

## ***TAXATION IN CYPRUS - INDIVIDUALS***

### ***1. Introduction to the Cyprus Tax Environment***

#### **1.1. Cyprus Tax Residency for Individuals**

Cyprus has adopted a residency-based system of taxation, whereby physical presence in Cyprus exceeding 183 days in a calendar year (1st January to 31st December) will constitute tax residency for individuals.

#### **1.2. Chargeable Income**

##### ***1.2.1 Tax Residents***

Tax resident persons in Cyprus are subject to tax on their income accrued or arising from sources both within and outside Cyprus.

- Any profits or other benefits from any business, office or employment;
- Any pension, charge or annuity;
- Any rents, royalties, remuneration or other profits arising from property;
- Any amount or consideration in respect of any trade goodwill reduced by any amount incurred for the purchasing of such trade goodwill.

##### ***1.2.2 Non-Tax Residents***

Non- tax resident persons are charged to tax only on the income accrued or arising from prescribed sources in Cyprus.

- Any profits or other benefits from a permanent establishment situated in Cyprus;
- Profits or other benefits from any office or employment exercised in Cyprus;
- Pensions deriving from past employment exercised in Cyprus, charge or annuity directly or indirectly borne by a resident in Cyprus (with the exception of any pension borne paid by or out of funds created by the Cypriot Government or a local authority).
- Any amount or consideration in respect of any trade goodwill reduced by any amount incurred for the purchasing of such trade goodwill.
- In arriving at an individual's chargeable income the following deductions and exemptions are allowed under Cyprus tax laws.

## *TAXATION IN CYPRUS - INDIVIDUALS*

### **1.3 Major Deductions:**

An individual may deduct from his/her taxable income all expenses incurred for the production of such income. Deductions may include:

- Annual contributions to an approved Pension Fund, any premiums or other contributions to a Medical Scheme, any Life Insurance contributions, contributions to the Social Insurance fund as well as to the Unemployment Insurance fund. The above mentioned deductions are limited for tax purposes to one sixth (1/6) of the taxable income of the employee;
- Any donations made to approved educational, cultural funds and charities, expenses in relation to professional subscriptions, trade union subscriptions may be fully deducted without limitations from the taxable income, provided proof is available to be provided upon request;
- An amount of twenty percent (20%) from the gross amount of rental income before the deduction of any wear and tear allowances. (Rental income is also subject to the Special Contribution tax at a rate of three percent (3%))

### **1.4 Major Exemptions:**

- Income arising from trading in securities (shares, bonds, debentures, founder's shares);
- Interest income (subject to the Special Contribution legislation at 15%);
- Dividend income (subject to the Special Contribution legislation at 20%);

### **1.5 Expatriate Concessions**

- EUR 8.550 or twenty percent (20%) (Whichever is lower) of the gross income of an individual who was not a tax resident in Cyprus before the commencement of his/her employment in Cyprus. This exemption applies for a period of three years commencing on the 1st of January following the year of commencement of the employment;
- Remuneration from the rendering of salaried services by a Cyprus tax resident, to a non tax resident employer or to a resident employer's permanent establishment located outside Cyprus, for an aggregate period of more than 90 days in the year of assessment.

## *TAXATION IN CYPRUS - INDIVIDUALS*

### **1.6 Exemption of 50% of remuneration for employees earning more than EUR 100.000 (Applicable only for new Cyprus Tax residents)**

#### ***Main Provision***

This measure was effected from 01/01/2012 and onwards and it is applicable only for people started their employment during 2012.

#### ***Prerequisites***

- It applies for persons who weren't tax residents of Cyprus before the start of their employment in Cyprus;
- It applies for persons earning more than EUR 100.000 annually;
- Their employment should be exercised in Cyprus;
- The exemption is applicable for 5 years beginning from the year of the employment.

#### ***Practical issues***

The exemption in the first year begins in the year which the employment starts even if the taxable income is lower than EUR 100.000, provided that the income exceeds EUR 100.000 in the first 12 months of his/her employment.

