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CYPRUS IS “THE JURISDICTION” FOR NON-DOMS AND HIGH EARNERS

In July 2015, the House of Representatives enacted into law a number of significant tax proposals. They purport to modernize the framework of the Cyprus tax system and further enhance Cyprus' attractiveness as a tax efficient jurisdiction.

The changes offer compelling advantages to individuals from a personal tax perspective and many now consider Cyprus as being the most tax efficient jurisdiction for wealthy entrepreneurs.

An effort to attract expatriates and high net worth individuals to adopt non-dom tax resident status in Cyprus is made. Under the non-domicile rules, Cyprus tax resident individuals who are not domiciled in Cyprus are completely exempt from Special Contribution for Defence (SDC) on dividends (presently 17% of dividends received), interest (30% of interest received) and rental income. The total tax exemption makes the holding of investments in dividends and/or interest earning financial assets including shares, bonds etc in Cyprus and anywhere in the world held by non-Cyprus domiciled individuals, extremely attractive.

Who qualifies as “Non-Dom”?

The majority of individuals not born in Cyprus or who have not lived in Cyprus for the last 20 or more years, qualify for the non-dom tax residency status. Non-dom status is not linked to one's citizenship and, by definition, cannot reside in Cyprus permanently.

The term “domiciled in Cyprus” is defined in the law as an individual who has a Cypriot domicile of origin in accordance with the Wills and Succession Law (WSL) acquired at birth. As a rule, it is the same as the domicile of the father, and in exceptional cases, the mother, at the time of birth.

It does not include:

(a) an individual who has obtained and maintained a domicile of choice outside Cyprus in accordance with the WSL, provided that such an individual has not been a tax resident of Cyprus for a period of 20 consecutive years, or

(b) an individual who has not been a tax resident of Cyprus for a period of 20 continuous years prior to the introduction of the law. Notwithstanding this, an individual who has been a tax resident of Cyprus for at least 17 years out of the last 20 years will be considered to be “domiciled in Cyprus” and be subject to SDC regardless of his/her domicile of origin.

Introduction of “Domicile” in the SDC Law

SDC in Cyprus imposes tax on certain categories of passive income (interest, dividends and rental income) received by persons who are considered to be residents of Cyprus for tax purposes, subject to any available exemptions. The SDC Law also includes provisions for the deemed distribution of profits of Cypriot tax resident companies to the extent that the shareholders of such companies are Cypriot tax residents.

An individual is considered to be a resident of Cyprus for tax purposes if he/she is physically present in Cyprus for a period or periods exceeding in aggregate 183 days during a calendar year.

The SDC Law is amended so that an individual will now be subject to SDC if he/she is both a resident for tax purposes of Cyprus **and** domiciled in Cyprus.

With the introduction of “non-domicile” or “non-dom” rules, a Cyprus tax resident individual who is not domiciled in Cyprus will effectively not be subject to SDC in Cyprus on any interest, dividends and rents received, regardless of whether such income is derived from sources within Cyprus or outside and regardless of whether such income is remitted to a bank account or economically used in Cyprus.

It must be noted that no further tax is imposed on individuals under the Income Tax Law in respect of interest and dividend income.

Income exemption for high earning expatriates

(a) currently remuneration from any employment in Cyprus by an individual who was not a resident of Cyprus before the commencement of the employment enjoys a 50 percent exemption from income tax for a period of 5 years provided that the annual remuneration exceeds €100,000. This is applicable for employments commencing as from 1 January 2012.

The law extends the period for which the exemption is available from 5 to 10 years.

As regards employment contracts commencing from 1 January 2015, there is a further requirement that the individual was not a Cyprus tax resident for 3 or more years in the immediately preceding 5 tax years prior to commencement of such employment and was not a tax resident in the tax year immediately prior to commencing employment in Cyprus

(b) Income tax legislation currently also provides for a 20 percent exemption (subject to a maximum of €8,550 per annum) from income tax from any employment exercised in Cyprus by an individual who was not a Cyprus resident before commencing such employment. This exemption applies for 3 years commencing immediately in the tax years following commencement of employment. The new amendments extend this period from 3 to 5 years with the last year for which this exemption is available being 2020.

In conclusion, individuals eligible for the 50 percent exemption are not entitled to the 20 percent exemption.

The maximum income tax rate on personal income in Cyprus is presently set at 35 percent for income excess of €60,000. The abovementioned 50 percent exemption means the effective income tax rate on eligible employment income for such high earners will range from around 8 percent to below 17.5 percent, depending on personal circumstances.

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