

General

Cyprus is a popular place for the acquisition of immovable property by foreigners. This popularity is attributed to many factors such as the high standard of living, the hospitable and secure environment, the superb quality of real estate projects, a most attractive tax and business regime as well as the island's strategic location at the crossroad of three continents.

Foreigners wishing to acquire Cyprus property can choose from a variety of residential or commercial properties.

Legal framework

Immovable property transactions are regulated by a number of Cyprus Laws that generally follow respective UK laws. Foreigners who purchase property in Cyprus have the same rights as locals and can be rest assured that their property rights and ownership are secured.

Acquisition of Cyprus property by Europeans

Since Cyprus accession to the EU, European nationals including companies whose shareholders are European nationals are allowed to purchase any type of Cyprus property without any restrictions.

Acquisition of Cyprus property by non-Europeans

Non-Europeans wishing to acquire property in Cyprus may freely do so. However, before transferring the title deed to their name, they will need to obtain the prior permission of the local District Office.

They are also restricted to acquire one of the following:

- apartment
- house
- building plot or land up to approximately two donums (2,676 square metres)

This permission is obtainable provided that the property is not intended for commercial exploitation. In certain cases, however, the Council of Ministers may grant the approval for the acquisition of property for commercial purposes if the particular project is considered to help the Cyprus economy in general (e.g. in terms of tourism or employment).

A company owned by non-Europeans may also acquire premises for their operations (with no limit on the extent) and for the residence of their foreign employees, provided they maintain a fully-fledged office and the residence to be registered on the name of the employee.

Application to the District Office

For the application to the Local District Office there are certain documents required and the letter of approval or refusal may take up to six months. However, there is no restriction in taking possession of the property in the meantime.

The permit for the acquisition of immovable property by a foreigner is granted only if:

- a) The house will be used only for own residence and the building plot or land does not exceed 2,676 square meters
- b) It is used for professional or commercial business
- c) It is used in manufacturing in sectors where it is thought that it will be for the benefit of the Cyprus economy and the production of goods that are related to the use of new technologies or technical knowledge

The permit has the following conditions and restrictions:

- a) The transfer to be effected within a year from the date of the permit or within three years in case of constructions of a building on the property
- b) All taxes must be paid
- c) The permit is given only for the specific property and its designated use

Exchange Control Regulations

On a future disposal of the property the whole amount of the sale proceeds can be exported from Cyprus (after the tax obligations have been settled) and no exchange controls will be applicable.

Taxes and charges applicable to Cyprus immovable property

The following are the main taxes arising on the acquisition, ownership, and disposal of Cyprus situated immovable property. The taxes described apply to both natural persons and entities.

A. Taxes arising on acquisition and disposal of properties

• Transfer fees

Upon the registration of the property to the Land Registry Office, the purchaser has to pay transfer fees on the basis of the value of the property as assessed by the Land Registry Office:

Value of Property €	Transfer fees	Accumulated Tax €
0 – 85.000	3%	2.550
85.000 – 170.000	5%	6.800
over 170.000	8%	-

Reduction or exemption from transfer fees

Transfers of immovable property are exempt from transfer fees, if the transfer relates to a transaction that is subject to VAT. In cases of transactions that are not subject to VAT, the legislation provides for an exemption of 50% of the transfer fees.

• Stamp Duty

Value of contract €	Stamp Duty
0 - 5.000	0
5.001 - 170.000	0,15%
Over 170.000	0,20% (<i>capped at a maximum of €20.000</i>)

- Value Added Tax (VAT)

Newly erected buildings (and the associated land) are subject to the standard VAT rate of 19%. The transfer of used buildings is not subject to VAT.

A reduced VAT rate of 5% is applied on the purchase or construction of a house or flat to be used as a private main residence. The reduced rate applies for the first 200 square metres; for the remaining square metres, the standard rate of 19% applies. The reduced rate also applies to properties acquired by individuals who do not ordinarily reside in Cyprus, but acquire property to be used as their residence while in Cyprus.

As of 2 January 2018, the sale of undeveloped building land by a person, intended for the erection of one or more fixed structures, is subject to VAT at the standard rate when the supply is carried out as part of that person's economic activities.

As of 13 November 2017, the leasing of immovable property to a taxable person for the carrying out of taxable business activities is subject to VAT at the standard rate (19%).

- Capital Gains Tax (CGT)

Capital gains tax is payable by the seller and is imposed at the rate of 20% on companies and individuals on gains arising from the disposal of immovable property situated in Cyprus including gains from the sale of shares in a company which owns immovable property situated in Cyprus (excluding shares listed on any recognised stock exchange). The chargeable gain is the sale price less the greater of the cost or the market value on 1st January 1980 as adjusted for indexation allowance and after allowing for certain expenses.

