



Cyprus: A place to relocate

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Introduction

Thinking about relocating? Think of Cyprus!

Cyprus is a member state of the European Union since 2004 and has a strong legal and tax system, as well as more than 30 years of experience as an international business centre, with highly qualified professionals and sophisticated infrastructure. It is a country with a strategic location, long history and culture, as well as nice weather with almost year-round sunshine.

The Cypriot economy, has faced challenges as a result of the economic and banking crisis, however, it is now on a recovery path and it is recording positive growth rates. Dynamic sectors like energy, professional services, tourism, mutual funds, shipping, construction and real estate are enhancing this trend.

This publication provides an outline of the tax advantages and focuses on

the main features of the tax regime, its recent reform, as well as Value Added Tax aspects.

Cyprus offers an attractive and efficient tax regime, which features, among others:

- One of the lowest corporate tax rates in the EU set at 12,5%.
- An expanding network of double tax treaties.
- Tax exemption of dividend income and the profit on sale of shares and other securities.
- Option for overseas pensions to be taxed at 5%.
- 50% tax exemption for all newcomer employees with an annual salary of at least €100.000.
- VAT rate for acquisition of residential property can be as low as 5%.

- Favourable VAT rates for private yachts and aircrafts as low as 3,26%
- No transfer fees for property transfers if the transaction is subject to VAT and, if not, a 50% reduction of transfer fees for all transfers.
- No capital gains tax on gain from sale of properties if these are purchased until 31/12/2016.

Moreover, through the government's "scheme for naturalization of investors in Cyprus by exception", the Cypriot citizenship may be acquired by non-Cypriot investors. Therefore, through this scheme an EU passport can be obtained, within three months, with a minimum investment of €2,5 million.





About Cyprus

Cyprus is the third largest island in the Mediterranean, with a strategic geographical location in the middle of three continents, namely Asia, Europe and Africa, and it is a gateway to the Middle East. In particular:

- It has a surface area of 9.251 square kilometers and a population of approximately 850.000.
- It is an EU Member State and a member of the euro area.
- Its time zone is GMT+2.
- It is a credible and highly reputable financial centre, with full FATF compliance, with a competitive modern and transparent legal, financial and regulatory framework.
- It has significant economic memberships such as WTO, World Bank, IBRD and IMF.
- It is also a member of the UN, Council of Europe and OSCE.
- There are numerous International Banking Units and multinational companies have been operating from Cyprus for years.
- There are low set-up costs.
- It has highly skilled, educated and multilingual workforce at highly competitive fees.
- There are excellent telecommunications systems.

Beyond the economic and tax advantages offered to investors, Cyprus also offers an extremely attractive lifestyle:

- Security and safety for the whole family.
- Excellent public and private international schools.
- High standard of living and healthcare.
- Exclusive golf resorts.
- High quality tourist facilities.
- Gastronomy.
- Culture, history and art.
- Fabulous weather.

The Cyprus Tax System at a Glance

Main Features

- Taxation is based on Residency status.
- 12,5% corporate tax on corporate trading profits as from 1/1/2013.
- Interest expense on 100% corporate acquisitions permitted.
- Notional Interest Deduction on new equity invested.
- Fully reformed Intellectual Property Regime.
- Capital gains on sale of securities: 100% exemption.
- Capital gains from the sale of immovable property situated outside Cyprus are tax exempt.
- No withholding tax on outgoing payments (dividends-interest-royalties).
- No taxes on corporate dividend income or on profit on sale of shares.
- Applicability of all EU directives.
- Advanced ruling practice exists.
- Extensive and expanding favourable Double Tax Treaty network.

Exemption for physical persons

Exemption for physical persons who were based overseas, and who were not Cyprus tax-residents before the commencement of their employment in Cyprus, provides for an incentive to attract new businesses or highly paid



employees to existing businesses in Cyprus.

