The Blevins Franks Guide To Taxes In Cyprus

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Contents

Introduction	1
Where are you tax resident?	2
Are you paying tax in the right place?	3
What about the UK/Cyprus Double Tax Treaty?	3
Pension income	4
Are your investments tax-efficient for you?	4
What about offshore bank interest?	4
What about your rental income?	5
What if you rent out property in Cyprus?	5
Would you have to pay inheritance tax in Cyprus?	6
What about my will?	6
Summary	7
Rates of tax	8

Introduction

Moving abroad is something that many Britons yearn to do, and Cyprus is a very popular destination for many of them.

Yet how much do you know about the tax implications of moving to Cyprus?

This guide looks at many of the issues facing people moving from the UK to Cyprus, to raise awareness of things that may affect you. Depending on your circumstances, however, there are likely to be things that you can do to minimise the problems, and you may even find that you can reduce your tax liability by moving to Cyprus.

You should always take advice when looking to purchase property in and/or moving to any country, and in particular Cyprus, where many of the taxes sound the same but are calculated differently to similar taxes in the UK. Whilst the tax systems are broadly similar, what is tax-free in the UK is not tax-free in Cyprus. An adviser with a good understanding of both jurisdictions can help you understand the tax implications of your move and work out how to make your money work for you, protecting it against foreign taxes, and how to make the most of the opportunities available.

British nationals can no longer move to an EU country under the EU 'freedom of movement' principle. Instead, UK nationals will need to acquire the right to permanent residency. Individuals will need to meet the Cypriot government's entry requirements and should check with the Republic of Cyprus High Commission what type of visa and/or work permit is required. Our partners live in the countries in which we operate, and will be able to introduce you to immigration advisers in your chosen country who will be able to guide you through the process.

This brochure is for general guidance only. You should take advice about your particular circumstances. The rules explained here are in general terms and are not exhaustive.

Where are you tax resident?

Understanding where you are tax resident is important since normally the country of residence would tax you on your worldwide income and gains.

In Cyprus, you are regarded as tax resident if you cumulatively spend more than 183 days physically present during a calendar year (the tax year).

An individual may also be considered tax resident in Cyprus if he/she satisfies the '60 day rule'.

The '60 day rule' applies to individuals who, in the relevant tax year:

1. do not reside in any other single state for a period exceeding 183 days in aggregate, and
2. are not tax resident in any other state, and
3. reside in Cyprus for at least 60 days, and
4. have other defined Cyprus ties.

To satisfy the fourth condition, the individual must carry out any business in Cyprus, and/or be employed in Cyprus, and/or hold an office (director) of a company tax resident in Cyprus at any time in the tax year, provided that such is not terminated during the tax year. Further, the individual must maintain in the tax year a permanent residential property in Cyprus which is either owned or rented by him/her.

Under the UK Statutory Residence Test, there are a number of steps required to assess your residency. To determine your residence status, you need to work through the following three tests in the order shown. The first test is absolute and trumps all other tests, so if you are non-UK resident under this test, the other two will not apply. If the second test applies, the third is ignored.

1. The automatic overseas test
2. The automatic residence test
3. The sufficient ties test

Where your residence status is not determined under the first two tests, the third test determines whether you are resident in the UK based on a combination of the number of days you spend in the UK and the number of 'ties' you have to the UK. The 'ties' are: family; available accommodation; substantive work in the UK; more than 90 days in the UK in the previous two years; and more time in the UK than any other country. There are specific definitions of each of these ties, and you should seek specialist advice on how they impact your position.

Even where you satisfy the domestic residence criteria of Cyprus, as well as the UK domestic rules, under the terms of the UK/Cyprus Double Tax Treaty, you can only be resident in either country at any one time, and the Treaty has 'tie-breaker' rules to establish where you are resident. It might be dangerous to rely on the tie-breaker rules, as circumstances can change, often from year to year – sometimes all it could take is a bout of serious illness and your residence position could change, and you have not taken advice or prepared for it. Also, your interpretation of the rules might not be the same as those of the tax authorities in the country in which you are claiming not to be resident.

Are you paying tax in the right place?

Many people move abroad and continue to wrongly pay tax in the UK, when they should be paying tax in their new country of residence. This is quite common in Cyprus, particularly where some people just never declare themselves to the Cypriot tax authorities at all, assuming that they should continue paying tax in the UK, particularly if they only have UK-source income such as UK pensions and savings income. It can be all very confusing unless you receive specialist advice.

People who do this may end up paying more tax than they should. Had they taken advice before they left the UK, they could have put into place tax-efficient structures for their money, saving them tax and increasing their available income.

If you are traced by the authorities in Cyprus and have not submitted appropriate Cyprus tax returns, or have under-declared your income because you are paying tax in the UK and believe that you do not need to declare the income in Cyprus, this will be treated very seriously by the Cypriot tax inspector. It is treated as tax evasion, however innocently arrived at, giving rise to penalties and interest on any underpaid tax. Declaring that you have paid tax in the UK on income which is actually taxable in Cyprus will not be considered a defence under Cypriot law.

