



# The Expatriate Financial Guide to Cyprus

## Tax Facts

<b>Introduction</b>	The Inland Revenue department of the Ministry of Finance controls tax in Cyprus. When Cyprus became a member of the EU in 2004, important features of the tax system were harmonised with EU law, but the tax system still has its roots in the British system. The country joined the Euro in January 2008.
<b>Tax Year</b>	1 <sup>st</sup> January – 31 <sup>st</sup> December
<b>Assessment Basis</b>	Cypriot residents are taxed on their worldwide income. If a Cypriot resident is employed and only earning a wage they do not need to complete a self-assessment tax return. Married couples are taxed separately.
<b>Income Tax</b>	Cypriot residents are taxed on all income derived from employment, whether salary or benefits in kind, together with certain other types of income such as rental income. Taxable income is taxed at progressive rates. The rates range from 20% to 30% on taxable income in excess of €19,500. Tax on employment income is deducted at source by the individual's employer. Tax deductions up to one-sixth of taxable income are permitted on annual life insurance protection premiums, social insurance, some provident funds, pension contributions, some foreign funds and contributions to the Cypriot General Medical Fund. There are also some 'social grants' dependent on the size and make up of an individual's family, such as progressive child benefits, blind person's benefit and child-in-higher-education benefit. Recipients of a pension based on services rendered outside Cyprus may opt for a Special Rate of 5% on their pension income taxation in excess of €3,417 annually.
<b>Taxation of Investment Income</b>	There is no tax payable on dividend and interest income sourced in Cyprus. Instead, every Cypriot resident pays a 'special defence contribution' on certain types of unearned income: <ul style="list-style-type: none"><li>• Dividend income from local and overseas companies is subject to special contribution for defence at the flat rate of 15%. Any foreign tax withheld abroad is always credited against this Cyprus liability.</li><li>• Domestic and foreign-source interest income is taxed at a rate of 10% except for Government Issue savings bonds and development bonds which are taxed at a lower flat rate of 3%.</li><li>• Rental payments are subject to the defence contribution at a rate of 3%. Individuals with an annual income not exceeding €11,960 may apply for a 7% refund. The 'special defence contribution' is generally withheld at source, except in the case of rental income which is payable in two six-monthly instalments.</li></ul>
<b>Tax on Property Rental Income</b>	Income from rental property forms part of taxable income with a deduction for the first 20% of rental income. The remaining 80% is added to taxable income and taxed at the highest marginal rate applicable for each individual. Rental income is also subject to the 'special defence contribution' at a rate of 3% which is computed on the gross rental income less a 25% allowance. This is applicable to Cypriot residents only.
<b>Premium Tax</b>	A tax is applied to the gross premiums of all life companies at a minimum rate of 1.5% of gross premium income if the applicable corporate tax bill is lower and is payable by the policyholder.

<b>Wealth Taxes</b>	There are no wealth taxes in Cyprus.
<b>Capital Gains Tax</b>	Capital Gains Tax is imposed at the rate of 20% on gains from the disposal of immovable property situated in Cyprus, including gains from shares in companies that invest in immovable property, but excluding shares listed on a recognised stock exchange. There are various exemptions available and capital losses can be used to offset gains. There are cumulative lifetime exemptions available for the disposal of a private residence (€85,430), disposal of owner-occupied agricultural land (€25,629) and any other disposals (€17,086).
<b>Inheritance and Gift Tax</b>	There is no Inheritance or Gift Tax in Cyprus. However, the executor/administrator of the estate of the deceased is required by law to submit to the tax authorities a statement of assets and liabilities of the deceased within six months from the date of death.
<b>Regional and Municipal Taxes</b>	In addition to the property tax listed below a further tax is levied by local authorities. Rates vary according to the size of property.
<b>Property Taxes</b>	Immovable Property Tax is imposed on the market value of the property as at 1 <sup>st</sup> January 1980 and applies to the immovable property owned by the taxpayer on 1 <sup>st</sup> January. The tax is payable by 30 <sup>th</sup> September and it is not deductible for income tax purposes. Rates range from 0% on the first €170,860 to 0.4% on the excess over €854,300. There are various exemptions but these are generally for public buildings.
<b>Stamp Duty Transfer Tax</b>	There is a transfer tax payable to the Department of Land and Surveys for transfers of immovable property. Progressive rates are applied to all transfers, starting at 3% and going up to 8%. Stamp Duty is applicable on various documents and the amount varies according to the type of document.
<b>Sales Tax</b>	VAT is generally added at a standard rate of 15% to the sale price of goods and services. Some sales are exempt and other goods and services are subject to lower rates of 5% and 8%.
<b>Social Security Contributions</b>	<p>Contributions to the Social Insurance Fund are paid by employees at a rate of 6.8% on gross salary up to €4,004 (2009) per annum. Employers contribute 8% of gross salary. Self employed individuals pay contributions of 12.6%. The contributions provide for a number of social security benefits, the most important being pension on retirement and benefits upon sickness and disability, maternity, unemployment and industrial injuries.</p> <p>A non-resident individual who has previously contributed to the Social Insurance Fund may pay a voluntary contribution to maintain benefits. This contribution is equal to 11% of the elected insurable amount.</p> <p>Employers make further social security contributions of up to 2% in respect of the social cohesion fund.</p>

