

# Cyprus



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### Nicosia

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## 1. Types of tax

Cyprus generally does not impose inheritance taxes or wealth taxes.

### 1.1 Inheritance tax

There is no inheritance tax in Cyprus.

### 1.2 Gift tax

There is no gift tax in Cyprus.





### 1.3 Real estate transfer tax

There is a transfer tax payable to the Department of Land and Surveys for transfers of immovable property situated in Cyprus. See Section 3 below for the transfer tax rates.

Stamp duty on contracts for transfer of immovable property situated in Cyprus is charged at 0.15% on amounts from EUR5,001 up to EUR170,000 of the consideration and at 0.2% on any consideration above that sum up to a maximum of EUR20,000 per contract.

### 1.4 Contribution to the Central Agency for the Equal Distribution of Burdens

A seller who, as part of a sales transaction, transfers immovable property for which a general valuation has been set by the Department of Lands and Surveys is liable for a contribution equal to 0.4% on the sale proceeds.

A similar contribution is also due when transferring shares, as part of a sales transaction, of a company that is not listed in any recognized stock exchange and directly or indirectly owns such immovable property. The contribution, at the rate of 0.4%, is estimated by reference to the latest valuation of the immovable property carried out by the Department of Lands and Surveys.

Transactions entered into as part of loan restructuring or company reorganizations may be exempted from the above contribution.

## 1.5 Endowment tax

There is no endowment tax in Cyprus. The income arising from a scholarship, exhibition or any other educational endowment held by an individual receiving full-time instruction at a university, college, school or other recognized establishment is exempt from income tax.

## 1.6 Transfer duty

There is no transfer duty in Cyprus, except for real estate transfer fees and stamp duty as explained in Section 1.3 above.

## 1.7 Net wealth tax

There is no net wealth tax in Cyprus.

## 1.8 Others

See below.

### 1.8.1 Personal income tax

Cyprus taxes the worldwide income of its tax residents, while nontax residents are taxed only on certain categories of income derived from sources within Cyprus. Income from employment exercised within Cyprus is considered as Cyprus-source income in this respect.

An individual is considered to be a tax resident of Cyprus if he or she is present in Cyprus for, in aggregate, more than 183 days in any calendar year. For the purpose of calculating the days of residence in Cyprus, the day of departure from Cyprus is considered to be a day out of Cyprus, the day of arrival into Cyprus is considered to be a day in Cyprus, the arrival in Cyprus and departure from Cyprus on the same day is considered to be a day in Cyprus, and the departure from Cyprus and return to Cyprus on the same day is considered to be a day out of Cyprus.

In addition to the above, an individual who does not stay in any other state for one or more periods exceeding, in aggregate, 183 days in the same year of assessment and who is not tax resident in any other state in the same year of assessment, is considered to be resident of the Republic in that tax year, provided that he or she cumulatively meets the following:

- ▶ Stays in the Republic for at least 60 days in the year of assessment
- ▶ Exercises any business in the Republic and/or is employed in the Republic and/or holds an office for a person tax resident in the Republic at any time during the year of assessment
- ▶ Maintains a permanent residence in the Republic that is owned or rented by him or her

If the exercise of any business in the Republic and/or the employment in the Republic and/or the holding of an office for a person tax resident in the Republic is terminated, then the said person is not considered to be tax resident of the Republic in the particular year of assessment.

Personal income tax (PIT) rate for employees is levied based on the so-called Pay As You Earn (PAYE) system, in which the tax rate varies depending on the amount of the net annual taxable income earned per a tax year. See Section 3 below for PIT.

Employers are required by law to withhold PIT from all employees' salaries under the PAYE system.

The Cypriot Income Tax Law allows for a number of exemptions, deductions, allowances and reliefs.

### 1.8.2 Immovable property tax

As of 2017, the immovable property tax administered by the Tax Department has been abolished.

### 1.8.3 Capital gains tax

Capital gains tax (CGT) is imposed on profits from the disposal of:

- Immovable property situated in Cyprus
- Shares of companies whose property consists of, *inter alia*, immovable property situated in Cyprus
- Shares of companies that either directly or indirectly participate in a company or companies that own immovable property situated in Cyprus and at least 50% of the market value of such shares is derived from the relevant property
- Sale agreement of immovable property situated in Cyprus

Any trading profits derived from the disposal of shares of companies that directly or indirectly own immovable property in Cyprus will be subject to CGT if such profits are exempt under the Income Tax Law.

