



## CYPRUS INTRODUCES “DOMICILE” CONCEPT: AIM TO ATTRACT HIGH-EARNERS RELOCATE TO CYPRUS

### Introduction

In an effort to enhance the competitiveness, fairness and simplicity of the Cyprus Tax system and make it more attractive to foreign investors, the Cyprus Government passed on the 9<sup>th</sup> of July 2015 among others the introduction of “Domicile” concept. The introduction of the non-domicile rules aims to attract high-earners relocate to Cyprus and use Cyprus as a business centre, by transferring the headquarters of their business and creating real substance.

### The Case before the Amendment of the Law

An individual who spends a period or an aggregated period of more than 183 days in a tax year in the Republic of Cyprus is subject to both Income Tax and Special Defence Contribution (SDC).

Domestic or foreign-sourced income of a Cyprus resident, taking the form of dividends, interest or rent was subject to SDC.

### The Amendment of the Special Defence Contribution

According to the amendment of the Law and the non-domicile rules introduced, an individual who is a tax resident of Cyprus under the provisions of the Income Tax Law (183 days rule mentioned before) **BUT** he is “**not-domiciled**” in the Republic of Cyprus, will be **exempt from SDC**.

For the purposes of the Law the term “**domiciled in Cyprus**” is defined as EITHER:

**A.** An individual who has a **domicile of origin** in the Republic of Cyprus according to the provisions of the **Wills and Succession Law**, it is the domicile of his/her father at the time of birth.

**OR**

**B.** An individual who is considered a Cyprus tax resident as per the Income tax law for a period of at least 17 years out of the last 20 years before the relevant tax year, irrespective of his domicile of origin.

Nevertheless the above **will not apply**:

- (i) Where an individual acquires and maintains a **domicile of choice** outside the Republic of Cyprus as per the Wills and Succession Law, **provided that** this individual was not a Cyprus tax resident as per the Income Tax Law for any period of at least 20 consecutive years before the relevant tax year.

According to Wills and Succession Law, an individual acquires a domicile of choice by setting his habitation in any place outside the Republic of Cyprus with the intention of making it his permanent or indefinite home but not otherwise. Therefore in order for a domicile of choice to be acquired both must exist: - intention to acquire a domicile of choice (animus) and residence (factum).

or

- (ii) Where an individual has not been a Cyprus tax resident as per Income Tax Law for a period of at least 20 consecutive years right/ immediately before the amendment of the Law came into effect, that is the 16<sup>th</sup> of July 2015. Thus, even if an individual has a Cypriot domicile of origin, may not be considered as domiciled in the Republic of Cyprus under this provision of the Law.

Some general points are:

- an individual cannot be without a domicile at any given time
- any individual can only have one domicile at each particular time
- the existing domicile continues until a new one is acquired
- domicile is distinct from nationality, citizenship and residence status.

## **TAX EFFECT**

**A Cyprus tax resident individual who spends more than 183 days in the Republic of Cyprus would be liable ONLY for Income Tax Law purposes and would be exempted from Special Defence Contribution (SDC) given that is not considered domiciled in Cyprus\*. Consequently that individual would be exempt from SDC regarding income from Dividends, Interest and Rent irrespective if from sources in Cyprus or abroad.**

**Given the exemptions under Income Tax Law too, Dividends and Interest received both from Cyprus and worldwide sources would be totally exempt from Tax in Cyprus.**

