

# Buying Property in Cyprus



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PLANETVISION

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## **PART A – INTRODUCTION**

### **1. LEGAL SYSTEM**

The legal system in Cyprus is modelled on the British system. In addition, after its accession to the EU, Cyprus has harmonized its laws and regulations in line with the Acquis Communautaire.

### **2. LAND REGISTRY SYSTEM**

The Land Registry system is one of the most advanced and reliable systems in the world, being based on the British equivalent. The Cyprus Department of Land and Surveys is the oldest governmental department of the public sector, established in 1858. Through the years it has been updated, making it one of the most efficient and effective land registry systems in the world.

### **3. REGISTRATION**

The Immovable Property (Tenure Registration and Valuation) Law Cap 224, embraces a sound system of registration and all transactions of immovable property must be registered. Certificates of Registration can be proved in the District Lands Offices in the first instance. The registrations of transfer by sale, gift, exchange, mortgage, lease and land charges is a matter of a few hours on a scientific system of conveyance, based on modern requirements, which by virtue of Sec. 40(1) makes sure that No transfer of, or change on any immovable property shall be valid unless registered in the District Land Office.

### **4. PROPERTY RIGHTS**

Cyprus is an open real estate market. Real Estate Ownership is based to a great extent on a freehold basis although, under the existing law, long leases can be granted for periods up to 999 years. The rights of property in Cyprus are protected by the Government as the sovereign power which is vested with both the authority and ability to protect the rights of its subjects.

## PART B – ACQUISITION OF IMMOVABLE PROPERTY – REGULATIONS

### 5. ACQUISITION OF IMMOVABLE PROPERTY BY EU CITIZENS

Following Cyprus accession to the EU (May 2004), restrictions on real estate acquisitions have been lifted in accordance with EU directions. **EU citizens** that are permanent citizens in Cyprus and legal entities, established in EU countries that have their headquarters and registered office in Cyprus do not require permission to buy immovable property. EU citizens are treated as local residents enabling them to purchase property as they do in their homeland without any restrictions and can register as many properties as they wish in their name.

### 6. ACQUISITION OF IMMOVABLE PROPERTY BY ALIENS (NON EU CITIZENS)

**Non-EU citizens** are entitled to freehold ownership of properties. Offshore entities may buy premises for their businesses or residence for their foreign employees. Permission to buy property must be sought from the Council of Ministers by written application, which must be submitted by the non-EU citizen purchaser after the contract of sale is signed. However, purchasers may take possession of their property without restriction. It should be noted that permission is granted more or less as a matter of course to all bona fide purchasers.

