



CYPRUS TAX REFORM NON DOMICILE INVESTOR

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This article attempts to shed some light on the notion of the “non-domicile” investor and its relation with the Special Defense Tax (SDT). It is worth mentioning that the term “non-domicile” is introduced for the first time in the Cyprus Tax System.

INTRODUCTION

On 9 July 2015, the House of Representatives enacted a series of tax reforms aiming to further modernize the Cyprus Tax system and attract new investments.

This article attempts to shed some light on the notion of the “non-domicile” investor and its relation with the Special Defense Tax (SDT). It is worth mentioning that the term “non-domicile” is introduced for the first time in the Cyprus Tax System.

The introduction of the “non-domicile” term aims to incentivize High Net worth Individuals (HNWI) and corporate executives relocate in Cyprus by allowing them; under easily met conditions; to be exempted from the Special Defense Tax imposed on rents, interest and dividends. The SDC is the only tax liability of physical persons receiving dividends, hence with this new rule Cyprus becomes an attractive destination not only for international corporations but also for the owners and senior managers of these corporations, who can finally extend the tax benefits into a personal level.

SPECIAL DEFENCE TAX

PRE TAX REFORM

Until recently, any physical person that was tax resident of the Republic of Cyprus (i.e. any physical persons residing in the Republic for more than 183 days within a calendar year) was obliged to pay a Special Defense Tax (SDT) on his income resulting from interest (30%), rents (3%) and dividends (17%).

It is easily understood that the high SDT rates were until now deterring HNWI, corporate executives and owners of international companies relocating in Cyprus.

POST TAX REFORM

With the introduction of the “non-domicile” term it is for the first time allowed to physical persons that are Cyprus Tax residents to be exempted from the SDT provided that they are classified as “non-domiciled” investors.

Consequently a strong incentive is given to foreign investors for relocating in Cyprus and become Cyprus tax residents. Especially owners of international Companies incorporated in Cyprus can for the first time extend the Cyprus tax benefits to a personal level. Not only their companies can enjoy the numerous tax advantages of the Cyprus Tax friendly regime but they can also receive their profit sharing in the form of dividends that are free from any tax liability (since SDT is the only tax liability of physical persons receiving dividends).

NON-DOMICILE INVESTOR

A physical person is considered as having his domicile in the Republic if:

1. He has a domicile of origin in the Republic of Cyprus according to the provisions of the Wills and Succession Law (it is the domicile of his/her father at the time of birth), unless:

- The individual acquires and maintains a domicile of choice outside the Republic of Cyprus as per the Wills and Succession Law, provided that this individual was not a Cyprus tax resident as per the Income Tax Law for any period of at least 20 consecutive years before the relevant tax year, or
- He has not been a Cyprus tax resident as per Income Tax Law for a period of at least 20 consecutive years right/ immediately before the amendment of the Law came into effect, that is the 16th of July 2015. Thus, even if an individual has a Cypriot domicile of origin, may not be considered as domiciled in the Republic of Cyprus under this provision of the Law.

or,

2. He is considered a Cyprus tax resident as per the Income tax law for a period of at least 17 years out of the last 20 years before the relevant tax year, irrespective of his domicile of origin.