In cases involving a disposal of shares of companies that directly or indirectly hold property in Cyprus, the disposal proceeds subject to CGT are restricted to the market value of the immovable property held directly or indirectly by the company whose shares are sold.

In cases involving a disposal between related parties, the disposal proceeds subject to CGT are determined by reference to the market value of the property sold on the date of disposal.

#### Available exemptions:

- The disposal of shares listed on any recognized stock exchange is exempt from CGT.
- An exemption from CGT is granted on gains from the disposal of immovable property that was acquired between 17 July 2015 and 31 December 2016 provided that:
  - The property consists of land and/or building
  - It was acquired from an independent third party
  - It was not acquired through an exchange of property or donation/gift

#### The rest of the exemptions can be found in Section 4.5.

The tax is imposed on the net profit from disposal at the rate of 20%. The net profit is calculated as the disposal proceeds less the greater of the cost or market value on 1 January 1980 adjusted for inflation. Inflation is calculated using the official Retail Price Index. The index on 1 January 1980 was 67.15 (base year 1986).

## 1.9 VAT on immovable property

The sale of "new" buildings or part of buildings and the land on which they stand, and the sale of developed building land by taxable persons, are transactions subject to value-added tax (VAT) at the standard VAT rate (currently 19%). Also, as from 2 January 2018, the sale by taxable persons of undeveloped building land, which is intended for the construction of one or more structures in the course of a business activity, is subject to 19% VAT.

“New buildings” are defined as any buildings that satisfy the following conditions (update as of 11 November 2022 - council of ministers’ order):<sup>1</sup>

- ▶ The application for a building permit was filed with the authorities after 1 May 2004.  
And/or
- ▶ The sale is made within five years from the date of complete erection of the building (the building is ready for its intended use) and during those five years the building was not used systematically by a nonrelated party for at least two years.

Undeveloped building land subject to 19% VAT covers most land pieces, with the exception of those located in agricultural, environmentally protected, archaeological, livestock areas/zones and certain categories covered in Parliamentary Regulations.

The sale of shares in companies owning immovable property is exempt from VAT, but caution should be exercised in relation to deemed supplies provisions.

The sale of new buildings (or parts of them) may be subject to the reduced VAT rate of 5% if the buyer presents to the seller written authorization from the authorities for applying the reduced VAT rate of 5% for the acquisition of the primary residential property/dwelling in Cyprus.

As from January 2018, a recipient is liable to account for VAT under the reverse-charge mechanism, where a VAT-able supply of immovable property arises under loan restructuring and/or compulsory transfer to the lender. This is applicable for banking institutions and credit acquiring entities.

As from 20 August 2020, there is an extension to the applicability of the domestic reverse charge to transactions supplied by nontaxable persons (non-VAT registered), in relation to construction, modification, demolition, repair or maintenance of a property in the course of a business, with the recipient (as taxable person) having the obligation to self-account for VAT.

In addition, the renovation definition has been expanded to include in the 5% rate transactions concerning repairing and improving a private home within three years after its first occupation.

## 1.10 VAT on leasing of immovable property

As from 13 November 2017, 19% VAT is imposed on rental agreements for which the lease period starts on or after 13 November 2017, and the lessee is a taxable person with a VAT recoverability exceeding 90% in total outputs. The lessor has the right to opt out from taxation, treating such commercial leases as being VAT exempt (i.e., opts out). The opt-out is permanent and can only be withdrawn on the change of ownership.

Residential rentals constitute VAT-exempt transactions.

As from 1 January 2019, a long-term lease of immovable property that effectively transfers the right to dispose of the property as owner to the lessee constitutes a supply of goods subject to 19% VAT (specific conditions apply).

## 2. Who is liable?

This is indicated throughout the chapter.

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<sup>1</sup> This is subject to change within Q2 2023, given a pending VAT order subject to current consultation.



### 3. Rates

#### Transfer fees

Transfer fees paid to the Department of Land and Surveys are as follows:

Value per property (EUR)	%	Fees	Accumulated fees (EUR)
0-85,000	3%	2,550	2,550
85,001-170,000	5%	4,250	6,800
170,001 and above	8%		

At the time of transfer of a title of land and buildings, land registration fees are payable by the transferee. These fees are payable on the assessed value of the land and buildings on the date of transfer or, if the property was sold at an earlier date and the sale contract has been filed with the Land Registry Office, on the assessed value on the date of the sale contract.

