

Issue N-16-2023, 13 October 2023

‘Self-catering’ accommodation: Income from rental (airbnb or otherwise): Taxation of the owners: Circular 10/2023 issued by the Cyprus Tax Authorities (“CTA”)

In brief

On 13 September 2023 the CTA issued the attached Circular No. 10/2023 (the “Circular”) clarifying the tax treatment of the owner’s rental income from self-catering accommodation rented out via online platforms, websites, or otherwise.

In detail

On 13 September 2023 the CTA issued the attached Circular that explains the tax treatment of the owner’s rental income from self-catering accommodation rented out via online platforms (e.g. Airbnb, Booking, etc), websites, or otherwise.

I. Basic rule

The owner’s rental income from self-catering accommodation rented out via online platforms, websites, or otherwise, would be considered as business income:

- (a) subject to income tax under Article 5 of the Cyprus Income Tax Law, and
- (b) not subject to Special Defence Contribution (“SDC”) under Article 3(2)(d) of the Cyprus SDC Law,

if **cumulatively** :

- A. the immovable property that generates the rental income is registered (or had to be registered) on the Register of Self-catering Accommodation (as the terms ‘Self-catering Accommodation’ and ‘Register of Self-catering Accommodation’ are defined in non-tax law N.34(I)/2019);
and

- B. the owner of the said immovable property is registered for VAT purposes (or had to be registered for VAT purposes) and imposes 9% VAT on the income generated by the said immovable property;
and
- C. the rental of the said immovable property is short-term, recurring and, normally, to different persons each time.

II. Two case scenarios where for tax purposes the income generated by the owner of the immovable property is treated as business income

1. The owner (individual or legal entity) manages the immovable property with the purpose of renting it out as described above
 - (a) Income tax:
The taxable income equals the gross receipts, less expenses incurred wholly and exclusively for the earning of the said gross receipts (including capital allowances and interest expense);
 - (b) SDC:
Not subject to SDC;
 - (c) General Health System (“**GHS**”):
Owners who are individuals are subject to GHS contributions, paid by them via self-assessment every six months, without any withholding obligation for the tenant.
2. The owner (individual or legal entity) assigns the management of the immovable property to a manager with the purpose of renting it out as described above

Same tax treatment as in case scenario 1 above.

Note that:

- the fee of the manager is deductible for the income tax purposes of the owner;
- there is no obligation on the manager to withhold GHS contributions.

III. One case scenario where for tax purposes the income generated by the owner of the immovable property is treated as rental income

1. The owner (individual or legal entity) rents out the immovable property to a short-term or long-term tenant for a fixed rental amount, and the tenant then has the exclusive exploitation rights on the immovable property and e.g. sub-leases it as described above (the tenant bears all the expenses on the immovable property)
 - (a) Income tax:
Normal taxation as rental income, not as business income;
 - (b) SDC:
Normal taxation as rental income, not as business income;
 - (c) GHS:
Owners who are individuals are subject to GHS contributions, paid by them via self-assessment every six months, without any withholding obligation for the tenant (unless the tenant is a legal entity).

The takeaway

The said Circular clarifies the tax treatment of the income of owners of self-catering accommodation who rent it out via online platforms, websites, or otherwise.

Lets talk

For a deeper discussion of how this issue might affect your business, please contact:

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