



THE CYPRUS NON-DOMICILE SCHEME

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## INTRODUCTION

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

## TAXATION AND DEFINITION OF CYPRUS TAX RESIDENTS

**Cyprus Tax Residents\*** are subject to both Income Tax and Special Defence Contribution (SDC) on their worldwide income.

**\* Cyprus Tax resident is defined as follows:**

- (a) An individual who spends a period or an aggregated period of more than 183 days in a tax year in the Republic of Cyprus **OR**
- (b) An individual who spends 60 days in a tax year in the Republic of Cyprus and satisfies ALL of the following criteria:
  - (i) He/she is not tax resident nor resident in any other country within a tax year by spending more than 183 days in that country, in that year;
  - (ii) He/she carries on business in Cyprus and/or is employed in Cyprus and/or holds an office in a Cyprus tax resident company at any time during the tax year; and
  - (iii) He/she maintains a permanent home in Cyprus that is either owned or rented.

If the employment/business or holding of an office as per the second condition is terminated during the fiscal year, then the individual shall cease to be considered Cyprus tax resident for that tax year under these extended rules.

## THE AMENDMENT OF THE SPECIAL DEFENCE CONTRIBUTION

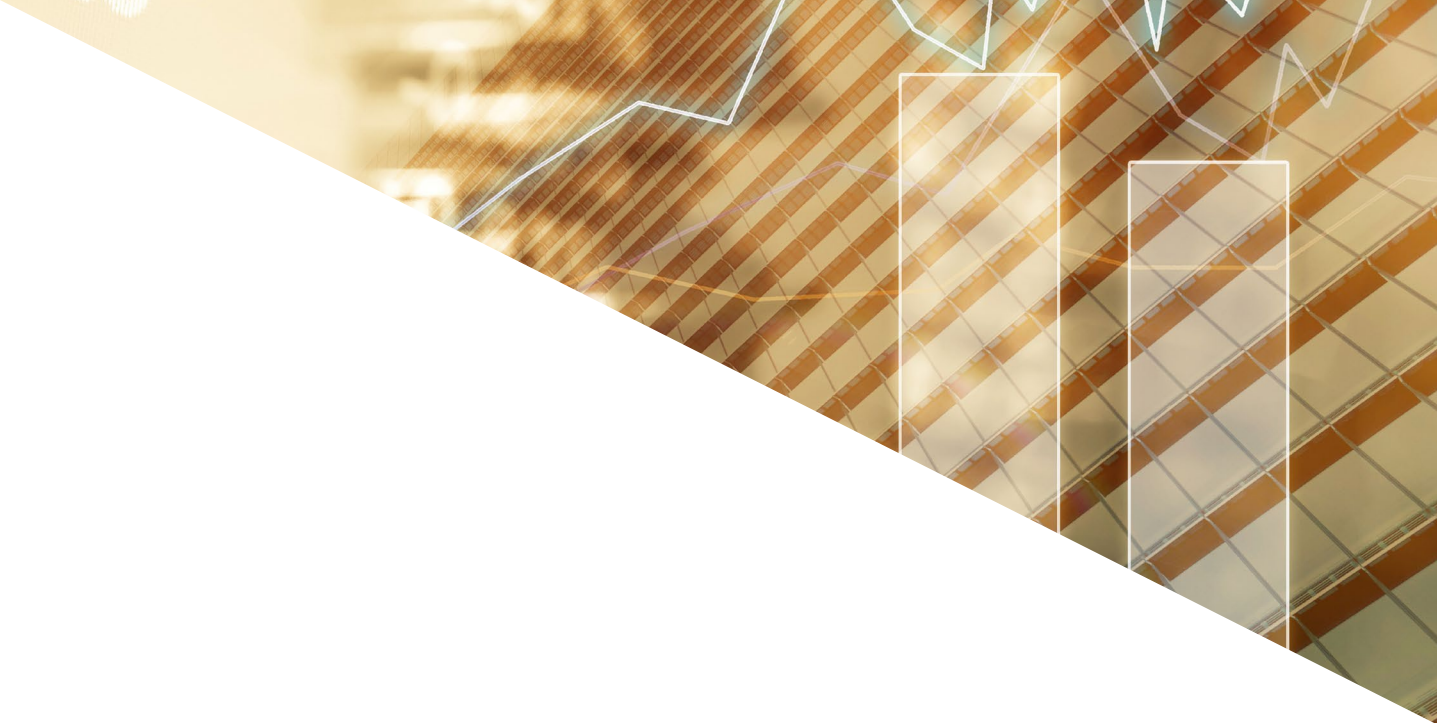
According to the domicile rules introduced, an individual who is a tax resident of Cyprus under the provisions of the Income Tax Law BUT is "not-domiciled" in the Republic of Cyprus, will be exempt from SDC.

**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, which is the domicile of his/her father at the time of his 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/ her 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 the Wills and Succession Law, an individual acquires a domicile of choice by choosing to live 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: the 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 immediately before the amendment of the Law came into effect, namely on the 16th July 2015. Thus, even if an individual has a Cypriot domicile of origin, he/she 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 who is not domiciled in Cyprus would be liable ONLY to Income Tax and would be exempt from SDC. Consequently that individual would be exempt from SDC regarding income from Dividends, Interest and Rent irrespective if from sources in Cyprus or abroad.

Dividends and Interest income which is not connected to the ordinary carrying on of business received both from Cyprus and worldwide sources are also exempt from Income Tax and thus would be totally exempt from Tax in Cyprus.

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