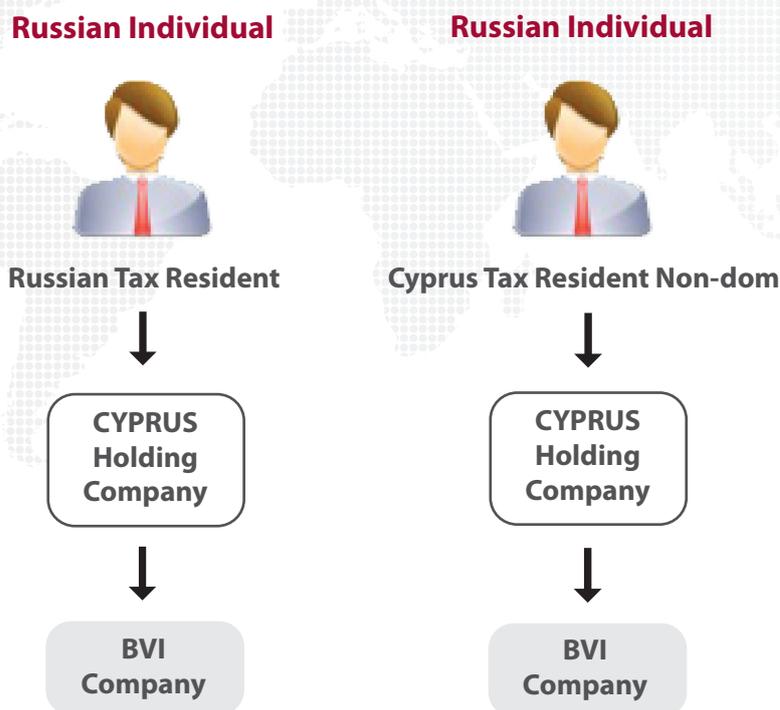
**\*An individual is not domiciled in the Republic of Cyprus if:**

- 1. An individual doesn't have domicile of origin in Cyprus;**

**and**

- 2. The individual was Cyprus tax resident for less than 17 out of the last 20 years before the relevant tax year;**

## What actual the domicile concept means in Real Life and How a foreign person i.e. Russian individual can make tax effective use of Cyprus domicile rules?



### Current structure:

1. Russian tax resident individual is 100% shareholder of a Cyprus Holding Company;
2. The Cyprus Holding Company holds the shares of a BVI Company;
3. Any undistributed profits of a foreign company will be subject to CFC rules in the hands of the Russian BO at 13%;
4. Any dividend income received by the Russian BO from Cyprus Holding Company would be subject to 13% income tax in Russia;

### Proposed structure:

1. Russian individual reallocate to Cyprus and become Cyprus tax resident (spends in Cyprus more than 183 days in a tax year), but who is not domiciled in the Republic of Cyprus;
2. The new Cyprus tax resident individual is 100% shareholder of a Cyprus Holding Company, which holds the shares of a BVI Company;
3. ***A Cyprus tax resident who is not considered Domiciled in Cyprus, would be exempt from the taxation of dividend or any interest income;***

## **More Tax incentives for foreign individuals to reallocate and become Cyprus tax residents**

**Personal Income tax rates for employment income in Cyprus vary from 0 to 35% (first €19,500 is tax free) with the following exemptions:**

- **Relief for high paid individuals taking up employment in Cyprus**

50% exemption applies to non-residence individual taking up residence in Cyprus for an employment in Cyprus with income exceeded €100,000 per annum for a period of 5 years (expected extension of the relief to 10 years);

- **Relief for non-resident individuals taking up employment in Cyprus**

20% exemption of the remuneration with a maximum amount of € 8,550 from any office or employment exercised in Cyprus by an individual who was resident outside Cyprus before commencement of employment. The exemption applies for a period of 3 years, with expected extension for the relief to 5 years;

- **Employment income from working abroad**

100% exemption of the remuneration income of a Cyprus tax resident individual for salaried services rendered outside Cyprus for more than 90 days in a tax year to a non-Cyprus resident employer or to a foreign permanent establishment of a Cyprus resident employer;

- **Pension received by a resident individual in respect of past employment exercised outside Cyprus**

Pension received in respect of past employment exercised outside Cyprus is taxed in Cyprus at a rate of 5% on amounts in excess of €3,420;

- **100% exemption of the whole amount of any gain arising from disposal of titles such as shares and bonds;**

- **100% exemption of any lump sum received as a retiring gratuity , commutation of pension, death gratuity or as consolidated compensation for death or injury;**

- **100% exemption of any lump sum repayment from life insurance schemes or from approved provided funds;**

- **No estate duty, wealth tax, inheritance tax or gift taxes;**

- **No Capital Gains Tax on the sale of immovable property situated outside Cyprus;**