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CYPRUS PROPERTY INFORMATION GUIDE

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1. Introduction

The world population is growing rapidly and so is the demand for land. Land is a finite resource and therefore its value worldwide is constantly increasing. Increases in value are exacerbated by inflation and by the instability of the monetary systems and fiscal policies of advanced economies, making investment in immovable property more attractive. Cyprus is no exception. The economic and social evolution that has taken place in recent years and the sophisticated methods of cultivation and industrialisation, together with the earlier absence of alternative forms of investment, have diverted capital from both home and abroad to land ownership.

A diversion which became more intensive from the 1st of May 2004, when Cyprus became a full member of the European Union and will which intensify further from the 1st of January 2008 when Cyprus enters the Euro Zone.

Our Property Department is able to offer legal assistance to both sellers and purchasers of property in Cyprus.

2. Cyprus in the International Property Market

The location of Cyprus in the eastern Mediterranean at the crossroads of Europe, Asia, the Middle East and Africa, its safe and protective legal system, in combination with its EU membership, the excellent infrastructure coupled with reliable communication with all parts of the world, the relatively low cost of living, its excellent climate and the friendliness and hospitality of its people, are just some of the reasons that have made Cyprus attractive to foreign investors.

2.1 Foreign investment in immovable property

Foreigners who seek to invest in immovable property in Cyprus may be classified in the following four main categories:

- **Retired residents.** These are people who settle permanently in Cyprus upon retirement. A series of incentives is given by the Cypriot government to retired people, including very low taxation of their income which emanates from abroad. These people may also enjoy, under certain circumstances, the benefits of the double taxation treaty of their country of origin with Cyprus, if there is one. Cyprus has signed 40 such treaties, and many more are under negotiation.
- **Employed residents.** This category includes foreigners who live indefinitely or for a fixed period of time in Cyprus as employees, either of their own international business company or of a local or international firm, and who choose to buy their own property in Cyprus rather than live in rented premises. It also includes international business companies purchasing houses for their directors.



- **Holiday makers and speculators.** These people purchase properties in Cyprus as holiday homes or as possible permanent places to live upon retirement, or to sell at a reasonable profit at a later stage. Profits realised by foreigners from the sale of immovable property may now be exported subject to capital gains tax.
- **Business investors.** These are foreign individuals and companies who acquire property in Cyprus for tourism or business offices or industrial purposes, making use of the location and climate of Cyprus, its excellent infrastructure and the various incentives offered for these purposes, especially in the area of taxation. To this end, the Free Trade Zone structure of Cyprus offers inducements, including lower taxes.

2.2 Price of land

The relatively small area of Cyprus and the great demand for immovable property, especially in recent years, have led to a considerable increase in the cost of land and accommodation in Cyprus. However, despite the increase, the prices, as well as the cost of living, are still comparatively lower than those in most European countries or holiday resorts.

3. Our Property Department

The complexity of the legislation on immovable property and the formalities which need to be considered when dealing in immovable property, render it necessary, especially when foreigners wish to invest in immovable property in Cyprus, to seek and obtain from the start reliable and efficient legal advice in order to avoid unpleasant results and future undesirable consequences. It is imperative that prospective purchasers seek and receive such advice from independent and impartial legal advisors.

Further, before entering into a contract for the purchase of immovable property should ensure that their legal representative conducts a search at the Land Registry to make sure that the property is free from any encumbrances, charges or burdens.

Amongst other matters our Property Department is able to offer assistance in:

- Conducting due diligence on Property;
- Drafting Property Sales Agreements;
- Providing advice on the Acquisition of Property in Cyprus by foreigners and non residents;
- Estate Planning and Administrations;
- Wills, Probate and Re-sealing of Estate Administration.



4. Charges and fees payable with relation to the Purchase, Sale and Ownership of Immovable Property

The purchase, sale or simply the ownership of immovable property in Cyprus entails financial obligations to the purchaser, seller or owner of such property. Below we list some of these obligations.

4.1 Revenue Stamp Duty

Any contract of sale, according to the Stamp Law, requires the payment of revenue stamp duty according to the purchase price as follows:

- For a purchase price of up to CY£100,000, the revenue stamp duty is CY£1.50 per thousand; and
- For a purchase price exceeding CY£100,000, the revenue stamp duty is CY£2.00 on every thousand over CY£100,000 in addition to the above.

Thus, the revenue stamp duty on a contract for CY£150,000 will be CY£250 i.e. CY£150 for the first CY£100,000 (0.15%) and CY£100 for the remaining CY£50,000 (0.20%).

Failure to pay revenue stamp duty on a contract of sale of immovable property does not render the contract void. However without the payment of revenue stamp duty a party may not use file the agreement at the Land Registry or use it in legal proceedings. Contracts may be stamped at a later date if they are to be used in legal proceedings; however a penalty fine is then imposed according to the value and the date of execution of the relevant contract.

