

Legal update

Introduction of new non domicile rules

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If you have any related questions/queries please do not hesitate to contact us.

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Introduction of new non domicile rules

- In an effort to improve the competitiveness of the Cypriot tax system and further attract foreign investors and high net worth individuals to take up residency in Cyprus, the Cyprus Government has introduced new non domicile rules which exempt persons who do not have their domicile in Cyprus from the obligation to pay any tax/contribution on income received from dividends and interest.
- Prior to this amendment, Cyprus tax resident individuals earning Cyprus or foreign sourced income in the form of dividends or 'passive' interest were subject to Special Defence Contribution tax ("SDC"), at the rate of 17% on dividends and 30% on interest, irrespective of their domicile status.
- After the introduction of the new non domicile rules, the Special Contribution for Defence Law (the "**SDC Law**") has been amended so that an individual will not be subject to SDC, even if he/she is a Cyprus tax resident, if he/she is not considered to be domiciled in Cyprus. As a result, individuals who are Cyprus tax residents but are not domiciled in Cyprus, will effectively not be subject to SDC in Cyprus.
- An individual is considered to be a tax resident of Cyprus if he/she is physically present in Cyprus for a period or an aggregated period of more than 183 days during the calendar year.
- An individual is considered as domiciled in Cyprus either (i) by domicile of origin; or (ii) by domicile of choice. The determination of domicile is based upon specific legal rules and it is distinct from citizenship or residence.
- For the purposes of the SDC Law only, an individual who has a domicile of origin in Cyprus may still be considered not to be domiciled in Cyprus if:
 - the individual has acquired and maintains a domicile of choice outside Cyprus and was not a tax resident of Cyprus for at least 20 years before the tax year in which he became a tax resident of Cyprus; or
 - the individual has not been a tax resident of Cyprus for a period of 20 years prior to the introduction of the amendment to the SDC Law i.e. 16/07/2015.
- Notwithstanding the above, an individual who has been a Cyprus tax resident for at least 17 years out of the last 20 years prior to the tax year of assessment, will be considered to be "domiciled in Cyprus" and, thus, will be subject to SDC from the 18th year i.e. will not be able to benefit from the exemption of paying SDC from the 18th year onwards.