



Cyprus Tax Residency and Non-Dom Rules

Tax Services

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About Cyprus

Location

With a strategic geographical location in the middle of three continents, namely Asia, Europe and Africa, Cyprus is the third largest island in the Mediterranean Sea and the natural gateway to the Middle East.

With a size that is big enough to be called cosmopolitan, at the same time, small enough to be regarded as the ideal place to raise a family. An island which enjoys more than 300 days of sunshine yearly, with mild winters and the largest number of blue flag beaches per coastal line in the world!

A sovereign European country with a cultural heritage so rich that is lost in the centuries, yet an island that patiently awaits to be explored and re-discovered, offering an unparalleled level of quality of life which is second to none.

Business

With more than 30 years of experience as an international business centre that is supported by an abundance of highly skilled professionals and complemented by a modern and investor friendly EU compliant tax system, a solid, impartial and credible legal system that is based on common law principles and a welcoming attitude towards expatriates, Cyprus is naturally the ideal hub for business and trade.

Two international airports (Larnaca, Paphos) with daily flights to all major destinations within and outside the EU and two multipurpose deep seaports (Limassol, Larnaca) connect the island to the rest of the world.

Even though the small and agile Cypriot economy has faced challenges as a result of the global economic and banking crisis, it is now on the path of steady and sustainable recovery and it is recording positive growth rates quarter after quarter. Dynamic sectors of the economy such as energy, professional services, tourism, shipping, construction and real estate are enhancing this trend.

Family

Cyprus has a multicultural population and enjoys a high standard of living and a very low crime rate. It is a great place to live in, embracing security and safety for the whole family.

Cyprus is home to many private schools offering a high level of education and their basic teaching language is English. There is also a number of reputable state institutions and private universities of higher education, which have secured endorsement of their diplomas by U.K. and USA educational establishments or cater for external degree programs and professional examinations.

We at KPMG in Cyprus, hope that in the context of this brochure the reader can discover the endless opportunities and the many benefits that Cyprus has to offer to families and businesses alike and we look forward to meeting you in person when in Cyprus next!



The Corporate Tax System at a Glance

Main Features:

- Taxation is based on Residency status;
- 12,5% corporate tax on corporate trading profits;
- Notional Interest Deduction (NID) available for new capital introduced;
- Intangible Property (IP) Regime in line with OECD's "nexus" principle;
- Corporate tax on sale of securities: 100% exemption;
- No withholding tax on outgoing payments (dividends-interest-royalties);
- Dividend income is exempt (subject to relaxed conditions);
- Applicability of all EU directives;
- Foreign exchange differences are tax neutral;
- Group relief availability (for 75% holdings);
- Tax exempt re-organizations;
- Advanced tax ruling practice offers safety and predictability for investments;
- Attractive and constantly expanding Double Tax Treaty network.





Tax Residency rules for Individuals

The 183 days rule

Cyprus has adopted a residency-based system of taxation, whereby physical presence in Cyprus exceeding 183 days in a tax year (1st January to 31st December) will constitute tax residency for individuals. Therefore, if an individual is physically present in Cyprus for more than 183 days in a tax year, s/he will be considered a tax resident of Cyprus in that tax year. Consequently, if the individual is physically present in Cyprus for less than 183 days in a tax year, s/he will be considered to be a non-Cyprus tax resident in that tax year.

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 same tax year 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:

- (i) the individual stays in Cyprus for at least 60 days in the tax year,
- (ii) exercises a business and/or is employed in Cyprus and/or holds an office with a Cyprus tax resident company at any time during the tax year,
- (iii) maintains (by owning or leasing) a permanent home in Cyprus.

The law is further amended to clarify that an individual that cumulatively meets all the above conditions shall not be treated as a Cyprus tax resident in the tax year, if during that year the exercise of any kind of business in Cyprus and/or employment in Cyprus and/or holding of an office with a tax resident person in Cyprus, is terminated.

Days spent in Cyprus should be calculated as follows:

- a) The day of departure from the Republic is deemed to be a day outside of the Republic;
- b) The day of arrival in the Republic is deemed to be a day in the Republic;
- c) The arrival in the Republic and the departure from the Republic in the same day is deemed to be a day in the Republic;
- d) The departure from the Republic and the arrival in the Republic in the same day is deemed to be a day outside the Republic;

Non-Domicile rules for Individuals

According to the provisions of the Cyprus tax laws, an individual who is a tax resident of Cyprus under the provisions of the Income Tax Law (either under the 183 days rule or the 60 days rule) but is "non-domiciled" in the Republic of Cyprus, will be exempt from Special Defence Contribution (SDC).

As per the SDC law, dividends and interest income earned by individuals who are tax residents and domiciled in Cyprus, are subject to tax at the rate of 17% and 30% respectively, regardless of the source of the income (i.e. from Cyprus or from abroad). Rental income is also subject to tax at the rate of 3% on 75% of the gross amount. Therefore, tax residents but non-domiciled individuals will enjoy dividend, interest and rental income free from SDC tax in Cyprus.

The new provisions define domicile in accordance with the rules of the Wills and Succession Law:

- A domicile of origin (i.e. the domicile received by an individual at birth); and,
- A domicile of choice (i.e. the domicile acquired by an individual by establishing a home with the intention of a permanent or indefinite stay).

