

# **Tax incentives on corporate and personal tax enhancing the competitiveness of Cyprus**



The Ministry of Finance in an effort to enhance the competitiveness of the Cyprus tax system implemented new amendments in the Income Tax Law aimed at improving the tax competitiveness of Cyprus and modernizing the tax law.

The below tax incentives aim to reduce corporate debt by increasing the attractiveness of equity from a tax perspective. They also aim to further encourage high net-worth individual investors and high earning employees to reside, work and invest in Cyprus.

Specifically, the tax measures are:

- 1. a tax allowable deduction on corporate equity by way of a notional interest deduction (NID),***
- 2. an exemption for the new IP box regime***
- 3. an exemption from taxation for personal investment income (dividends and interest) of non-domiciled (non-dom) individuals,***
- 4. an extension of the employment income exemption for expatriates earning over €100.000,***
- 5. Cyprus tax resident individual by staying in Cyprus 60 days during the year,***
- 6. a reduction by 50% of the land transfer fees,***



**In more detail:**

### **Tax allowable deduction on corporate equity – Notional interest deduction (NID)**

This proposal aims to reduce corporate debt and encourage new equity by introducing a tax allowable deduction –notional interest deduction (NID).

The main provisions of the law generally provide that NID will be allowed on “new equity” funds introduced into a Cyprus tax resident company or into a permanent establishment in Cyprus, and which funds are used for the business of the company.

In this respect, the 80% restriction should apply on the taxable income arising from the introduction of new equity and should apply separately to the taxable income arising from each business asset, which is financed by new equity. It should be noted that if tax losses arise from the use of new equity into the business, no NID should be available in the relevant year.

The amendments for the 80% restriction will apply retroactively as from 1 January 2015, since they effectively adopt the matching concept followed by the Cypriot tax authorities since the introduction of the NID in Cyprus.

### ***Taxation of the income from the exploitation or sale of intangible assets - IP box regime***

The Law and Regulations (as deposited with the House of Representatives) contain the rules and conditions on the Cypriot tax legislation which are applicable for qualifying intangible assets which are developed after 1 July 2016 .

In this respect, 80% of the overall profit derived from the exploitation or sale of intangible assets is treated as deductible expense. Every year the taxpayer may elect not to claim the whole or part of this allowance. In the case of a resulting loss, only 20% of the loss can be surrendered to other group companies or be carried forward to subsequent years.

### **Exemption from taxation for personal investment income (dividends and interest) of non-Cyprus domiciled (non-dom) individuals**

The Ministry of Finance in an effort to enhance the competitiveness of the Cyprus tax system implemented the new amendments in the Law of the Special Defence Contribution (SDC) (Article 119(I)/2015) in respect of the persons which are considered as **non-domiciled in Cyprus**.

Individuals who are considered to be “non-domiciled” in Cyprus would be exempted from payment of SDC on dividend income, interest income and rental income, even if they are considered to be tax residents of Cyprus for income tax purposes.

This incentive can be used by the following individuals:

- An individual who has his domicile of origin in Cyprus and he has not obtained a domicile of choice in another country, provided that he has not been a tax resident of Cyprus during the last 20 years before he becomes tax resident of Cyprus.
- An individual who has his domicile of origin in Cyprus, but has obtained a domicile of choice in another country and has not been a tax resident of Cyprus during the 20 years before he becomes tax resident of Cyprus.
- An individual who has his domicile of origin in a country other than Cyprus, provided he has not been tax resident of Cyprus during the 17 out of the last 20 years.



### ***Employment income exemption for expatriates earning over €100.000***

The individuals who were non-Cypriot tax residents prior to the commencement of their employment, but become Cypriot tax residents afterwards, are eligible for a 50% exemption from income tax if all the following conditions are met:

- ▶ their remuneration from the employment exercised in Cyprus is over €100.000 per annum
- ▶ they were not tax residents of Cyprus for any three out of the last five years prior to the commencement of their employment and they were not tax residents of Cyprus in the year preceding their employment

The exemption is available from the first year of employment and can be enjoyed for a period **of ten years**.

Individuals with annual remuneration below €100.000 who **were non-Cypriot tax residents in the year preceding their employment**, but become Cypriot tax residents afterwards, **are eligible for a 20% exemption** from income tax and applies for five years (maximum exempt amount is €8.550 per year).

The exemption is available from the 1st January following the year of commencement of the employment, but the benefit will expire at the end of the year 2020.

## ***Cyprus tax resident individual by staying in Cyprus 60 days during the year***

Unanimously, the Parliament of Cyprus approved a bill that gives the right to an individual to be considered as tax resident in Cyprus, provided that he meets cumulatively certain conditions.

Thus, the Income Tax Law has been amended so that an individual, who does not remain in any other state for one or more periods which altogether exceed 183 days in the same tax year and who is not tax resident in any other state for the same tax year, be considered to be a tax resident of Cyprus, provided that the following conditions are cumulatively met:

- (a) he should remain in Cyprus for at least 60 days during the tax year;
- (b) he should pursue any business in Cyprus and/or to work in Cyprus and/or to be a director in a company tax resident in Cyprus at any time during the tax year;
- (c) he should maintain a permanent residence in Cyprus, which can be either owned or rented by him.

Thus, under the new provisions, an incentive is given to an individual who is not a tax resident in any other state for the same tax year to transfer his tax residence to Cyprus and to be taxed only on income from the activities the individual exercises in Cyprus. It is noted that for employment purposes in Cyprus with earnings in excess of Euro 100,000, an individual is allowed for an exemption from tax of 50% of the salary for a period of 10 years, which significantly reduces his income tax liability. At the same time, an individual is granted exemption from income tax or defense tax on dividends and interest received either in Cyprus or abroad, provided that such individual is considered as non - dom in Cyprus.

## **Reduction by 50% of the land transfer fees**

Transfer fees are reduced by 50% in case of the purchase of immovable property which is not subject to VAT.



### **Purposes of the tax incentives**

- To make the Cyprus tax system even fairer, simpler and even more competitive,
- To contribute positively to the local economy.
- To encourage more high net-worth individual investors and high earning employees to reside, work and invest in Cyprus
- The NID deduction and the IP Box regime have a positive impact for business.

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