Whilst you might be working in the UK for a UK employer or performing self-employment activities in the UK, you may still have a tax liability in Cyprus, not the UK, and you could find that you have been paying social security to the wrong country. This can affect your healthcare, state retirement pensions, and other social welfare benefits. Again, there may be penalties and interest due on any underpaid social security. By getting this wrong, you can cost yourself, and possibly your employer, a lot of money as well as losing social security and pension rights.

What about the UK/Cyprus Double Tax Treaty? Does it stop you paying too much tax?

Whilst the treaty between the UK and Cyprus means that the same income or gain is not taxed twice, not all income or gains are taxed in both countries. The problem is, if you do not know the rules, you can end up paying more tax than you need to do if you are paying it in the wrong country.

Also, where income or gains are taxed in both countries, although you can offset the tax paid in, say, the UK, against the tax due in Cyprus, if the tax payable in the UK is higher, you will not get a refund of the difference in Cyprus. So, ideally, if you can avoid paying the higher UK rate altogether, you can reduce your tax bill this way. However, just not paying the UK tax is not an option, so you need to take advice to make all of your income as tax-efficient as possible.

Pension income

Cyprus offers very advantageous tax treatment for residents of Cyprus who receive UK source pension income. You can opt for the pension income to be taxed at the scale rates of tax so, if less than €19,500, no tax is due on the income. Alternatively, you can opt for your pension income to be taxed at a fixed rate of just 5%, with the first €3,420 being tax free.

Up until 31 December 2018, this applied to all pension income, regardless of whether the pension was paid by the UK government, an occupational pension or a private pension fund. Under the new UK/Cyprus Double Tax Treaty which came into force on 1 January 2019, the UK has exclusive taxing rights for UK government service pensions. However, individuals have the option to elect to pay tax in Cyprus on any UK government service pensions until 31 December 2024.

Are your investments tax-efficient for you?

For UK residents, income derived from Individual Savings Accounts (ISAs) and Premium Bond winnings are all completely free of tax. However, these are only tax-efficient investments for UK purposes, and can be subject to tax in Cyprus. Also, did you know that only UK residents may contribute to an ISA? Those who have left the UK may continue to hold such funds, but they can no longer put further funds into such investments once they are no longer UK resident.

Keeping cash offshore is dealt with in the next section, but what about other investments, like shares, OEICs, unit trusts or investment bonds? The gross dividend income from UK shares can be taxable in Cyprus, as well as in the UK.

There are very tax-efficient investment vehicles available to residents of Cyprus that allow income and gains to roll up tax-free, and even withdrawals from such investments, whether income or capital, are also tax-free in Cyprus. If only ISAs were as beneficial for UK residents!

What about offshore bank interest?

Cyprus tax residents are subject to tax on their worldwide income. Although bank interest is exempt from income tax in Cyprus, it is subject to 'defence contributions' which is just another form of tax. It is payable even if you never use the account or withdraw the interest you earn. Defence contributions are only paid by those who are Cyprus domiciled – so, broadly those born in Cyprus, those who have adopted a domicile of choice in Cyprus and those who have been resident in Cyprus for 17 out of the 20 years prior to the year in question. The defence contribution rate on bank interest is currently 17%. A reduced rate of 3% is available to those whose total income for the year is less than €12,000.

The Common Reporting Standard (CRS) came into effect on 1 January 2016. It is a global standard, developed by the Organisation for Economic Co-operation and Development, for the automatic exchange of financial account information between tax authorities worldwide on an annual basis. There are more than 110 jurisdictions signed up to the CRS, including the Isle of Man and the Channel Islands.

Even where information is exchanged automatically, you are still obliged to declare the income in Cyprus; failure to do so will be seen as tax evasion. In many cases, as defence contributions are not due, you are likely to pay more tax in the country where the funds are kept than in Cyprus.

What about your rental income?

Many people retain UK property to 'let' out when they leave the UK. For some, this is their 'pension' fund, and they have one or more buy-to-let properties. Others are unable to sell their UK main home when they leave the UK, and so decide to let it out to provide an income.

This income remains taxable in the UK and must be reported there each year.

However, this income is also taxable in Cyprus, and is added to your other income and taxed at the scale rates of tax. Worldwide rental income received by Cyprus domiciles is additionally subject to defence contributions at a rate of 3% on 75% of the gross rental income, where an individual is liable to these.

The UK tax paid on this income can be offset against the Cyprus tax and defence contributions (where due) on the same income, but you should note that Cyprus calculates the income differently from the UK, so the taxable income in each country will be different.

If you dispose of a UK residential property, no capital gains tax will be imposed in Cyprus, but you will fall within the UK non-resident capital gains tax regime which was first introduced in April 2015. Since 6 April 2019, the non-resident capital gains tax regime also applies to commercial buildings and land.

What if you rent out property in Cyprus?

Many people who have bought a property in Cyprus look to rent it out, even if it is a holiday home. The money brought in from such activities pays for the mortgage, or annual local taxes and some of the upkeep.

