

Change of Personal Tax Residency and The Cyprus Non-Domicile Tax Regime



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Main reasons for change of personal tax residency

Continuing trend for individuals wishing to change their personal tax residency to another country

Main reasons:

- **Personal**
(e.g. family, quality of life, political and economical stability)
- **Business**
(e.g. short or long term business opportunity)
- **Tax**
(e.g. looking for a more attractive tax regime, estate planning)



Considerations when changing personal tax residency

- Tax residency is determined through the domestic rules and practices of EACH country.

*Some countries determine their own tax residency rules (for both **becoming** and **ceasing** being a tax resident) simply through the 'days test' ... whilst others, like the UK, have more complex provisions and practices (e.g. 'clear intent' of changing own personal tax residency).*

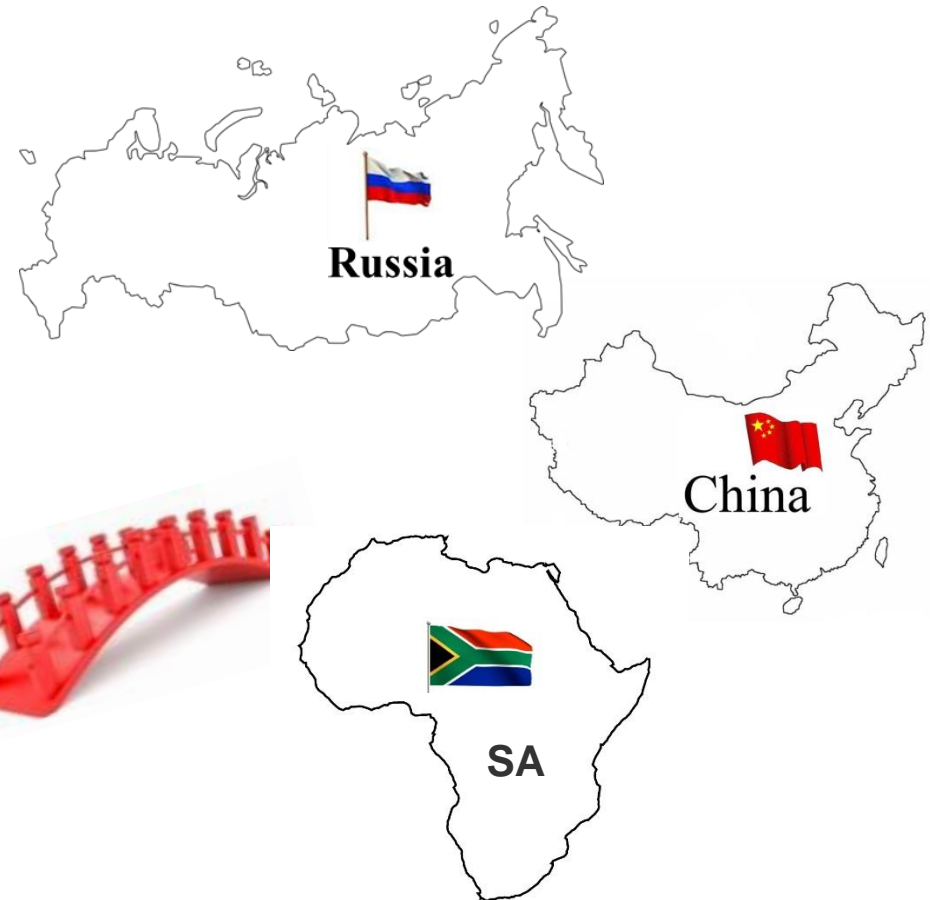
- By becoming a tax resident in a new country, then the person becomes subject to all the applicable tax rules of that new country.
 - Does **NOT** automatically mean that he/she stops being a tax resident in the previous country in which the person has been a tax resident to-date. **This needs to be checked well in advance.**
- Important to PLAN personal affairs PRIOR to changing tax residency and also undertaking certain actions - e.g. restructuring of personal and business affairs including corporate ownerships, Trusts, estate planning, inheritance tax, considering new legal regime (e.g. Common Vs Civil law).