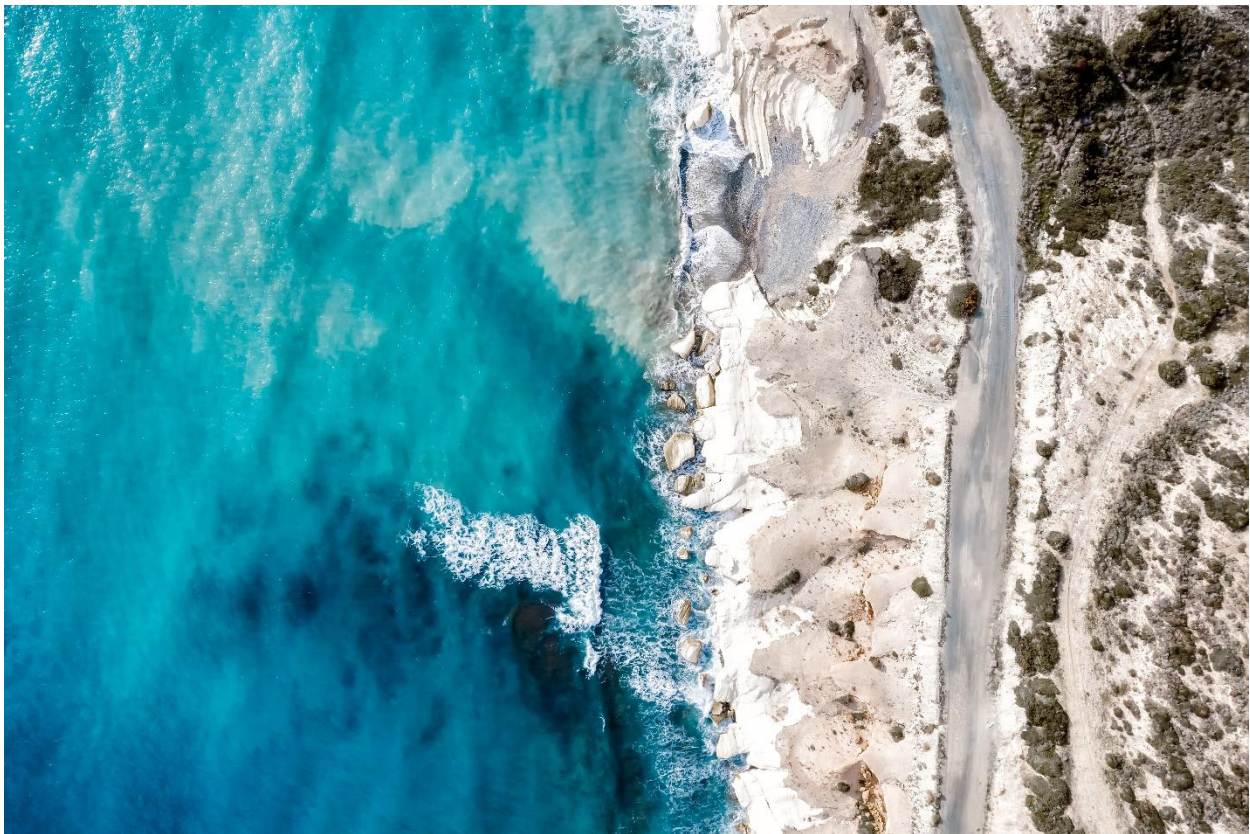
Buying property in Cyprus is a straightforward procedure. The legal framework regulating this procedure is briefly explained below. The acquisition of immovable property in Cyprus by non-Cypriots is regulated by the Immovable Property Acquisition (Aliens) Law and the Directives of the Central Bank of Cyprus.

According to the current Rules and Regulations, acquisition of property by aliens (non-Cypriot citizens by nationality) is allowed with some restrictions/conditions as follows:

- An apartment or a house.
- A villa on a building site or a plot of land not exceeding 4.014sq.metres.
- A piece of land not exceeding 4.014m<sup>2</sup> provided that a residence will be erected for owner occupation soon.
- Offshore may also acquire premises for their business or for residence of their foreign employees.
- A second home may be allowed depending on the type and use of it (i.e. a holiday home in addition to a permanent home in the capital city).



- Acquisition of leases of more than 33 years duration has the same treatment and restrictions as buying freehold properties.
- Permission for the acquisition of land for other types of properties (such as offices, leisure, industrial etc.) is granted under certain conditions such as the percentage of foreign participation in the scheme, the actual amount of foreign investment and other governmental policies.
- It should be noted that a non-Cypriot is **rarely** not able to get permission to buy the property of his choice since the procedure is merely a formality. All properties can acquire title deeds issued by the Cyprus Land Registry Department only a few years after the project is completed. For properties that are under construction there is no title deed and therefore the buyer will file the contract of sale to the Land Registry to safeguard ownership until a title deed for the individual flat/villa is issued. Real estate transfer fees must be paid in order to transfer freehold ownership to the purchaser.



## 7. STAMP DUTY

After the contract of sale is signed, the purchaser is liable for the payment of stamp duty as follows:

### Contracts with a fixed amount as from 1<sup>st</sup> March 2013:

The first €5.000	0
Between €5.001 - to €170.000	1.5‰
Above €170.000	2‰*
Contracts without fixed sum	€35

**\*Capped at a maximum of €20.000 as from March 2013.**

N.B: *Payment is due within 30 days of signing the contract of sale.*

## 8. TRANSFER OF PROPERTY THROUGH THE DISTRICT LAND REGISTRY OFFICE

The transfer of ownership is effected by a simple process of registration with the District Land Registry Office. The prescribed application form N270 should be completed for submission in person to the District Land office together with:

- The registration certificate (title deed) of the property.
- Copy of the Council of Ministers' permission to acquire the said property.
- Written confirmation from the Central Bank of Cyprus that purchase is done by foreign funds.
- Evidence of payment of all property taxes to date (these taxes may include sundry municipal/local authorities taxes and sewage tax).
- The contract of sale duly stamped.

