

# TAX GUIDE

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**COSTAS TSIELEPIS & CO**  
AUDIT | TAX | ADVISORY

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## ***OWNING PROPERTY IN CYPRUS THE A TO Z TAX GUIDE***

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## Introduction

Thinking of buying property in Cyprus? Before you do, take a moment to read this guide for a brief analysis of what needs to be considered.

### 1.0 Before acquiring a property

#### 1.1 Due Diligence

Before a decision to acquire immovable property is made, a proper due diligence should be undertaken in order to avoid any unpleasant surprises now and in the future.

As part of the due diligence, a search at the relevant District Lands Office (DLO) should be undertaken to examine whether any mortgage or other encumbrances in the form of memos have been registered against the title of the property.

Moreover, it must be confirmed that the registered title deed reflects the characteristics of the actual property being purchased and that no amendments or alterations have been made to the property that would require obtaining further permits and changes to the title deed.

#### 1.2 Contract of Acquisition

Once the due diligence is completed and the purchaser decides to proceed with the acquisition of the immovable property, an acquisition or assignment agreement (depending on the status of the immovable property) shall be negotiated, drafted and executed between the parties.

The legal system in Cyprus is based on the Anglo-Saxon system. When purchasing a property, the agreement to be signed is considered a private agreement between the purchaser and the seller. The DLO will accept lodging of contracts in either the Greek or English language.

#### 1.3 Stamp Duty

Stamp duty is payable on any document for transactions relating to any immovable property located in Cyprus irrespective of the place where the document is executed and the residency of the counterparties. As such, the agreement for the acquisition of any immovable property in Cyprus is subject to stamp duty.



The rates of stamp duty on agreements, the subject matter of which relates to property located in Cyprus, are calculated cumulatively as follows:

- Consideration up to €5.000, at 0%.
- Consideration from €5.001 to €170,000, at 0,15%
- Consideration over €170.000, at 0,2%.

A maximum cap of €20,000 of stamp duty per agreement is applicable.

If not otherwise stated on the agreement, the purchaser of the property is liable to pay the stamp duty.

Stamp duty is payable within 30 days from the date of the agreement.

#### 1.4 VAT

Acquisition of new properties is subject to Value Added Tax (VAT) at the standard rate of 19%. Acquisition of used properties is exempt from VAT.

However, a reduced VAT rate of 5% applies on the acquisition of a new residential property by individuals under the below conditions:

- The property must be used as the primary and permanent residence of the applicant,
- The property cannot be used for any other purposes for a period of ten years, and
- The applicant must have not acquired any other residence in Cyprus with a reduced VAT rate in the previous 10 years.

The reduced VAT rate of 5% applies on the first 200 sq.m. of the property as per the architectural plans submitted to the Commissioner of Taxation. For any square meters in excess of 200 sq.m, the standard VAT rate of 19% applies.

#### 1.5 Lodging the Agreement at the District Land Office (DLO)

Once the agreement is signed and the relevant stamp duty is paid, it should be lodged at the DLO within the timeframe provided by the relevant law. The lodging of the agreement at the DLO will protect the purchaser's rights over the immovable property and restrict any further disposals/assignments of the property without their consent.

#### 1.6 Title Deeds

The transfer fees are calculated cumulatively by the District Land Registry Office as follows:

- 1.5% on the first €85.000,
- 2.5% on the next €85.000, and
- 4% from over €170.001.

The transfer fees are calculated either on the value included in the agreement or the market value of the property.

In the event that the transaction will be subject to VAT, then no transfer fees are payable.

#### 1.7 Best Practice Recommendations Before Acquiring Property in Cyprus

- Undertake a DLO search and ensure title deeds match the property;
- Obtain the relevant building permits, planning permits and final approval certificates from the relevant authorities;
- Perform a background financial and viability check on the seller;
- Sign a reservation agreement (optional) or acquisition agreement duly reviewed by a lawyer;
- Timely pay the relevant stamp duty and lodge the agreement with the DLO;
- Monitor the title deed transfer process and timely settle the transfer fees to ensure transfer and issue of title deeds in purchaser's name.



