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Fiducenter is an independent provider of professional services, with more than 35 years of successful presence. We provide a comprehensive range of international business services, including professional consultation, advisory services on specific transactions, formation of investment funds, companies, trusts and other investment and business vehicles, bespoke services related to specific sectors and structures and much more. Established in 1980, Fiducenter is owner-managed, with all partners being active in the business, providing that extra touch required for establishing a personal approach in establishing and maintaining relationships with clients, associates and also internally within the firm.

Our strength is the complementarity of our accountants, tax advisors, legal experts, asset managers, corporate administrators and other contributors who co-ordinate their efforts to provide our clients with the best advice and services for the fruitful evolution of their entity's life, from its initiation to daily running and possible expansion, restructuring, and eventual liquidation.

Through our direct presence in four of the most attractive financial centres in the world, as well as our connections all over the world we can provide to our clients the most suitable solutions based on their needs and expectations, always at top quality standards and competitive prices.

Through a proactive relationship with our clients, we build and ensure the availability of the most suitable solutions. It is not by chance that our motto is...

in search of **excellence**



# FIDUCENTER

## Practical Note CY 6



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## Cyprus: Incentives for Investing - Relocating

## Introduction

As part of its effort to attract foreign high net worth individuals as well as to attract qualified individuals to relocate and work in the country, either on their own or as part of a group structuring/reorganisation, Cyprus offers some very attractive incentives.

These incentives, together with some other advantages that Cyprus has to offer, such as its geographical location, its sunny weather, the business-friendly time zone, low crime and pollution and the top quality of facilities and services on offer, such as marinas, golf courses, professional services, private schools and universities, are expected to significantly increase the number of foreign people investing in Cyprus over the coming years.

These incentives are already giving fruits, especially for investing in the country, since in the last few years a considerable number of foreign nationals were granted permanent permit or nationality, amongst them some of the richest people in the world.

## Incentives to Invest in Cyprus

Cyprus offers two schemes for attracting investment by third-country nationals which, since their implementation, have created increased interest, especially from Asian investors, who see Cyprus as the gateway (being the far eastern border of the EU) to the great freedoms granted by the EU to its Member States and their citizens, especially the freedom to conduct business in the Union.

### Permanent Residence Permit Scheme

This special class of permit relieves its holders from time consuming procedures associated with other types of permits, such as consular inspections, renewal etc.

The Ministry of Interior implements a "fast-track" procedure in order to issue the relevant permit, assuming the requirements set by the scheme are satisfied. These requirements have been streamlined in order to match the needs and expectations of the modern investor while bringing some real benefits to the country and also to make the whole procedure much more straightforward.

### Investment in Immovable Property

The main criterion in order to qualify for the scheme is the acquisition of up to two properties in Cyprus with a total value of not less than €300,000 (excluding VAT and transfer fees). Below there is a summary of the main conditions, surrounding this investment:

- At least 66% of the acquisition price must be financed with funds transferred from abroad.
- The purchase of a house will also be accepted even if it is made under the name of a company and not under the applicant's name, provided that the Company is registered in the applicant's name and/or the applicant's name and his/her spouse and s/he/they are the sole shareholders.
- As from 7 May 2013 with regards to houses, qualifying properties for the scheme will be only those sold by a development company to a buyer for the first time. Applications concerning the resale of houses will not be accepted.
- Houses/apartments can be independent from each other, but must be sold by the same company.

## Please note

This publication aims to present a summary of the main provisions and possible or typical solutions in the most plain and practical way possible. Whether or not what is presented could apply to a specific case will depend on its own facts and circumstances. We will be happy to discuss these facts with you and present you with possible solutions, in the most straightforward, accurate and comprehensive way possible. You can find our contact details at the back of this publication.

- The permit will be withdrawn if the holder becomes a permanent resident of another country (not his own).
- In case the property/ies based on which the permit was granted is/are sold, the permit will be withdrawn. Periodic checks will be undertaken towards this direction.

## Application and Supporting Documents

The applicant, along with his application for a permanent permit, must submit the following:

- title deed or property purchase agreement deposited with the Land Registry Department as a proof of investment in immovable property and receipts as evidence for settlement of at least 66% of the value of the property;
- certificate of clean criminal record from the country of the applicant;
- evidence (tax returns, bank statements, share certificates, rental agreements, etc.) of an insured annual income of at least €30,000 per annum, increased by €5,000 for each dependant;
- certificate from a Cyprus bank that s/he has deposited an amount not less than €30,000 in an account blocked for a period of at least 3 years;
- confirmation by the applicant that s/he does not intend to be employed or self-employed in any direct or indirect way in Cyprus;
- evidence of visiting Cyprus at least once every two years – failure to provide this on a continuing basis will lead to cancellation of the permit once granted.

