



## Cyprus, the country of choice for remote working

### **COVID-19, WORK FROM HOME AND THE FUTURE OF WORK**

"Work from Home" or in short "WFH" is a concept popularised from COVID-19, which describes work being done from home or in general remotely, instead of from an office/designated premise.

Along with the numerous challenges the pandemic has brought into our lives, it pushed a significant part of the population to work from home. Adapting to this new reality, many businesses have to date announced their intention to move to a hybrid or even a full work from home model, shaping, in other words, the future of work.

Organisations that give the opportunity to their employees to remotely work from another country, could appeal to a broader and more diversified pool of people and could potentially attract the best talent, offering them a competitive edge.

### **THE OPPORTUNITY**

While corporations are re-considering their working models, employees and entrepreneurs are reflecting on how to re-balance their lives and improve their quality of life. In this pursuit, people that can effectively perform their work from anywhere in the world, are even contemplating which country they would like to call "home".

Leveraging on its unique location, EU membership, safe and family friendly environment, sunny weather and high quality of life, Cyprus can potentially become a hub for remote workers.

## TAX INCENTIVES PROVIDED FOR RE-LOCATION

Besides the multitude of non-tax benefits that Cyprus has to offer, Cyprus provides a very attractive personal tax regime, especially for those that will become Cyprus tax residents. There are numerous tax incentives available to individuals relocating to Cyprus.



### Incentives for employment

Taxable income up to €19,500 is effectively exempt from income tax. In addition, an individual taking up employment in Cyprus may be eligible, subject to conditions, to a 20% or 50% income tax exemption on employment income, enjoying an effective tax rate on such income, in the range of 0% - 20%. Furthermore, earnings from overseas employment for which a Cyprus tax resident spends more than 90 days abroad in rendering his/her services, are exempt from tax.



### Incentives for traders and those earning investment income

A Cyprus tax resident who is not Cyprus-domiciled ("non-dom.") is exempt from tax on dividends and interest income. According to the Cyprus laws, an individual's domicile is defined at birth as being that of his/her father's, or that of his/her choice. Therefore, a Cyprus tax resident born to a non-Cypriot domiciled father would generally be considered, for at least 17 years, as a "non-dom." and enjoy dividend and interest income tax-free.

Taking into consideration that Cyprus tax residents can also enjoy reduced withholding taxes on dividends and interest received from abroad (due to the wide tax treaty network of Cyprus) as well as enjoy tax-free realised and unrealised gains from shares, bonds, and other qualifying financial instruments, then the status of a Cyprus tax resident "non-dom.", becomes even more attractive, especially for those active in financial trading.



### No hidden taxes

An individual deciding to reside in Cyprus does not need to worry about estate duty, immovable property tax, wealth tax, gift tax or inheritance tax, since none of these are applicable in Cyprus.

## PLANNING CONSIDERATIONS

The decision of working remotely from Cyprus needs to be planned carefully, taking into account (among others) the following considerations:

### Permanent establishment

An overseas business could create a permanent establishment (PE) in Cyprus, when it has such a business activity that triggers taxable presence. Although the Cyprus corporate income tax rate is only 12,5%, the creation of a PE can be an important consideration as it creates a number of compliance obligations. In general, different factors can determine whether a PE has been created, like the length of stay of the remote workers, the functions they perform, the place of their work and its degree of permanency etc.

### Dual tax residency

Individuals interested in becoming Cyprus tax residents, would need to ensure they "break" their previous tax residency to mitigate the risk of dual residency. Cyprus is party to more than 60 tax treaties, providing for "tie-breaker" rules where two countries claim the tax residency of an individual.

### Payroll taxes and contributions

The large majority of the tax treaties that Cyprus has with other countries, contain an 'employment income' article which does not give taxing rights to Cyprus if certain conditions are met, including that the individual spends no more than 183 days in Cyprus in any 12-month period.

Such being the case, for short-term remote workers that can choose Cyprus as a remote location for less than 6 months within a given year and their presence in Cyprus does not create a PE for their employer, Cyprus can be an ideal location, without creating any tax implications for the individual or the employer in Cyprus.

Contributions to the Social Insurance and General Healthcare System may arise in such case, however EU individuals can be exempt if they hold a Certificate of coverage (A1 certificate) that would allow them to continue their contributions in their home country.

A decision to live and remotely work from Cyprus for more than 6 months during the calendar year, would mean that an individual would become a Cyprus tax resident. Although in such case, Cyprus would most likely have taxing rights over the income of the employee, given the significant tax incentives on offer, this may not be an issue.

### **Compliance obligations**

Where Cyprus would have taxing rights over the income of any employee, the overseas employer would need to register as a local employer and maintain a payroll in Cyprus for the purpose of withholding the relevant tax and contributions.

Whilst the freedom of establishment would mean that an EU organisation would only register as an employer in Cyprus for payroll purposes, a UK and any other non-EU employer would also have an obligation to register a branch or a company in Cyprus for the purpose of withholding such taxes and contributions and remit them to the Cyprus authorities.

Furthermore, these branch or company registrations would give rise to other compliance obligations for the non-EU organisations, with the need for accounting, tax filing and annual audit requirements in Cyprus.

### **THE COUNTRY OF CHOICE**

There are many Cypriots looking to relocate back home trying to convince their employers that Cyprus is an ideal place to do business from. The same applies for non-Cypriots looking for a safe, sunny, and business-friendly location to work remotely from and enjoy quality lifestyle.

The Government and the competent authorities in collaboration with ICPAC, should enhance their efforts to simplify the relevant registration processes, introduce more efficient ways to collect the resulting taxes and, in general, minimise the compliance burden.

Given the significant tax and other incentives, with the right actions, Cyprus can become the country of choice for remote workers and their employers.

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