This money, even if it is just to 'cover the bills' whilst someone is using the property, is income derived from the property and therefore subject to tax in Cyprus. No actual running costs and expenses may be deducted in calculating the net taxable income, although the following deductions are allowed:

- 20% of gross rents
- 3% depreciation on building cost (not land)
- Interest on any loan to acquire a property for rental purposes.

In addition to this, defence contributions are levied on 75% of the gross rental income at a rate of 3% (although non-domiciles of Cyprus are not liable to this). A non-resident with rental income from a Cyprus property would be subject to Cyprus income tax (with credit for this in the UK) but not to the defence contributions.

There are alternative methods of investment available to residents of Cyprus that are much more tax-efficient, and even where a property is not selling or being sold, it is worth taking advice to see if there is anything that can be done to mitigate taxes.

Would you have to pay inheritance tax in Cyprus?

There is no inheritance or gift tax in Cyprus but, if you remain UK domiciled, you will still be liable to UK inheritance tax on your worldwide assets until a new domicile of choice outside of the UK has been established.

What about my will?

Cyprus succession law governs the disposal of real estate in Cyprus, and also the worldwide estate (except for real estate located outside Cyprus) of a Cyprus domicile (including those deemed domiciled in Cyprus as they have been resident there for 17 out of the previous 20 years). Under Cyprus law, the estate is split into a 'statutory portion', the disposition of which is defined by law, and a 'disposable portion' which can be left freely under the will. If the will disposes of more than the freely disposable estate, it will not be ignored; rather the amount left under the will is adjusted so that the correct proportion is left in this way.

Where there is a surviving spouse and/or child (or descendants of a child if the child is deceased), they inherit two thirds of the deceased's estate as of right between them, split into equal shares. So, if there is a surviving spouse and two children, they will each take one third of that two thirds (22.22% each) as of right. If there is a spouse but no children or descendants of children, and at least one of the deceased's parents are still alive, the statutory portion is half of the estate (and at least half of this will go to the spouse). If there is a spouse, but no child or descendants of a child and no living parent, the entire estate can be disposed of by will.

A UK will may be effective in Cyprus, but must go through the probate process in the UK, after which it needs to be translated and notarised and then go through the probate process in Cyprus. It can therefore take a significant amount of time before a will can be finalised and the assets distributed. This is also a very costly process.

If you set up a Cypriot will for Cypriot assets, this may inadvertently revoke your UK will, leaving your assets intestate, which can take a lot of time to sort out. Alternatively, the new Cypriot will may be at odds with your existing UK one, leading to disputes between your heirs, which again may be expensive and costly to resolve. You should therefore take advice regarding wills and ownership structure to ensure that you protect your assets.

Under the EU Succession Regulation, expatriates can specifically opt, through their will, for the law of their country of nationality to apply on their death instead of that of their country of residence. UK nationals can therefore elect for UK law to apply to avoid this issue.

This is a very complicated area of the law, and we recommend that advice is sought regarding this, as making a mistake can be very costly.

Summary

There are many issues facing UK nationals looking to buy property in and move to Cyprus, and a lot of these can be dealt with very easily, in many cases, provided you take advice. However, to make the most out of such a purchase or move, the adviser needs to be cognisant of both Cyprus and UK tax law, as something that can save you tax in the UK can have the opposite effect in Cyprus, and *vice versa*.

There is no one solution for everyone, because each situation is different. It is important to do your research, but there is no substitute for advice tailored to your specific circumstances.

Rates of Tax

Income Tax Scale Rates 2024

€	2024	TAX ON BAND €	CUMULATIVE TAX €
Up to 19,500	0%	Nil	Nil
19,501 — 28,000	20%	1,700	1,700
28,001 — 36,300	25%	2,075	3,775
36,301 — 60,000	30%	7,110	10,885
Over 60,000	35%	—	—

Foreign Pension Income

All pension income arising from an overseas source is taxable on a worldwide basis. The income can be taxed in one of two ways at the taxpayer's option:-

1. At a flat rate of 5% on the excess of €3,420 (this sum being exempt); or

2. At the normal scale rates above.

Since 2019, UK government service pensions are taxed in the UK instead of Cyprus (see page 4).

Defence Contributions

The following income is subject to defence contributions at the applicable rates for individuals who are Cyprus domiciled and resident, with a credit available for any foreign tax paid on the income:

TYPE OF INCOME	RATE APPLICABLE
Worldwide bank interest	17% / 3%
Worldwide dividends	17%
Income from housing development corporations	3%
Income from savings certificates and development stocks issued by the Cyprus Government	3%
Income accrued to Provident funds	3%
Rental income — 75% of gross receipts	3%

Individuals who are not domiciled in Cyprus are not liable to pay the defence contributions on interest, dividends or rent regardless of whether the income is actual or deemed and regardless of the source of the income (whether from Cyprus or overseas). This is a very complicated subject affecting not just defence contributions in Cyprus, but also UK inheritance tax, and if you believe that you are not domiciled in Cyprus, you should take advice.

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