



# Tax Residency and Domiciliation Rules for Individuals

June 2019





# Corporate Substance requirements

# Substance requirements

- Substance needed for **transfer pricing** considerations
- Substance needed for strengthening arguments against UBO challenges
- Substance needed for strengthening arguments in relation to **PPT** (Principal Purpose Test)
- Increased attention to substance by foreign tax authorities

# Substance would determine the company's tax residency

- **Statutory substance** proves that the company is actually a real company and not a conduit, by paying its taxes, filling its tax returns, preparing audited financial statements and meeting all its statutory obligations. **NO LONGER SUFFICIENT**
- **Physical substance** is statutory substance, plus an office, telephone facilities, employees and properly qualified directors. **A STEP IN THE RIGHT DIRECTION**
- **Economic substance** refers to more on day to day activities, which is a similar concept to the place of effective management. **IDEAL SITUATION**

# Substance for a holding / financing / IP company in Cyprus

- **Substance** in Cyprus can be achieved by:
  - Appointing **qualified Directors that are Cyprus residents**, which will be involved in the decision making of the company. **Avoid** setting up a structure, in which the Directors of the Cyprus company are coincidentally the same directors of the source company, or appointing nominee Directors who are also Directors of other Cyprus companies
  - Maintaining **fully fledged offices** in Cyprus
  - Employing **full-time or part-time employees**
  - **Relocating** senior executives/decision makers to Cyprus.
  - Respect all corporate and tax law filing requirements



# Personal taxation for individuals



# Tax Residency Rules

# Tax residency rules for individuals

## The 183 days rule

An individual who stays in the Republic for a period or periods **exceeding in aggregate 183 days** in the tax year (tax year coincides with calendar year).

## The 60 days rule

An individual may be considered a Cyprus tax resident if s/he :

- a) **does not spend more than 183 days in any other jurisdiction** during the tax year;
- b) the individual **is not considered to be a tax resident in any other country** during the tax year; and
- c) ALL of the following conditions are met:
  - the individual **spends at least 60 days in Cyprus** during the tax year;
  - exercises a business in Cyprus as self-employed, employee, or officer in a Cyprus tax resident company (i.e. Director) at any time during the tax year;
  - maintains (by owning or leasing) a **home in Cyprus**.



# Individual Income Tax Rates

# Personal Tax Rates

- Cyprus tax resident individuals or individuals exercising an employment or profession in Cyprus will be taxed at the rate of 35% on their taxable income exceeding €60,000.
- The net taxable income arising for the individual will be subject to the following rates:

Chargeable Income (€)	Tax Rate (%)
0-19,500	0
19,501 – 28,000	20
28,001 – 36,300	25
36,301 – 60,000	30
Over 60,000	35



# Concessions Available to Expatriates

# Concessions available to expatriates

Individuals who were based overseas and who were not Cyprus tax-residents before the commencement of their employment in Cyprus, may be entitled to one (but not both simultaneously) of the following exemptions:

## The 50% exemption rule

- Individuals who take up employment in Cyprus with an **annual income in excess of €100.000** will be eligible for an exemption from taxation of 50% of their income for a period of 10 years, commencing from the year of employment.

## The 20% exemption rule

- Individuals who take up employment in Cyprus and were not tax resident in Cyprus prior to commencing such employment, will be eligible for an **exemption from taxation of 20% of their income or €8.550 (whichever is lower)** from any employment which is exercised in Cyprus (applicable until the year 2020).

## Pension Income

- Overseas pensions are **exempt from tax up to €3.420 and taxed at 5%** thereafter. The taxpayer may opt to be taxed in the normal way, where this special mode of taxation of income results to a higher tax liability (this selection can be made from year to year).



# Non-Domicile Rules

# Introduction of the Domicile principle

- Before the introduction of the Non-Dom rules, tax resident individuals were subject to Special Defence Contribution (SDC) on the following sources of income:
  - ✓ Dividends - 17%
  - ✓ Interest - 30%
  - ✓ Rents - 3% on 75% of their gross rental income (ETR:2.25%)
- The introduction of the domicile principle as an additional requirement will **exclude from SDC, dividends, interest and rental income** derived by individuals who are Cyprus tax residents but are **NOT domiciled in Cyprus** (irrespective of the origin of the relevant income).
- The new provisions interpret the concept of “domicile” in accordance with the "Wills and Succession Law" under which two main types of domicile are identified:
  - A domicile of origin (i.e. the domicile received at birth); and,
  - A domicile of choice (i.e. the domicile acquired by establishing a home with the intention of a permanent or indefinite residence in a country other than the country of birth).
- An individual who is tax resident for a period of 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**.