## **2. Income Tax Rates for Individuals**

In arriving at an individual's taxable income, deductions, allowances and exemptions on such income must be taken into account. The income tax rates for individuals for 2012 and future years are as follows:

### **Chargeable Tax Chargeable Tax**

#### ***Income Rates Income Rates***

<b>Taxable income</b>	<b>Tax rate</b>	<b>Tax payable</b>	<b>Accumulated tax</b>
<b>EUR</b>	<b>%</b>	<b>EUR</b>	<b>EUR</b>
<b>0 - 19.500</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>19.501 – 28.000</b>	<b>20</b>	<b>1.700</b>	<b>1.700</b>
<b>28.001 – 36.300</b>	<b>25</b>	<b>2.075</b>	<b>3.775</b>
<b>36.301 – 60.000</b>	<b>30</b>	<b>7.110</b>	<b>10.885</b>
<b>60.001 and above</b>	<b>35</b>		

### *TAXATION IN CYPRUS - INDIVIDUALS*

**Additional special contribution on income from employment (valid for period 1/1/2012 – 31/12/2013)**

<b>Gross Monthly Emoluments</b>	<b>% Contribution</b>	<b>Total Monthly Contribution in EUR</b>
<b>0 - 2.500</b>	<b>0</b>	<b>0</b>
<b>2.501 – 3.500*</b>	<b>2,5</b>	<b>25</b>
<b>3.501 – 4.500</b>	<b>3</b>	<b>55</b>
<b>Over 4.500</b>	<b>3,5</b>	

**\*Minimum amount of special contribution is EUR 10**

### ***3. Major Types of Investment Income for Individuals***

#### **3.1 Interest Income**

Interest income received by Tax Resident Individuals is completely exempt from Income Tax. However, all interest income of an individual is taxed at the rate of fifteen percent (15%) under the Special Contribution for defence tax.

#### **3.2. Dividend Income**

Dividends received by Cyprus tax resident individuals are exempt from Income Tax. Dividends however, are subject to tax under the Special Contribution tax at the rate of twenty percent (20%).

#### ***3.3. Rental Income***

Under Income tax Rental Income (following deductions of 20% of gross rental income, allowances for wear and tear and interest expense on possible loan to acquire the buildings) is included in the taxable base of the individual and taxed at the graduated rates shown above.

Rental Income is also taxed under Special Contribution Tax at the rate of 3% following a deduction of 25% of the gross rental income.

## **TAXATION IN CYPRUS - INDIVIDUALS**

### **4. Social Insurance Contributions**

The Social Insurance contributions for 2012 have a monthly cap of Euro (€)3,836 for a yearly total of Euro (€)46,032. The contribution rate remains unchanged from previous year at 6,8% for the employee and the employer (for a total of 13,6%). The employer is also liable for a 1,2% contribution to the Redundancy Fund (RF) a 0,5% to the Development Fund (DF) and 2% to the Social Cohesion Fund (SC). Note that the cap mentioned above does not apply to the Social Cohesion contribution. Instead, the Social Cohesion contribution is applied on the gross amount of remuneration received.

Benefits in kind provided to employees (e.g. rent or car benefit) are not subject to Social Insurance Contributions assuming they are not received in the form of a cash payment. The payment of a bonus once off is not subject to S.I contributions. The payment of a bonus however, on a frequent basis (e.g. biannually or annually) is subject to Social Insurance contributions.

Also please note that contributions to the Social Insurance Fund are withheld by the employer and are deductible against the employee's remuneration in arriving at the chargeable income.

The employer's matching contribution is not considered taxable income to the employee.

Furthermore, capital sums payable out of these funds do not form part of the taxable income of the beneficiaries.

#### **Summary of Social Insurance rates for 2012:**

<b>Contribution</b>	<b>Employer</b>	<b>Employee</b>	<b>Self employed</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Social Insurance	6,8	6,8	12,6
Redundancy fund	1,2		
Human labor fund	0,5		
Social cohesion fund	2		