The purchaser and seller may give specific powers of attorney to any third party to attend and effect the transfer on their behalf. Upon transfer of the property and

registration in the purchaser's name, the District Land Registry Office will charge transfer fees, which are based on the market value of the property at the time of the purchase and are calculated as follows:

Current Market Value	Rate	Fee	Accumulated fee
€	%	€	€
First 85.000	3	2.550	2.550
85.001 - 170.000	5	4.250	6.800
Over 170.000	8		

N.B i): *If, however, VAT is applicable upon purchasing a property then no transfer fees are payable.*

N.B ii): *The above transfer fees are reduced by 50% in case the purchase of a property is not subject to VAT.*

In the case of free transfers of property the transfer fees are calculated on the value of the property as at 1st January 2013 as follows:

- from parents to children : Nil
- between spouses: 0,1%
- between third degree relatives : 0,1%
- to trustees : €50
- Mortgage registration fees are 1% of the current market value.

In the case of companies' reorganizations, transfers of immovable property are not subject to transfer fees or mortgage registration fees.

## 9. VAT ON PROPERTY

### 9.1 LEGISLATION RATES

The legislation provides for the following four tax rates:

- Zero rate (0%).
- Reduced rate of five per cent (5%).
- Reduced rate of nine per cent (8% up to 12 January 2014)
- Standard rate 19% as from 13th January 2014 (15% up to 29th February 2012, 17% from 1st March 2012 up to 13th January 2013, 18% from 14th January 2013 to 12th January 2014).

N.B: *The difference between zero rate and exempt supplies is that businesses that make exempt supplies are not entitled to recover the VAT charged on their purchases, expenses or imports.*

## 9.2 EXEMPTIONS

Certain goods or services are exempt from VAT such as:

- The letting of residential buildings.
- Most banking and financial services and insurance services.
- Most hospital, medical and dental care services.
- Certain cultural educational and sports activities.
- Supply of second-hand buildings.
- Postal services provided by the national postal authority.
- Lottery tickets and betting coupons for football and horse racing.
- Management services provided to mutual funds.

## 9.3 VAT ON PROPERTY

### 9.3.1 IMPOSITION OF VAT 19%

#### (a) **Sale of non-developed buildable land**

As from 2nd January 2018, VAT at 19% is imposed on the sale of non-developed buildable land. Specifically, VAT is imposed on the transfer of ownership, transfer of indivisible land share, transfer of ownership under a sale agreement or an agreement which specifically provides that the ownership will be transferred on a future date or by virtue of a leasing agreement with the right to buy non-developed buildable land which is intended for the construction of one or more structures in the course of carrying out a business activity. Non-developed buildable land includes all non-developed land plots that are intended for the construction of one or more structures. In the above definition are included non-developed buildable land irrespective of whether is covered or not from the water supply and cover land plots of all kinds as listed below:

- Building sites (οικόπεδα) under construction.
- Completed building sites (οικόπεδα).



- Building Sites (οικόπεδα) with a certificate of final approval.
- Building sites with title deeds.

No VAT will be imposed on the purchase or sale of land located in livestock zones or in areas which are not intended for development such as agricultural/ archaeological zones and areas of environmental protection.

#### **(b) Leasing of property**

VAT at the standard rate must be charged on lease of property when the lessee (tenant) is a taxable person and is engaged in taxable activities by at least 90%. The lessor has the right to opt not to impose VAT on the specific property but this option is irrevocable.

