



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 pandemic, it is now on the path of steady and sustainable recovery. 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 UK 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. 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 (management and control test or incorporation test*)
- 12,5% corporate tax on 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 from taxation (subject to relaxed conditions)
- Applicability of all EU tax directives
- Foreign exchange differences are tax neutral
- Group relief availability (for 75% holdings)
- Tax exempt re-organisations
- Advanced tax ruling practice offers safety and predictability for investments
- Attractive and constantly expanding Double Tax Treaty network.
- EU approved tonnage tax regime
- Tax incentives for investing in Innovative Small and Medium Enterprises (SMEs).

*The incorporation test only applies if Cyprus incorporated companies are not tax resident in any jurisdiction.

**Except on certain payments to companies in jurisdictions featured in the EU list of non-cooperative jurisdictions (Annex I).

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 (1 January to 31 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 1 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 year and is not tax resident in any other country for the same year, is deemed as tax resident in Cyprus in that year, if the following conditions are cumulatively met:

- (i) the individual stays in Cyprus for at least 60 days in the 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 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 regarded as “non-domiciled” in the Republic of Cyprus, will be exempt from the provisions of the Special Defence Contribution (SDC) Law.

As per the SDC Law, dividends and interest income earned by individuals who are tax residents and domiciled in Cyprus, are both subject to tax at the rate of 17%, regardless of the country of origin of the income (i.e. from Cyprus or from abroad). Rental income is 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 SDC 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 July 2015).

Irrespective of a 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 individuals

Type of Income	Income Tax	SDC
Dividends	Exempt	Taxable
Interest	Exempt	Taxable
Rental Income	Taxable	Taxable

Non-domiciled tax resident individuals

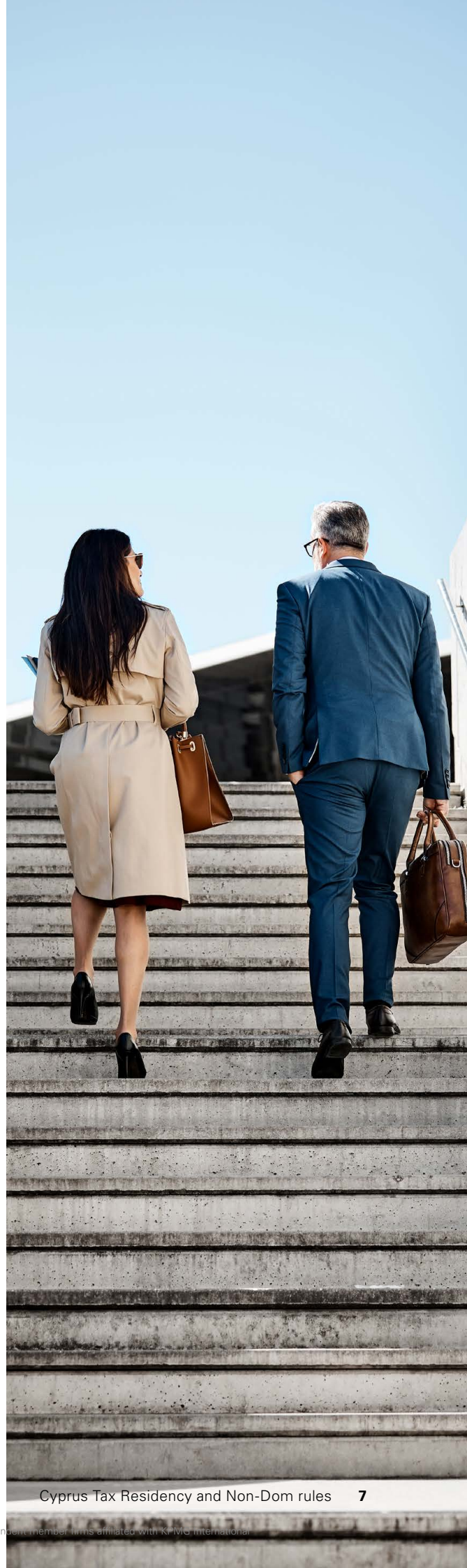
Type of Income	Income Tax	SDC
Dividends	Exempt	Exempt
Interest	Exempt	Exempt
Rental Income	Taxable	Exempt

Income tax rates

A tax resident individual will be subject to tax in Cyprus under the following 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



Exemptions for first employment in Cyprus

Exemptions regarding employment income

Individuals who were not Cyprus tax residents before the commencement of their employment in Cyprus, may be entitled to one of the following exemptions:

The 50% exemption rule under article 8(23A)

- Individuals with an annual employment income in excess of €55,000 who take up first employment in Cyprus, may be eligible for an exemption from taxation of 50% of their employment income from sources in Cyprus.

Notes:

- This exemption applies for a 17 year period commencing from the year of employment.
- The exemption is granted to an individual who has not been a Cyprus tax resident for at least 15 consecutive years prior to the commencement of the employment in Cyprus.
- Subject to grandfathering provisions, individuals who commenced employment in Cyprus prior to 2022, may still claim an exemption under article 8(23A), with a maximum lifetime duration of the exemption for 17 years as from the date of the commencement of employment in Cyprus.

The 20% exemption rule under article 8(21A)

- Individuals who take up first employment in Cyprus and do not qualify for the 50% exemption under article 8(23A), may be eligible for a 20% or €8,550 exemption (whichever is lower) from their employment income from sources in Cyprus.