# Introduction of the Domicile principle

## Domiciled Tax Resident Individuals

Type of Income	Income Tax	SDC
Dividends	Exempt	Taxable - 17%
Interest	Exempt	Taxable - 30%
Rental Income	Taxable (Normal Rates)	Taxable at 3% on 75% of gross income

## Non-Domiciled Tax Resident Individuals

Type of Income	Income Tax	SDC
Dividends	Exempt	Exempt
Interest	Exempt	Exempt
Rental Income	Taxable (Normal Rates)	Exempt



# Tax Considerations For Asset Managers

# Tax considerations for Asset Managers

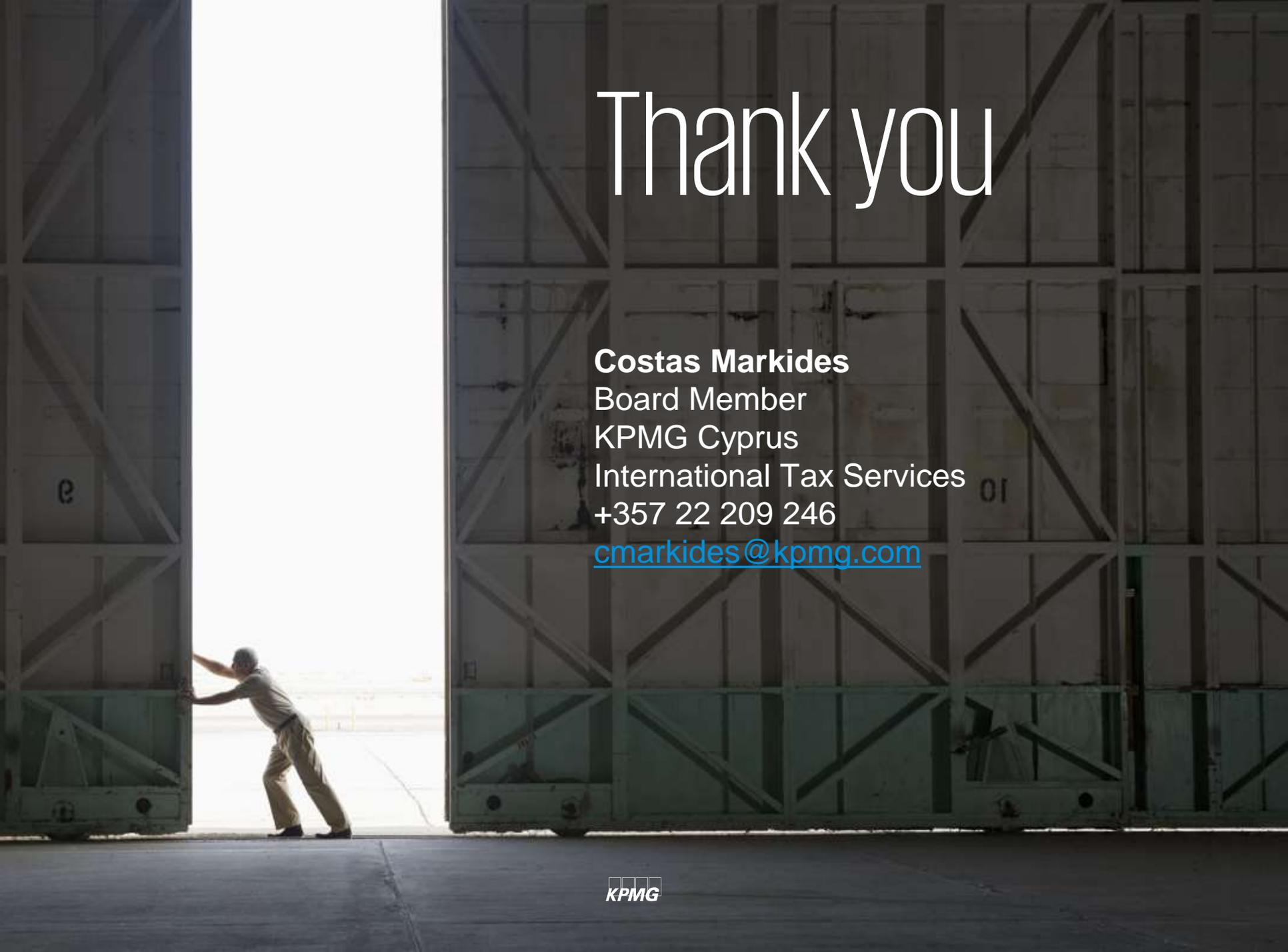
Personal Income Tax Rates	Progressive up to 35%
Concessions available	50% exemption for income over €100.000 for a 10 year period from date of first employment in Cyprus or A tax exemption of €8,550 or twenty percent (20%), (whichever is lower) on the gross emoluments for the first three years of employment in Cyprus (expire 2020)

# Special tax Regime for Fund Managers

- Flat Rate for the variable remuneration of a Cyprus tax resident fund manager which constitutes carried interest at the rate of 8%.
- M.T.L - EUR€10.000
- Applicable for 10 years provided the individual was not a Cyprus tax resident for at least 3 out of the last 5 years prior the entry into force of the law whose employment begins after the entry into force of the law.
- Special Tax Rate also available for senior executives whose activities have a material effect on the risks of the AIFM or the AIF managed by the AIFM.

Do you have any  
questions?



A person is seen from the side, pushing a large, dark metal door open. The door is made of a grid of heavy metal beams. The person is wearing a light-colored shirt and trousers. The background is a bright, overexposed outdoor area, possibly a port or a large open space. The overall scene is in silhouette, with the person and the door appearing dark against the bright background.

# Thank you

**Costas Markides**  
Board Member  
KPMG Cyprus  
International Tax Services  
+357 22 209 246  
[cmarkides@kpmg.com](mailto:cmarkides@kpmg.com)



[kpmg.com/socialmedia](https://kpmg.com/socialmedia)



[kpmg.com/app](https://kpmg.com/app)

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2019 KPMG Limited, a Cypriot limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.

The KPMG name, logo are registered trademarks or trademarks of KPMG International.