#### **(c) Repossession of property by financial institutions**

As from 2nd January 2018 VAT must be accounted under the reverse charge provisions on transactions relating to transfers of property during the process of loan restructuring and for compulsory transfer to the lender. As from 5th December 2019 and until 31<sup>st</sup> December 2020, the definition of the term *lender* includes licensed credit and financial institutions, credit acquiring companies, including their subsidiaries, as well as a public body or any other licensed company which acquired/ received from a credit institution any non performing/ overdue loans.

#### **(d) Leases of property which effectively transfer the risks and rewards of property ownership**

As from 1st January 2019 property leases which effectively transfer the risks and rewards of property ownership are considered to be supplies of goods, subject to VAT at the standard rate.

#### **9.3.2 IMPOSITION OF THE REDUCED RATE OF 5% ON THE ACQUISITION AND/OR CONSTRUCTION OF RESIDENCES FOR USE AS THE PRIMARY AND PERMANENT PLACE OF RESIDENCE**

The reduced rate of 5% applies to contracts that have been concluded from 1st October 2011 onwards provided they relate to the acquisition and/ or construction of residences to be used as the primary and permanent place of residence for the next 10 years. The reduced rate of 5% VAT applies on the first 200m<sup>2</sup> whereas for the remaining square meters, as determined by the building coefficient, the standard VAT rate is imposed.

*N.B: The reduced rate is imposed only after obtaining a certified confirmation from the Tax Commissioner.*

The eligible person must submit an application on a special form, issued by the Tax Commissioner, which will state that the house will be used as the primary and permanent place of residence. The applicant must attach a number of documents supporting the ownership rights on the property and evidencing the fact that the property will be used as the primary and permanent place of residence. The application must be filed prior to the actual delivery of the residence to the eligible person.

As from **8th June 2012** eligible persons include residents of non-**EU Member States**, provided that the residence will be used as their primary and permanent place of residence in the Republic of Cyprus.

The documents supporting the ownership of the property must be submitted together with the application. The documents supporting the fact that the residence will be used as the primary and permanent place of residence (copy of telephone, water supply or electricity bill or of municipal taxes) must be submitted within six months from the date on which the eligible person acquires possession of the residence.

A person who ceases to use the residence as his primary and permanent place of residence before the lapse of the 10 year period must notify the Tax Commissioner within thirty days of ceasing to use the residence and pay the difference resulting from the application of the reduced and the standard rate of VAT attributable to the remaining period of 10 years for which the property will not be used as the main and primary place of residence.

The private residences must be used as the main and permanent place of residence for a period of 10 years. In addition, persons who have already acquired a residence on which the reduced VAT rate was imposed, can re - apply and acquire a new residence on which the reduced VAT rate will be imposed, irrespective of whether the 10-year prohibition period for using the residence provided or in the legislation has lapsed or not. A condition for this to apply is that in case the 10-year period of using the residence as the main and permanent place of residence has not lapsed, the persons must pay back to the Tax Department the difference in the VAT between the standard and reduced VAT rates applicable at the time of the acquisition or construction of the residence.

*N.B: Persons who make a false statement to benefit from the reduced rate are required by law to pay the difference of the additional VAT due. Furthermore, the legislation provides that such persons are guilty of a criminal offence and, upon conviction, are liable to a fine, not exceeding twice the amount of the VAT due, or imprisonment up to 3 years or both.*

### 9.3.3 IMPOSITION OF THE REDUCED RATE OF 5% ON THE RENOVATION AND REPAIR OF PRIVATE RESIDENCES

As from 4th December 2015 the renovation and repair of old private residences (for which a period of at least three years has elapsed from the date of their first use) is subject to VAT at the reduced rate of VAT of 5%, excluding the value of materials which constitute more than 50% of the value of the services.

In addition, as from 4th December 2015 the renovation and repair of old private residences (for which a period of at least three years has elapsed from the date of their first use) and which are used as the place of residence of vulnerable groups or residences that are used as the place of residence and which are located in remote areas are subject to VAT at the reduced rate of VAT of 5%.