CYPRUS: Gateway to Europe



Increased demand by non-European individuals and companies to have access to Europe ...



CYPRUS: Base for EU business



Also, increased demand by EU persons and EU businesses to move their personal tax residency and setup HQs and operations in another EU jurisdiction, which may also facilitate easy access to certain non-EU markets



Why Cyprus?

Cyprus is an attractive option for individuals who are considering a change of their tax residency

- Established International Business Centre
 - Strategic Geographic Location
 - Modern Banking System
 - Advanced Telecommunications and Infrastructure
 - High Level of Professional Services
 - Developed Legal system based on Common Law and Principles of Equity (easily understood and preferred)
 - High quality of life in all respects
- + Attractive Tax System**



Basis of Cyprus tax residency for individuals:

Residency test based on number of days spent in Cyprus in each calendar (tax) year.

Either through:

- the 183 days test; or
 - the new 60 days rule (subject to conditions)
-
- **Residents taxed on worldwide income**
 - **Non-residents taxed on Cyprus source income**



The new 60 days rule

Conditions for each year:

- Spend a minimum of 60 days in Cyprus
- Must not have spent > 183 days in any other country
- Must not be a tax resident in any other country
- Maintain a permanent residence (rented or own)
- Be employed in Cyprus or hold office (e.g. a director) in a Cyprus company or carry out business in Cyprus

NON-DOM determination for Cyprus tax residents

NON-DOMICILE tax regime (with effect from 2015)

The tax provisions define 'domicility' in accordance with the Wills and Succession Law.

Domicile of CHOICE

Effectively applies to all foreigners of no Cypriot domicile of origin, who choose to become Cyprus tax residents. Once they become Cyprus tax residents they are **automatically** considered to be **Non-Dom** for tax purposes.

Domicile of ORIGIN

Domicility of origin is received at birth; generally dependent on the father's side. Such persons will be considered to be **Non-Doms** for tax purposes if:

- They have obtained and maintained a domicile of choice outside Cyprus provided they were not tax resident in Cyprus for any continuous 20 year period prior to the tax year in question; or
- They were not tax resident in Cyprus for a period of at least 20 consecutive years immediately prior to the entry into force of this regime (i.e. between the years 1995 and 2014 inclusive)

