A Look at the Tax Implications of Renting or Selling a Real Estate Property In Cyprus.

Cyprus' geographical location, proximity to Israel, favorable tax authority, and its business environment, which embraces foreign residents, is considered to be an attractive destination for many Israeli residents seeking to diversify their real estate investments.

Despite Cyprus' favorable taxation policy, which offers zero or low tax rates on real estate, rental income in Cyprus and its sale, an Israeli resident generating income abroad must nevertheless report and pay tax in Israel. There is a domestic tax exemption of up to NIS 5,000 offered on rental income from a residential home in Israel, unfortunately, there is no similar exemption on rental income from abroad. The Israeli income tax authority makes no distinction between an investor who has rental income from renting a 10-square-meter warehouse in Cyprus from the one who has rental income from a skyscraper in the heart of Manhattan. Any Israeli resident (who is not a New Resident) is required to report his/her income and gains from overseas. Nonetheless, the Israeli Income Tax Ordinance enables legitimate tax planning for holders of real estate properties held abroad, as shall be explain below.

The taxes you will have to pay in Cyprus will be explained to you in detail by the law office that will counsel you during the purchase, and the brokerage office assisting you with your investment property.

This article clarifies the tax implications which apply to Israeli investors in Israel and the possible tax planning options

It should be emphasized that each investor must take into consideration his/her own personal circumstances into the tax structure that suits them. Therefore, investors are recommended to seek professional advice in advance. Our office has extensive experience with similar questions and we will be happy to assist.

There are two types of investors:

1. An investor who makes a long-term investment to lease the property.
2. An investor who purchases a property for the purpose of selling for a profit.

Rental income from foreign real estate asset is subject to tax in Israel under the following principles.

- **Marginal tax track:**

  The net income, i.e. the gross income less all property related deductions is subject to the marginal tax rate of the investor, which in any case starts at 31%, and can reach up to 50%, depending on the investor's overall income during the tax year.

  The advantage of this track is that the investor is entitled to offset the foreign tax paid abroad, subject to certain conditions stipulated in the Income Tax Ordinance.

- **Legitimate tax planning track - flat tax rate of 15%.**

  A tax at a fixed and final rate of 15% on income. Under this track, expenses cannot be deducted, with an exception of depreciation expenses, and neither can any tax paid abroad be offset.

  We encourage investors to assess their tax track every year. Our firm conducts annual audits when submitting the income tax return to analyze which track is more tax efficient for the investor.

- **investing through a company**

  In certain situations, it may be more beneficial for the investor to purchase a real estate property through his/her own company, whether an Israeli company or a Cypriot company. There are certain advantages to holding the property through a company, especially for investors who have many real estate investments and are interested in limiting their tax rate on rental income to the corporate tax rate (23% for an Israeli company or 12.5% for a Cypriot company).

  Distribution of the company's retained earnings is subject to dividend tax in Israel at a rate of 30%, plus a 3% additional tax (additional tax on income exceeding NIS 663,240 per year).

Capital Gains

Upon the sale of the property, the investor will be required to pay a 25% capital gains tax in Israel . The Income Tax Ordinance provides a tax credit of 20% on the tax paid in Cyprus (assuming the tax was actually paid).

This article has briefly clarified the basic taxes that apply to Israeli investors considering investing in Cyprus. This article is for general information purposes only and should not be interpreted as advice.

Before embarking on any investment, the investor should consult with a professional tax advisor in order assess his/her personal circumstances.

Ilan Dar & Co.
Rehov HaRav Herzog 21, Rehavia, Jerusalem, 9238714
phone: +972-2-6506506 email: ilan@id-tax.co.il website: id-tax.co.il