



Cyprus Domicile Status

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Limassol, 20 August 2015 - Following our 'Tax Alert 12 - Cyprus tax reform in full swing' dated 22 July 2015, we have been in deliberations with the Department of Taxation (DoT) regarding the matter of domicile. It seems that the interpretation given by the DoT on the new amendments to the Special Defence Contribution (SDC) legislation, with regards to domicile, pleasantly varies in two areas, from what we had presented in our latest update.

Although surprising, the interpretation provided by the DoT is in fact more beneficial for the taxpayer, and as such, we welcome it, provided this will be their final position as we are expecting the DoT to issue a circular on this matter within the next few weeks. The update below should therefore be considered as not being the final position of the DoT, until their circular is issued and their position is confirmed in writing.

1st Variation

The first variation in interpretation is that the DoT will not examine if a person has acquired and maintains a domicile of choice in Cyprus, where the person's domicile of origin is not Cyprus.

Instead, where the domicile of origin is outside of Cyprus, then the only factor that matters is whether that person has been a Cyprus tax resident for 17 of the last 20 years. If the answer is positive, then that person is deemed to be domiciled in Cyprus, and will be subject to SDC. If the answer is negative, then that person will not have a domicile in Cyprus, for the purposes of Cyprus tax.

Such an interpretation would mean that for persons who have a domicile of origin outside of Cyprus, the first time they would have to examine whether they were deemed domiciled is after 17 years of living in Cyprus, and even then, only if they were continually Cyprus tax residents during this time. Such actions such as the person acquiring a house in Cyprus, or acquiring Cyprus citizenship or his/her children going to school in Cyprus, would therefore not matter. If this interpretation holds, this entirely removes the uncertainty whereby a person who does not have Cyprus domicile of origin, may be considered by the DoT to have a domicile of choice in Cyprus, when in fact that person believes this is not the case.

2nd Variation

The second variation in interpretation is with regards to one of the exceptions in the law. Where a person has a domicile of origin in Cyprus, that person may still be considered a non-domiciled if **both** the following conditions hold true:

- i. He/she has acquired and maintains a domicile of choice outside of Cyprus, **and**
- ii. He/she was not a Cyprus tax-resident for any 20-year period, before the tax year under review. The 20-year period would have to have been consecutive, but can be any 20-year period, and not necessarily the 20-year period directly before the tax year under review (in which for example he received dividends).

Diagram 1 below summarises the route to Cyprus domicile based on the interpretation provided to us verbally by the Department of Taxation. We await their circular to confirm this understanding, but would greatly welcome such a position.