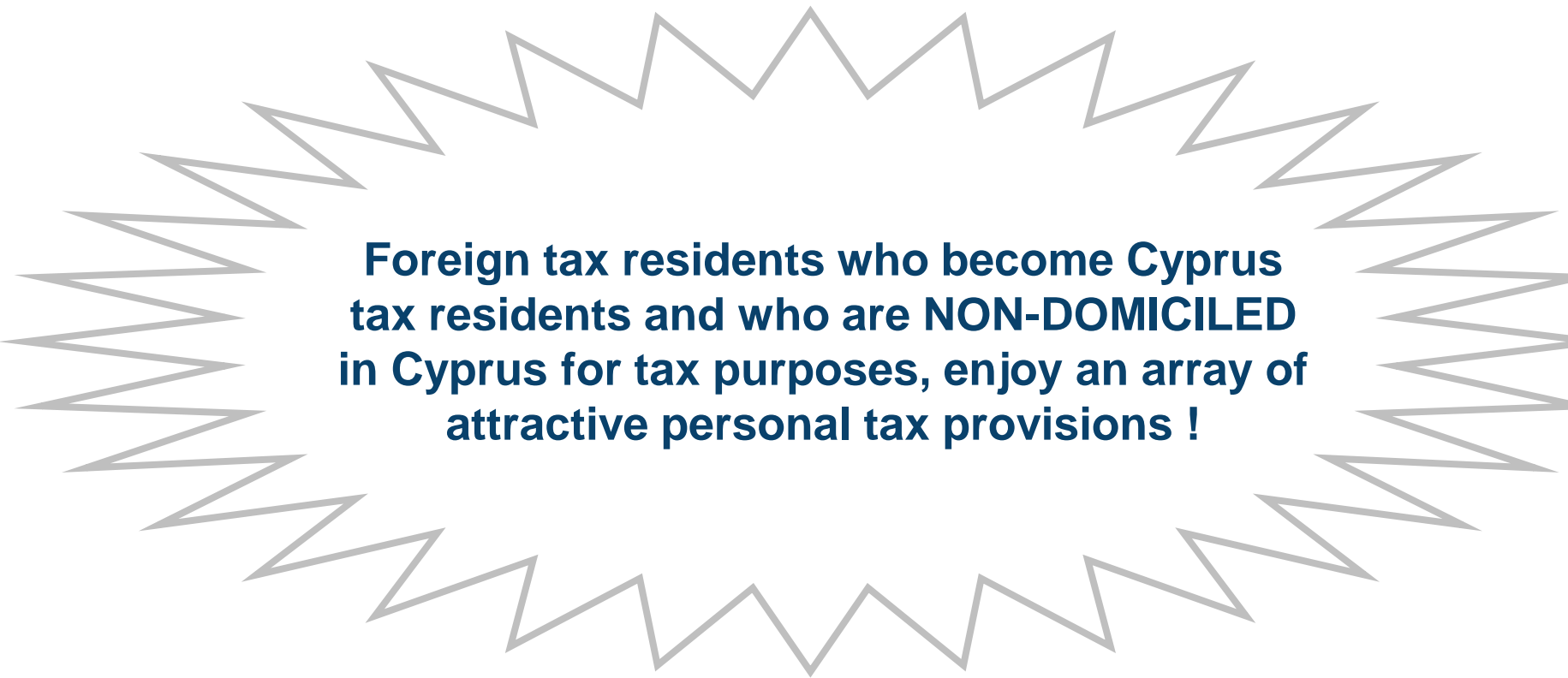
Irrespective of the domicile status, an individual who remains a Cyprus tax resident for at least 17 years out of the last 20 years prior to the tax year in question, shall be deemed as **DOMICILED** in Cyprus for tax purposes.

Registering as a Cyprus tax resident



Once a foreigner becomes or plans to become a Cyprus tax resident ...

- The person must register with the Cyprus tax authorities and obtain a Cyprus tax ID, known as the Tax Identification Code (TIC).
- This is a straightforward procedure that does not need the applicant's physical presence to the Tax Office.
- In order to apply for a TIC, the applicant must have a Cyprus ID number, or an Alien Registration Code (ARC). The ARC is issued by the Immigration Department.
- In case the applicant does not have a Cyprus ID number, and irrespective of whether he is EU or non-EU, a meeting would first need to be arranged with the Immigration Department for issuance of the relevant paper and ARC. The applicant must attend in person. In the case of EU persons, such meeting is a mere formality.
- **NON-DOM:** Submission of a self declaration form to the Cyprus Tax Office by the individual confirming he/she fulfills the Non-Dom criteria (with relevant supporting documents). Then the Cyprus Tax Office issues the Declaration (Certificate) stating that the individual is a Non-Dom for Cyprus tax purposes.



Foreign tax residents who become Cyprus tax residents and who are NON-DOMICILED in Cyprus for tax purposes, enjoy an array of attractive personal tax provisions !

Happy Tax Day !

SPECIAL DEFENCE CONTRIBUTION (SDC) mainly applies on:

- Dividends (taxed at 17%)
- Interest (taxed at 30%)
- Rent (taxed at 3%)

(Noting that dividends and interest are not subject to personal income tax)

Non-Dom Cyprus tax residents are automatically tax EXEMPT from SDC for a maximum period of 17 years.

As such, together with other general Cyprus tax exemptions, Non-Dom Cyprus tax residents shall be **COMPLETELY TAX EXEMPT** on:

- Dividends
- Interest
- Gain from sale of shares and other qualifying titles
- Capital Gains (e.g. gain from a capital nature sale of foreign real estate)
- Trust distributions of a capital nature



Other attractive Cyprus tax provisions

These exemptions are VERY important for HNWI's as their main source of income derives from dividends, interest, capital gains as well as distributions from Trusts.

