

New dynamics created for the Cyprus Residence and Naturalization schemes

Introduction

Cyprus has recently upgraded and relaxed the conditions and procedures of its immigration and naturalization programs, thereby allowing non-Europeans to obtain easier and at a much faster pace a permanent residence permit or instant naturalisation in Cyprus.

Coupled with an array of other attractive features that Cyprus offers, these upgraded programs have already been met with great success and have attracted a much increased interest by non-Europeans, who are offered the opportunity to reside on the island on a temporary or permanent basis and in many cases structuring their international activities through Cyprus.

Chinese, Russians and Egyptians, to name a few, are some of the nationalities of individuals who have already acted upon these opportunities.

Apart from a favorable tax regime and a long established image as an international financial and business centre, Cyprus offers a sunny climate throughout the year and an excellent quality of life. The advanced infrastructure, superb quality of real estate projects and the availability of highly acclaimed private multi-lingual international schools constitute Cyprus as a prime EU target location for families to live in. The very convenient geographical position of the island is also an important factor that one cannot ignore.

There are two main programs whereby non-Europeans can travel or reside in Cyprus without the need of having a visa. These are the permanent residence permit and the Cyprus naturalization schemes.

Permanent Residence Permit – Category F (“PRP”)

The PRP is granted by the Minister of Interior provided that the applicant does not have the intention of taking up employment in Cyprus. One main advantage of this PRP for non-European nationals is that it is permanent and once obtained it also applies for the applicant’s spouse and dependent children.

Recently, there has been a relaxation and further clarifications on the PRP conditions as well as a much more accelerated procedure for granting the permit. The most important changes are that the PRP can now be secured within 1-2 months from application date (used to be 6-9 months). PRP holders no longer need to demonstrate intention of permanent residency in Cyprus. In fact, in order to maintain the PRP, a holder must visit Cyprus at least once every two years.

The main conditions of eligibility for this PRP are that the applicant acquires a property in Cyprus of a value over €300,000 for ownership occupancy and demonstrates that he can support himself and his family through own funds. At least €200,000 of the value of the property must have been paid to the developer or owner of the property prior to the PRP application. Further, the applicant must prove that he has at his disposal a secured minimum annual income of €30,000, from sources outside Cyprus. The necessary minimum annual income is increased by €5.000 for each dependent person. The applicant must also submit a confirmation letter from a Cypriot Bank stating that he has a fixed

three-year deposit of a minimum of €30,000. The amounts described in this paragraph must be demonstrated to have been transferred to Cyprus from abroad.

Cyprus Naturalization (Citizenship)

Foreign persons may, at the Council of Ministers' discretion, be granted the Cypriot citizenship (Certificate of Naturalization) and obtain a Cypriot Passport, which in effect has all the advantages of an EU passport.

This scheme is subject to a combination of conditions to be fulfilled, which have recently been relaxed, and mostly apply to high net worth individuals. The applicant must be above 30 years of age and own a permanent house or apartment in Cyprus of at least €500,000.

The other conditions and criteria for the naturalization scheme have been relaxed and have also become more open ended in that an applicant may fulfill a combination of them as opposed to all of them. In an outline, the applicant must establish business activities and investments in or through Cyprus and/or have direct investments in Cyprus and/or invest in government bonds and/or place funds in five year fixed deposits with Cyprus banks – with a combined average amount of €15 million from any of these options.

The Council of Ministers examines each application on a case by case basis and at their discretion grant the certificate of naturalization. The whole process usually takes between 3-5 months from filing date.

Moreover, persons who have been permanent residents in Cyprus for over 7 years can also apply for Cypriot citizenship. This naturalization process is much different and is considered by the Council of Ministers strictly on a case by case basis.

Cyprus tax residency

By visiting or living in Cyprus one does not automatically become tax resident of Cyprus. A person who stays in Cyprus for over 183 days in any calendar year becomes a tax resident of Cyprus for that year. Cyprus tax residents are taxed in Cyprus on their worldwide income whereas non-Cyprus tax residents are taxed in Cyprus only on their Cyprus sourced income.

Personal income tax

The first €19,500 of the taxable income of a Cyprus tax resident individual is tax exempt and then the personal income tax rates progressively increase to a maximum of 35% for taxable amounts over €60,000. Compared with the European average top personal income tax rate of 43%, with many specific EU countries having a top personal income tax rate of over 50%, the Cyprus top tax rate is undoubtedly very competitive.

Furthermore, there are certain types of income that do not form part of the taxable income and are either tax exempt or taxed differently at a much lower rate than the top rate of 35%.

For example, profit from sale of shares and other qualifying titles are completely tax exempt. Capital gain from sale of a Cyprus real estate property is taxed at 20% whereas capital gain from sale of a non-Cyprus situated property is tax exempt. There is no wealth tax and no inheritance tax.

Interest is taxed separately at a flat rate of 15% and dividend income at a flat rate of 20% (17% as of 1 January 2014).

For all cases of foreign sourced income, foreign tax suffered may be claimed as credit (deduction) against the Cyprus tax resulting from the same income.

Cyprus enjoys one of the lowest VAT rates in Europe at 17%. This standard rate of VAT is evidently much lower than the EU average rate of 21%.

The corporate income tax rate for Cyprus resident companies holds steady at the low flat rate of 10% and is combined with various favorable tax provisions and certain types or elements of income being tax exempt. At the same time, the use of Cyprus companies is used efficiently as a gateway for non-Europeans to effect investments or transactions in Europe and vice versa, as well as to engage in activities within the local market.

For businesses established or being relocated in Cyprus that wish to bring along some key staff, temporary work permits are available and these are granted for 5 years after which time they can be renewed. There are certain attractive tax incentives on the taxable emoluments for such specific persons.

Conclusion

The new improved immigration programs that Cyprus offers open the doors of the European Union to non-Europeans. Besides ensuring free movement to Cyprus, the opportunity for expanding and maintaining business activities in the European market is reinforced through the utilization of the Cyprus highly-favorable tax regime.

The quality of the real estate properties and life in Cyprus, with all that it entails, is the cherry on the pie that makes the whole cake so enticing.

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