

Real Estate investment in Cyprus

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פאהן קנה ושות' Grant Thornton Israel

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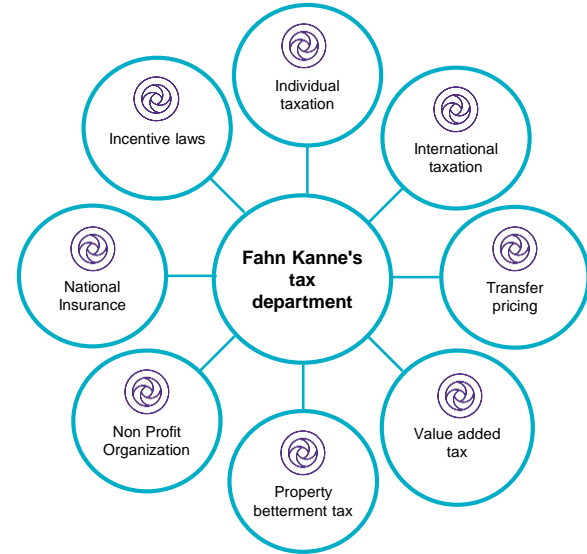
Fahn Kanne - Tax Department

Our tax department provides comprehensive consulting services in many areas of taxation, including: Individual taxation, Corporate taxation for partnerships and not-for-profit organizations, International taxation, Transfer Pricing, Incentive laws, Structural changes, VAT related services and other areas.

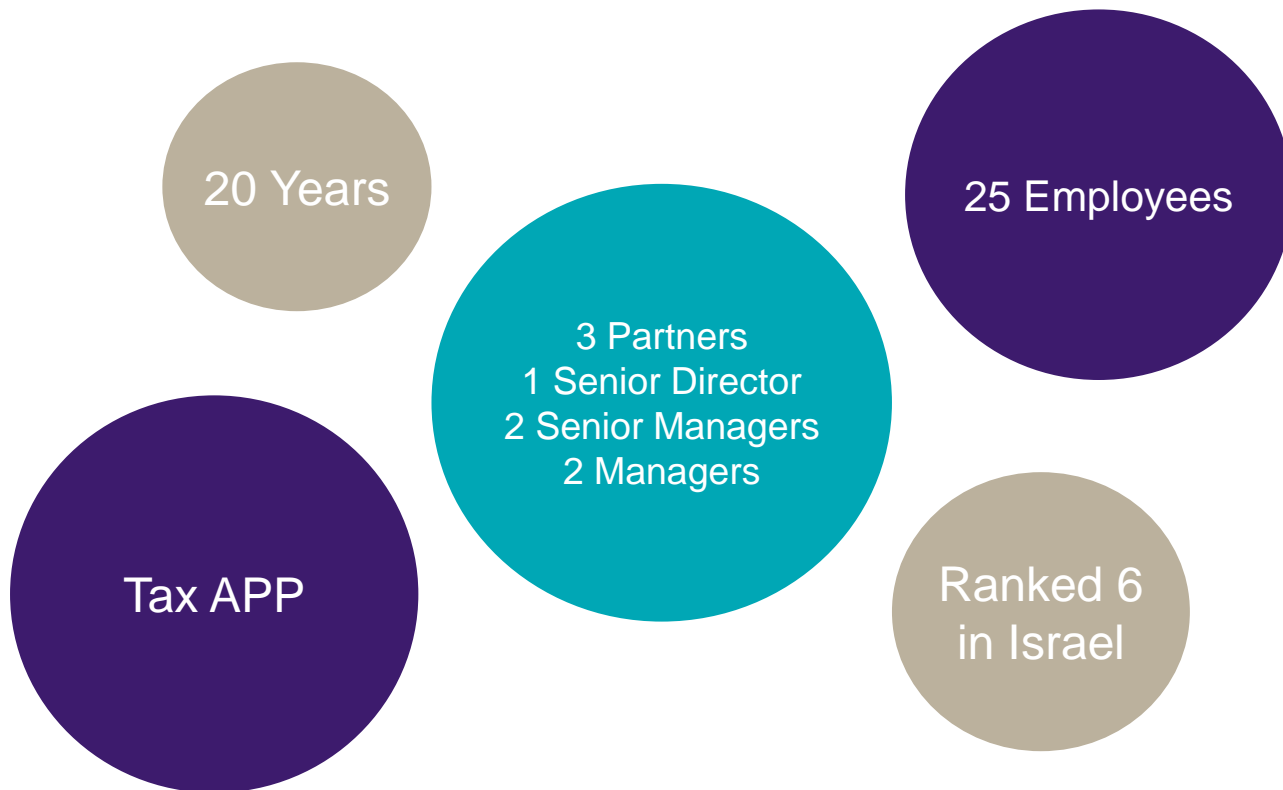
Our department has extensive experience in handling complex tax issues and in accompanying investment transactions and activities in Israel and abroad. The department staff consists of certified public accountants, attorneys, legal experts and experienced tax experts.

