INFORMATION SHEET No. 129

The Cyprus Non-Domicile concept for tax purposes

January 2025

Introduction

As part of the overall effort to continuously improve and simplify the Cyprus tax system as well as to remain a highly compliant and attractive jurisdiction, various new bills have been passed into new laws in July 2015. Amongst these, there has been the introduction of the concept of **non-domiciled individuals** for tax purposes.

The main aim of introducing the non-domicile concept is to constitute Cyprus as a prime choice of destination for persons (both EU and non-EU) wishing to move their personal tax residency to another country. The non-domicile concept offers significant tax advantages and already enjoys a great interest.

What does it mean?

Foreigners who decide to move their personal tax residency in Cyprus, will automatically be considered as non-domiciled in Cyprus for a maximum of 17 years.

For tax purposes, non-domicile persons who become Cyprus tax residents will now be completely exempt from Special Defence Contribution tax ("SDC").

SDC generally applies to dividends and interest. As SDC tax does not apply in the case of Cyprus tax resident individuals who are non-domiciled in Cyprus, dividend and interest earned by such persons will now be completely tax exempt in Cyprus. It is noted that the main income of high-net-worth individuals is generally dividends and interest.

Furthermore, irrespective of domicility, foreigners becoming Cyprus tax residents enjoy an array of other significant tax advantages; with the main ones being outlined below.

Cyprus tax residency

Cyprus tax residency for individuals is determined by the number of days spent in the island during a calendar year. There is the standard 183 days rule as well as a more recently introduced 60 days rule, which is subject to certain conditions (for more details refer to Information Sheet 141). Cyprus tax residents are taxed on their worldwide income, with credit given on foreign tax suffered against the Cyprus tax resulting from the same income.

Definition of non-domiciled persons

In accordance with the provisions of the Wills and Succession Law, there are two kinds of domicile:

- domicile of **origin**, i.e. the domicile received at birth (generally dependent on the father side), or

- domicile of **choice**, i.e. domicile acquired by establishing physical presence in a particular place and by demonstrating sufficient intention to make it the place of permanent residence

Irrespective of the domicile of origin or choice, individuals who have been tax resident in Cyprus for at least 17 out of the last 20 years prior to the tax year in question, will be deemed to be domiciled in Cyprus for the purposes of the SDC Law.

In the case of persons who have their domicile of origin in Cyprus, they will nevertheless be considered as non-domicile in the following cases:

- If they have acquired and maintain a domicile of choice outside Cyprus, provided that they were not tax residents in Cyprus for any continuous period of at least 20 consecutive years prior to the tax year in question; or
- If they were not tax resident in Cyprus for a period of at least 20 consecutive years immediately prior to the entry into force of the non-domicile provisions (i.e. between the years 1995 and 2014 inclusive).

Tax benefits of non-domiciled persons

As per the provisions of the Cyprus SDC Law, dividends and bank deposit interest earned by individuals who are tax resident in Cyprus are subject to SDC tax at the rate of 17%, regardless of the source of the income (i.e. from Cyprus or from abroad). SDC tax applies only for individuals who are both Cyprus tax resident and domiciled in Cyprus.

Therefore, non-domiciled tax residents will have dividend and interest completely tax exempt in Cyprus.

Other Cyprus tax advantages for individuals

- Dividends and interest are exempt from Cyprus income tax and subject only to SDC in the case of domiciled tax residents.
- Profit from sale of shares and other qualifying titles is specifically exempt from Cyprus taxation, provided that the underlying assets do not include immovable property located in Cyprus.
- First €19,500 of taxable income is tax exempt. Any taxable income in excess of this amount is taxed at progressive rates ranging from 20% to 35% (for taxable incomes over €60,000).
- 50% exemption for remuneration from employment exercised in Cyprus by persons who were resident outside Cyprus before commencement of their employment. The exemption applies for 17 years commencing from the year of employment, if such income exceeds €55,000 per year.
- In case of Cyprus remuneration, which is less than €55,000, a 20% exemption is granted, up to a maximum of €8,550, for a period of 7 years commencing from the 1st January of the year following the year of employment.

- 100% exemption on remuneration for salaried services rendered outside Cyprus for more than 90 days in a tax year to a non-Cyprus resident employer.
- Pension received in respect of past employment outside Cyprus is taxed in Cyprus at the flat rate of 5% for amounts in excess of €3,420.
- 100% exemption on lump sum repayments from life insurance schemes or from approved provident funds.
- No Capital Gains Tax on the sale of immovable property located outside Cyprus.
- No inheritance tax, no wealth tax, no gift taxation.
- In case of non-domiciled resident individuals who are beneficiaries to a Trust, such individuals would be exempt from tax in Cyprus, to the extent that the income at the level of the Trust or distribution from the Trust effectively derives from interest or dividends.

Important considerations

The tax benefits offered to non-domicile persons who choose to become Cyprus tax residents as well as the other mentioned Cyprus tax advantages provide ample room for **tax planning**. Such planning is strongly recommended to be performed prior to the foreign person becoming a Cyprus tax resident.

In case of individuals who are directors or senior management in Cypriot entities, the relocation of such individuals to Cyprus could significantly enhance the much needed corporate **business substance** as it would reinforce its effective Cyprus management and control.

Furthermore, each person who considers moving his personal tax residency to another country (in this case to Cyprus) should separately ensure that, depending on the laws and practices of his current tax jurisdiction, he shall **stop being a tax resident in that other country.**

Anti-avoidance provisions

In case where an individual domiciled in Cyprus transfers assets to an individual non-domiciled in Cyprus who is a relative up to the third degree, and the Commissioner considers that one of the main reasons for the transfer was to avoid the payment of defence tax, then the income arising from such assets will be subject to defence tax, which can be collected either from the transferor or from the transferee.

NOTES

The above is intended to provide a brief guide only. It is essential that appropriate professional advice is obtained. Totalserve Management Ltd will be glad to assist you in this respect. Please do not hesitate to contact us.