The land transfer fees shown above are reduced to 50% for any purchase of immovable property.

No transfer fees are payable when the immovable property being transferred is subject to VAT. In addition, as of 1 September 2018, no transfer fees will be payable in cases where the transfer of land is made through a "hire purchase" arrangement. This is on the proviso that the said transfer will be subject to VAT.

#### Stamp duty

Stamp duty on contracts is charged as follows:

#### Receipts:

For amounts over EUR4	7 cents
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#### Contracts:

Contract value (EUR)	Stamp duty (EUR)
1-5,000	Nil
5,001-170,000	1.50 for every 1,000 or part of 1,000
Over 170,000	2 for every 1,000 or part of 1,000 with a maximum levy of 20,000
Unspecified amount	35

Agreements entered into in the course of an approved company reorganization are exempt from stamp duty.

**Immovable property tax**

Please refer to Section 1.7.2 above.

**PIT**

Taxable income (EUR)	Tax rate	Amount of tax (EUR)	Accumulated tax fees (EUR)
0-19,500	0%	0	0
19,501-28,000	20%	1,700	1,700
28,001-36,300	25%	2,075	3,775
36,301-60,000	30%	7,110	10,885
60,001 and above	35%		

## 4. Exemptions and reliefs

### 4.1 Educational endowment

See Section 1.4.

### 4.2 Lump-sum payments

Any lump sum received by way of retiring gratuity, commutation of pension, death gratuity or as consolidated compensation for death or bodily injury is exempt from PIT and is not subject to any other taxes in Cyprus.

### 4.3 Inheritance

Income received from individuals by way of an inheritance is not subject to any taxation in Cyprus.

### 4.4 Expatriate allowances

**Introduction**

Article 8 (21) of the Income Tax Law (ITL) applies to remuneration from any employment in Cyprus by an individual who was residing outside Cyprus before the employment began.

The individual is entitled to a 20% exemption on the lower of his or her total emoluments or EUR8,550 from employment in Cyprus. This exemption applies for five years commencing from 1 January of the year following commencement of employment (provided the employment started during or after 2012).

Following amendment of article 8(21) this exemption applies only for employment which commenced up until 26 July 2022.

Article 8 (21A) of the ITL applies to remuneration from an individual's first employment in Cyprus if the individual was employed outside of Cyprus by a nonresident employer for at least three consecutive years prior to the commencement of employment in Cyprus.

The individual is entitled to a 20% exemption on the lower of his or her total emoluments or EUR8,550 from employment in Cyprus. This exemption is granted to an individual whose first employment in Cyprus commenced after 27 July 2022 and continued until 2027.

The exemption is granted for seven tax years following the year of employment in Cyprus.

Article 8 (23) of the ITL applies to remuneration exceeding EUR100,000 per annum from any employment in Cyprus by an individual who was a tax resident outside Cyprus prior to the commencement of employment.

The individual is entitled to a 50% exemption on his or her total remuneration from the employment in Cyprus.

The 50% exemption is not available to individuals whose employment commenced on or after 1 January 2015, if such individuals were:

- Tax residents of Cyprus for a period of three out of five years preceding the year of employment
- Tax residents of Cyprus in the year preceding the year of commencement of employment

Following amendment of Article 8(23), this exemption applies only for employment that commenced before 26 July 2022.

Article 8 (23A) of the ITL applies to remuneration from first employment in Cyprus by a person who was a resident outside Cyprus for at least 10 consecutive years prior to the commencement of employment in Cyprus.

The individual is entitled to a 50% exemption on his or her total remuneration if employment commenced after 1 January 2022 and the emoluments exceeded EUR55,000 during the first or second year of employment in Cyprus. The exemption is granted for 17 tax years commencing as of the year of employment in Cyprus.

An individual whose employment commenced before 1 January 2022 and who was not a Cyprus tax resident for at least 10 consecutive years immediately before the commencement of employment in Cyprus may also be eligible to claim the 50% exemption during any tax year in which this remuneration exceeds EUR55,000 starting from tax year 2022 until the completion of 17 consecutive tax years beginning from the tax year in which the employment commenced in Cyprus, provided one of the following conditions are met:

- 1) The individual has benefited from the 50% exemption under Article 8(23) and has been continuously employed in Cyprus from the year of commencement of employment until tax year 2021.
- 2) The individual's first employment in Cyprus commenced during the years 2016-2021 with remuneration exceeding EUR55,000 per year.
- 3) The individual's first employment in Cyprus commenced during the years 2016-2021 with remuneration not exceeding EUR55,000 per annum, but exceeded this amount per annum within six months from 26 July 2022.