2.0 Taxes associated with the owning of immovable property

2.1 Local Authority Taxes/Communal Duties

Depending on the size of the property, the local authorities charge annual duties for residential properties (usually between €100 to €400) for regular refuse collection, street lighting, sewerage and other communal services.

Communal duties are payable to the local municipal authorities on an annual basis during the period from September to December.

2.2 Municipality Immovable Property Tax

Municipality immovable property taxes are applied by each local municipality to the owners of the immovable property. The municipality tax is calculated on the value of the property as at 1 January 2013 (expected to change to values as at 1 January 2018) as assessed by the DLO at a rate varying from 0,1% – 0,3% on the assessed value.

The municipality immovable property taxes are payable to the local municipal authorities on an annual basis during the period from October to December.

2.3 Sewerage Tax

The sewerage taxes are applied by each local Sewerage Board to the owners of the immovable property. The sewerage tax is calculated on the value of the property as at 1 January 2013 (expected to change to values as at 1 January 2018) at a rate varying from 0,3% to 0,7%.

The sewerage taxes are payable to the local Sewerage Board on an annual basis during the period from October to December.



3.0 Taxes associated with the renting of immovable property

Income acquired by individuals from renting immovable property located in Cyprus is subject to Personal Income Tax (PIT) and General Healthcare System contributions regardless of the tax residency of the individual owner.

Depending on the tax residency and domicile status of the owner, rental income may also be subject to Special Defence Contribution (SDC).

The earning of rental income from properties located in Cyprus give rise to the following tax implications:

a) Personal Income tax

Rental income received in Cyprus (from immovable property located in Cyprus) is considered, for Cyprus tax purposes, as “Cyprus-sourced income” and is subject to PIT. The gross rental income is reduced by a 20% statutory allowance, by the capital allowances (tax depreciation) and any mortgage interest. The income after deductions is then subject to PIT at the following rates:

Taxable Income (Euro)	%
0 – 19.500	0
19.501 – 28.000	20
28.001 – 36.300	25
36.301 – 60.000	30
Above 60.000	35

b) Any rental income earned by domiciled Cyprus tax resident individuals and tax resident companies is subject to a SDC at the rate of 2,25%. In the case where the tenant is a legal entity, the tenant is obliged to withhold at source the SDC and pay it to the Tax Department on a monthly basis on behalf of the owner. Where the tenant is a physical person, the owner is liable for the SDC.

Non-domiciled Cyprus tax residents and non-Cyprus tax resident individuals are exempt from special contribution for defence on any rental income earned from immovable property located in Cyprus.

c) General Healthcare System (GHS)

From 1st of March 2019, rental income is also subject to the GHS contributions at 1,70% applied on the gross amount of the rent. The rates are set to increase to 2,65% from 1st March 2020 onwards.

In the case where the tenant is a legal entity, the tenant is obliged to withhold at source the GHS contributions and pay them to the Tax Department on a monthly basis on behalf of the owner. Where the tenant is a physical person, the owner is liable for the GHS contributions.



d) Long-term rental of residential properties is exempt from VAT, whereas the rental of commercial properties could be subject to VAT. Rental agreements are subject to stamp duty. The stamp duty payable is calculated based on the value of the rent as well as on the duration of the rental period.

Usually the tenant has the obligation for the payment of the stamp duty.

4.0 Taxes associated with the disposal of immovable property

a) Capital Gains Tax (CGT)

CGT at the rate of 20% is imposed on capital gains relating to the disposal of immovable property located in Cyprus, including gains from the disposal of shares in companies which own (directly or indirectly) immovable property located in Cyprus.

There are also specific transactions which are exempt from CGT.

Individuals can also deduct from the capital gain the following lifetime exemptions:

- |   |         |
|---|---------|
| ▪ Disposal of private residence (subject to certain conditions) | €85.430 |
| ▪ Disposal of agricultural land by a farmer                     | €25.629 |
| ▪ Any other CGT disposal  | €17.086 |

b) VAT

Disposal of new properties and undeveloped building land are subject to VAT. Disposals of used properties (whether commercial or residential) are exempt from VAT.





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