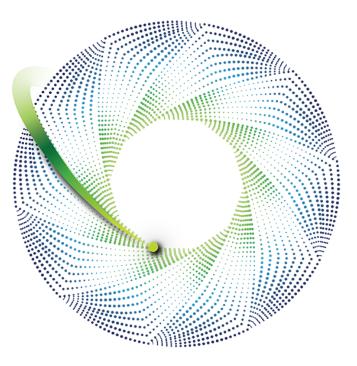# Tax treatment of rental income from Cyprus property

Introduction

If you are a Cyprus tax resident individual earning rental income, it is important to be aware of your tax and VAT obligations. In this article, we outline the main tax and VAT considerations that a **Cyprus tax resident individual** should be aware of, when renting out his/her property.

How does renting out property impact my tax position?

Earning rental income from a property situated in Cyprus may give rise to the following direct taxes and contributions for a Cyprus tax resident individual:

- Income Tax (**IT**)
- Special Defence Contribution **(SDC)**
- Contributions to the General Healthcare System **(GHSC)**
- Value Added Tax **(VAT)** and
- Stamp Duty **(SD)**.

Points to consider

The direct tax treatment of rental income in Cyprus depends on the following factors:

- the tax residency and domicile status of the property owner;
- whether he/she prepares audited financial statements; and
- the type (e.g., land or building) and age of the property.

What are my direct tax obligations when renting out property in Cyprus?

The table below, outlines the direct taxes and contributions applicable on income earned by a Cyprus tax resident individual from renting out property situated in Cyprus.

Obligation	Application
Income Tax	Rental income is pooled along with other taxable income streams and taxed at the progressive personal income tax rates ranging from nil to 35%, after allowing for relevant tax deductions. A number of **tax deductions** maybe available to reduce the amount of rent subject to income tax. These are covered below.
SDC	SDC is applicable on the gross rent amount (no deductions available) at the effective tax rate of 2,25% (=75% x 3%). SDC is only payable by Cyprus tax residents that are also Cyprus domiciled. Cyprus tax residents that are non-Cyprus domiciled are exempt from SDC.
GHSC	GHSC are applicable on the gross rent amount (no deductions available) at the rate of 2,65%. GHSC are subject to an annual cap and are payable by all Cyprus tax residents, irrespective of domicile status
Stamp Duty	In general, rental agreements are subject to stamp duty (capped), calculated using the progressive SD rates ranging from 0%-0,2%.

Available tax deductions for income tax purposes

The amount of (net) rent subject to tax is calculated by deducting from the gross rental income the following items (where applicable):

- **Wear and Tear (W&T):** Annual wear and tear are calculated as a percentage on the cost of acquisition of the asset and are deductible from taxable income. For example, the relevant percentage for commercial buildings is 3% per annum. No W&T is calculated and deducted when renting out land or buildings that are passed their useful economic life.

- **20% deemed expenses:** A deemed expense equal to 20% of the gross rental income for maintenance and repairs of buildings. No such expense is available when renting out land.

- **Interest expense:** Interest expense incurred for acquiring a property that generates rental income.

- **Contributions to the General Healthcare System**: Contributions payable on the gross rent are deductible for income tax purposes.

VAT Considerations

The renting and/or leasing of immovable property is defined by a landlord – tenant relationship where the latter is granted exclusive possession of the property.

The renting and/or leasing of immovable property to a taxable person for the purpose of carrying on taxable activities, except for the leasing of a building used for residential purposes, is subject to VAT at the standard rate (currently at 19%).

The above provisions are applicable only for the renting/leasing of immovable property that commenced on or after **17 November 2017**.

The benefit of earning rental income which is subject to VAT is that it allows the owner to claim VAT incurred on the acquisition/construction of the immovable property or expenses incurred for its refurbishment.

It should be noted that the owner has the right to **opt not to tax** on the rented/leased property under certain conditions. In order to exercise this option, the owner must notify the Cyprus Tax Authorities accordingly through the submission of VAT form TD1220. However, if this option is exercised the rental income will be considered to be exempt from VAT and thus the VAT incurred by the owner will remain as a cost. It must also be considered that once the **option not to tax** is exercised, it cannot be revoked unless the property is sold to a new owner.

Points to consider

When analysing the VAT treatment of rental income and how this impacts the owner/landlord, the following must be considered:

- The type of the property to be rented out/leased (i.e. property used for commercial or residential purposes);

- The activities performed by the tenant (i.e. taxable or exempt);

- The effective commencement date of the rental agreement/lease.

What actions need to be taken by an individual earning rental income?

Individuals earning rental income from Cyprus property should have in mind the following key tax compliance considerations:

- Registration with the Cyprus Tax Authorities, if not already registered.
- Submission of annual income tax return to declare the rental income.
- Payment of the relevant taxes and contributions.
- Informing their employer (if and where relevant) of their rental income (through the submission of form TD59) in order for the relevant income tax to be withheld via PAYE (please refer to Circular 54 issued by the CTA).
- Registration for VAT purposes if the relevant VAT registration thresholds are exceeded and submission of quarterly VAT returns and payment of any VAT liability, in cases where the rental income is subject to VAT.

It is important to note that performing a conclusive tax assessment, requires careful consideration of all relevant facts and circumstances. It is therefore imperative to obtain tailored tax advice.

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