## Children

An immigration permit may also be granted to the applicant's children, even if they are over 18 year old and are not financially dependent on the applicant, provided that each one of the said children has a minimum share in the purchase value of the acquired property amounting to €300,000 (e.g. if the applicant has a 30-year old child and wishes to acquire an immigration permit, then s/he must purchase a house worth €600,000; if s/he has 2 adult children that are financially independent, then s/he must purchase a home worth €900,000, etc.).

It is implied that in such a case, each child must submit with the application, all the necessary documents (e.g. insured annual income of €30,000, deposit of €30,000 in a Cypriot financial institution, which will remain blocked for 3 years).

The requirement for the applicant to visit Cyprus at least once every two years, also applies for the members of his/her family that are included in his/her immigration permit.

## Procedure

The applications will be submitted directly to the Civil Registry and Migration Department (CRMD) together with a payment of an examination charge of €500. For the purpose of this particular type of immigration permit, an interview with the applicant will take place only in certain cases, when deemed necessary by the General Director of the Ministry of Interior. The examination, assuming the application is complete and no further information is requested, takes on average 2 months.



## Passport/Citizenship Scheme

This scheme involves the provision of citizenship to individuals upon meeting certain criteria, either personally, or through participation as a shareholder or senior executive in a company/companies. The criteria have recently been made more attractive by reducing the relevant thresholds.

In the case of senior manager of a company, s/he may submit an application provided that his/her remuneration generates tax revenue for the Republic of Cyprus of at least €100,000 over a period of three years and provided that this tax has already been paid or prepaid.

The applicant should make the necessary investment in the three years preceding the date of application and shall keep the said financial assets in his/her possession for a minimum period of three years from the date of his/her naturalization.

### Investment Options

An interested party can choose among a range of investment options, including the following:

#### 1. Direct investments

The applicant must have made a direct investment of at least €2.0 million in Cyprus. Direct investments may fall under one of the following categories:

- (a) Investment in real estate, land development and infrastructure projects (residential buildings, offices, stores, hotels etc. or developments of a similar nature, with the exception of unused land).
- (b) Investment in financial assets of Cypriot companies or Cypriot organizations.

The applications shall be evaluated to verify that the companies or organizations have proven physical presence in Cyprus, with significant activity and turnover and employ at least five (5) Cypriot or citizens of European Union member-states. The minimum number of employees shall increase, if more than one applicant invest simultaneously or almost simultaneously in the same business or company. In addition, the employees of the companies need to have legally and continuously resided in Cyprus during the five years preceding the application submission date.

- (c) Investment in Alternative Investment Funds or financial assets of Cypriot companies or Cypriot organizations that are licensed by CySec.

The purchase of financial assets of Cypriot companies or organizations of at least €2,0 million, such as bonds, bills and securities, issued with the approval of the CySec, by companies that have proven physical presence and substantial economic activity in the Republic of Cyprus, and have as a purpose the financing of the investment plans of these companies or organizations exclusively in Cyprus, based on an investment plan, fall under this criterion.

It is noted that the purchase by an AIF of units of other AIFs is not considered eligible.

#### 2. Combination of the Investment Options above

The applicant must have a combination of above €2.0 million.

Within this criterion the applicant may purchase special government bonds of the Republic of Cyprus, up to €500,000, which will be issued by the Public Debt Management Office of the Ministry of Finance, on condition that the investor will retain these bonds for a three year period. The characteristics and the terms of these special bonds will be determined by the General and Special Issue Terms of the Government Bonds of the Republic of Cyprus. Investments in government bonds through the secondary market are not considered eligible.

### Terms and Conditions

Besides satisfying one of the investment options above, in order to qualify for the scheme the applicant must satisfy some other conditions, as follows:

- (a) The applicant must have a clean criminal record. Furthermore, the his/her name shall not be included in the list of persons whose assets are required to be frozen within the boundaries of the European Union.
- (b) The applicant must own a permanent privately-owned residence in the Republic of Cyprus, of a minimum market value of €500,000 (excluding VAT). In case that the purchase value of the permanent privately owned residence in Cyprus exceeds the amount of €500,000, part of this additional amount can be used for purposes of supplementing the total amount of the investment made on the basis of the criteria of Parts 1 and 2 above.

Additionally, it is noted that if the applicant has invested in housing unit/units on the basis of the aforementioned criterion 1.(a), the purchase of another permanent residence in Cyprus will not be required, if at least one of these housing units is worth at least €500,000, plus VAT, provided that the applicant retains the possession of the residence for life.

- (c) In case that any condition is found by periodic controls not to be satisfied, the citizenship may be revoked.