We will start the tax planning by reviewing your tax structure in detail and provide their observations and input. We believe in comprehensive tax services which take into accounts the ultimate business goals of our clients.

Our tax department handles numerous private and public companies with complex tax challenges. Our prominent clients are listed among the strongest and dynamic firms in Israel and in their respective countries, which requires up to date and close tax services.



Fahn Kanne - Tax Department



Main Tax Facts - Local law in Cyprus

Detail	Company Tax rate	Individual Tax rate	Notes
Corporate/Individual income tax	12.5%	Up to EUR 19,500 – 0% 19,501-28,000 – 20% 28,001-36,300 – 25% 36,301-60,000 – 30% Over 60,000 – 35%	<u>Rental income (Individual (foreign or local))</u> Subject to tax after an exemption of 20% on the gross rental income (Notional expense) in addition to depreciation and interest expense
Capital Gain tax	20%	20%	Capital gain derived from the sale of shares is tax exempt. A tax rate of 20% applies on gains from sale of immovable property or sale of shares in a unlisted company that owes (directly or indirectly) immovable property
Withholding Tax from dividend	0%	n/a	
Withholding Tax from interest	0%(nonresident)	0% (nonresident)	
Losses for tax purposes	Carry forward for 5 years only	Carry forward for 5 years only	
Transfer pricing rules	Yes	Yes	
Thin capitalization rules	No	n/a	Interest expense deduction is limited up to 30% of taxable income before interest expenses, depreciation and amortization only if interest expenses exceed 3 million euros per year.

Purchase of real estate in Cyprus

Taxes applicable at purchase

VAT (New property)	
Tax rate	Note
19%	General tax rate
5%	Applicable only if the following conditions are met: <ul style="list-style-type: none">• Residential property• Individual over 18• The purchaser has not acquired any other residence in Cyprus with a reduced VAT rate• The reduced VAT rate is applied on the first 200 square meters of the property. Over 200 square meters, the standard rate of 19% will apply

Transfer Fee (Used (old property))	
Purchase price	Tax rate
Up to €85,430	3%
€85,431 - €170,000	5%
Over €170,000	8%

