



# Cyprus Tax Residency

For High Net Worth Individuals

## Cyprus Tax Residency

The Cyprus Income Tax Law provides a number of tax reliefs that either existed under Cyprus Tax Law or came into effect from 1 January 2012.

An individual is considered tax resident of Cyprus if he stays in the Republic for a period or periods exceeding in aggregate 183 days in any calendar year. If the 183 days are met the individual is considered tax resident for the whole year.

In the case of tax resident individual, tax is levied on worldwide income accruing or arising from sources both within and outside Cyprus.

Cyprus offers a second tax residency test, the “60 Day rule”, which is effective since 2017.

### The introduction of the 60 Day rule

In order to become a Cyprus tax resident on the basis of the "60 day rule" one must meet the following conditions:

- remain in Cyprus for at least 60 days during a tax year, and
- do not reside in any other single state for a period exceeding 183 days, and
- is not tax resident in any other state; and
- carry out business activities and/or work in Cyprus and/or be a director in a Cyprus tax resident company and;
- maintain a permanent residence in Cyprus either owned or rented.

## Tax Residency & Domicile

The key to understanding personal taxation in Cyprus lies with the important concepts of 'tax residency' and 'domicile'.

**Domicile:** According to the domicile concept under the tax legislation, every person has at any given time either:

- i. the domicile received by him/her at birth ('domicile of origin'), or
- ii. the domicile (not being the same as the domicile of origin) acquired or retained by him/her by his/her own act ('domicile of choice').

Under (i) above, the *domicile of origin* of a legitimate child is that of the father's, or in the case of an illegitimate child, that of the mother's.

Under (ii), a person may acquire a *domicile of choice* by establishing his/her home at any place in Cyprus with the intention of permanent or indefinite residence.

For tax purposes however, a non-domiciled individual will be deemed as domiciled in Cyprus if he/she has been a Cypriot tax resident for at least 17 out of the last 20 years prior to the relevant tax year (deemed domicile rule).

An individual who has a domicile of origin in Cyprus, may still qualify as non-domiciled subject to certain conditions, namely to have not been a Cyprus tax resident for a consecutive period of 20 years.

## Taxable Income

A tax resident individual, irrespective of his/her domicile status, is subject to income tax on his/her worldwide income, although there are a number of favourable deductions and exemptions in the legislation as explained below.

A non-tax resident individual is subject to income tax on income accruing or arising only from sources within Cyprus and is exempt from any Cyprus tax on dividend and interest income.

However, where a person is **non-domiciled in Cyprus**, but is a Cyprus tax resident, the following main benefits exist, for a period of at least 17 years, i.e. until the person is deemed domiciled in Cyprus:

- no Cyprus Special Defense tax is payable on receipt of **dividend income** from anywhere in the world (although on foreign dividends, the source country may withhold taxes);
- the provisions whereby a Cyprus tax-resident company must declare at least 70% of its after-tax accounting profits within two years (known as the 'deemed dividend distribution rules'), do not apply to that proportion of shareholding beneficially owned by a non-Cyprus domiciled individual;
- no Cyprus Special Defense tax is payable on receipt of **interest income and rental income** from anywhere in the world (although on foreign interest, the source country may withhold taxes).



## Income Tax Bands & Rates

Taxable income, i.e. gross income less exemptions less deductions, up to €19,500 is exempt from income tax. The taxable income exceeding this amount is subject to progressive tax rates ranging from 20% to 35% (the higher rate being for taxable income exceeding €60,000). Standard progressive personal tax rates will apply on the income in excess of the tax-free allowance as follows:

Taxable income €	Rate
€0 - €19,500	0%
€19,501 - €28,000	20%
€28,001 - €36,300	25%
€36,301 - €60,000	30%
Over €60,000	35%

## Relief for high salaried employees taking up employment in Cyprus

The following exemption is available for individuals moving to Cyprus to commence employment effective from 1<sup>st</sup> January 2022:

### ***50% exemption of employment income***

The 50% exemption on income tax is granted to individuals who were not residents of Cyprus for 15 consecutive years prior to any employment in Cyprus. Under these circumstances, an individual is considered to have commenced first employment in Cyprus when for the first time (after a period of 15 consecutive years during which he was outside of the republic and was not performing salaried services in Cyprus) commences his employment in Cyprus to an employer resident in Cyprus to an employer resident in Cyprus or to a non-Cyprus resident employer.