It is important to note that there are special provisions to accommodate an independent citizenship request from the spouse/partner of the applicant, his/her parents, etc. One such provision concerns the possibility to jointly buy a residence, given that the total value of the residence covers the amount of €500.000 for each applicant.

### Application and Supporting Documents

Several documents must accompany the application for citizenship, such as the deed of purchase and certificates of settlement for the residence, certificate of clean criminal record, documents to substantiate the Investment Option/s followed by the applicant (specified by a guideline issued by the Ministry of Interior for each Investment Option), etc.

It must be noted that ultimately, the granting of naturalisation is a prerogative of the Council of Ministers.



## Other Incentives

The VAT provisions related to the application of the reduced rate of 5% (as compared with the standard VAT rate of 19%) on the construction or acquisition of residential property in Cyprus which is to be used as the primary and permanent residence were extended some time ago so as to include acquisitions by individuals, from all over the world, who do not ordinarily reside in Cyprus but acquire property to be used as their residence while they are in Cyprus.

The Land Registry (Duties and Fees) Law provides for full exemption from transfer fees for all transfers of real estate property for which VAT was payable on the transaction and 50% exemption from transfer fees for all other transfers.

As from 2017, Immovable Property Tax (IPT) has been abolished.

## Incentives to Relocate to Cyprus

With regards to incentives to relocate to the country, Cyprus offers schemes for different purposes, from promoting the physical establishment/relocation of foreign companies and groups to motivating Cypriots studying abroad to return to Cyprus upon graduating, to giving yet one more motive for non-residents to retire in Cyprus.

### 1. "Domicile" concept for Special Contribution for Defense purposes

The concept of 'domiciled' persons for what concerns Special Contribution for Defense was introduced as from July 2015. Individuals who are tax residents of Cyprus but are not considered to be "domiciled" in Cyprus are exempt from payment of Special Contribution for Defense on dividends, interest and rental income.

An individual can be considered as domiciled in Cyprus either (i) by domicile of origin or (ii) by domicile of choice, as defined by the Wills and Succession Law of Cyprus.

An individual who has a domicile of origin in Cyprus can still be considered not to be "domiciled" in Cyprus for this purpose under certain conditions.

### 2. 60-days tax residency rule

This provision, which was introduced in July 2017, provides an incentive to individuals who are not tax residents in any other country for any tax year to transfer their tax residence to Cyprus, as long as they satisfy the following requirements:

- the individual should not remain in any other state for one or more periods which in total exceed 183 days in the same tax year; and
- the individual should not tax be a resident in any other state for the same tax year; and

- he/she should remain in Cyprus or at least 60 days during the tax year; and
- he/she should pursue any business in Cyprus and/or work in Cyprus and/or be a director in a company tax resident in Cyprus at any time during the tax year; and
- the individual should maintain a permanent residence in Cyprus, either owned or rented.

### 3a. Tax exemption on income of a non-resident moving to Cyprus for employment

This measure was implemented to attract foreign companies or groups to establish themselves or, as is usually the case, transfer their base and substance of operations in Cyprus by offering 50% exemption on personal income. The exemption applies to employment income of a non-resident person taking up residence in Cyprus to work for an employer in the country. This exemption applies for a period of ten years starting from the first year of employment provided that the employment income of the employee exceeds €100,000 per annum.

*For more information about establishing or relocating commercial companies in Cyprus, including the need to adopt the necessary substance in the structure, please refer to our Practical Note CY9 - "Commercial Companies in Cyprus".*

### 3b. Tax exemption on income of a non-resident moving to Cyprus for employment

This exemption has been in effect for many years and it has been mainly targeting to attracting Cypriots studying abroad to return to Cyprus for employment. The exemption relates to the lower of 20% of employment income or €8,550 and applies for five years starting from the 1st of January of the year following the year of employment. The exemption can only be claimed until 2020.

### 4. Special tax rate for pension income for expats

Foreign pensions have a very favourable status in Cyprus, involving a flat annual income tax charge of 5% for amounts exceeding €3,420 per annum. What is more, the tax payer has the right to choose to be taxed either under the special mode of taxation as stated above or at normal rates. The latter option might be more beneficial, depending on the circumstances, considering that the first €19,500 of personal income per annum is tax free.

It should be stressed that as pension income is generally treated as earned income in the country of origin, it is only by concession that a lower rate can be paid by living abroad as an expat. Such concessions are usually determined by Double Tax Treaties (DTTs) and Cyprus has many such treaties, which include the relevant provisions. For example the DTT between Cyprus and UK, allows UK expatriates living in Cyprus to have their UK-source pension income taxed in Cyprus and not in the UK.