A 50% discount is applied on the transfer fee

Purchase of real estate in Cyprus

Taxes applicable at purchase

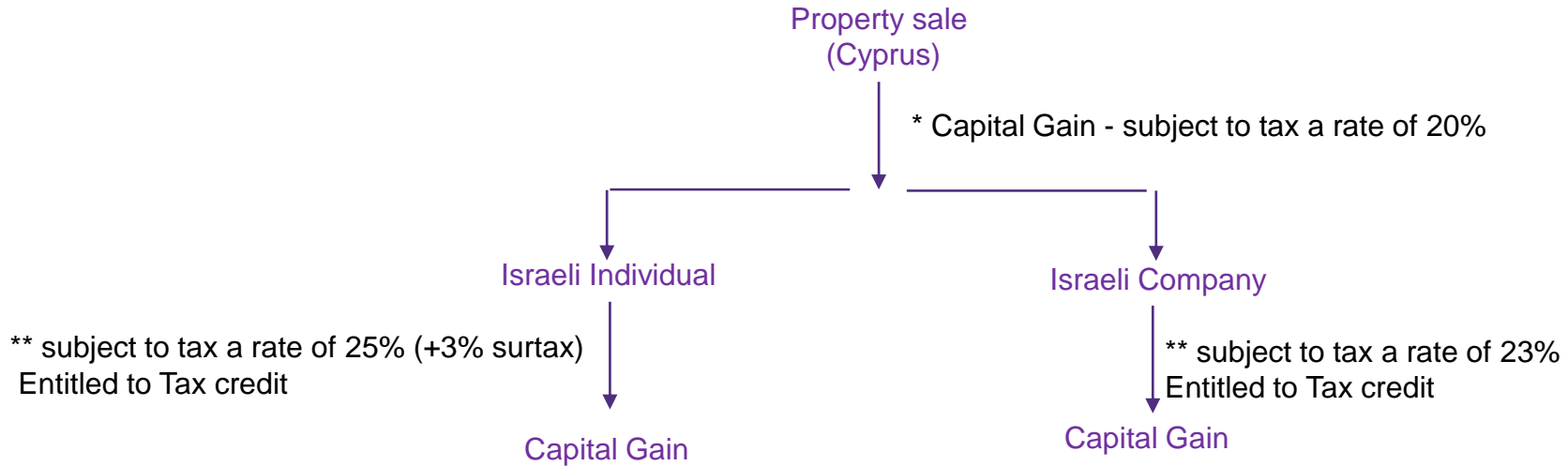
Stamp Duty

Purchase price	Tax rate	Note
Up to €5,000	0%	
Between €5,000 - €170,000	0.15%	
Over €170,000	0.2%	Max €20,000

Annual property taxes

Detail	Tax rate	Note
Municipality Tax	1%-2%	Applied on the market value The rates will differ from area to area in Cyprus so it is needed to contact the local authorities for exact figures for these taxes
Sewerage Tax	0.5%-3%	

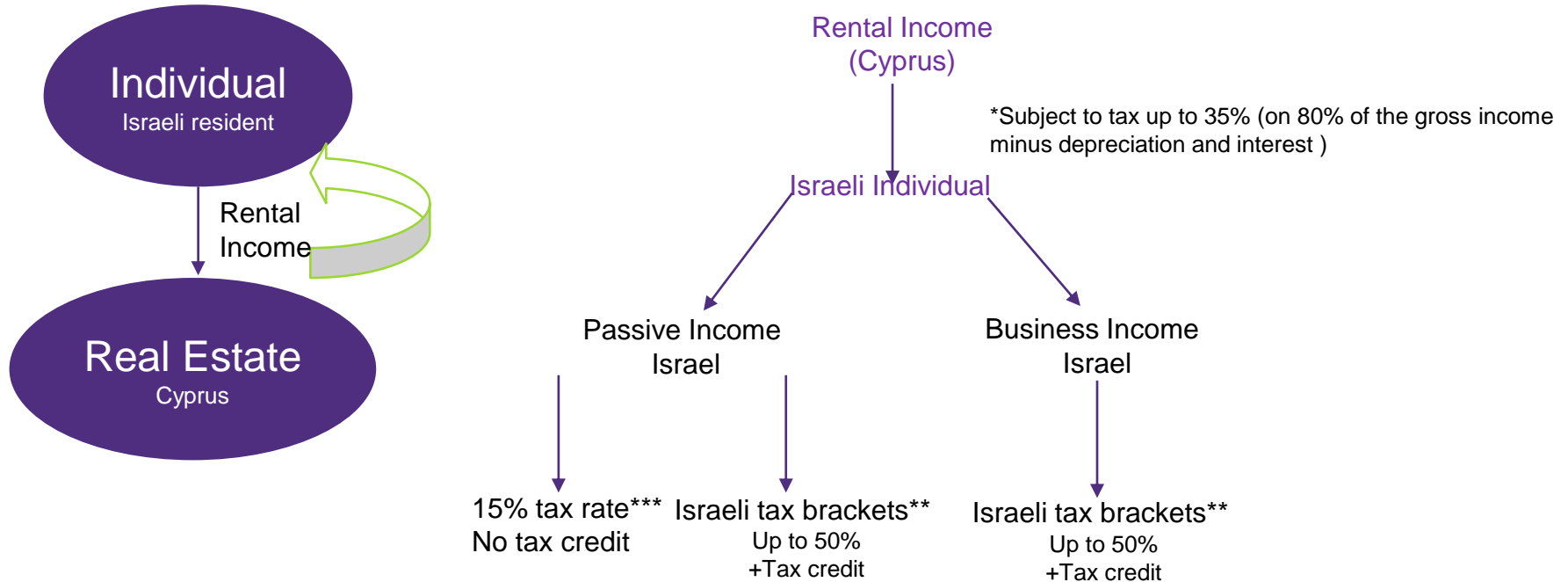
Sale of real estate in Cyprus



* There is one, lifetime, allowance of the first €17,086 gains which are exempt from tax. Please note, If the sold property is held by 2 or more individuals, each of them is entitled to the exempt gain up to €17,086

