



The new non domiciled rules in Cyprus

In July 2015, in an effort to enhance the attractiveness of Cyprus as an international business and financial centre and improve the competitiveness, fairness and simplicity of the Cyprus Tax system, the Cyprus Government passed among others the introduction of the "Domicile" concept through an amendment to the Special Contribution for the Defence of the Republic of Cyprus Law of 2002 as amended (hereinafter referred to as the 'SDC Law').

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

Before the amendments to the SDC Law, any person who was considered to be a resident of Cyprus for tax purposes was liable to pay a special contribution for defence tax on rent, dividends and interest. Following the amendments, a distinction is drawn between tax residence of Cyprus who are domiciled in Cyprus and those who are not. The new "non-dom" rules provide that individuals who are not domiciled in Cyprus, would be exempted from payment of the special defence tax on dividends, interest and rental income, despite the fact that they may be Cypriot tax residents. This exemption will apply to income even if derived from sources within Cyprus and regardless of whether such income is used in Cyprus.

Definition of Non-Dom

The term "domiciled in Cyprus" is defined by the law as a person who has either his/her domicile of origin

(given at birth) in Cyprus or domicile of choice (establishing a home with the intention to reside in Cyprus permanently or indefinitely).

An individual is considered to be domiciled in Cyprus if he or she has a domicile of origin (given at birth) unless an individual has:

- Obtained and maintained domicile of choice outside Cyprus, given that such an individual has not been a Tax Resident of Cyprus for a period of 20 consecutive years preceding the tax year, or
- Not been a Tax Resident of Cyprus for a period of 20 consecutive years prior to the introduction of the law.

An individual who has been a Tax Resident of Cyprus for at least 17 years out of the last 20 years preceding the tax year will be considered to be domiciled in Cyprus, and as such will be subject to special contribution for defence from the 18th year.

Advantages for the 'Non-Dom' Individuals:

As from 16th July 2015, individuals who are Cyprus tax residents and qualify as non-doms will benefit from the following:

- (a) **Dividend income** earned from foreign or local investments will not be subject to SDC in the amount of 17%. In addition, dividend income is unconditionally exempt from Income Tax. Therefore, the tax payable by a Cyprus resident non-dom on dividend income will be zero.
- (b) **Interest:** A non-dom earning interest income, from foreign as well as local sources, will not be subject to SDC in the amount of 30%. In addition, interest income is also exempt from Income Tax. Therefore,



the tax payable by a Cyprus resident non-dom on interest income will be zero.

- (b) **Rental income:** A non-dom earning rental income, from properties in Cyprus or abroad, will not be subject to SDC in the amount of 3%. Rental income will only be subject to Income Tax at the normal rates (following a 20% allowance).

How we can help

We, at Andreas M. Sofocleous & Co LLC, can advise you on the personal tax implications for taking up residency in Cyprus, how these new provisions affect the existing or planned structure of your business and also we can assist you on planning your transition from your current country of residency to Cyprus (including permits, housing and other).

For more enquiries please contact us by email on cmichaelidou@sofocleous.com.cy or call our offices in Cyprus for an appointment at +357 25 849 000