4.2 Transfer fees

Transfer fees are payable by the purchaser on the purchase price or under certain circumstances, on the current market value as follows:

Purchase Price/Current market value in CY£	Transfer fees
1. Up to CYP 50.000	3%
2. From CYP 50.000 to CYP 100.000	5%
3. Over CYP 100.000	8%

4.3 Immovable Property Tax

Subject to the exemptions listed below, immovable property tax is imposed on the market value of immovable property as at 1 January 1980 and is calculated on the immovable property owned by the taxpayer on 1 January of each year.

The rate of taxation is as follows:

Value of Property £	Rate %	Tax £	Cumulative Tax £
0 - 100.000	0	0	0
100.001 - 250.000	2,5	375	375
250.001 - 500.000	3,5	875	1.250
500.001 and over	4,0		

The following properties are exempt from immovable property tax:

- public cemeteries
- churches and other religious buildings
- public hospitals
- schools
- immovable property owned by the Republic, foreign embassies and consulates
- buildings under a preservation order subject to conditions
- buildings of charitable organizations
- agricultural land used for agriculture or animal husbandry by a farmer
- immovable property situated in inaccessible or depressed areas
- property of a missing person under administration.

4.4 Capital Gains Tax

Capital Gains Tax is levied at the rate of 20% on gains realised from the disposal of immovable property, including gains from the disposal of shares in private companies which own immovable property.

The following categories of disposals are exempt from Capital Gains Tax:



- Transfers by reason of death;
- Gifts between relatives up to the third degree of kindred;
- Gifts to limited companies all the shareholders of which are members, and continue for 5 years after the gift to be members, of the family of the donor;
- Gifts by family companies to their shareholders, but only in cases where the property given was originally acquired by the company as a gift;
- Gifts to charitable institutions or to the Republic of Cyprus;
- Exchanges of immovable properties; and
- Compulsory acquisitions.

In assessing the gain the following will be deducted from the price received:

- The assessed market value of the property as at 1st January 1980, or the price paid or the consideration given for the acquisition of the property, if the property was acquired after 1st January 1980;
- The subsequent increase in the value of the property due to inflation, which is calculated in accordance with the Retail Price Index issued every month by the Department of Statistics;
- In sales of agricultural land by farmers, the first CY£15,000 of the sale price, provided that the farmer was residing in the same area at the time the sale;
- In sales of property used as a residence by the vendor, the first CY£50,000 of the sale price, provided that he has been using the same as his residence for at least 5 years prior to the sale; and
- In all sales, the first CY£10,000 of the sale price.

These deductions are granted once only, unless they have not been exhausted by the first sale, in which case any balance would be carried forward.

4.5 Other Charges

Owners of immovable property are also subject other forms to minor taxation, such as municipal or village rates, sewage fees and refuse collection charges, ranging from CY£50 to CY£100 per annum.

5. Restrictions on the Purchase, Sale and Ownership of Immovable Property

5.1 The Acquisition of Immovable Property (Aliens) Law

The word 'aliens' in this law should not be interpreted in its strict meaning (i.e. enemies or extra-terrestrial creatures) but as meaning 'foreigners' or 'non-Cypriots'. The term 'aliens' goes back to the enactment of the law during the last world war when Cyprus was under British rule; it was



used to control the acquisition of immovable property in Cyprus by enemies or non-British subjects.

According to this law, foreigners purchasing immovable property in Cyprus, apart from following the general rules which regulate such transactions, are also obliged to adhere to special formalities and are faced with certain restrictions, which are aimed at the proper control of foreign investments and the protection of foreign investors.

The term 'foreigner' or 'alien' is defined as any person not being a citizen of the Republic of Cyprus and includes a local company controlled by non-residents (international business), a foreign company and a trust in favour of a foreign person. It does not include:

- Non-resident Cypriots;
- Foreign wives of citizens of the Republic not living apart from their husbands under a decree of a competent court; or
- From 1st May 2004, citizens of Member States of the EU permanently residing in Cyprus or European companies having their main base in Cyprus.

'Trust in favour of a foreign person' means any kind of trust of which the beneficiary or one of the existing beneficiaries is a foreigner and includes any expressed or implied contract or agreement, written or oral, under which a foreigner will not be the absolute owner but will have ownership for the benefit of another or where ownership will be held on trust for his benefit.