#### 9.4 REGISTRATION

Registration is compulsory for businesses with (a) turnover subject to VAT in excess of €15.600 during the 12 preceding months

or (b) expected turnover subject to VAT in excess of €15.600 within the next 30 days. Businesses with turnover of less than €15.600 or with supplies that are outside the scope of VAT but for which the right to claim the amount of the related input VAT is granted, have the option to register on a voluntary basis.

An obligation for registration also arises for businesses which make acquisition of goods from other EU Member States in excess of €10.251, 61 during any calendar year. In addition, as from 1st January 2010 an obligation for VAT registration arises for businesses engaged in the supply of intra-community services for which the recipient must account for VAT under the reverse charge provisions. Furthermore, an obligation for VAT registration arises for businesses carrying out economic activities from the receipt of services from abroad for which an obligation to account for Cyprus VAT under the reverse charge provision exists subject to the registration threshold of €15.600 per any consecutive 12-month period. No registration threshold exists for the provision of intra-community supplies of services.

Exempted products and services, and disposals of items of capital nature are not taken into account for determining annual turnover for registration purposes. Registration is affected by completing the appropriate application form.

#### 9.5 VAT DECLARATION - PAYMENT/REFUND OF VAT

VAT returns must be submitted quarterly in electronic form and the payment of the VAT must be made by the 10th day of the second month that follows the month in which the tax period ends.

VAT registered persons have the right to request for a different filing period upon approval of the Commissioner of Taxation. The Commissioner of Taxation also has the right to request from a taxable person to file his VAT returns for a different period. Where in a quarter input tax is higher than output tax, the difference is refunded or is transferred to the next VAT quarters.

As from 19th February 2013 taxpayers who make a claim for VAT refund will be entitled to repayment of the principal amounts together with interest in the event that the repayment is delayed for a period exceeding four months from the date of the submission of the claim. The grace period for the Tax Department to repay the refundable amounts is extended by four months (i.e. eight months in total) in the event that the Tax Commissioner is carrying out an investigation in relation to the submitted claim.

## 10. ANNUAL PROPERTY TAXES

### 10.1 IMMOVABLE PROPERTY TAX

Immovable Property Tax has been abolished as from 1st January 2017. Until 2016 Immovable Property Tax was imposed on the market value as at 1st January 1980 and applied to the immovable property owned by the taxpayer on 1st January of each year.

As from 1st January 2013, the bands and rates for Immovable Property Tax for properties situated in Cyprus had been revised as per the table below which applied on a per owner basis (not per property). Property owners whose property had a total value of €12,500 or less (on the basis of 1.1.1980 values) were exempt from Immovable Property Tax.

#### Property Value

<b>Property Value (As At 1st January 1980) €</b>	<b>Rate %</b>	<b>Accumulated Tax €</b>
First 40.000	6	240
From 40.001 – to 120.000	8	880

From 120.001 – to 170.000	9	1.330
From 170.001 – to 300.000	11	2.760
From 300.001 – to 500.000	13	5.360
From 500.001 – to 800.000	15	9.860
From 800.001 – to 3.000.000	17	47.260
Over 3.000.000	19	

#### 10.1.1 TAX RATES

#### 10.1.2 EXEMPTIONS

The following were never subject to Immovable Property Tax:

- Schools
- Churches and other religious buildings (partly exempt)
- Public cemeteries
- Public hospitals
- Immovable property owned by the Republic
- Common use and public places
- Foreign embassies and consulates
- Property under Turkish occupation
- Buildings of charitable organizations
- Buildings under a Preservation Order
- Agricultural land used in farming or stockbreeding, by farmer or stockbreeder residing in the area.

#### 10.2 LOCAL AUTHORITY RATES

Local Authorities charge between €85 – €300 for regular refuse collection, street lighting, sewerage and relevant community services (Communal Services), depending on the size of the property. Communal Services' fees are payable to the local Municipal Authority.