The 50% exemption on income tax is granted to individuals, who meet the conditions for the exemption, even if they change employer.

The 50% exemption on income tax is granted for 17 consecutive years starting from the tax year of employment in the Republic.

### ***Income tax exemption for overseas employment***

Where an employee is Cyprus tax resident, then salaries from rendering services outside Cyprus to a non-Cyprus employer or to a foreign permanent establishment of a Cyprus resident employer for more than 90 days in a tax year are exempt from income tax. In order for the 90 day rule to apply there must be an employee/employer relationship.

### ***Exemptions on gains arising from the disposal of securities***

Any gains arising from the disposal of shares, bonds and other similar equity financial instruments are exempt from income tax. Any income from a buy-back or redemption of units in funds is also exempt from income tax.

### ***Exemption from capital gains tax on sale of real estate***

Profit arising from the disposal of immovable property situated outside Cyprus is exempt from any taxation (including capital gains tax) in Cyprus, although the foreign property may be subject to tax in the jurisdiction where it is located.

## Advantages available to Pensioner Expatriates

A Cyprus tax resident receiving a pension from abroad can choose one of the following two options to be taxed on the pension income, the choice being available every year:

- the pension can be taxed under the progressive income tax rates with the first €19,500 of net taxable income being tax-free; or
- the first €3,420 of the foreign pension tax free, with the remaining balance being taxed at a flat rate of 5%.

Any lump sum received as a retirement gratuity is exempt from tax.

## Deductions

In general, the below deductions are available for Cyprus tax resident individuals:

- donations to charities that have been approved by the Department of Taxation; payments relating to special contribution;
- payments relating to contributions to the Social Insurance Fund and similar contributions, even when paid abroad;
- payment relating to premiums for life insurance (limited to 7% on the insured capital amount) and contributions to pension plans;
- there is an overall limit on personal allowance deductions (i.e. deductions for life-insurance premiums and contributions to funds including pension and social insurance) of 1/5 of the taxable income before these deductions;
- payments relating to premiums paid to approved medical funds are tax deductible, provided that they do not exceed 1,5% of the remuneration.

## Wealth, Gift, Inheritance, Endowment and Exit Taxes

Cyprus generally does not impose wealth, gift, inheritance, endowment or exit taxes.

## Social Insurance Contributions

The rate of Social insurance contributions is applied to a maximum level of emoluments. The maximum level of emoluments for 2023 is €60.060 (weekly €1.155/monthly €5.005) (for year 2022 the levels were €58.080, €1,117, €4.840)

The rate of 8,3% applies for both the employer and the employee as from 1 January 2019 and for the next five years. Thereafter, the rate will increase by 0,5% every five years until it reaches 10,3% as from 1 January 2039.

As from 1 January 2019 the contributions of self-employed persons are 15,6% of their income (14,6% for 2014-2018). Thereafter, the rate will increase by 1% every five years until it reaches 19,6% as from 1 January 2039. The amount of the contributions is subject to a lower and a maximum limit, depending on the profession or trade of the Self-Employed Person. These limits are set on an annual basis.

### Other employer's contributions

The employer makes the following other contributions based on employee's emoluments:

Social cohesion fund	2,0%*
Redundancy fund	1,2%**
Industrial training fund	0,5%**
Holiday fund (if not exempted)	8,0%**

\*social cohesion fund is calculated on total emoluments and has no maximum level

\*\*Restricted to the maximum level of emoluments as with the social insurance contributions

## National Health System (NHS) - GESY

As per National System Law of 2001 (89(I)/2001 as amended 2017), a national health system is introduced in Cyprus aimed to provide to the population equal access to a holistic health care system. Patients will have the option to select a health care provider from the private as well as the public health care sector.

Contributions relating to the implementation of the National Health System (NHS) will start from 1 March 2019, and will increase from 1 March 2020 as per the table below:

Ref	Category	Applied on	Phase B (01/03/2020)
(i)	Employees	Own emoluments	2,65%
(ii)	Employers	Employee's emoluments	2,90%
(iii)	Self-employed	Own income	4,00%
(iv)	Pensioners	Pension	2,65%
(v)	Persons holding office*	Officers' Remuneration	2,65%
(vii)	Persons earning rental, interest, dividend and other income	Rental, Interest, Dividend Income etc	2,65%

*\*Relates to holders of public or local authority office or other office, the income out of which does not come within the scope of (i) or (iii) or (iv) or (viii)*

**NHS contributions are capped at €180.000 total annual incomes.**



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