ALSO:

- Attractive personal income tax band rates
(first €19,500 tax exempt – then band rates ranging from 20% up to 35% for over €60,000)
- Significant tax exemption from Cyprus employment income of high earners
(50% annual tax exemption for emoluments over €100,000 per year)
- 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
- Foreign pension taxed at a flat rate of 5% (with first €3,420 being tax exempt)
- Double Tax Relief for any foreign tax
- No inheritance tax
- No wealth tax
- 100% exemption on lump sum life insurance repayments or from approved provident funds
- **Most attractive CORPORATE tax regime**



Cyprus: Double Tax Treaty Network (60+ countries)

Andorra
Armenia
Austria
Bahrain
Barbados
Belarus
Belgium
Bosnia *
Bulgaria
Canada
China
Czech Republic
Denmark
Egypt
Estonia
Ethiopia * *
Finland
France
Georgia
Germany
Greece

Guernsey
Hungary
Iceland
India
Iran
Ireland
Italy
Jersey
Kazakhstan
Kuwait
Latvia
Lebanon
Lithuania
Luxembourg
Malta
Mauritius
Moldova
Montenegro *
Norway
Poland
Portugal

Qatar
Romania
Russia
San Marino
Saudi Arabia
Serbia *
Seychelles
Singapore
Slovakia
Slovenia
South Africa
Spain
Sweden
Switzerland
Syria
Thailand
Ukraine
United Arab Emirates
United Kingdom
USA



* Countries applying the
Cyprus/Yugoslavia DTT

All DTTs based on OECD model

CORPORATE Tax System:

Attractive, Competitive, Simple, Investor friendly

- » EU & OECD approved and compliant
- » Stable & Tested
- » Full adoption of all relevant EU directives
- » Good double tax treaty network
- » Basis of taxation: 'Management and Control'
- » **12.5%** uniform corporate tax rate (**one of the lowest in Europe**)
- » Effective tax lower because of favourable tax provisions



Main Favourable Cyprus CORPORATE Tax Provisions

Tax Exempt incomes:

- » Profit from sale of shares (and other qualifying titles)
- » Dividend income (subject to very easy to meet conditions)
- » 80% of Intellectual Property (IP) profit
- » Profits of a foreign Permanent Establishment (PE)
- » Capital Gains from the disposal of non-Cyprus Real Estate
- » Up to 80% through Notional Interest Deduction (NID) on new equity
- » Qualifying Shipping activities



Also:

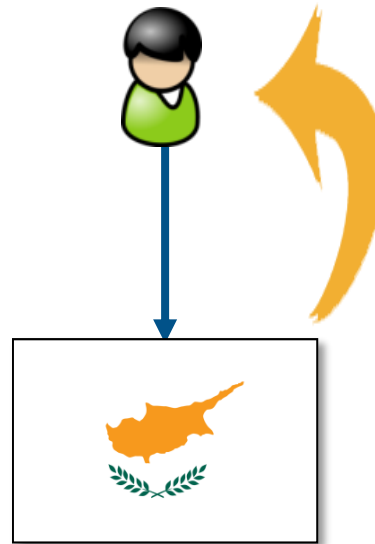
- » No Cyprus Withholding Tax (WHT) on any outbound payment
- » Group Relief provisions
- » Unilateral Double Tax Relief (DTR)
- » No Thin Capitalization rules

Main uses of the Cyprus Company

Use of Cyprus companies for business IN or FROM Cyprus

Tax efficient location for:

- Holding company
- Financing company
- Royalty company
- Trading company
- Shipping company
- Employment company
- Trust company



Dividend and Capital Gains =
No Cyprus tax for the NON-DOM resident

Corporate tax on profit @ 12.5%
(effective tax reduced or eliminated
depending on natures of income and
available tax deductions and exemptions)

Note:

Pure HOLDING company activities can be
completely tax exempt

+ **Comparative cost advantage** on set up and maintenance of offices
(when compared to other EU jurisdictions)

+ **Redomiciliation of companies INTO Cyprus is permissible**

Thank You!

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