

This guide has been prepared by an independent third-party accounting firm and reviewed and updated by an independent third-party law firm.

November 2023

CYPRUS – TAX CONSIDERATIONS ON SHORT-TERM LETTINGS

The following information is a guide to help you get started in learning about some of the tax requirements that might apply to you when providing short-term accommodation in Cyprus.

Tax never stands still and it is important to ensure that you keep up to date with your tax obligations and remain tax compliant. The timely preparation, filing and payment of taxes are your responsibility.

If you are supplying short-term accommodation in Cyprus, you should make sure that you understand each of the following types of taxes, and pay the ones that apply to you:

- Income taxes
- Special Defence Contribution (SDC)
- GESY (full implementation as of 1/3/2020)
- Value added tax (VAT)

Please understand that this information is not comprehensive and is not intended to be legal advice. If you are unsure about your local tax obligations, we encourage you to check this with official local sources, or to seek advice from qualified professionals.

Please note that we do not update this information in real time, so you should confirm that the laws or procedures have not changed recently.

We draw your attention to the fact that Airbnb may have an obligation to report income earned by users of the platform. Therefore, if there is a mismatch between the information reported by Airbnb and the income you reported in your annual income tax return, the tax authorities may ask you questions.

Short term rentals also have the obligation to register with the Register of Self-Service Accommodation Establishment and reference is made to our article on responsible hosting in Cyprus found [here](#).

INCOME TAX

Where you earn income in Cyprus, it is likely that you will be required to pay a percentage of the tax on this income to the tax authorities in Cyprus. Below is a brief outline of tax that may arise on

income earned from short-term lettings in Cyprus and some information on how this tax can be paid over to the tax authority in Cyprus.

Cyprus's tax year runs from 1 January to 31 December.

Coming within the charge of income tax in Cyprus.

If your total gross income exceeds €19,500 then you will come within the charge of tax in Cyprus. If you are in doubt about filing your tax return in Cyprus, you should consider seeking advice from a tax professional.

Cyprus rules applicable to income earned in relation to short-term lettings.

Income from short-term lettings is currently taxable under the income tax rates as outlined below under "Cypriot income tax rates".

The tax authority in Cyprus has clarified that income from short-term lettings will be subject to income tax in the context of exercising a business activity should they meet the following cumulative criteria:

- the property from which the income is derived is registered or has an obligation to be registered in the Register of Self-Service Accommodation Establishment with the Deputy Ministry of Tourism;
- the property owner is registered for VAT purposes and applies the VAT rate of 9% on income received from the property (provided there is an obligation to register); and
- the rental of the property is short term, recurring and typically to different people each time.

If the above are met then Special Defence Contribution is not applicable.

Reporting tax in Cyprus.

Online submission of a personal tax return (TD1) is required in Cyprus. This return must be submitted using the [TaxisNet](#) system.

Reporting tax - filing deadline.

The deadline for filing an income tax return and paying the associated liabilities is 31 July of the year following the tax year (e.g., the 2023 tax return will be due for filing and paying by 31 July 2024) if self-employed and not exceeding an income of €70,000. If an individual is self-employed with an income exceeding €70,000 the deadline will be the 31st of March (15 months after the year-end) and they will have an obligation for filing audited financial statements.

Cyprus Tax Authority contact details.

Contact details for the tax authority in Cyprus can be found on the website below:

Department of Taxation <http://mof.gov.cy/en/departments/tax-department>

Cypriot income tax rates.

Income tax rates in Cyprus are as follows:

- €0 - €19.500 - 0%
- €19.501 - €28.000 - 20%
- €28.001 - €36.300 - 25%
- €36.301 - €60.000 - 30%
- Income exceeding €60.000 - 35%

Typical expenses that can be deducted from income in relation to short-term lettings.

Short-term lettings falling under the exercise of a business activity can deduct expenses incurred for the generation of gross income, capital deductions and interest expense.