** The individual/Company will be entitled to a **direct tax credit** in respect of the tax paid in Cyprus.

Purchase of real estate in Cyprus by an individual resident of Israel

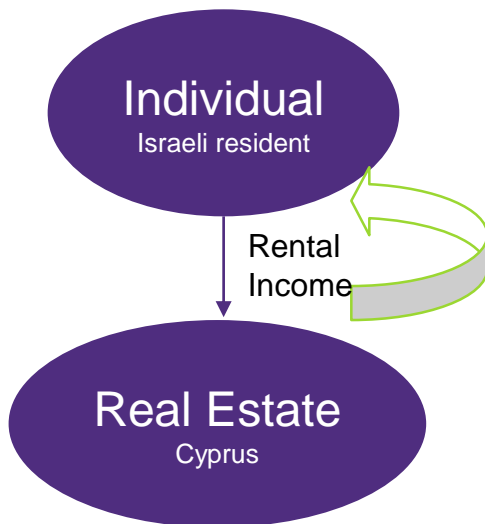


* 20% notional expense

** The rental income will be subject to tax with accordance to article 121(a) of the Israeli Tax Ordinance (ITO). The lowest tax bracket for passive income is 31% (Unless the individual has reached age 60 - 10% lowest tax bracket). The individual will be entitled to a **direct tax credit** in respect of the tax paid in Cyprus.

***The rental income will be subject to tax with accordance to article 122(a) of the (ITO) at the rate of 15%. The individual **will not be** entitled to a **direct tax credit** in respect of the tax paid in Cyprus and to deduct expenses (excluding depreciation).

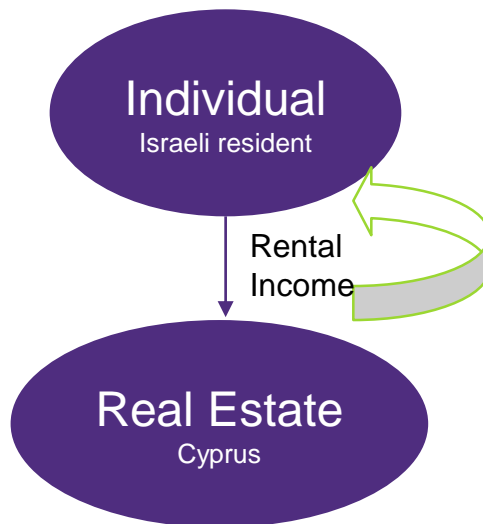
Summary- Passive income (Tax brackets)



Details	EUR	Notes
Cyprus		
Rental income	50,000	
Notional expense	(10,000)	20%
Depreciation + Interest expenses	(5,000)	
Income after expenses	35,000	
Income tax	(12,250)	*Tax brackets - 35%
Israel		
<u>Israeli individual</u>		
Rental Income	45,000	
Tax on rental income	(22,500)	**Passive income- 50% Tax credit 12,250
Net Income	22,500	
Effective tax rate	50%	

