

Personal income taxation in Cyprus - 2017

Basis of taxation

All Cyprus tax resident individuals are taxed on all chargeable income accrued or derived from all sources in Cyprus and abroad. Individuals who are not tax residents of Cyprus are taxed on certain income accrued or derived from sources in Cyprus.

An individual is tax resident in Cyprus if (s)he spends in Cyprus more than 183 days in any one calendar year. Days in and out of Cyprus are calculated as follows:

- the day of departure from Cyprus counts as a day of residence outside Cyprus
- the day of arrival in Cyprus counts as a day of residence in Cyprus
- arrival and departure from Cyprus in the same day counts as one day of residence in Cyprus
- departure and arrival in Cyprus in the same day counts as one day of residence outside Cyprus

Foreign taxes paid can be credited against the personal income tax liability.

Foreign pension income is taxed at the flat rate of 5% on amounts over €3.420. The taxpayer can however on an annual basis elect to be taxed at the normal tax rates and bands set out below.

Cyprus source widow(er)'s pension is taxed at the flat rate of 20% on amounts over €19.500. The taxpayer can however on an annual basis elect to be taxed at the normal tax rates and bands set out below.

Personal tax rates

The following income tax rates apply to individuals:

Chargeable income for the tax year (€)	Tax rate (%)	Accumulated tax (€)
First 19.500	Nil	Nil
From 19.501 - to 28.000	20	1.700
From 28.001 - to 36.300	25	3.775
From 36.301 - to 60.000	30	10.885
Over 60.000	35	

Exemptions

The following are exempt from income tax:

1. Interest, except for interest arising from the ordinary business activities or closely related to the ordinary business activities of an individual. Such interest income may be subject to Special Contribution for Defence.
2. Dividends. Such dividend income may be subject to Special Contribution for Defence.
3. 50% of the remuneration from any employment exercised in Cyprus by an individual who was not a resident of Cyprus before the commencement of the employment, exemption applies for a period of 10 years for employments commencing as from 1 January 2012 provided that the annual remuneration exceeds €100.000. For employments commencing as from 1 January 2015 the exemption does not apply in case the said individual was a Cyprus tax resident for 3 (or more) tax years out of the 5 tax years immediately prior to the tax year of commencement of the employment nor in the preceding tax year. In certain cases, it is possible to claim the exemption where income falls below €100.000 per annum.
4. 20% of the remuneration with a maximum amount of €8.550 annually from any employment exercised in Cyprus by an individual who was not a resident of Cyprus before the commencement of the employment. For employments commencing during or after 2012 the exemption applies for a period of 5 years starting from the tax year following the year of commencement of the employment with the last eligible tax year being 2020. This exemption may not be claimed in addition to the immediately above mentioned 50% exemption for employment income.
5. Remuneration from salaried services rendered outside Cyprus for more than 90 days in a tax year to a non-Cyprus resident employer or to a foreign permanent establishment of a Cyprus resident employer.
6. Profits of a foreign permanent establishment. With effect as from 1 July 2016, taxpayers may elect to tax the profits earned by a foreign permanent establishment, with a tax credit for foreign taxes incurred on those foreign permanent establishment profits. Transitional rules apply in certain cases on the granting of foreign tax credits where a foreign permanent establishment was previously exempt and subsequently a taxpayer elects to be subject to tax on the profits of the foreign permanent establishment.
7. Lump sum received by way of retiring gratuity, commutation of pension or compensation for death or injuries.
8. Capital sums accruing to individuals from any payments to approved funds (e.g. provident funds).

9. Profits from the sale of securities. The term “Securities” is defined as shares, bonds, debentures, founders’ shares and other securities of companies or other legal persons, incorporated in Cyprus or abroad and options thereon. Circulars have been issued by the Tax Authorities further clarifying what is included in the term Securities. According to the circulars the term includes, among others, options on Securities, short positions on Securities, futures/forwards on Securities, swaps on Securities, depositary receipts on Securities (ADRs, GDRs), rights of claim on bonds and debentures (rights on interest of these instruments are not included), index participations only if they result on Securities, repurchase agreements or Repos on Securities, units in open-end or close-end collective investment schemes. The circulars also clarify specific types of participation in foreign entities which are considered as Securities.

Tax deductions

The following are deducted from income:

1. Contributions to trade unions or professional bodies.
2. Loss of current year and previous years (for individuals required to prepare audited financial statements, current year losses and losses of the previous five years only may be deducted).
3. 20% of rental income.
4. Donations to approved charities (with receipts).
5. Expenditure incurred for the maintenance of a building in respect of which there is in force a Preservation Order (up to €1.200, €1.100 or €700 per square meter, depending on the size of the building).
6. Up to 1/6 of the chargeable income of the cumulative amount of the following: Social Insurance, medical fund (maximum 1,5% of remuneration), pension and provident fund contributions (maximum 10% of remuneration) and life insurance premiums (maximum 7% of the insured amount).
7. Up to 50% of the taxable income as calculated prior to this deduction (subject to a maximum of €150.000 per year) of an amount invested each tax year as from 1 January 2017 in approved innovative small and medium sized enterprises either directly or indirectly. The unused deduction can be carried forward and claimed in the following 5 years, subject to the cap of 50% of taxable income (and overall maximum of €150.000 per year).