A person who has a domicile of origin in Cyprus will be treated as "domiciled in Cyprus" for SCD purposes with the exception of:

- An individual who has obtained and maintained a domicile of choice outside Cyprus under the provisions of the Wills and Succession Law, provided that this individual was not a Cyprus tax resident for a period of at least 20 consecutive years prior to the tax year in question; or
- An individual who was not a Cyprus tax resident for a period of at least 20 consecutive years immediately prior to the entry into force of the introduced provisions (i.e. prior to 16/07/2015).

Irrespective of his/her domicile of origin, an individual who remains a tax resident of Cyprus for a period of at least 17 years out of the last 20 years prior to the tax year in question, shall be deemed as domiciled in Cyprus for SDC purposes.

Domiciled tax resident individual

Type of Income	Income Tax	SDC
Dividends	Exempt	Taxable -17%
Interest	Exempt	Taxable -30%
Rental Income	Taxable (Normal rates)	Taxable at 3% on 75% of gross income

Non Domiciled tax resident individual

Type of Income	Income Tax	SDC
Dividends	Exempt	Exempt
Interest	Exempt	Exempt
Rental Income	Taxable (Normal rates)	Exempt

Income Tax Rates

A Cyprus tax resident individual will be subject to income tax in Cyprus under the following personal income tax rates:

Personal Income Tax rates

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

Concessions available to Expatriates

Exemptions regarding employment income

Individuals who were based overseas and who were not Cyprus tax-residents before the commencement of their employment in Cyprus, may be entitled to one (but not both simultaneously) of the following exemptions:

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 income for a period of 10 years, commencing from the year of employment.

Note: The exemption is not given to an employee who was a tax resident in any three out of the five years preceding the year of employment and to an employee who was resident in the year preceding the year of commencement of employment.

The 20% exemption rule

- Individuals who take up employment in Cyprus and were not tax resident in Cyprus prior to commencing such employment, will be eligible for an exemption from taxation of 20% of their income or €8,550 (whichever is lower) from any employment which is exercised in Cyprus.

Note: This exemption applies for a period of five (5) years commencing from 1st January of the year following the year of commencement of such employment and notwithstanding this, it is applied up to and including the year 2020.

Overseas Pensions

- Overseas pensions are exempt from tax up to €3,420 and taxed at 5% thereafter. The taxpayer may opt to be taxed in the normal way, where this special mode of taxation of income results to a higher tax liability (this selection can be made from year to year).





Other Considerations

- 100% exemption on remuneration for salaried services rendered outside Cyprus for more than 90 days in a tax year to a non-Cyprus resident employer.
- 100% exemption on lump sum repayments from life insurance schemes or from approved provident funds.
- No inheritance and gift taxes.
- No wealth taxes.
- No immovable property taxes.
- Capital gains from the sale of immovable property situated outside Cyprus is exempt from tax.
- Capital gains tax is only imposed on the sale of immovable property situated in Cyprus as well as on the sale of shares directly or indirectly held in companies (other than listed shares) in which the underlying asset is immovable property situated in Cyprus.

The Cyprus Social Insurance System at a glance

- The social insurance contributions for 2020 have a monthly cap of €4.572 and a yearly cap of €54.864. The Social Insurance contribution rate is 8.3% for the employee and 8.3% for the employer (for a total of 16.6%). The employer is also liable for a contribution of 1.2% to the Redundancy Fund, 0.5% to the Training and Development Fund and 2% to the Social Cohesion Fund. Please note that the cap mentioned above does not apply to the Social Cohesion Fund contributions. Instead, the Social Cohesion Fund contribution is applied on the gross remuneration received.
- Foreign national employees residing in Cyprus will be subject to social insurance contributions to the Cyprus Social Insurance system, as they will be physically exercising their employment activities in Cyprus.
- EU nationals may be eligible to remain insured under the social insurance system of the Member State (MS) of their employer for a period up to 24 months and in this case an A1 certificate must be secured. The A1 certificate will provide assurance that Social Insurance contributions are rightfully paid in the MS where the employer has its registered office and there is no obligation to contribute in the MS where the employment is physically exercised (i.e. Cyprus).

Table summarizing the Social Insurance contributions for 2020

Percentage on employee's earnings			
Fund	Employer	Employee	
Social Insurance	8.3%	8.3%	C
Redundancy	1.2%	-	C
Training and Development	0.5%	-	C
Social Cohesion	2%	-	NC
Total	12%	8.3%	

C=Cap at €4.572/ month, NC =No Cap

National Health Insurance System (NHIS)

The National Health Insurance System Law (NHIS) of 2010 (as amended in 2017) is applicable as of the 1st of March 2019.

Under the NHIS rules, employers will be contributing 1.85% and employees 1.70% on the employee's gross earnings up to maximum annual earnings of €180.000.

Furthermore, it should be noted that the NHIS contributions are to be revised upwards as of the 1st of March 2020 to 2.9% for employers and 2.65% for employees.

Please find below a table summarizing the contribution rates for NHIS

Category	As from March 2019	As from March 2020
Employees	1,70%	2,65%
Employers	1,85%	2,90%
Self employed	2,55%	4,00%
Income earners (e.g. rents, interests, dividends)	1,70%	2,65%
Persons holding office	1,70%	2,65%
Pensioners	1,70%	2,65%

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