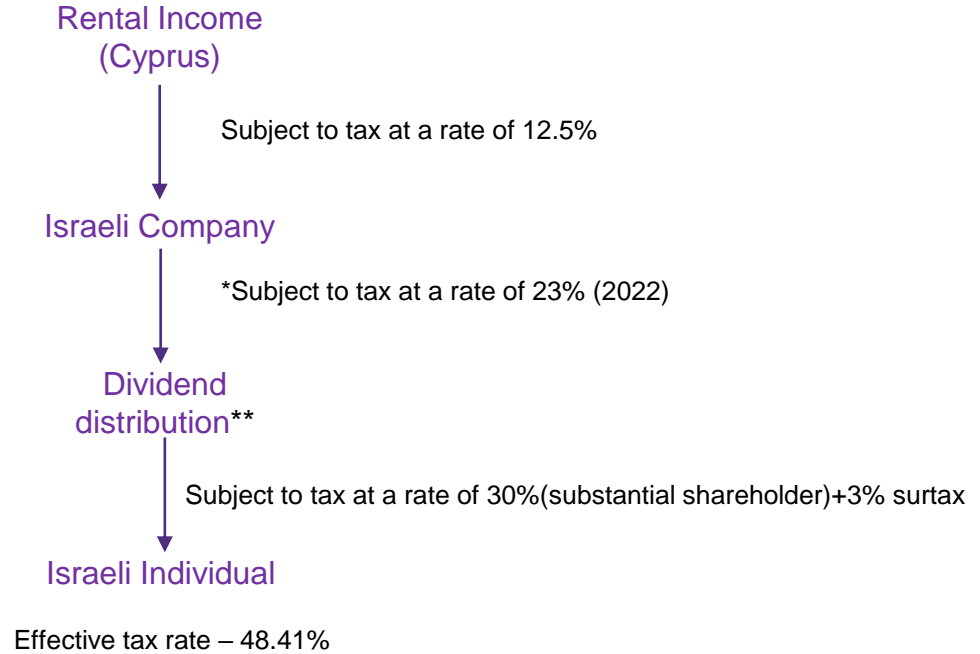
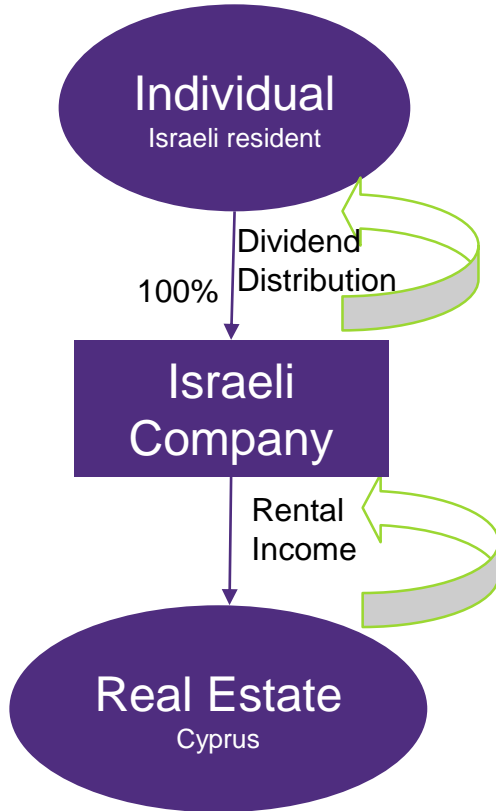
* Assumption – highest tax bracket (35%) will apply. ** Highest tax bracket 47%+3% surtax

Summary- passive income – 15% route



Details	EUR	Notes
Cyprus		
Rental income	50,000	
Notional expense	(10,000)	20%
Depreciation	(5,000)	
Income after expenses	35,000	
Income tax	(12,250)	*Tax brackets - 35%
Israel		
<u>Israeli individual</u>		
Rental Income	45,000	
Tax on rental income	(8,100)	**Passive income- 15% route+3% surtax No tax credit
Net Income	24,650	
Effective tax rate	45.22%	$0.8*0.35+1*0.18=46\%$ MAX

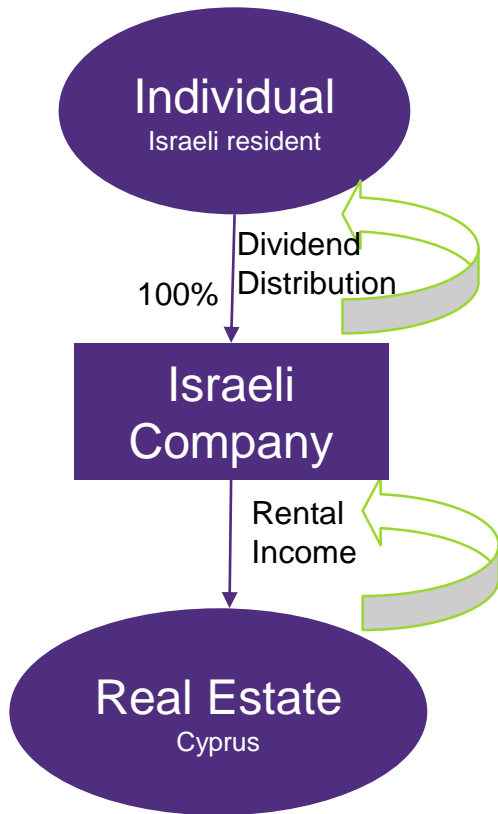
Purchase of real estate in Cyprus by an Israeli company



* The Israeli company will be entitled to a **direct tax credit** in respect of the tax paid in Cyprus.

