

*This guide has been prepared by an independent third-party accounting firm*

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## CYPRUS – TAX CONSIDERATIONS ON SHORT-TERM LETTINGS

The following information is a guide to help you get started in learning about some of the tax requirements that might apply to you when providing short-term accommodation in Cyprus.

Tax can be tricky and it is important to ensure that you keep up to date with your tax obligations and remain tax compliant. The timely preparation, filing and payment of taxes are your responsibility.

If you are supplying short-term accommodation in Cyprus, you should make sure that you understand each of the following types of taxes, and pay the ones that apply to you;

- Income taxes
- Special Defence Contribution
- Value added tax (VAT)

Please understand that this information is not comprehensive, and is not intended to be legal advice. If you are unsure about your local tax obligations, we encourage you to check this with official local sources, or to seek advice from qualified professionals.

Please note that we do not update this information in real time, so you should confirm that the laws or procedures have not changed recently.

### **INCOME TAX**

Where you earn income in Cyprus, it is likely that you will be required to pay a percentage of the tax on this income to the tax authorities in Cyprus. Below is a brief outline of tax that may arise on income earned from short-term lettings in Cyprus and some information on how this tax can be paid over to the tax authority in Cyprus.

**Cyprus's tax year** runs from 1 January to 31 December.

**Coming within the charge to income tax in Cyprus.**

If your total taxable income exceeds €19,500 then you will come within the charge to tax in Cyprus. If you are in doubt about filing your taxes in Cyprus, you should consider seeking advice from a tax professional.

**Cyprus rules applicable to income earned in relation to short-term lettings.**

Rental Income from short-term lettings is currently taxable under the income tax rates as outlined above under "Cypriot income tax rates".

**Reporting tax in Cyprus.**

Online submission of a personal tax return (TD1) is required in Cyprus. This return must be submitted using the [TaxisNet](#) system.

## **Reporting tax - filing deadline.**

The deadline for filing an income tax return and paying the associated liabilities is 31 July of the year following the end of the tax year e.g. 2018 tax return will be due for filing and payment on or by 31 July 2019.

## **Cyprus Tax Authority contact details.**

Contact details for tax authority in Cyprus can be found on the website below:

- **Department of Taxation**  
<http://mof.gov.cy/en/departments/tax-department>

## **Cypriot income tax rates.**

Income tax rates in Cyprus are as follows:

- Nil - €19.500 - Nil
- €19.501 - €28.000 - 20%
- €28.001 - €36.300 - 25%
- €36.300 - €60.000 - 30%
- Income greater than €60.000 - 35%

## **Typical expenses that can be deducted from income in relation to short-term lettings.**

The following items are allowable as deductions against rental income:

- Mortgage Interest on property rented;
- Wear and Tear allowances on the building value;
- Expenses deduction of 20% on gross rental income

## **Deductions available for tax depreciation (e.g. capital allowances / wear and tear).**

You can avail of a deduction on the cost of building construction at a rate of 3% per annum, for a period of 33.33 years.

## **Cypriot income tax obligation for non-resident individuals.**

If you are a non-resident individual in receipt of income sourced in Cyprus, you are taxable on this income at the tax bands and rates outlined above under the heading "Cypriot income tax rates".

## **Cypriot income tax obligations for a Cyprian individual in receipt of foreign rental income.**

If you are a tax resident of Cyprus, any foreign rental income you receive will be subject to income tax in Cyprus.

A double tax credit is available subject to conditions.

## **General property taxes payable.**

Property, refuse and sewage taxes are imposed by local municipalities and sewage councils.

## **Capital taxes in Cyprus.**

Capital gains tax (CGT) is imposed at a rate of 20% on the gain made from the disposal of immovable property in Cyprus, when the disposal is not subject to income tax. This includes gains made from the disposal of shares in companies which directly own such immovable property.

CGT is indicatively calculated at 20% of:

- Sale proceeds, less cost adjusted for inflation, less any expenses directly related to the acquisition/ disposal of the asset (subject to conditions e.g. interest costs on related loans, transfer fees, legal expenses etc).

CGT is payable at the time of disposal.

## **Other**

Parliament are currently examining the introduction of new legislation that might affect the taxability of short-term lettings.

### **Sample Income Tax Computation**

Maria owns a 2-bedroom flat in Paphos. She is renting her spare room at the weekends. Maria bought the flat new via a mortgage and she is incurring mortgage interest.