## 4.5 Gifts/donations of real estate property

The following are exempt from Cyprus CGT:

- Transfer by reason of death
- Gifts to relatives within the third degree of kindred
- Gift to a company of which the shareholders are and continue to be members of the disposer's family for five years after such gift
- Gift by a company, of which all the shareholders are members of the same family, to any of its shareholders when the property gifted had been acquired by the company as a gift; the property must remain in the hands of the donee for a period of at least three years



- ▶ Gift to the Republic or to a local authority for educational or other charitable purposes or to approved charitable institutions
- ▶ Exchange or sale in accordance with the Agricultural Land (Consolidation) Laws
- ▶ Exchange of properties when the values of the immovable properties being exchanged are equal
- ▶ Gain on disposal of shares that are listed on any recognized stock exchange
- ▶ Gains from transfer of property or shares in the course of an approved company reorganization

## 5. Filing procedures

Although there is no estate tax, since 1 January 2000, 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 person within six months from the date of death.

## 6. Assessments and valuations

Not applicable.

## 7. Trusts, foundations and private purpose funds

### 7.1 Trusts

In 2012, the framework of the International Trust Law was modernized with the approval of the island's House of Representatives. The new features aim to adapt to the current and future needs of investors. According to Cyprus International Trust Law 20(I)/2012, as amended, the settlor of the trust shall not be resident for tax purposes of Cyprus during the year preceding the year in which the trust is formed. In addition, at least one of the trustees must be resident for tax purposes in Cyprus. The beneficiaries of the trust can be either resident or not for Cyprus tax purposes.

In principle, non-Cypriot tax-resident beneficiaries of a trust shall be subject to taxation in Cyprus only on income arising from sources in Cyprus. Conversely, Cypriot tax-resident beneficiaries shall be subject to tax in Cyprus on their worldwide income.

### 7.2 Private collective investment schemes

Private collective investment schemes (Alternative Investment Funds) are regulated in Cyprus by the Cyprus Securities and Exchange Commission. The income derived by a collective investment scheme of a corporate form is taxable unless an exemption applies under the law (e.g., dividend exemption for corporate (income) tax purposes). Collective investment schemes of a noncorporate form are treated as tax transparent. The distribution of profits to Cyprus tax residents and domiciled individuals is subject to a Special Defence Contribution tax at 17%. Furthermore, no withholding tax applies in cases involving a distribution of profits to non-resident investors or investors who, although tax residents, are not domiciled in Cyprus.

## 8. Grants

The income arising from educational grants is exempt from income tax. Other grants should generally not be subject to PIT in Cyprus unless they relate to revenue-nature trading activities, in which case they are treated as taxable.

## 9. Life insurance

Lump-sum life insurance payouts are exempt from income tax and are not subject to any other taxes in Cyprus. However, in case of cancellation of a life insurance policy within six years from the day of its issue, a percentage of the premiums, which were previously allowed, is taxable as follows:

Cancellation within three years	30%
Cancellation within four to six years	20%

## 10. Civil law on succession

As explained above, Cyprus does not levy any estate or inheritance taxes. Succession law issues have to be addressed by Cypriot legal counsel.

## 11. Estate tax treaties

Cyprus has not entered into any estate tax treaties.

### 11.1 Double-taxation treaties

Cyprus has concluded double-taxation treaties with over 65 jurisdictions (including EU jurisdictions such as Austria, Belgium, Germany, Greece, Malta and the United Kingdom, and jurisdictions outside the EU, such as China, India, the Russian Federation, Ukraine and the United States).

More treaties are under negotiation or awaiting ratification.

Both in accordance with the domestic tax law (unilateral relief) as well as based on the provisions of a double-tax treaty (bilateral relief), it is possible to claim double-tax relief for any foreign tax suffered on income that is taxable in Cyprus, provided that the relevant documentation supporting the incurrence of foreign tax is available. Therefore, any foreign tax incurred is creditable against the resulting tax liability arising in Cyprus on the taxation of income (on which foreign tax was suffered). However, the foreign tax relief cannot exceed the resulting Cypriot tax liability. Any excess foreign tax credits are wasted (i.e., cannot be set off against other sources of income) and cannot be carried forward to future periods.