### 10.3 MUNICIPALITY TAX

As from 2017 the registered owner of a property is liable to an Annual Municipality Tax calculated on the market value of the property as at 1st January 2013 as assessed by the Land Registry Department with the rates varying from 0,015% – 0,025% on the January 2013 assessed value. For example, for a property with an assessed value of say €500.000 as at 1st January 2013 falling under the jurisdiction of Limassol Municipality, the Annual Municipality Tax will be approximately €120,00 per annum i.e., 0,024% on the January 2013 assessed value. For a property with the same assessed value of say €500.000 as at 1st January 2013 falling under the jurisdiction of the Nicosia Municipality the Annual Municipality Tax will be approximately €88,00 per annum i.e., 0,0176% on the January 2013 assessed value. Up until 2016 the basis used for the calculation of Annual Municipality Tax was the market value of the property as at 1st January 1980 with the rates varying from 0,1% – 0,2% on the January 1980 assessed value. Municipality tax is payable to the local Municipal Authority.

### 10.4 SEWERAGE TAX

As from 2017 the registered owner of a property is liable to an Annual Sewerage tax calculated on the market value of the property as at 1st January 2013 as assessed by the Land Registry Department with the rates varying from 0,05% – 0,065% on the January 2013 assessed value. For example, for a property with an assessed value of say €500.000 as at 1st January 2013 falling under the jurisdiction of the Limassol Sewerage Board, the Annual Sewerage Tax would be approximately €260,00 per annum i.e., 0,052% on the January 2013 assessed value. For a property with the same assessed value of €500.000 as at 1st January 2013 falling under the jurisdiction of the Nicosia Sewerage board the Annual Sewerage Tax will be approximately €300,00 per annum i.e. 0,06% on the January 2013 assessed value.

Up until 2016 the basis used for the calculation of Annual Sewerage Tax was the market value of the property as at 1st January 1980 with the rates varying from 0.3% – 0.5% on the January 1980 assessed value. Sewerage taxes are payable annually to the local Sewerage Board of the community.

## 11. INHERITANCE TAX – ESTATE DUTY

The subject tax has been abolished in June 2000 (Laws 74(I)/2000 and 78(I)/2000 for deceased persons who have died on or after 1st January 2000 and had domiciled in Cyprus. The executor/ administrator of the estate of the deceased, is required by the Deceased Persons Estate Law, to submit to the tax authorities a statement with the assets and liabilities of the deceased within six months from the date of death.

## 12. CAPITAL GAINS TAX

Capital Gains Tax (CGT) is imposed (when the disposal is not subject to income tax) at the rate of 20% on gains from the disposal of immovable property situated in Cyprus including gains from the disposal of shares in companies which own such immovable property directly, excluding shares listed on any recognized stock exchange. Furthermore, as from 17.12.2015 shares of companies which indirectly own immovable property situated in Cyprus and at least 50% of the market value of the said shares derive from such immovable property are subject to CGT. In the case of share disposals only that part of the gain relating to the property situated in Cyprus is subject to CGT. For the purposes of CGT disposal includes exchange, option to purchase, gifting, leasing and any monies received for cancellation of property disposals.

**The following disposals of immovable property are not subject to Capital Gains Tax:**

- Lands or land with buildings acquired between 16th July 2015 and 31st December 2016 are exempt from CGT (subject to certain conditions) upon their disposal.
- Transfers arising on death.
- Gifts made from parent to child or between husband and wife or between up to third degree relatives.
- Gifts to a company where the company's shareholders are members of the donor's family and the shareholders continue to be members of the family for five years after the day of the transfer.
- Gifts by a family company to its shareholders, provided such property was originally acquired by the company by way of gift provided that it is kept by the donee for a period of at least three years.
- Transfers as a result of reorganizations.
- Gifts to charities and the Government and donations to political parties.
- Compulsory Acquisitions.
- Exchange or disposal of property under the Agricultural Land (Consolidation) Laws.
- Exchange of properties to the extent that the gain made on the exchange has been used to acquire the new property. The gain that is not taxable is deducted from the cost of the new property, i.e. the payment of tax is deferred until the disposal of the new property.

