



Tax treatment of Rental Income

Rental income earned from immovable property situated in Cyprus or abroad, received by a Cyprus tax resident person (company or individual), is subject to the following two taxes:

- (1) Income Tax
- (2) Special Defence Contribution (SDC)

Non-Cyprus tax residents receiving rental income from immovable property situated in Cyprus are only subject to Cyprus Income Tax and NOT subject to Special Defence Contribution.

Note: Rental income is taxed in Cyprus on an accruals basis.

As from 01/07/2011 all companies, Partnerships, the Government or other Local Authorities who pay rents, have to withhold from such rents the SDC and pay the relevant amount to the Tax Department by the end of the month following the month in which the rent is paid. The SDC is imposed at the rate of 3% on 75% of the gross rent paid and the amount payable to the Landlord will be reduced by such SDC.



	Income Tax	Special Defence Contribution
Tax Resident Individual	The gross worldwide rental income, after a 20% exemption and certain allowable deductions, is pooled along with all other taxable incomes of that person and taxed in accordance with the Cyprus personal income tax band rates*	Gross worldwide rental income taxed at the rate of 3% after allowing for a 25% exemption*
Non-Tax Resident Individual	The gross rental income earned from Cyprus properties, after a 20% exemption and certain allowable deductions, is pooled, along with all other Cyprus taxable incomes (if any) and taxed in accordance with the Cyprus personal income tax band rates *	N/A
Cyprus Tax Resident Company	Gross worldwide rental income is pooled with all other taxable incomes and tax allowable expenses of the company. The resulting profit is taxed at the flat rate of 12.5%*	Gross worldwide rental income taxed at the rate of 3% after allowing for a 25% exemption*
Cyprus Non-Tax Resident Company	Gross rental income earned from Cyprus properties is pooled with all other Cyprus taxable incomes (if any) and after deduction of tax allowable expenses the resulting profit is taxed at the flat rate of 12.5%	N/A



* Note 1 - Credit for foreign tax:

In the case of rental income earned from abroad, any foreign tax suffered on such rental income, may be claimed as credit against the Cyprus tax (income tax and SDC) resulting from the same income. In order to receive this credit, original documentation supporting the foreign tax claimed as credit must be provided to the Cyprus tax authorities. Thus, in cases where the Cyprus tax is lower than the foreign tax this credit will eliminate all the Cyprus tax from that rental income.

* Note 2 – Personal Income Tax band rates 2015

Chargeable Income (€)	Percentage	Cumulative Tax (€)
0 – 19.500	0%	0
19.501 – 28.000	20%	1.700
28.001 – 36.300	25%	3.775
36.301 – 60.000	30%	10.885
Over 60.001	35%	

Questions and Answers

1. Which party is responsible for payment of withholding SDC?

The tenant must remit the amount deducted to the tax authorities before the end of the month following that in which the deduction was made, using Form IR601A. (Code 14 paragraph 1(c)). Penalties imposed for late submission: 5% of the contribution and 100 euro fixed penalty for late payment.



2. What sort of evidence should the tenant provide to the landlord?

On June 30 and December 31 of each year, tenants must provide their landlord with a statement of withheld tax, on Form IR614A REC. "Confirmation of withholding of Special Contribution for Defence from Rents". Tenants must also submit a list of the landlords from which the SDC was withheld with their annual tax return.

3. What sort of evidence should the Non-Tax Resident landlord provide to the tenant, so as not to withhold SDC?

The landlord should provide Form T.D. 624 N.P. (Normal Person) or T.D. 624 L.P. (Legal Person) "Declaration for Exemption from the Deduction of Defence Contribution on Rents"

The relevant form should be completed only once.

4. What steps should be followed in the event the Non-Tax Resident landlord, becomes Tax Resident?

Landlord has the obligation to inform the tenant and the latter to withhold SDC

5. In the event of default payment of SDC, which party will be held legally responsible?

Tax Department may request from the party responsible for withholding SDC, to pay the relevant tax. Tax Department has also the right to demand payment from the landlord in the event that the SDC has not been withheld.



6. What are landlord's responsibilities?

Landlord should confirm that the SDC withheld is correct and if any tax is payable should settle it with self-assessment on 30/6 and 31/12 with Form IR601A "Special Contribution Withheld and Self-Assessment of income subject to Defence" (Code 4 paragraph 3(c)). In the event of non-payment or a delay in payment, penalties and interest may be imposed. 5% on the tax amount and 100 euro fixed penalty.

In the event where the landlord has additional rented properties of which the tenant is a physical person and therefore has no withholding obligation, should settle the SDC via self-assessment on 30/6 and 31/12 with Form IR601A "Special Contribution Withheld and Self-Assessment of income subject to Defence" (Code 4 paragraph 3(c)). Penalty for late payment: 5% of the contribution.

7. A legal entity rents a property and sub-rents it for a higher amount. Which parties are responsible for the payment of SDC?

Assuming that the transaction falls under the SDC and it is not a trading transaction which would have different treatment under Income Tax, all parties should withhold SDC from rental amount and follow the procedures mentioned above.