

PASSIVE INCOME TAXATION

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INTEREST INCOME

With interest rates increasing in the last couple of years, tax on interest earned on deposits has become more relevant to depositors than before when the interest rates were near zero or even negative. The reduction introduced by the Government of Cyprus in the Special Defence Contribution (“SDC”) Law with effect as of 1 January 2024, brought the SDC tax rate on interest from 30% down to 17%.

Interest received by individuals or legal entities who are tax resident in Cyprus from savings certificates and development bonds of the Republic of Cyprus, corporate bonds listed on a recognised stock exchange, as well as or bonds listed on a recognised stock exchange that are issued by a local authority or a state organisation, or from an approved provident fund or social insurance fund, continue to be subject to the SDC reduced rate of 3%.

It is noteworthy that only Cyprus tax resident persons (natural or legal)* are subject to SDC whilst non Cyprus tax residents enjoy a tax exemption, subject to section 3(2)(b) of the SDC law, providing that a non-resident company which is tax resident in another jurisdiction, which is included in Annex I of the EU list of non-cooperative jurisdictions for tax purposes – the “EU Blacklist”, is not exempted and is subject to SDC in Cyprus. Individuals also should be domiciled in Cyprus in order to be subject to SDC. **

Cyprus tax residents are taxed on their worldwide income, therefore interest earned on deposits in foreign banks, are also subject to SDC in Cyprus. Any withholding of tax made by the foreign bank, is credited against SDC liability in Cyprus. Individuals who are not tax residents of Cyprus are taxed on certain income accrued or derived from sources within Cyprus.

Passive interest income of individuals is also subject to the General Health System (“GHS” – in Greek: ΓενικόΣχέδιο Υγείας – ΓεΣΥ) contribution at the rate of 2,65%. This is a tax which is contributed to the national health system, which aims at providing the people of Cyprus with access to the state’s health care system. GHS contributions are capped at annual income of EUR180 000. Individuals who are non-domiciled in Cyprus are not exempt from GHS contributions.

While interest income is not subject to income tax (subject to interest income incurred due to ordinary course of business or closely linked to the ordinary business of an individual), other passive income may be subject to income tax.

RENTAL INCOME:

For instance, rental income is subject to personal income tax or corporation tax, and it is also subject to SDC of 3% on 75% of the annual gross rental income. Where the tenant is a Cyprus company, SDC is withheld at source and is payable on 30 June and on 31 December each year. Where the tenant is an individual, SDC is paid by the landlord on 30 June and on 31 December each year. If the landlord is an individual, rental income is also subject to GHS contribution at a rate of 2,65%.

Non-Cyprus tax residents are subject to GHS contributions only in case they receive rental income from properties situated in Cyprus.

Rental income from self-catering accommodation that is rented out via online platforms will be treated, subject to certain conditions, as business income and therefore subject to income tax rather than SDC.

DIVIDENDS:

Dividends are not subject to income tax either but they are subject to SDC - withholding tax of 17% only if received by Cyprus tax residents. Non Cyprus tax residents enjoy a full exemption unless they are based in jurisdictions included in the EU Blacklist or are companies incorporated in a jurisdiction included in the EU Blacklist and are not tax resident in any other jurisdiction which is not included in the EU Blacklist.

Dividends received by Cyprus tax resident companies from foreign entities are not subject to SDC unless the Passive Dividend Rule applies, thus SDC is applicable if (i) the company distributing the dividend engages directly or indirectly in more than 50% of activities leading to investment income; and (ii) the foreign tax burden on the income of the paying company is substantially lower (less than 6.25%) than the Cyprus tax.

Dividends received by a company resident in Cyprus from another company resident in Cyprus are exempt from withholding tax except dividends paid indirectly after the lapse of four years from the end of the year in which the profits which were distributed as dividends were generated (the “Four-year Non-exemption Rule”).

Dividends received by a Cyprus resident company or a company not resident in Cyprus but which maintains a permanent establishment in Cyprus from a company which is not resident in Cyprus, are also exempt (subject to certain exceptions).

GHS contribution of 2,65% is also paid on dividend income received by Cyprus tax resident individuals.

ROYALTIES:

Royalties earned on rights used within Cyprus are subject to withholding tax of 10%, except royalties relating to cinematographic films, where the withholding tax rate is 5%. Literary, dramatic or artistic work (excluding motion picture films and works on film or videotape for use in connection with television) are tax exempt. As with dividends, royalties earned by non residents of Cyprus, are also exempt from tax.

Cyprus provides credit for any foreign tax paid irrespective of the existence of a treaty for the avoidance of double that Cyprus signed with other countries.

Cyprus tax residents are Cyprus tax resident companies or individuals who physically reside in Cyprus more than 183 days in a calendar year. Also, tax residents are those individuals who satisfy the "60-days rule" **

***For the purposes of SDC, a person is considered domiciled in Cyprus through a domicile of origin (acquired at birth) or a domicile of choice (indication of an intention of permanent residence). In case the taxpayer resides in Cyprus at least 17 out of the 20 years immediately prior to the tax year of assessment, then he/she is considered domiciled in Cyprus.*

**** i.e. persons who spend at least 60 days in Cyprus in one year, they do not reside in any other state for more than 183 days in aggregate, are not considered tax residents in any other state, and they have other ties with Cyprus, e.g. they own or rent a permanent home in Cyprus and are employed or hold an office in Cyprus or in a Cyprus tax resident company.*

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