

NORDIC FINANCE LTD

Cyprus tax incentives for high net worth individuals

- ✓ No tax on dividends
- ✓ No tax on interest income
- ✓ No tax on capital gains

Cyprus has introduced a very attractive tax incentive scheme for high net worth individuals (HNWI), called the "non domiciled" tax status which is available for a total of 17 years.

Cyprus tax incentives for non-domiciled person

Dividends and bank deposit interest earned by individuals who are tax resident in Cyprus are subject to Special Defence Contribution (SDC) tax at the rate of 17% and 30% respectively. Rental income is also subject to tax at the rate of 3% on 75% of the gross amount. The tax applies to domiciled tax residents in Cyprus.

Non-domiciled tax residents are exempt from SDC tax and they will therefore enjoy dividends, interest and rental income from foreign and local investments, free from SDC tax in Cyprus. It is noted that the main income of HNWI is generally dividends and interest.

A non-domiciled individual is not exempt from income tax on rental income, which is charged at normal rates.

Furthermore, irrespective of domicile, foreigners becoming Cyprus tax residents enjoy a number of significant tax advantages with the main ones being outlined below.

Domicile

A domiciled individual can be by domiciled by origin, which in Cyprus is decided by the fathers' domicile at birth, or an individual can be domiciled by choice, i.e. the individual establishes a home with the intention of a permanent stay. So accordingly an individual born to a non-Cypriot domiciled father is considered to be non-domiciled in Cyprus. However an individual may still be considered domiciled in Cyprus if he/she has been a tax resident in Cyprus for at least 17 years out of the last 20 years.

Other tax advantages for individuals

- ✓ Any capital gains from the disposal of shares, bonds, and other financial instruments are exempt from tax in Cyprus. And so are capital gains from sale of non-Cypriot real estate. Further more there is no estate duty, wealth tax, gift tax or inheritance tax in Cyprus.
- ✓ Cyprus is party to more than 65 double tax treaties that provide for nil or reduced withholding tax on dividends, interest, royalties and pensions received from abroad.
- ✓ Pension income from services rendered abroad are taxed at 5% but the tax is offset with the tax paid abroad.

Tax Residency

An individual who spends more than 183 days in Cyprus in a year is a tax resident of Cyprus.

An individual can be tax resident in Cyprus even if he/she spends less than 183 days in Cyprus provided hes/she satisfy all of the following conditions within the same tax year:

- does not spend more than 183 days in any other country;
- is not a tax resident of any other country;
- spends at least 60 days in Cyprus;
- maintains a permanent home in Cyprus that is either rented or owned;
- carries on a business in Cyprus and/or is employed in Cyprus and/or holds an office with a Cyprus tax resident company at any time during the year.



Corporate Tax

Cyprus is, as an EU member state an attractive tax destination for both companies and high net worth individuals and it is widely used as a residence for their operations and family relocation.

Main features for taxation of corporate entities:

- 12.5% income tax on corporate trading profits.
- 0% corporate tax on sale of securities
- No withholding tax on outgoing payments (dividends, interest, royalties)
- Dividend income is generally exempt
- 0% on foreign exchanges profits (losses not deductible)
- Advance tax rulings possible
- Favorable tax regime for Intangible Property

Exemptions to income tax

If an expatriate individual (regardless of his/her tax residency or domicile status) is relocating to Cyprus to take up employment, and was not a tax resident in Cyprus before the commencement of employment in Cyprus, is entitled to the below exemption:

- 50% of the remuneration is exempt from income tax if the annual income exceeds EUR 100 000 and this exemption applies for a period of 10 years.

If the annual income falls below EUR 100 000 then the 50% deduction will not apply. However a 20% deduction may apply in such case with a ceiling of EUR 8 550 (lowest of 20% and 8 550 applies). This deduction was meant to close at the end of 2020 but a draft bill has been put forward to Parliament proposing to extend the deduction to 2025.

Income Tax-Individuals

An individual who is tax resident in Cyprus, irrespective of his/her domicile, is subject to income tax on his/her worldwide income.

Personal Income Tax

Personal income up to EUR 19 500 is exempt from income tax and income exceeding this amount is taxed at a progressive rate with ranging from 20% to 35%, for income in excess of EUR 60,000.

Chargeable income (EUR)	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

Social Insurance and National Health Insurance (NHI) Contributions

The social insurance contributions rate is 7.8% for the employee and 7.8% for the employer with a yearly cap of EUR 54 864 (2020).

NHI contributions were implemented in March 2019 and the contribution rate is 2.65% for the employee and 2.90% for the employer on the employee's gross earnings up to a maximum of EUR 180 000. Self employees will contribute 4.0% and the state will pay 4%.

Income exemption for overseas employment

Remuneration for salaried services outside Cyprus for more than 90 days in a tax year to a non-resident employer is exempt from income tax.



Overview of tax advantages

Source of income	Taxation
Dividend income	Nil
Interest income	Nil
Rental Income	Nil SDC, Income tax at normal rates
Capital gains from sale of securities (provided underlying asset do not include immovable property in Cyprus)	Nil
Capital gains from sale of immovable property overseas	Nil
Gift tax, wealth tax, inheritance tax	Nil
Employment income from employment in Cyprus exceeding EUR 100,000	50% exempt
Employment income from services outside Cyprus from more than 90 days in a tax year	Nil





Tax Advice

An individual who is considering to re-locate to Cyprus is recommended to seek advice on the tax implications of the transition from the existing country of residency to Cyprus.

Contact us

Nordic Finance can assist you with the residence permit, application for non-domiciles status, bank contacts etc.

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