If a manager is assigned for the management of a property for the purpose of short-term letting, their remuneration can be deducted as an expense from the gross income for income tax purposes.

The following items are allowable as deductions against rental income:

- Mortgage interest on property rented;
- Wear and Tear allowances on the building's (excluding cost attributable to the land) original cost plus any additions incurred to enhance the useful economic life of the building; and
- Expenses deduction of 20% on gross rental income.

The difference between short – term lettings and rental income is that, when income is considered to be income from short – term lettings, the actual costs incurred are available for deduction and not a fixed 20% general allowance.

Deductions available for tax depreciation (e.g. capital allowances / wear and tear).

You can claim a deduction on the cost of building construction at a rate of 3% per annum, for a maximum period of 33.33 years. Cost of land is excluded from the calculation of wear and tear calculation.

Cypriot income tax obligation for non-resident individuals.

If you are a non-resident individual in receipt of income sourced in Cyprus, you are taxable on this

income at the tax bands and rates outlined above under the heading “Cypriot income tax rates”.

Cypriot income tax obligations for a Cypriot individual in receipt of foreign rental income.

If you are a tax resident of Cyprus, any foreign rental income you receive will be subject to income tax in Cyprus.

A double tax credit is available subject to conditions.

General property taxes payable.

Property, refuse and sewage taxes are imposed by local municipalities and sewage councils.

Capital taxes in Cyprus.

Capital gains tax (CGT) is imposed at a rate of 20% on the gain made from the disposal of immovable property in Cyprus, when the disposal is not subject to income tax. This includes gains made from the disposal of shares in companies that directly or indirectly own such immovable property.

CGT is indicatively calculated at 20% of:

- Sale proceeds, less cost adjusted for inflation, less any expenses directly related to the acquisition/ disposal of the asset (subject to conditions e.g. interest costs on related loans, transfer fees, legal expenses etc.).

CGT is payable at the time of disposal.

Other

Sample Income Tax Computation
<p>Maria acquired a brand new flat in December 2020 as a Cyprus tax resident and domiciled individual. The cost of the property acquired was €300,000 (plus 19% VAT), out of which €100,000 is attributable to the cost of land. The property was acquired via a bank loan of which the annual interest is €3,500. Maria has advertised the property through the Airbnb platform.</p>
<p>The property is available for €150 from Jan – May and Oct – Dec and €250 from June – Sept and was fully utilized (365 days). The gross income received in 2023 from right of use of space is €66,950.</p>

Maria incurred the following expenses in relation to this flat in 2023 : gardening €1,500 plus 19% VAT, repairs and maintenance (expense) €4,500, electricity €3,600, water €2,250 and cost for breakfast €8,000.

Gross income		66,950
<i>Less allowable expenses:</i>		
	Capital allowances	(6,000)
	Interest expense	(3,500)
	Actual expenses in relation to repairs, maintenance of property, electricity, water and cost for breakfast	(19,850)
Net profit from AIRBNB business transferred to income tax return of Maria's		37,600
<i>Less personal allowances:</i>		
	NHS (Gesy contribution service income from Airbnb)*	(1504)
Taxable income after all deductions and personal allowances		36,096

**GESY related to income generated from short term lettings falling under self-employment for individuals in Cyprus is taxed at 4% and will have to be paid irrespective of whether Maria is a Cyprus tax-resident and Cyprus domiciled or non-domiciled individual. Such GESY levy is also tax deductible for computing her taxable income for tax purposes. Note that for income exceeding the amount of €180,000, no GESY is levied.*

For information purposes, if the tenant is a company the tenant is obliged to withhold GESY as well as SDC for payment to the tax department. If the tenant is an individual, the landlord has to pay both GESY and SDC by self-assessment by 30 June and 31 December.

SPECIAL DEFENCE CONTRIBUTION (SDC)

If a property is being rented out and rental income is being received (in contrast to income received from short term lettings in the context of exercising a business activity as described above or from the right of use of space), it will be subject to SDC in addition to personal income tax. The rate of SDC is currently 3%. However, a deduction of 25% is given on this rate to give an effective rate of 2.25%.