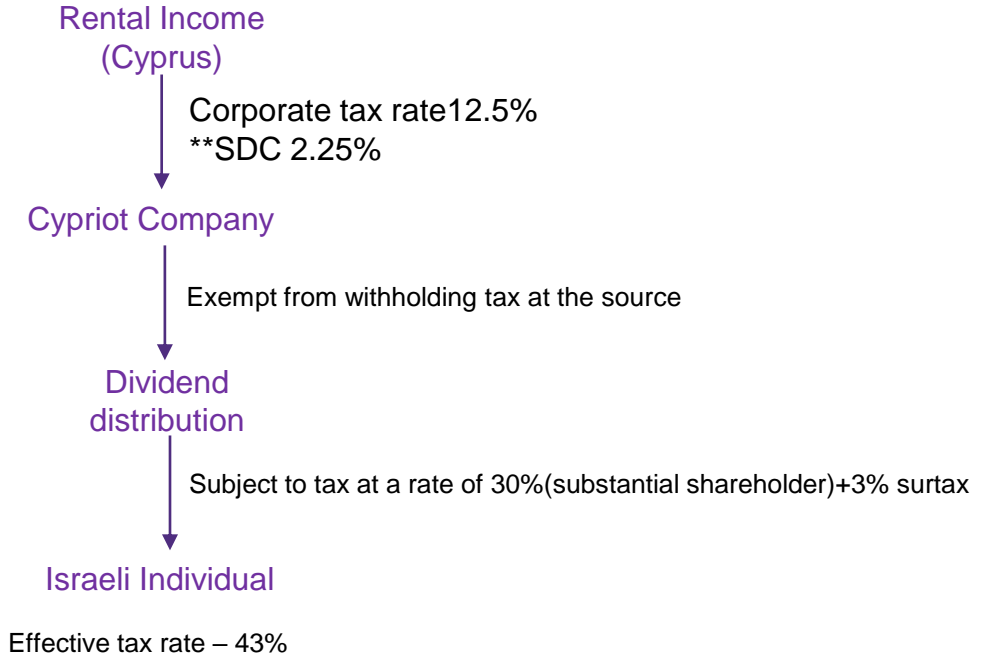
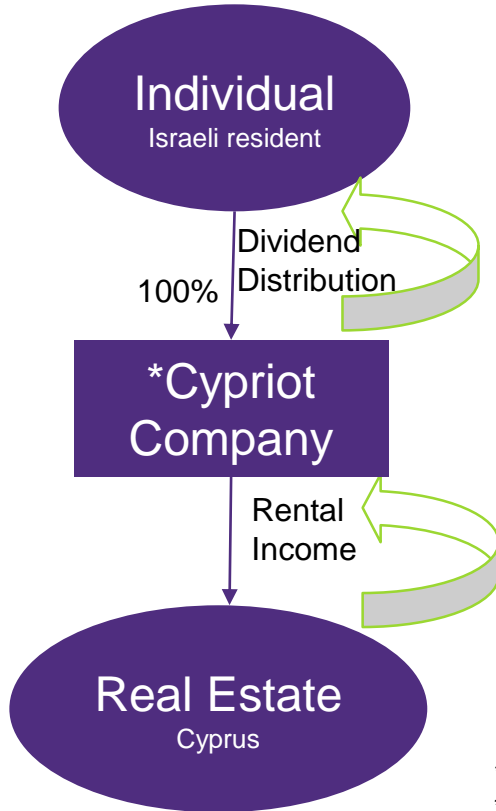
** Dividend distribution is exempt from withholding tax at the source with accordance to the Cypriot local law.

Summary



Details	EUR	Notes
Cyprus		
Rental income	50,000	
Expenses	(5,000)	
Income after expenses	45,000	
Income tax	(5,625)	Corporate income tax-12.5%
Israel		
<u>Israeli Company</u>		
Rental Income	45,000	No branch tax
Corporate tax	(10,350)	23% Tax credit 5,625
Net Income	34,650	
<u>Israeli individual</u>		
Dividend Income	34,650	
Tax on dividend	(11,435)	30%+3%
Net income	23,215	
Effective tax rate	48.41%	1-23,215/45,000=48.41%

