

Cyprus offers tax exemption on worldwide income

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Concept of domicile Determining tax residency and domicile status

Providing high-net-worth individuals with further incentives to relocate to Cyprus is one of the objectives of the non-domicile rules, the so-called 'non-dom' rules, which came into force on July 17 2015 on their publication in the *Official Gazette*.

Concept of domicile

Previously, a distinction was made between non-tax residents and tax residents:

- Non-tax residents were entitled to most of the tax advantages offered by the Cyprus tax regime.
- Tax residents had to pay the following taxes in Cyprus on all of their worldwide income, including special defence contribution tax:
 - 17% on dividends;
 - 30% on interest earned; and
 - 3% on 75% of rental income.

In order to provide high-net-worth individuals with additional incentives to relocate to Cyprus or continue conducting their business operations or investments in Cyprus, the government introduced the concept of 'domicile' for the purposes of the Special Defence Contribution Tax Law. As a result, an individual may be resident, but not domiciled, in Cyprus. Tax residents who are not domiciled in Cyprus are exempted from the special defence contribution tax.

The concept of 'domicile' already existed under Cypriot legislation by way of the Wills and Succession Law, in which it was used to determine which jurisdiction should govern the succession of a deceased person.

The concept of domicile is distinct from the concepts of residence, nationality or citizenship; a person can have only one domicile at any given time.

The law distinguishes between:

- 'domicile of origin', which is acquired at birth; and
- 'domicile of choice', which is retained by individuals who intend to live permanently or indefinitely in one particular place.

According to the non-dom rules, a person is deemed to be domiciled in Cyprus:

- by virtue of being tax resident in Cyprus for 17 of the 20 years preceding the relevant tax year, regardless of his or her domicile of origin; and
- by virtue of the fact that his or her domicile of origin is in Cyprus, unless:
 - the person has acquired domicile of choice in another country, provided that he or she has not been tax resident in Cyprus for a period of 20 consecutive years before the relevant tax year; or
 - the person has not been tax resident in Cyprus for a period of 20 consecutive years

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before the introduction of the law, which came into force on July 17 2015.

Determining tax residency and domicile status

Tax residency and domicile status can be determined using the following criteria.

Tax residency

An applicant who has spent 183 days during a particular calendar year in Cyprus is considered to be tax resident. The day of arrival is counted in the residency period and the day of departure counts towards the non-residency period.

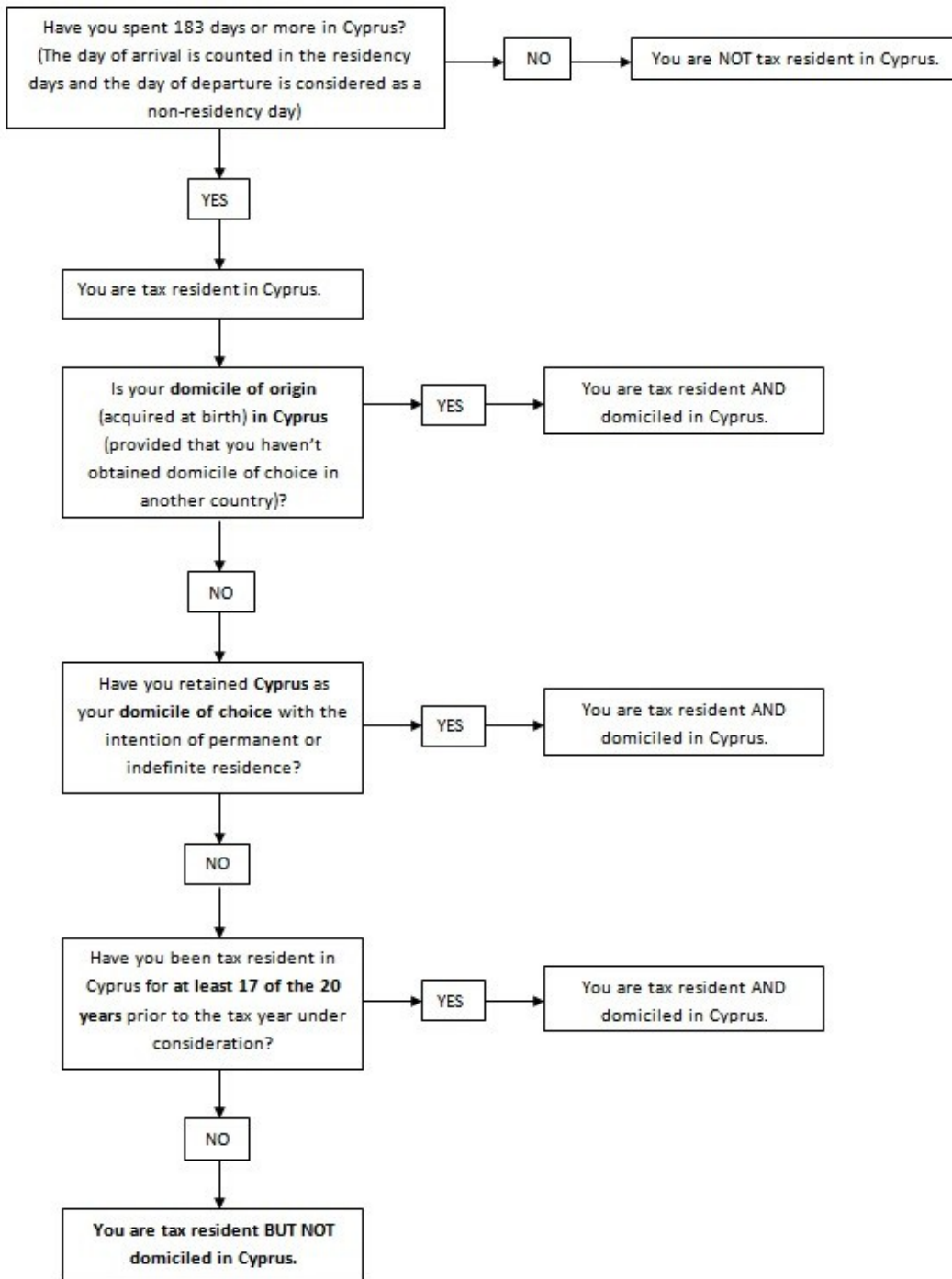
Domicile

As regards domicile, applicants must answer the following questions:

- What is your domicile of origin (acquired at birth)?
- Have you acquired domicile of choice in Cyprus?
- Have you been tax resident in Cyprus for 17 of the last 20 tax years before the relevant tax year?

If an applicant answers no to all questions, he or she is not domiciled in Cyprus.

Applicants can also use the following flowchart to determine their tax residency and domicile status for a particular tax year.



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