

Attractive provisions of the Cyprus tax regime and the new Domicile Concept

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Cyprus is considered as an important destination for foreign investors primarily because of its attractive tax regime. Further below we set out some important provisions of the local tax regime together with some recent developments in the area.

SECTION A. General advantages of the Cyprus tax regime include:

- One of the lowest corporate tax rate in EU which is 12,5%
- Exemption of dividend income from tax (subject to conditions)
- Exemption of profits realized on disposal of securities irrespective of whether the profits and gains are considered to be of a revenue or capital nature. Securities, as defined in the law, include shares, bonds, debentures, founder's shares and other securities of companies or other legal persons and options over such securities
- In case of disposal of shares by a company tax resident of Cyprus, no tax should arise provided that the company of which the shares are disposed does not own directly or indirectly immovable property in Cyprus
- No withholding taxes on dividends and interest paid to non-tax residents
- A Cyprus company may be entitled to a notional interest deduction (NID) on the introduction of a new equity up to 80% of its taxable income decreasing the effective corporate tax rate to 2,5% (subject to conditions)
- Interest deductibility. Interest incurred by a Cypriot company for the acquisition of fixed assets used in the business for the generation of taxable income is tax deductible
- Cyprus does not have any "thin" capitalisation rules or minimum capitalisation requirements
- Only 20% of the net profits derived by a Cypriot company from the exploitation of its intellectual property is subject to tax at the corporate income tax rate of 12.5%. The net profit is calculated after deducting all direct expenses associated with the production of income or profit, including the tax depreciation on acquisition cost of the intellectual property in each of the first 20 years of ownership. In calculating the qualifying profits the "Nexus" approach is adopted
- Profits of a permanent establishment on a Cypriot tax resident company maintained abroad are generally exempt from tax in Cyprus (subject to conditions)

- Foreign exchange neutrality: Cypriot companies are exempt from taxation on foreign exchange (FX) gains, with the exception of FX gains arising from trading in foreign currencies and related derivatives
- There is a wide network of tax treaties with more than 60 countries
- Unilateral tax credit relief: Relief for taxes paid abroad is in the form of a tax credit if the respective income is subject to tax in Cyprus. The relief is given unilaterally irrespective of the existence of a tax treaty and where a treaty is in force, the treaty provisions apply if more beneficial

SECTION B. Recent tax incentives for foreign investors individuals to relocate their tax residency in Cyprus

- Introduction of non-domicile status based on which a non-domiciled individual, who is relocated and become tax resident of Cyprus (physically present in Cyprus for more than 183 days) is exempt from tax on dividends and interest income. More specifically, 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 9th 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. 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.
- 50% exemption of the remuneration of any employment exercised in Cyprus provided that the remuneration exceeds Euro 100.000 per annum (subject to conditions).
- The lower of 20% of the remuneration from an employment, which is exercised in Cyprus by a person who was a non-tax resident before the commencement of his/her employment, and €8.543 is deducted from the taxable income. This exemption applies for a period of five years starting from the 1 January of the year following the year in which the employment in Cyprus commenced with the last eligible tax year being 2020.
- A Cypriot resident individual working outside Cyprus for a non-Cypriot employer or an overseas branch of a Cypriot employer is exempt from taxation on the remuneration from the rendering of overseas salaried services for an aggregate period in the year of more than 90 days.

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| Website: www.erotocritou.com | Telephone: +35725370101 | Fax: +35725370102 |
Email: info@erotocritou.com