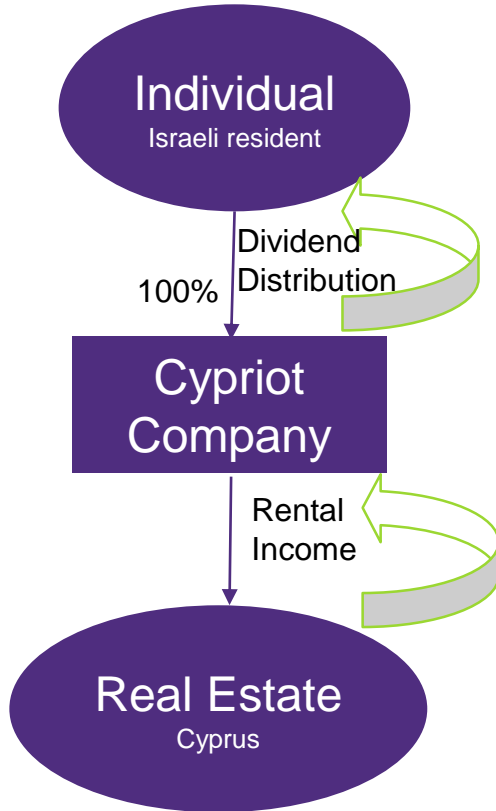
Purchase of real estate in Cyprus by a Cypriot company



* Exposure to CFC and “control and management”

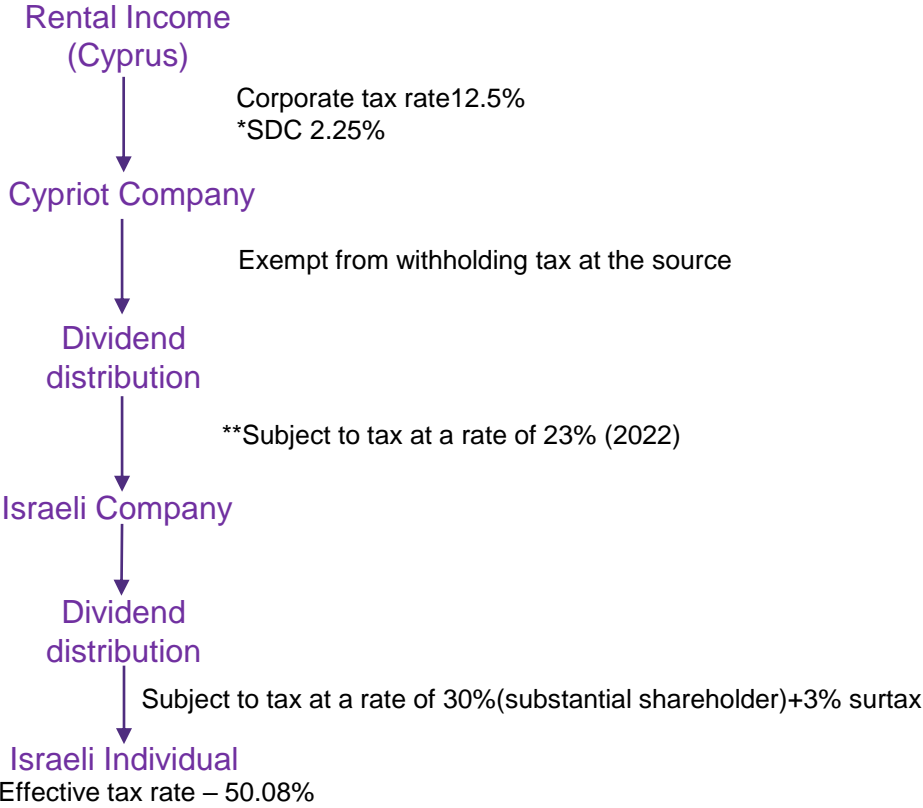
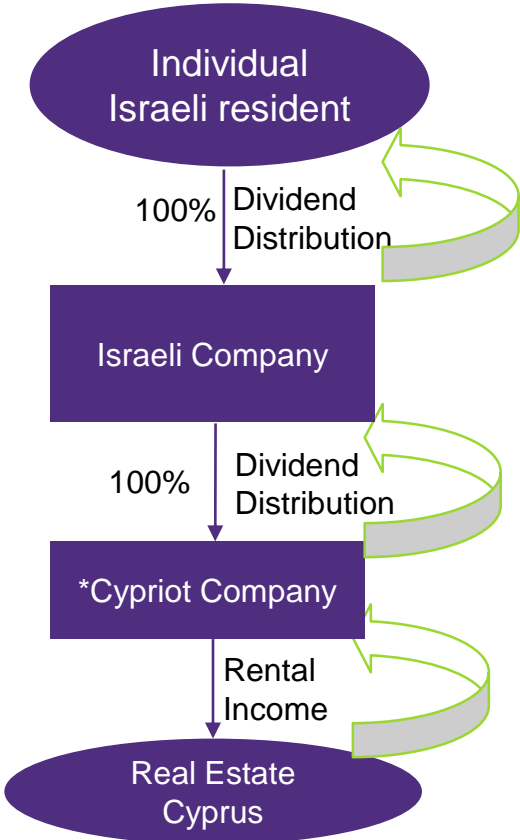
** Gross rental income reduced by 25% subject to Special Defense Contribution (SDC) at the rate of 3% (Effectively 2.25%)