There will be no SDC payable when, as the owner of the property, you are:

- 1) neither tax resident nor domiciled in Cyprus; or
- 2) tax resident non-domiciled in Cyprus.

If you are tax resident and domiciled in Cyprus, SDC will be payable on this income.

GESY/ GENERAL HEALTHCARE SYSTEM (GHS)

GESY is levied at different rates on the income of Cyprus tax resident individuals for possible medical treatments. For remuneration and income from self-employed persons, GESY at a rate of 4% currently applies while a rate of 2.65% is applicable for rental income. When it comes to income sourced in Cyprus, GESY will also be levied on non-Cyprus tax resident individuals.

Settlement methods of GESY contributions may vary and are payable either by the owner through self-assessment or the lessee by withholding at source depending on circumstances.

VALUE ADDED TAX

Value added taxes can be complicated and you should take time to understand the rules as they apply to you and your particular situation.

Broadly speaking, Value-Added Tax (VAT) in Cyprus is a tax on consumption. Most goods and services supplied in Cyprus are subject to VAT.

A person who supplies goods and/or services in Cyprus may have to charge VAT and pay this to the Cypriot tax authority. As with all taxes, we encourage you to consult with a tax advisor regarding your potential VAT obligations in Cyprus.

If you are currently renting a room to guests, you may be required to apply VAT to your rental charge and to pay this VAT amount to the Cypriot tax authorities. As Airbnb is not supplying the rental, it is the responsibility of the host to consider local VAT obligations of the rental charge.

Do I need to collect any VAT from guests if I am letting short-term accommodation in Cyprus?

In general, individuals who are considered to be in business in Cyprus need to charge VAT on their supplies, once the criteria for VAT registration is met.

Currently in Cyprus you are required to register for VAT if you supply services to the value of €15,600 in any continuous period of twelve months, or if you expect to supply services to the value of €15,600 in a 30-day period. As such, where you supply short term accommodation, and you exceed either of these thresholds, you should register for VAT.

If you are an individual who is not resident in Cyprus, but your accommodation is located in Cyprus, then you should also register for VAT if your supplies exceed the above threshold.

We encourage you to consult a tax advisor if you need assistance in determining whether you need to register for and charge VAT.

For further guidance on registering for VAT, please see the Cypriot tax authorities' [website](#).

VAT applies to me. How do I determine how much tax I need to collect from my guests?

VAT rates differ per country and change periodically. We recommend that you check on a regular basis with the local tax authority to get the most up to date VAT rates for the country where you are required to pay VAT.

For example, at the date of issuance of this document, the VAT rate applicable to supplies of holiday accommodation is 9% in Cyprus.

However, there are other VAT rates currently in force in Cyprus, so we recommend that you confirm with a local tax advisor the VAT rate applicable to your supplies.

VAT applies to me. How do I collect VAT from guests?

If you determine that you need to charge VAT on the supplies that you make to guests, please keep in mind that you have to collect this VAT from your guests and report and remit this VAT on a periodic VAT return. In Cyprus, the VAT return typically covers a quarterly basis and is required to be filed by the 10th day of the second month following the taxable period (i.e., the Q1 VAT return is due to be filed by the 10th of May). The VAT payment is required to be made on the same day that the VAT return is required to be filed.

Based on the VAT rules and regulations in Cyprus, the pricing for your supplies of accommodation to private individuals (B2C) should include the amount of VAT due on those supplies.

Some formalities, such as issuing a receipt or an invoice to your guests, may be required. Please find more information on this [here](#).

For further guidance on filing returns, please see the Cypriot tax authorities' [website](#).

There may also be further requirements around whether you use VAT-inclusive or VAT- exclusive pricing. We recommend that you check your obligations in terms of pricing and the applicable invoice requirements with a local tax advisor.