# Major Changes to Cypriot Tax System Enhance Its Attractiveness to International Businesses and High Net Worth Individuals

July 2015

A number of amendments to Cyprus' tax legislation came into force on 16 July 2015. The changes:

1. Offer planning advantages to high net worth individuals residing or considering residing in Cyprus through the introduction of 'non-dom' status
2. Provide income tax exemptions for senior employees relocating to Cyprus
3. Reduce the cost of investing in Cyprus real estate (which is a key feature of the Cyprus economic citizenship scheme)
4. Extend considerable tax incentives to Cyprus companies that create new equity share capital

The changes are expected to enhance the competitiveness of Cyprus, without compromising the already established benefits it offers international investors and businesses.

## Summary of Key Amendments

**1. Tax Exemptions for "Non-Dom" Cyprus Tax Residents**

The introduction of the "Domicile" concept in the Special Contribution for Defence Law, effectively creates the concept of "non-dom" status in Cyprus and exempts "non-doms" from tax obligations on the receipt of dividends, interest and rental income, irrespective of whether they spend more than 183 days in Cyprus and the origin of the relevant income.

An individual is considered as "domiciled in Cyprus" either: (i) by domicile of origin, or (ii) by domicile of choice, as defined by the Wills and Succession Law. Individuals having a domicile of origin in Cyprus will be treated as "domiciled in Cyprus" for Special Contribution for Defence Law purposes, with the exception of those who:

- Maintain a domicile of choice outside Cyprus in accordance with the Wills and Succession Law, provided that such individuals have not been tax resident in Cyprus for any period of at least 20 consecutive years preceding the tax year in question; or
- Have not been tax resident in Cyprus for a period of at least 20 consecutive years immediately prior to the introduction of the law.

Individuals who have been tax residents in Cyprus for at least 17 out of the last 20 years prior to the tax year, will be considered as "domiciled in Cyprus" and will therefore be subject to the Special Contribution for Defence Law.

**2. Personal Income Tax Exemptions for Foreign Executives Taking Up Employment in Cyprus**

Expatriate executives who: (i) have annual income over €100,000; (ii) were not resident in Cyprus before the commencement of their employment, and (iii) commenced employment in Cyprus on or after 1 January 2012, are entitled to claim a 50% exemption of their Cyprus earned income for a 10-year period.

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Individuals, whose employment starts subsequent to the date the amendment becomes law, will be entitled to the benefit if they were non-Cyprus tax residents for any three out of the last five years preceding their employment in Cyprus, and they were not tax residents of Cyprus the previous tax year.

With the highest income tax rate in Cyprus currently standing at 35%, these exemptions imply that the tax on eligible employees' income shall range from around 8% to 17.5%.

3. **Real Estate Reforms**
   1. Reduction of land transfer fees by 50% for purchases until 31 December 2016.
   2. Capital Gains Tax ("CGT") Law Changes as follows:
      - No CGT shall be imposed on immovable property acquired from the date the law came into force (16 July 2015) until 31 December 2016. Purchases made by way of donation, gift, or exchange, do not qualify for the exemption.
      - CGT will be imposed on the sale of shares that directly or indirectly participate in other companies that hold immovable property in Cyprus, if more than 50% of the market value of the shares sold is derived from property situated in Cyprus.
      - Trading profits derived from the sale of shares of companies which directly or indirectly own immovable property in Cyprus will be subject to CGT if such profit is exempt under Income Tax Law.

4. **Introduction of Notional Interest Deduction ("NID") on Equity**

   With retrospective effect from 1 January 2015, Cyprus tax resident companies that create "new equity" (defined as share capital and share premiums issued and settled after 1 January 2015 – such amounts may not derive from any capitalisations or from revaluations of movable or immovable properties) will be able to claim NID of up to 80% of their taxable income for the year before the deduction of the deemed interest expense, reducing the overall effective tax rate to as low as 2.5% (taking into account the corporate tax rate of 12.5%).

   The NID will equal the multiple of the "reference interest rate" (an interest rate calculated based on whichever is the highest out of the 10-year government bond yield of the country in which the new equity is invested and that of the Republic of Cyprus as at 31 December of the previous tax year, plus 3%) and the "new equity".

   The NID incentivizes existing companies to recapitalize their operations through less reliance on debt restructuring, and will encourage new companies to take advantage of the benefit by setting up their operations in Cyprus.

   Claiming the NID is not compulsory: companies retain the right to choose whether to claim the NID, either partially or wholly.

For more information, please contact our Cyprus office or your usual Trident Trust representative.