Summary



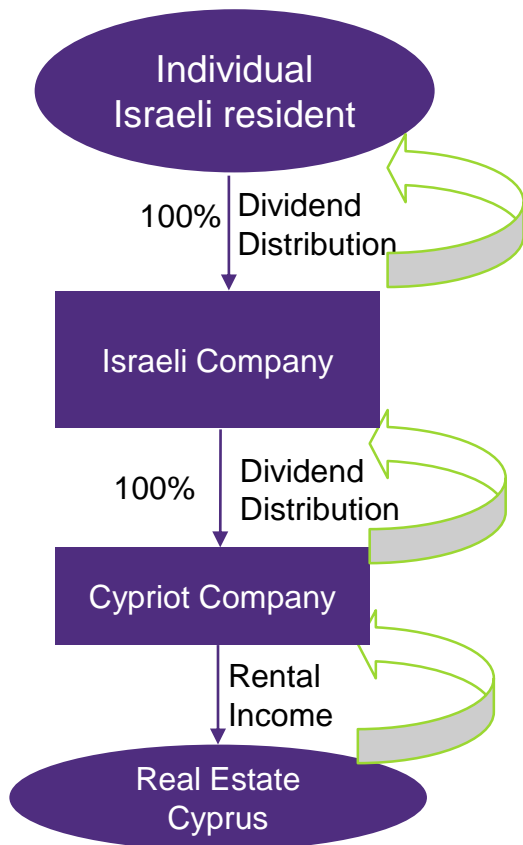
Details	EUR	Notes
Cyprus		
Rental income	50,000	
Expenses	(5,000)	
Income after expenses	45,000	
SDC	(1,125)	$50,000 * 0.75 * 3\%$
Corporate Income tax	(5,625)	Corporate income tax-12.5%
Net income/ Dividend distribution	38,250	0% withholding tax
Israel		
<u>Israeli individual</u>		
Dividend income	38,250	
Tax on dividend	(12,623)	30%+3%
Net Income	25,627	
Effective tax rate	43%	$1 - 25,627 / 45,000 = 43\%$

Purchase of real estate in Cyprus by a Cypriot company held by an Israeli company



* Exposure to CFC and “control and management”
 ** The Israeli company will be entitled to a **indirect tax credit** in respect of the tax paid in Cyprus

Summary



Details	EUR	Notes
Cyprus		
Rental income	50,000	
Expenses	(5,000)	
Income after expenses	45,000	
SDC	(1,125)	$50,000 \times 0.75 \times 3\%$
Income tax	(5,625)	Corporate income tax-12.5%
Net income/ Dividend distribution	38,250	0% withholding tax
Israel		
<u>Israeli Company</u>		
Dividend income	38,250	
Tax on dividend	(10,350)	$45,000 \times 23\%$ indirect tax credit 5,625
Dividend distribution	33,525	$27,900 + 5,625$
<u>Israeli individual</u>		
Dividend income	33,525	
Tax on dividend	(11,063)	$30\% + 3\%$
Net Income	22,462	
Effective tax rate	50.08%	$1 - 22,462 / 45,000 = 50.08\%$

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We understand that your time is valuable. We believe that we are the right fit for you and are very excited about having the opportunity to start working with you.

We look forward to forging long-term relationship with you.

Please feel free to contact us at any time. Thank you for your interest in Grant Thornton.

Sincerely,

Yigal Rofhe, CPA (Isr.)

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Thank you!

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