



As part of the overall effort to continuously improve and simplify the Cyprus tax system as well as to remain a highly compliant and attractive jurisdiction to foreign and local investors, various new bills have been passed into new laws by the House of Representatives and important changes have been implemented to the Cyprus Tax System.

"THE CYPRUS CITIZENSHIP HAS MANY ADVANTAGES SINCE IT IS CONSIDERED AS THE FASTEST PROGRAM IN EUROPE; ISSUANCE OF WHICH CAN BE DONE WITHIN 3-4 MONTHS."

New Cyprus developments make the island *hotter* and more attractive



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The new tax-related law amendments and bills mainly aim to harmonise and align the Cyprus tax system with relevant EU guidelines while simplifying the Cyprus tax system and hence making it more attractive. Whereas the use of Cyprus companies in international tax structuring is strengthened, the island becomes increasingly attractive as a prime destination choice for persons wishing to invest in Cyprus property (being a main pre-requisite for acquiring the Cyprus permanent residency

permit or Citizenship), move to Cyprus permanently along with their families, set up real business substance and move key employees to Cyprus. This is achieved by introducing certain tax exemptions or relaxations on property transactions and income from Cyprus employment and the introduction of the 'non-dom' status.

The non-dom status that is being introduced for the first time will also solve many inherent issues that foreign High Net Worth Individuals have when it comes to taxing their worldwide income after they become Cyprus tax residents. Non-doms will be exempted from defence tax which is applicable on Cyprus tax residents on dividends, interest and rental income. This gives scope for ample planning to foreign persons already residing or who plan to reside or work

in the island. It will also help tremendously the tax issues in the cases of foreigners who are beneficiaries to Trusts and subsequently become Cyprus tax residents.

An outline of the main tax changes that have passed into law are set out below:

DEFENCE TAX RELATED

Non domiciled persons are not subject to defence tax. For physical persons, defence tax was applicable on those who were Cyprus tax residents, and was applied on certain types of worldwide income (e.g. 17% on dividends, 30% on bank deposit interest, 3% on rental income). Cyprus tax residency for individuals is determined by the number of days each person spends in Cyprus on each calendar year (183 days).

The new amendment to the law introduces the

concept of 'non-domiciled' persons and provides that defence tax is applicable on Cyprus tax resident persons who are also domiciled in Cyprus. This means that individuals who are not domiciled in Cyprus, and regardless of whether they are Cyprus tax residents, will now not be subject to defence tax.

INCOME TAX RELATED

Notional interest deduction on equity introduced. As from 1 January 2015, companies will be entitled to a notional interest tax deduction on 'new equity'. New equity means funds or in-kind payments introduced into the share capital of the company after 1 January 2015 and which have actually been paid and used for the operations of the company. This interest will be calculated based on the effective interest earned on the 10 year government bond yield of the country in which the new equity is invested plus 3%, with the minimum rate being the equivalent 10 year bond yield of Cyprus plus 3%. This notional expense deduction will be tax deductible to the extent that it relates to business assets and cannot exceed 80% of the taxable income of the company for the year.

The main aims for introducing the Notional interest deduction provision is to reduce excessive dependence of Cypriot entities on debt financing, thus strengthening their economic robustness, preserving their competitiveness as well as encouraging the investing of new equity in Cypriot corporate structures. In fact, this provision offers a powerful way of reducing the taxable base of a Cyprus company whilst at the same time reinforcing the much needed case of being accepted as the 'beneficial owner of income' for the purpose of accessing double tax treaty and EU Directive benefits.

DOUBLE TAX TREATIES

During 2016 the Cyprus government expanded and developed its Double Tax Treaty ("DTT") network establishing its hereditary reputation as a compliant jurisdiction. Despite Cyprus' current wide network of DTIs, the relevant authorities continuously attempt a steady and constant growth.

On January 2016 the DTT between Cyprus and Ethiopia was signed and DTT between Cyprus and Georgia entered into force. On March 2016 the DTT between Cyprus and Kuwait entered into force. On April 2016 the protocol to treaty between Cyprus and Ukraine approved by Ukrainian Cabinet of Ministers. On May 2016 the DTT between Cyprus and Latvia was signed and DTT between Bahrain and Cyprus entered into force.

IMMIGRATION

Over the last couple of years there has been an increasing momentum by non-EU nationals in obtaining the Cyprus citizenship by way of investment. In response to this growing demand, the government has further relaxed the criteria, by making it easier and more efficient to acquire the Cyprus passport when compared with similar plans offered by other EU countries.

The increasing number of foreign investors that choose Cyprus to permanently reside or acquire a Cypriot citizenship, by way of investment, is phenomenal. It is noteworthy that people from all over the world, even if they have never visited Cyprus

before, seek the island as a destination to invest or even reside. This could perhaps be considered as one of the preferred investment currently in Cyprus. These investors have been increasingly looking to Cyprus because, for the past three years, both public and private sectors in the region have been taking small but steady steps towards economic stability and solid progress has been made thus far. The Cyprus passport is currently rated within the world's top 20 international passports, as it provides visa free access to more than 150 countries worldwide.

The Cyprus Citizenship has many advantages since it is considered as the fastest program in Europe; issuance of which can be done within 3-4 months from application date. The Cyprus citizenship is based on investment without any element of donation whereas there are various investment options of €5m or €2.5m if done through a collective investment scheme; investment which can be disposed after a 3-year period. Tax residency is based solely on number of days one stays in Cyprus each year (183 days). Foreigners who decide to also become Cyprus tax residents enjoy significant tax benefits and exemptions through their non-domicile status, as mentioned above. Lastly, obtained citizenship applies for the whole family and is transferrable to descendants as well.

ANTI-AVOIDANCE PROVISIONS

In case where an individual domiciled in Cyprus transfers assets to an individual non-domiciled in Cyprus who is a relative up to the third degree, and the Commissioner considers that one of the main reasons for the transfer was to avoid the payment of defence tax, then the income arising from such assets will be subject to defence tax, which can be collected either from the transferor or from the transferee.

As a closing remark, the tax benefits offered to non-domicile persons who choose to become Cyprus tax residents as well as the other mentioned Cyprus tax advantages provide ample room for tax planning. Such planning is strongly recommended to be performed prior to the foreign person becoming a Cyprus tax resident. In case of individuals who are directors or senior management in Cypriot entities, the relocation of such individuals to Cyprus could significantly enhance the much needed corporate business substance as it would reinforce its effective Cyprus management and control.

Furthermore, each person who considers moving his personal tax residency to another country (in this case to Cyprus) should separately ensure that, depending on the laws and practices of his current tax jurisdiction, he shall stop being a tax resident in that other country.

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