The term 'acquisition of immovable property' includes:

- The grant or purchase of lease of immovable property for a period exceeding 33 years;
- The acquisition of shares in a company which is duly registered as a legal entity in the Republic or in the Sovereign Base Areas and which (in either case) has acquired immovable property in the Republic or the Sovereign Base Areas, taking into account that if a majority of shares in the company belong mainly to foreigners, the company is considered as 'controlled by non-residents'; and
- The formation of a trust in favour of a foreigner which involves, wholly or partly, the leasing of immovable property falling within the provisions of a lease for a period exceeding 33 years or a shareholding in a company falling within the provisions described above.

Under the Acquisition of Immovable Property (Aliens) Law, no foreigner can acquire immovable property without the prior permission of the Council of Ministers. Normally permission is granted to bona fide foreigners to acquire a flat or a house or a piece of land not exceeding three donums (about 4000 m²) for the erection of only one house for use as a residence only by the purchaser and his family.



Members of the family of an original purchaser may also acquire their own property, provided that they are completely independent of the purchaser, both financially and residentially, such as married children having their own family and business. Permission is granted for personal use, and not for letting or commercial use. This rule is relaxed for international companies which are permitted to acquire business premises, as well as houses or flats as residences for their members or directors.

British subjects classified as 'British Residents' according to Annex T of the Treaty of Establishment of the Republic of Cyprus, may freely trade in land in Cyprus without the permit of the Council of Ministers. This privilege was granted to some British subjects who were residents at the time of the establishment of the Republic of Cyprus; it is recorded in their passports and it is extended to their spouses and descendants.

Although it may take up to 12 months for the Council of Ministers' permit to be obtained, purchasers are entitled to occupy their properties in the meantime.

After the permit has been granted and the property registered in the name of the foreigner, no further restriction is imposed on him and he may sell or dispose of it by will or other instrument. Moreover, the legal heir is not required to obtain a permit in order to have the property registered in his name.

Foreigners are now also entitled to borrow money for the purchase of immovable property upon mortgaging such property to the bank from which they borrow the money.

It is to be noted however that as from the 1st of May 2004, when Cyprus became a member of the European Union, Europeans may acquire immovable property in Cyprus without a licence from the council of Ministers but only land and building sites or for investments purposes. For houses and flats the restrictions remain as long as they are not considered "investment" but "secondary residence" ,i.e residence other than the permanent residence. The same applies to legal entities set up in Europe. On the other hand Europeans permanently residing in Cyprus or European companies based in and conducted from Cyprus, may acquire immovable property without restrictions.

5.2 The Exchange Control Law, the Central Bank of Cyprus Law and the Movement of Capital Law

The Exchange Control Law dates back to colonial times when Cyprus was under British rule and is connected with the Scheduled Areas created by the British to promote transactions in sterling. Under this law the export of funds by Cypriots or foreigners and all money transactions with foreigners are subject to the approval of the Central Bank of Cyprus in its capacity as Exchange Controller.

The Exchange Control Law has been effectively repealed and replaced by the Movement of Capital Law which provides that all movement of capital and payments between residents of



Cyprus and residents of EU member states or third countries may be carried out without restrictions. However, it does not remove the restrictions currently imposed on the movement of Capital by residents of third countries which involves direct investments, including the acquisition of immovable property.

Foreigners who sell immovable property in Cyprus may export immediately the proceeds of sale, subject to capital gains tax.

In accordance with its policy of harmonisation with the *acquis communautaire* of the European Union and in order to encourage foreign investment in Cyprus, the Government has liberalised its exchange control rules in relation to investment by non-residents in Cyprus. Since 7 January 2000 all restrictions on the percentage of foreign participation in most enterprises in Cyprus (including the share capital of a Cypriot company listed on the Cyprus Stock Exchange) have been abolished, provided that the foreign investors are citizens of member states of the EU. In the banking sector, the maximum foreign equity participation remains at 50%.

Limitations applicable under other laws or regulations remain in force, e.g. the Acquisition of Immovable Property (Aliens) Law which is described above, though, even in this sector; there is a differentiation between citizens and firms of member states of EU and other foreigners. Foreign investors will also have to prove that their new ventures will not pollute the environment, damage the economy or constitute a severe risk.

6. Conclusion

This document is intended to give purchasers and sellers of Immoveable Property Cyprus, and in particular foreign investors wishing to invest in the Cyprus property market, a general outline of the financial implications and restrictions on purchasing, selling and owning immoveable property in Cyprus. It is not intended, and it is not a comprehensive guide on the subject. Legal Advice should always be sought prior to entering into any agreement.

Since the accession of Cyprus to the EU on 1st May 2004 substantial changes have been madder to the legislation affecting property and more change is expected. For example on the 01/01/2008 V.A.T. will be imposed on the sale of land. As such, please bear in mind that amendments to legislation may result in information being contained in this document becoming superseded.



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For further inquiries please contact our office via telephone, e-mail or visit our website.

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