Lifetime exemptions for <u>individuals</u> on Capital Gains Tax	€
Disposal of private residence (used as such for at least 5 years)	85.430
Disposal of Agricultural land by a farmer	25.629
Any other disposal	17.086

The above exemptions are given once only and not for every disposal. There is a maximum of €85.430 if an individual claims a combination of the above.

Exemption from CGT: Profit on the sale of Cyprus property acquired between 17 July 2015 and 31 December 2016 is exempt from CGT provided certain conditions are met.

- Contribution of 0.4% on any disposed immovable property

As from 22 February 2021, upon the disposal of any immovable property situated in the Republic of Cyprus, there is a 0.4% contribution imposed on the value of the sale proceeds and will have to be paid by the seller.

In the case of the disposal of shares in a company owning such immovable property, the contribution will be applied on the value of the immovable property in the transaction. This applies only if the buyer will also take control over the said company. The value of the immovable property is taken by the Department of Lands and Surveys based on the latest valuation available by the Department.

B. Taxes during ownership of property

• Immovable Property Tax ("IPT")

IPT has been abolished as of year 2017. Prior to that, IPT was imposed on the market value of immovable property based on calculated values as at 1st January 1980 and applied to the total value of Cyprus immovable properties held by the owner of properties on 1 January of each year.

Market Value as at 1 st January 1980 €	Rate %	Tax €	Accumulated Tax €
* 0 - 40.000	0,60	240	240
40.001 - 120.000	0,80	640	880
120.000 - 170.000	0,90	450	1.330
170.001 - 300.000	1,10	1.430	2.760
300.001 - 500.000	1,30	2.600	5.360
500.001 - 800.000	1,50	4.500	9.860
800.001 - 3.000.000	1,70	37.400	47.260
Over 3.000.001	1,90	-	-

* If the total value of Cyprus immovable property held by the owner is less than € 12.500, no tax liability arises.

C. Other taxes

Cyprus does not have any wealth tax nor any succession taxes such as inheritance tax.

Taxation of rental income

Rental income earned from immovable property situated in Cyprus, received by a non-Cyprus tax resident person (company or individual), is subject to Income Tax as follows:

Individual: The gross rental income earned from Cyprus properties, after a 20% exemption and certain allowable deductions, is pooled along with all other Cyprus taxable incomes (if any) and taxed in accordance with the Cyprus personal income tax progressive band rates.

Company: Gross rental income earned from Cyprus properties is pooled along with all other Cyprus taxable incomes (if any) and after deduction of tax allowable expenses the resulting profit is taxed at the flat rate of 12,5%

***NOTE:** For Cyprus tax resident companies and individuals (who are also domiciled) there is an additional tax on rental income, being the Special Defence Contribution tax, imposed at the rate of 3% on the gross amount of the rental income after allowing for a 25% exemption on this income.*

Mortgage Finance

A range of banks offer mortgage facilities in connection with the purchase of immovable property. The amount that can be borrowed depends on the financial standing of each investor and may vary depending on the type of property. Each commercial bank has its own policy.

Immigration programs for non-Europeans

There are two main programs through which non-Europeans can travel or reside in Cyprus without the need of having a visa. These are the:

- Permanent Residence Permit (PRP) - Regulation 6(2)
- Naturalisation (Cypriot Citizenship)

Amongst the various conditions for these programs, it is a pre-requisite to acquire a property in Cyprus at a value of at least €300,000 in the case of PRP and of at least €500,000 in the case of Naturalisation.

General guidelines and recommendations

- To obtain advice from qualified and trustworthy property consultants
- To obtain local legal advice
- Ensure that the land is suitable for building purposes, i.e. zoning restrictions, building regulations, road access, availability of water supply, electricity and telephone lines
- To check whether the seller has a valid title to the property and that there are no encumbrances which may cause problems with the transfer of ownership
- In cases of a purchase of an apartment or a house it must be checked that the seller has secured all relevant building and other permits and the property can be delivered for freehold possession
- In the Sale and Purchase Contract a provision should be made that the money already paid must be refunded should the District Office refuse the application
- A copy of the contract of sale should be deposited with the Land Registry Office
- When buying a property it is important to enquire about the reputation and reliability of the developer

NOTES:

The above is intended to provide a brief guide only. It is essential that appropriate professional advice is obtained. Totalserve Management Ltd will be glad to assist you in this respect. Please do not hesitate to contact us.