Main Features:

- Tax exemption of 50% on emoluments.
- Exemption is allowed for 10 years of employment, starting from the first year of their employment.
- Applies only if the employment income exceeds €100.000 per annum.

Overseas Pensions

Overseas pensions are exempt from tax up to €3.420 and taxed at 5% thereafter. The taxpayer may opt to be taxed in the normal way, where this special mode of taxation of income results to a higher tax liability (this selection can be made from year to year).

Reform of the tax regime

Zero taxes on dividend and profit on sale of shares No capital gains tax for property acquisitions made until 31/12/2016

The enactment of new legislation has made Cyprus one of the preferred destinations for relocating, managing business through corporate structures and receiving profits in the most tax efficient way.

Personal Taxation - Introducing the Non-Domicile Principle:

- The current Special Contribution for Defence (SCD) provisions exclude from SCD dividends, interest and rents (as well as from deemed dividend distribution provisions), individuals who are Cyprus tax residents but are not domiciled in Cyprus (as defined in the SCD Law) irrespective of the origin of the relevant income (i.e. from sources within Cyprus or abroad).
- The new provisions define domicile in accordance with the rules of the Wills and Succession Law under which two main kinds of domicile are identified:
 - o A domicile of origin (i.e. the domicile received by him at his birth); and,
 - o A domicile of choice (i.e. the domicile acquired by him by establishing a home with the intention of a permanent or indefinite residence).
- A person who has his domicile of origin in Cyprus will be treated as "domiciled in Cyprus" for SCD purposes with the exception of:

- o An individual who has obtained and maintained a domicile of choice outside Cyprus under the provisions of the Wills and Succession Law, provided that this individual was not a Cyprus tax resident for a period of at least 20 consecutive years prior to the tax year in question; or
- o An individual who was not a Cyprus tax resident for a period of at least 20 consecutive years immediately prior to the entry into force of the introduced provisions (i.e. prior to 16/07/2015).
- An individual who is resident in Cyprus for a period of at least 17 years out of the last 20 years prior to the tax year in question shall be deemed as domiciled in Cyprus for SCD purposes regardless of whether or not he has his domicile of origin in Cyprus.
- The above provisions will result to the complete exemption from SCD of a Cyprus tax resident individual, who, in adopting the rules above is not a domicile of Cyprus for SCD purposes.
- However, the exemption from SCD will not apply in the event of any assets that may give rise to SCD have been transferred from an individual domiciled in Cyprus to an individual not domiciled in Cyprus where one of the main reasons for the transfer was to benefit from the exemption. In such a case, SCD will be imposed

on the income derived from such assets and may be collected either from the transferor or the transferee accordingly.

Real Estate taxation

1. Capital Gains Tax (CGT) Exemption:

A full exemption from capital gains tax will be granted for the sale to an independent party, of immovable property consisting of land, or land with a building or buildings, which will be acquired from 16/07/2015, the date that the law came into effect, until 31/12/2016. That is, regardless of when the property will be sold, in essence it is enough that it has been bought up until 31/12/2016 and no capital gains tax will be payable. The exemption does not apply to immovable property that was acquired not by purchase or by purchase agreement but by a donation/gift or by way of an exchange.

2. Transfer Fees Exemption:

- A 50% exemption from transfer fees under the Land and Surveys (Fees) Law will apply to all transfer applications effected until 31/12/2016.
- According to existing law in case where the property sale is subject to VAT there is a 100% exemption from transfer fees.

Value Added Tax

Implementation of the reduced VAT rate of 5% on the purchase or building of residential properties.

In general, VAT is imposed on the supply of goods and services in Cyprus, as well as on the acquisition of goods and services from suppliers established outside Cyprus. The current standard VAT rate is 19%.

As per the Cyprus VAT Act, the acquisition of land plots is exempt from VAT. However, the acquisition of buildings and residential properties is subject to 19% VAT. Nonetheless, the VAT rate on the acquisition of residential properties can be reduced to 5% provided that the following conditions are collectively met:

Condition regarding the use

The qualifying residential property is used or is intended to be used by the beneficiary as his/her main and permanent place of residence.