The total gross rent received for 2018 was €7,000.

Maria incurred the following expenses in relation to this flat in 2018: flat insurance €500, local property tax €350, mortgage interest €1,500 and electricity €600.

		€
Gross rental income		7,000
<i>Less allowable expenses:</i>		
	20% expense deduction*	(1,400)
	Mortgage interest	(1,500)
	Wear and Tear allowance**	(3,600)
<b>Net taxable rental income</b>		<b>500</b>

\**Expenses directly relating to the general rental income e.g. insurance, electricity, etc, are covered through the granting of 20% expense deduction of gross rent received.*

\*\* *Wear and tear allowances are calculated on the cost of the building (excluding the value of the attributed land).*

*Additionally, if Maria is Cyprus tax-resident and Cyprus domiciled, she will be also subject to SDC on the gross rental income of €7.000 at an effective rate of 2,25%.*

### **SPECIAL DEFENCE CONTRIBUTION (SDC)**

Rental income may also be subject to the Special Defence Contribution (SDC). The rate of Special Defence Contribution is currently 3% however, a deduction of 25% is given on this rate to give an effective rate of 2.25%. No other deduction is available for Special Defence Contribution.

There will be no Special Defence Contributions payable if as the owner of the property you are neither tax resident or domiciled in Cyprus.

If you are tax resident and domiciled in Cyprus, Special Defence Contributions will also be payable on this income.

### **VALUE ADDED TAX**

Value added taxes can be complicated and you should take time to understand the rules as they apply to you and your particular situation.

Broadly speaking, Value-Added Tax (VAT) in Cyprus is a tax on consumption. Most goods and services supplied in Cyprus are subject to VAT.

A person who supplies goods and/or services in Cyprus may have to charge VAT and pay this to the Cypriot tax authority. As with all taxes, we encourage you to consult with a tax advisor regarding your potential VAT obligations in Cyprus.

If you are currently renting a room to guests, you may be required to apply VAT to your rental charge and to pay this VAT amount to the Cypriot tax authorities. As Airbnb is not supplying the rental, it is the responsibility of the host to consider local VAT obligations of the rental charge.

### **Do I need to collect any VAT from guests if I am letting short-term accommodation in Cyprus?**

In general, individuals who are considered to be in business in Cyprus need to charge VAT on their supplies, once the criteria for VAT registration is met.

Currently, in Cyprus, you are required to register for VAT if you supply services to the value of €15,600 in any continuous period of twelve months, or if you expect to supply services to the value of €15,600 in a 30 day period. As such, where you supply short term accommodation, and you breach either of these thresholds, you should register for VAT.

If you are an individual who is not resident in Cyprus, but your accommodation is located in Cyprus, then you should also register for VAT if your supplies exceed the above threshold.

We encourage you to consult a tax advisor if you need assistance in determining whether you need to register for and charge VAT.

For further guidance on registering for VAT, please see the Cypriot tax authorities' [website](#).

### **VAT applies to me. How do I determine how much tax I need to collect from my guests?**

VAT rates differ per country and change periodically. We recommend you to check on a regular basis with the local tax authority to get the most up to date VAT rates for the country where you are required to pay VAT.

For example, at the date of issuance of this document, the VAT rate applicable to supplies of holiday accommodation is 9% In Cyprus.

However, there are other VAT rates currently in force in Cyprus, so we recommend that you confirm with a local tax advisor the VAT rate applicable to your supplies.

### **VAT applies to me. How do I collect VAT from guests?**

If you determine that you need to charge VAT on the supplies that you make to guests, please keep in mind that you have to collect this VAT from your guests and report and remit this VAT on a periodic VAT return. In Cyprus, the VAT return typically covers a quarterly basis and is required to be filed by the 10th day of the second month following the taxable period (i.e. the Q1 VAT return is due to be filed by the 10th May). The VAT payment is required to be made on the same day that the VAT return is required to be filed.

Based on the VAT rules and regulations in Cyprus, the pricing for your supplies of accommodation to private individuals (B2C) should include the amount of VAT due on those supplies.

Some formalities, such as issuing a receipt or an invoice to your guests, may be required. Please find more information on this [here](#).

For further guidance on filing returns, please see the Cypriot tax authorities' [website](#).

There may also be further requirements around whether you use VAT-inclusive or VAT-exclusive pricing. We recommend that you check your obligations in terms of pricing and the applicable invoice requirements with a local tax advisor.