<b>EXAMPLE</b>	€	€
Sale price in October 2013	600.000	
Cost of acquisition as at 1 January 1991	(90.000)	
Indexation allowance January 1991 to October 2013 €90.000 @ 227,74/119,43)- €90.000	(81.620)	
Capital gain		428.380
Legal and estate agency expenses		(5.000)
Taxable Capital Gain		423.380
<b>Capital Gains Tax (20%)</b>		<b>84.676</b>

## 12.2 DETERMINATION OF CAPITAL GAIN

Liability is confined to gains accruing since 1st January 1980. The costs that are deducted from gross proceeds on the disposal of immovable property are its market value as at 1st January 1980 or, the cost of acquisition and improvements of the property if made after 1st January 1980, as adjusted for inflation up to the date of disposal on the basis of the consumer price index in Cyprus.

Expenses that are related to the acquisition and disposal of immovable property are also deducted, subject to certain conditions e.g., estate agency fees, transfer fees, legal expenses, interest costs on related loans etc.

12.3 LIFETIME EXEMPTIONS

INDIVIDUALS CAN DEDUCT FROM THE CAPITAL GAIN THE FOLLOWING:	€
Disposal of private main residence (subject to certain conditions)	85.430
Disposal of agricultural land by a farmer	25.629
Any other disposal	17.086

N.B: The above exemptions are lifetime exemptions subject to an overall lifetime maximum of €85.430.

13. DOUBLE TAXATION TREATIES

Cyprus is a signatory to a Treaty for the Prevention of Double Taxation with many other countries all over the world, some of them being Russia, Ukraine, United Kingdom, Belarus, Bulgaria, and United States. Double Taxation treaties avoid the payment of income tax in two countries. In comparison with other international financial centers, Cyprus offers a distinct benefit in the form of double taxation treaties and lower income tax rates. Agreements with an increasing number of countries eliminate the double taxation of income earned in any one of these countries. In practice, the tax levied by one country is credited against the tax charged in the taxpayer’s country of residence. Where different tax rates apply, the taxpayer will ultimately not pay more than the higher of the two rates of the respective countries. Such treaties combined with very favorable tax rates for international business entities in Cyprus, open the door to significant tax planning opportunities.

LAND OR SITE

- Ascertain whether the site has development potentials and whether planning permission could be given for the kind of development you are seeking.
- Ascertain from the Local Authorities the planning zone and density controls affecting the site and the availability of access to public roads, water supply, electricity, telephone and other services.

- Ascertain whether the vendor has a valid title deed of the property and whether is free from any encumbrances and any other charges.

## APARTMENT / VILLA UNDER

## CONSTRUCTION

A potential purchaser should ensure that:

- The developer/vendor has obtained the necessary planning permissions for the development.
- The land is registered in the name of the vendor/developer.
- The contract of sale is accompanied by architectural drawings and general specifications of the apartment/villa to be purchased which form an integral part of the purchase agreement.

For all the above transactions, whether land or apartment/villas, the purchaser should ensure that the contract of sale is duly signed and stamped and is lodged within six months from the date of signature with the District Land Office **so as to have remedies** of Specific Performance as provided by the Sale of Land (Specific Performance Law) Cap. 232 & Laws 50/72 & 96/72.

**Specific Performance Law safeguards a purchaser of immovable property from a transaction between a seller and a purchaser**, especially when the purchaser is not allowed to immediately transfer the acquired property in his/her name even though payment of the consideration has been made. According to the above law filing a copy of the contract to the Land Registry gives the purchaser the right to seek specific performance of the terms and conditions of the contract and thus to register the property into the purchaser's name. Failing to do so, the purchaser cannot specifically enforce the transfer of the property in his/her name and only actual damages can be claimed through Court proceedings. The contract of sale deposited at the Land Registry can be withdrawn only with the purchaser's consent. When the title deed of a villa /apartment is issued (3 – 5 years after the completion of a residential project), it will be registered in the name of the Developer at first and then transferred to the buyer.

## DISCLAIMER:

*The above facts and figures apply as at 1.1.2022 and are for guiding purposes only. Although every effort has been made to ensure that these are correct no liability is accepted by PLANETVISION PROPERTIES. Any interested party should seek professional advice from their legal and accounting experts.*





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