Condition regarding the process

The beneficiary must submit a declaration with the Cyprus VAT authorities for certification.

Conditions regarding the rightful person

For an applicant to be considered a beneficiary, the following requirements must be met:

- Be a physical person.
- At the time of submission of the declaration (on a form specially designed for this purpose), be 18 years of age.

- Be a citizen of the Republic of Cyprus or of any another Member State and be a permanent resident in the Republic of Cyprus.

Extension of the reduced VAT rate to citizens from third countries

With effect from 8th June 2012, the reduced VAT rate of 5% may also be applied on the supply or construction of residential properties to citizens of third countries (e.g. Russian Republic, USA, China, etc.) if the said residences will be used by the applicant as his/her principal and permanent place of residence whilst in the Republic.

Conditions regarding the property

- The application for the planning permission or building permit must have been submitted after 1st May 2004.
- It must be intended for the property to be used after its purchase or construction as the permanent and main place of residence.
- The total area of the property should not exceed 363 m².
- In the cases of families with more than 3 children, the area is increased by 15 m² for every child after the third child.
- The 5% reduced VAT rate is applied only on the first 200 m².

Basic requirements for the application of 5% VAT to non-EU citizens

- The property must be used as the main and permanent place of residence in the Republic.
- There is no time limit for non-European citizens to stay in the Republic. Thus, the reduced VAT rate of 5% may be applied even if the non-European buyer has not completed 183 days of residency in the Republic, so as to be considered tax resident in the Republic.
- The reduced rate of 5% cannot be applied if the property is used for investment or leasing purposes or to exercise any other economic activity.



Cyprus Citizenship

Main Benefits

The Cyprus Government released, in March 2014, a revised set of criteria for granting the Cypriot citizenship by exception to foreign investors in an effort to promote foreign investment in Cyprus. The main benefits of granting the Cyprus citizenship include:

- An express procedure, it takes 3 months to be approved.
- The investment is as low as €2,5 million.
- The investor must retain the investment just for 3 years after which s/he is free to realize it.
- Citizenship granted to the spouse of the investor and minor children as well as to the financially dependent adult children up to the age of 28 who are full time students.
- No requirement to reside in Cyprus.
- VISA-free travel to over 150 countries worldwide.
- All the rights of an EU citizen protected by EU legislation and regulations: freedom to work, study, reside in any EU-member state, as well as Switzerland, Norway, Iceland and Liechtenstein.
- No language proficiency tests.
- Dual-citizenship permitted and the acquisition of citizenship in Cyprus is not reported to other countries.



- Low government fees for the filing of the application.
- Wide choice of investment options.

Cyprus citizenship criteria for granting the Cypriot citizenship to foreign investors "by exception"

There are two schemes available for the applicant:

- **Collective scheme** with the threshold of €2,5 million; and
- **Individual scheme** with the threshold of €5 million.

The minimum investment for the family (including spouse of the investor and minor children as well as financially dependent adult children up to the age of 28 who are

full time students) to obtain Cyprus Citizenship can be as low as €2,5 million.

Individual scheme – Criteria (5 million investment)

1. The applicant should have direct investments in Cyprus of at least €5 million in Cyprus government bonds (it shall be noted that the Cyprus Bonds must be acquired only from the primary market), or
2. The applicant should have direct investments in Cyprus of at least €5 million in financial instruments of companies and shares of public companies registered in Cyprus, or
3. The applicant should have direct investments in Cyprus of at least €5 million in real

In a nutshell: Competitive advantages of the Cypriot Citizenship:

- Investments in a variety of sectors of the Cyprus economy.
- Combination of investments is available.
- Low risk of investments in the Cyprus economy with the potential of high returns.
- No donation to the Cyprus Government is required.
- The investments may be realized after 3 years have elapsed.
- The amount of investment required is reasonable (as low as EUR 2,5 million).
- Express procedure-EU Passport within 3 months.
- Residence in Cyprus is not required at any point in time.
- The Cyprus Citizenship may be granted with only one visit in Cyprus.
- Once the application is approved it has immediate effect.

estate and land developing (e.g. residential, commercial and other infrastructure), or

4. The applicant should have direct investment in Cyprus of at least €5 million through the purchase, establishment or participation in businesses/companies that are based and have activities in Cyprus, or
5. The applicant should have deposits in Cyprus banks amounting to €5 million, for a period of 3 years. The deposits can be either personal or deposits of a private entity or of a trust whereby the applicant is the beneficiary, or
6. The applicant may choose to have a combination of any of the above amounting to €5 million, or
7. Any applicant who was the holder of deposits in Laiki Bank and suffered an impairment in the value of his/her deposits of at least €3 million as on March 15th 2013, as a result of the measures imposed on the bank.

In the instance that the applicant has suffered an impairment in the above mentioned bank which is lower than €3 million, s/he may still apply for Cypriot citizenship provided that s/he invests the remaining amount (i.e. the sum up to €5 million) in any of the criteria 1-5.

The conversion of deposits held in the Bank of Cyprus, which have been compulsorily converted into shares, is included under criterion 4 above.

3. Investments in real estate and land developing;
4. Investments in Cyprus businesses and companies;

on the basis that they participate in a collective investment scheme with a total value of at least €12,5 million.

Terms and conditions

It is noted that in addition to satisfying any one of the above criteria, either under the individual scheme or the major collective investment scheme, the applicant must:

- a) Have a clean criminal record; and
- b) Own a permanent residence in Cyprus of a market value of at least €500.000 excluding VAT (this condition does not apply if the investment under category 3 is exclusively in a single piece of real estate residential property).

Other useful notes:

The investor is obliged to retain the investment for at least three years following the acquisition of Cypriot citizenship, with the exception of the residential property of at least €500.000 that should not be disposed at any point in time or if disposed the investor should substitute with another property of an equal or higher purchase price.

Collective scheme – Criteria

The applicant will be required to invest a reduced amount of €2,5 million in any of the mentioned categories:

1. Investment in Cyprus Government Bonds;
2. Investments in financial instruments;

How can KPMG help?

Investments and Real Estate

- Market and financial feasibility studies – strategic market assessment and comprehensive financial analysis to assess potential investment returns for different projects in different target markets.
- Project conceptualization and investment planning – development of realistic and implementable concepts with short, medium and long term investment planning.
- Project Management and Business plans – strategic direction for the realization and delivery of project concepts, from financing to staffing and marketing and sales.
- Business performance improvement – assessing existing facilities and providing approaches for cost savings whilst simultaneously enhancing market opportunities.
- Valuation services – preparation of asset and business valuations for financing assessment.
- Deal structuring – advice as to the efficient legal and tax structuring of a transaction.
- Investor search – preparation of the information memorandum for the investment opportunity, as well as approach and selection of interested investors and assistance in the transactions process.

Compliance and Tax Planning

- Corporate Taxation (local and international).
- Global Tax Compliance Services.
- Tax services – advice, including in relation to transfer of immovable property and property taxes.
- International Executive Services and Personal Income Tax.
- Capital Gains Tax.
- Value Added Tax (VAT), including assisting in the procedure for claiming the reduced 5% VAT rate on the acquisition of residential property.
- Stamp Duty Tax.

Immigration Services

- At the outset, we assist our clients by providing them with the relevant analysis of the investment criteria that the foreign investor may elect, depending on their personal circumstances.
- Furthermore, we advise on the required documents that should accompany each investment criterion as well as an overview of the application process.
- We examine each investor's circumstances and we advise accordingly in order for the individual to meet the terms and conditions, as well as the financial criteria, in the most effective and efficient way.

