

# Some like it hot

**Petros Rialas** explains Cyprus' comprehensive tax reforms, the most important being the creation of a new class of non-domiciled residents

**Far-reaching tax reforms** put forward by the Cyprus government in July have now been enacted by the House of Representatives, although some have been deferred.

On a corporate level, there is the introduction of a notional interest deduction on new equity, thereby helping companies to be less debt-dependent and still achieve similar tax base reduction. This could also help to strengthen the beneficial ownership of income test, which is very important.

However, the most important new development is the introduction of non-domiciled persons in the tax law. This means that clients moving their tax residency to Cyprus (based on the 183 days test) will from now on be completely tax-exempt on worldwide dividends and interest earned. This gives scope for ample tax planning. Furthermore, those earning employment income in Cyprus will enjoy significant extra tax benefits, including a 50 per cent tax exemption for high earners.

## RESIDENCY PROGRAMMES

In addition, there have been relaxations on the already available programmes through which non-Europeans can obtain a permanent residency permit or even a Cypriot passport by way of investment, in effect offering all the advantages of an EU passport.

These programmes presuppose the acquisition of property in Cyprus. To enable this, another significant

development for properties purchased until the end of 2016 is a complete tax exemption on future disposal from the 20 per cent capital gains tax and an immediate 50 per cent reduction on transfer fees upon acquisition.

The quality of life and facilities offered in Cyprus are just as important. Its convenient location, pleasant Mediterranean climate, abundance of blue-flag beaches, low crime rate, modern infrastructure, beachfront and mountain properties, international schools, advanced medical facilities and cosmopolitan lifestyle make Cyprus a supreme place to work, live and raise a family.

These developments have already proven very successful in increasing interest in Cyprus, mainly among non-Europeans, who can reside on the island on a temporary or permanent basis, in many cases structuring their international activities through Cyprus or relocating their headquarters, foreign staff, executives and families to the island. Chinese, Russians and Egyptians are but a few of the nationalities to have already seized these opportunities.

## CONCLUSION

Cyprus offers a balanced combination of tax and non-tax attractions. Its use as a base through which clients can conduct their international business continues.

## CYPRUS-IRAN DTA

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On 4 August 2015, Cyprus signed a double-tax treaty (DTA) with Iran. Cyprus has been extremely quick off the mark in terms of this treaty's conclusion and so should be extremely well positioned to reap the benefits.

The DTA is expected to come into force on 1 January 2016 and is likely to provide an attractive tool for foreign investment into Iran, as well as opening the door for investment from Iran into Cyprus and the EU.

The main provisions of the treaty deal with dividends, interest, royalties, capital gains and permanent establishment. According to the protocol signed with the tax treaty, the changes to dividend rates will come into effect on the date taxation on dividends received by non-residents is imposed by one or both contracting states. This is extremely good news for Cyprus as it continues to enhance its jurisdictional reach and attractiveness.

## CYPRUS FACT SHEET

- Cyprus has a corporate income tax rate of 12.5 per cent, complemented by favourable tax provisions.
- There is a foreign dividend exemption system and an outright tax exemption on gains from sale of shares and other qualifying titles, as well as on gains from qualifying foreign permanent establishments.
- There is an 80 per cent tax exemption on qualifying IP profits. Tax credit is given for foreign tax suffered and there are no Cyprus withholding taxes on payments to non-Cyprus residents.
- Cyprus has favourable double-tax treaties with non-EU countries such as South Africa, Russia, and Ukraine.
- As an EU member state, Cyprus can offer access to relevant EU Directive benefits.



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