Notes:

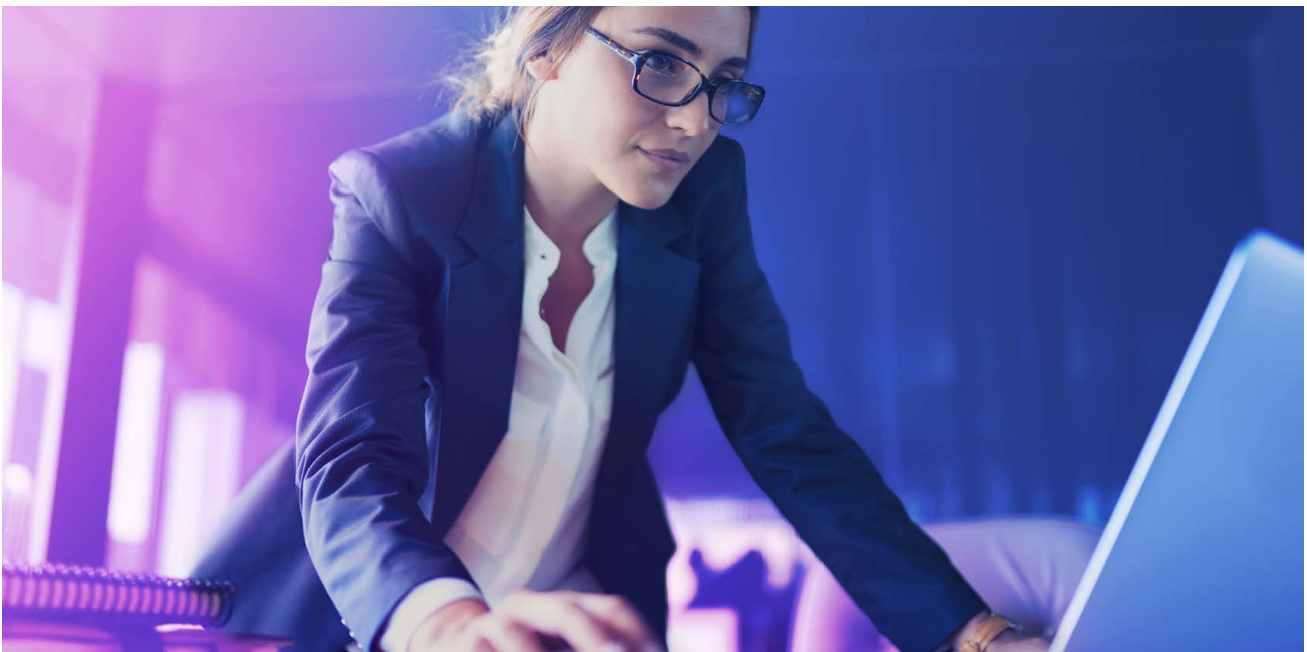
- This exemption applies for a period of 7 years commencing from the year following the year of commencement of employment in Cyprus.
- This exemption is granted to an individual who had been employed outside of Cyprus at a non-Cyprus tax resident employer for at least 3 consecutive years prior to the commencement of the employment in Cyprus.



Individuals who were not Cyprus tax residents before the commencement of their employment in Cyprus, may be entitled to one of the available exemptions for first employment in Cyprus.

Other exemptions

- 100% exemption on remuneration for salaried services rendered outside Cyprus for a period in excess of 90 days in a tax year to a non-Cyprus resident employer.
 - 100% exemption on lump sum payments from life insurance schemes or from approved provident funds.
 - Overseas pensions are exempt from tax up to the amount of €3.420 and taxed at the rate of 5% thereafter. The taxpayer may opt to be taxed in the normal way, where this special mode of taxation of income results in a higher tax liability (this election can be made from year to year).
 - Flat taxation at the rate of 8% (minimum tax of €10.000 per annum) available to fund managers of specific Cyprus-based funds in regards to earnings from carried interest, under conditions.
 - No inheritance and gift taxes.
 - No wealth taxes.
 - No immovable property taxes.
- Capital gains
 - Capital gains tax is only imposed on the disposal of immovable property situated in Cyprus, as well as on the transfer of shares directly or indirectly held in companies (other than listed shares) in which the underlying asset is immovable property situated in Cyprus and at least 50% of the fair market value of the shares is derived from the immovable property.
 - The sale of immovable property situated outside Cyprus is exempt from capital gains tax.



The Cyprus Social Insurance and National Health Insurance Systems at a glance

Social Insurance System

Any person who is undertaking employment activities in Cyprus is subject to social insurance contributions in Cyprus.

- The social insurance contributions for 2024 are capped to monthly earnings of €5.239 and annual earnings of €62.868. The social insurance contribution rate is 8,8% for the employee and 8,8% for the employer (for a total of 17,6%). 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. The cap mentioned above does not apply to the Social Cohesion Fund contributions. Instead, the Social Cohesion Fund contributions are applied on the gross remuneration received.
- Foreign nationals will be liable for social insurance contributions to the Cyprus Social Insurance System, if they are physically exercising their employment activities in Cyprus.
- An EU national may be eligible to remain insured in the Social Insurance System of the Member State (MS) of his/her employer for a period up to 24 months subject to conditions.

National Health Insurance System (NHIS)

The National Health Insurance System (NHIS) Law is applicable as of the 1 March 2019.

Under the NHIS rules, employers are contributing 2,9% and employees 2,65% on gross earnings with an annual cap of €180.000.

Table summarising the NHIS contribution rates

Category	Current rates
Employees	2,65%
Employers	2,90%
Self employed	4,00%
Income earners (e.g. rents, interests, dividends)	2,65%
Persons holding office	2,65%
Pensioners	2,65%

Table summarising the social insurance contributions for 2024

Fund	Percentage on employee's earnings		
	Employer	Employee	
Social Insurance	8,8%	8,8%	C
Redundancy	1,2%	-	C
Training and Development	0,5%	-	C
Social Cohesion	2%	-	NC
Total	12,5%	8,8%	

C=Cap at €5.239/month; NC= No Cap

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