- It is then up to the client to proceed with the most appropriate investment (e.g. acquisition of real estate, bank deposits, government bonds etc.) and provide us with the requested supportive documents for the application.
- It should be noted that where the client decides to invest in Cyprus Government retail bonds, KPMG Cyprus can also assist with the process for acquiring the bonds from start to finish.
- We proceed with the submission of the application form on behalf of the client, together with the supportive documentation and the payment of the relevant submission fee.
- Our immigration team constantly monitors the status of the application in order to ensure that it is properly progressing without delays and that no further documentation/clarifications are required by the Cyprus Authorities.
- The timeframe for the completion of the examination process is approximately 3 months.
- Once approval is granted by the Ministry of Interior, we proceed with the relevant steps in order for the naturalization certificate and a Cyprus passport to be issued. Once the investor's Cyprus passport has been issued, our team can assist the investor's dependents with their application in order to acquire Cyprus Citizenship as well.

- Further to our citizenship services, KPMG in Cyprus can also assist third country nationals intending to take up permanent residency in Cyprus, with their application for an Immigration Permit.
- KPMG in Cyprus may also assist companies with their registration at the Civil Registry and Migration Department, as well as assisting in obtaining the relevant work and temporary residence permits for European Union and third country national individuals and their dependents.

Corporate Services

Our Corporate Advisory Services provide corporate clients, both in Cyprus and internationally, with a range of advisory and company secretarial services, specially tailored to meet their needs, often in collaboration with our tax and other KPMG professionals, so that our clients enjoy the benefits of the breadth of commercial experience available to them. KPMG's Corporate Advisory Services include:

- Corporate and Commercial
- Investment Funds and Asset Management Services
- Company Secretarial Services
- Competition Law and EU Law
- Private Client Services - Family Offices
- Intellectual Property
- Real Estate – Due diligence, contracts review and monitoring the execution of transactions
- Employment Law
- Banking Units and Investment Firms licensing
- Capital Markets
- Trust Law.





Main Contacts

Angelos M. Gregoriades

Chairman

T: +357 22 209 245

E: agregoriades@kpmg.com

Sylvia A. Loizides

Board Member, Head of Audit

T: +357 25 869 104

E: sloizides@kpmg.com

Christos V. Vasiliou

Board Member, Head of Advisory

T: +357 22 209 113

E: cvasiliou@kpmg.com

George V. Markides

Board Member, Head of Tax

T: +357 22 209 240

E: gmarkides@kpmg.com

Harry S. Charalambous

Board Member, VAT Services

T: +357 22 209 300

E: hcharalambous@kpmg.com

Michael J. Halios

Board Member, Tax Services

T: +357 24 200 230

E: mhalios@kpmg.com

Christoforos P. Anayiotos

Board Member, Advisory Services

T: +357 22 209 292

E: canayiotos@kpmg.com

George P. Savva

Board Member, Audit Services

T: +357 24 200250

E: gsavva@kpmg.com

Costas A. Markides

Board Member, Immigration Services

T: +357 22 209 246

E: cmarkides@kpmg.com

Tassos J. Yiasemides

Board Member, Corporate Services

T: +357 26 955 285

E: ayiasemides@kpmg.com

Contact us

Nicosia

T: +357 22 209 000

F: +357 22 678 200

E: nicosia@kpmg.com.cy

Limassol

T: +357 25 869 000

F: +357 25 363 842

E: limassol@kpmg.com.cy

Larnaca

T: +357 24 200 000

F: +357 24 200 200

E: larnaca@kpmg.com.cy

Paralimni

T: +357 23 820 080

F: +357 23 820 084

E: paralimni@kpmg.com.cy

Paphos

T: +357 26 943 050

F: +357 26 943 062

E: paphos@kpmg.com.cy

Polis Chrysochous

T: +357 26 322 098

F: +357 26 322 722

E: paphos@kpmg.com.cy

www.kpmg.com.cy



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