## Taxation of Expatriates Living In Cyprus

An individual is considered to be resident in Cyprus for tax purposes if they spend more than 183 days in any one tax year in Cyprus. Anyone who becomes resident in Cyprus for tax purposes is liable to taxation on their worldwide income at the rates described above. If an individual is considered a tax resident of Cyprus, but is earning income from salaried services rendered abroad for more than 90 days in a tax year, the part of their salary earned abroad is exempt from tax. Such salaried services must be carried out for either:

- A non-Cypriot resident employer, or
- The foreign permanent establishment of a Cypriot resident employer.

Any individual taking up employment in Cyprus for the first time is given an extra tax allowance on their income for a period of three years commencing from 1<sup>st</sup> January following the date they commence employment. This allowance is the lower of 20% of income or €8,543 annually.

Expatriates in receipt of foreign pension income may opt for the Special Rate of 5% taxation to be applied beyond the annual exemption limit of €3,417.

Cyprus has an extensive network of double taxation treaties with over 40 countries in respect of interest, dividends and royalties paid from and received in Cyprus.

All employees, whether they are Cypriot or EU nationals, are subject to the social security system in Cyprus. EU nationals taking on employment in Cyprus may, however, apply for an exemption from the Cypriot social security system if they continue to make contributions of such nature to their home country's fund under EU regulation No. 1408/71.

Non-EU nationals employed by Cypriot companies are not subject to the social security system in Cyprus provided the employer company does not trade within Cyprus and they are not considered to have their ordinary residence in Cyprus.

Foreign employees working in Cyprus who are subject to the Cyprus Social Security system have to register with the Social Security authorities after they have obtained their Alien Registration Certificate (ARC).

## **Taxation of 'Non-Residents' Living in Cyprus**

If an individual is deemed to be a non-resident of Cyprus for tax purposes they will only be taxed on certain types of their Cypriot sourced income. Such income would be employment income (including benefits) in relation to services rendered in Cyprus, profits from a business activity which is carried out through a permanent establishment in Cyprus, rentals from immovable property situated in Cyprus, and pensions in respect of employment exercised in Cyprus. These incomes are subject to Cypriot income tax at the progressive rates applicable. Unearned income such as interest and dividends earned from Cyprus sources are exempt from any income tax.

Non-residents are fully exempt from the "special contribution for defence" on any income arising in Cyprus.

Cyprus has concluded social security agreements with a number of countries. These agreements provide the rules for determining which country's social security law is applicable to an individual connected with both countries. As a general rule employees working in one country are subject to the legislation of that country except in a number of cases which include temporary postings, government officials, international transport workers and mariners.

## **Expatriate Financial Planning**

While, as a whole, the Cypriot tax regime for non-residents is less onerous than the regime for residents, with only certain Cypriot sourced income and gains being subject to tax, an expatriate should take care over whether they attain resident status in Cyprus.

If you are an expatriate currently living in Cyprus, you should review your finances with a suitably qualified financial adviser that is either authorised directly by the Cypriot regulator, or is based in another EU market and recognised by the Cypriot regulator following prior notification by the adviser under the Insurance Mediation Directive. If you are planning a move to Cyprus, you should review your finances with a suitably qualified and experienced financial adviser and/or tax adviser who is familiar with Cypriot tax matters, before making the move.

Whilst the specific benefits of an offshore life product will depend upon an individual's circumstances, they do offer a number of potential benefits:

- Investments in an offshore life product grow virtually free of tax throughout the time the product is held, suffering only a small amount of irrecoverable withholding tax on investment funds located in certain countries. Please note that tax may need to be paid on an arising basis in the individual's country of residence.
- They allow you, in general, to manage when you take benefits and potentially to defer the benefits to a period that may be more advantageous to you from a taxation perspective.
- Offshore products can offer significant benefits over and above the financial products available in the local domestic market, particularly in relation to product features, investment flexibility and investment choice.

- Offshore bonds often feature a range of the life company's own individual offshore funds and managed offshore funds specifically tailored to fit with the spread in clients' attitudes to risk, but also offer access to household name fund managers, including many international and specialist fund managers, which may not be available in local domestic fund and insurance markets.
- An offshore product has the flexibility to adapt to changes in your individual circumstances, including changes in your residency status.
- Most companies offering offshore life products are subsidiaries of global financial services companies.
- The offshore life companies are regulated in first class jurisdictions which benefit from strong regulatory controls.

***Your independent financial adviser can help you ensure that you maximise the financial benefits of your expatriate status and help you to assess if offshore life products are right for your individual circumstances.***

***Further information about offshore life products and their use in financial planning please contact your local Blacktower Consultant or email us at [info@blacktowerfm.com](mailto:info@blacktowerfm.com)***

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