policies, provident fund and pension funds
13. Rental income from preserved buildings is exempt from income tax and granted a deduction for expenditure incurred for the maintenance of a preserved building.
14. No inheritance and gift taxes
15. Capital gains from the sale of immovable property situated outside Cyprus is exempt from tax
16. An individual can become Cyprus tax resident and obtain a Cyprus Tax Identification number (TIN) within a short period of time;

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Example:

Sources of Income	Amount	Taxes and contribution	Comments
Employment income	€120,000	€10,885	Applies 50% Exemption Rule
Dividend income	€50,000	NIL	100% exemption
Interest income	€20,000	NIL	100% exemption
Salaries under 90 days rule	€50,000	NIL	100% exemption
Gains from disposal of shares	€10,000	NIL	100% exemption
Foreign sourced pension	€10,000	€329	Select 2 nd method First €3,420 tax free and any balance 5% flat rate
Widow pension	€15,000	NIL	Select 2 nd method First 19,500 tax free and any balance 20% flat rate
Capital gain on sale of overseas real estate	€100,000	NIL	100% exemption
Total	€375,000	€11,214	

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SPECIAL DEFENCE CONTRIBUTION:

Special Defence Contribution (SDC) is a local tax that applies on specific actual and deemed incomes arising from passive sources (interest, dividends and rents)

As from the 16th July 2015, the definition of “domiciliation” has been introduced to Cyprus tax resident physical person as a result SDC applies to individuals that are both tax resident and domiciled in Cyprus.

An individual’s domicile is that of his/ her father’s domicile (at birth) or that of his/her choice. Therefore, an individual born to a non-Cypriot domiciled father is considered to be non-domiciled in Cyprus. However, a non-domiciled individual may be deemed as domiciled in Cyprus if he/ she has been a Cypriot tax resident for at least 17 out of the last 20 years prior to the relevant tax year. An individual born to a Cypriot domiciled father may also qualify as non-domiciled in Cyprus subject to certain conditions

DOMICILED TAX RESIDENT INDIVIDUAL	
Type of Income	Special Defence Contribution
Dividends	Taxable – 17%
Interest	Taxable – 30%
Rental Income	Taxable – 3% on 75% of gross income (2.25%)

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NON-DOMICILED TAX RESIDENT INDIVIDUAL	
Type of Income	Special Defence Contribution
Dividends	Exempt
Interest	Exempt
Rental Income	Exempt

The above is intended to provide a brief guide only. It is essential that appropriate professional advice is obtained.

For professional assistance please contact us at solutions@oxfordcy.com.