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TRANSFERRING TITLE TO IMMOVABLE PROPERTY IN CYPRUS – LEGAL, PROCEDURAL AND TAX ISSUES

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Transferring ownership in immovable property in Cyprus is typically done by means of transfer of title at the appropriate district lands office (the department of lands and surveys of the Republic of Cyprus - DLO). Normally the DLO is in the same district as the immovable itself, although the parties may choose a DLO in another district for convenience purposes. In such case, a double entry is done at the DLO of the district where the immovable is situated.

In the case where a Cyprus company is the owner of the immovable, the shareholders of the company may choose to sell their shares to the buyer instead, and in such case, the company changes shareholders but remains the owner and keeps the title to the immovable. In this manner, most formalities involved in transferring title at the DLO will be avoided and also no transfer fees are paid. Sale of shares in a Cyprus company is also tax free (save for capital gains tax in the event of transferring the shares of a company which holds immovable property in Cyprus). These are the main reasons why a Cyprus private company limited by shares is a popular vehicle through which immovable property may be owned.

It is also important to highlight a relatively new tax relating to the Equal Burdens Agency, which is imposed on sellers formally (since 22/02/2021) of real estate property in Cyprus (including shares of property owning real estate in Cyprus) of 0.4% on the sale proceeds (collected by the Tax Department since 18/11/22) at the time of issuing the tax clearance. This tax is intended to assist with the housing needs of Cypriot refugees displaced from their homes by the 1974 invasion of Turkey in Cyprus.

In the case of transfer of title to the buyer, transfer fees which are based on the sale price of the immovable, as calculated by the DLO, are paid to the DLO by the buyer, with some exceptions provided under the law, such as gifts from parents to their children. The rates are progressing, in that they range from 3% to 8% depending on the property value: 3% for property valued up to EUR85,000; 5% from 85,001 - 170,000 and 8% from 170,001 and over. Valuations made by the DLO are independent and may affect the payment of transfer fees where the formal valuation is above the sale price in line with recent sales in the same area.



The procedure for transferring title is not complex but certain matters should be kept in mind in order to avoid last minute surprises and delays.

1. Usually the interested buyer starts with a thorough due diligence on the immovable property, by obtaining searches from the DLO initially online and then in hard copies. Such searches will reveal the legal and registered owner or owners, all details of the immovable in question (e.g. that the same has a separate title deed), but most importantly, it will reveal any mortgages, memos or other encumbrances registered against the property.
2. If there is a mortgage or memo placed on the property, then the mortgagee (most commonly a bank or financial institution) will need to be involved in the transfer process, so as to provide its consent and be in a position to release the mortgage once the outstanding balance of the loan for which the mortgage was given, is repaid fully to them. In such case, a representative of the mortgagee/bank is present at the DLO at the time of transfer of title.
3. In the case where the immovable property is still under construction, the buyer will also need to ensure that planning and building permits are in place, and must request to see the architectural drawings and all technical specifications submitted to the pertinent authorities. If the property is an apartment or a house, which is part of a development, the buyer will also enquire about the common owners' agreement that is intended to be entered into governing inter alia the relations of all co-owners at that development.
4. The seller normally has a recent valuation in place, made by a licensed property surveyor but it is customary that the buyer carries out his own valuation of the property as well as any technical surveys of the property.
5. It is now common practice that seller and buyer clear all anti-money laundering (AML) and 'know your client' (KYC) compliance issues with their respective banks, so that the banks are ready to accept the prospective sale and purchase of the immovable and accept the transfer and deposit of the funds when the time of transfer of title comes.



6. The seller may need to obtain a permit from the Council of Ministers of Cyprus, if he is a foreign national, that is to say, not a national of Cyprus or another EU country. For initial residential or retail properties not exceeding certain criteria amounting to average houses and plots in Cyprus, obtaining a Council of Ministers permit is a formality.
7. Seller and buyer sign a sale and purchase agreement providing the terms and conditions of the sale and purchase. It is drafted by seller's or buyer's lawyers, and will reflect the commercial terms agreed by the parties, but also other essential legal terms, so that the sale and purchase is effected smoothly and efficiently.
8. Such sale agreement may be lodged (filed) with the local land registry department for the purposes of specific performance, in order to secure the purchaser rights.
9. The seller will need to apply to the Tax Department in order to obtain a tax clearance certificate as well as apply to the local authorities to obtain municipal taxes and fees clearances in respect of all applicable taxes, including Capital Gains Tax.
10. Stamping of the sale and purchase agreement will need to be effected, within 30 days from signing of the same as it is a requirement for lodging the sale agreement with the land registry office. Stamp duty is payable on the contract, at rates ranging from 0.15% to 0.2%. For contracts the value of which ranges between EUR5.001 – EUR170.000, the current rate of stamp duty is EUR1,50cent for each EUR1.000 or part thereof; for contracts the value of which is over EUR170.000, the current rate of stamp duty is EUR2 for every EUR1.000 or part thereof, with a ceiling of EUR20.00
11. The sale and purchase agreement will also provide the completion date, upon which the transfer of title will be effected at the relevant DLO. It is advisable and customary for the balance of the purchase price to be fully settled upon completion and transfer of title.



12. Upon submission of the necessary documents to the DLO, the transfer process begins. The transfer fee is calculated on the property's value, as calculated by the DLO, and is paid by the buyer at transfer.

13. The DLO will update the property ownership records once the transfer is completed and title deeds are issued usually on the same day. Registration of the buyer at the DLO establishes that he is the new legal owner of the property.

Apart from transfer fees, and stamp duty, other taxes may also be payable when transferring immovable property in Cyprus. These include:

(a) Value added tax (VAT). VAT may be applicable on the sale of immovable property, subject to certain exceptions. The standard VAT rate in Cyprus is 19%. VAT is typically included in the purchase price, and the responsibility for paying it rests with the buyer as the buyer of goods.

(b) Capital Gains Tax (CGT): CGT may be applicable if the seller realises a profit from the sale of the property. The tax is calculated based on the difference between the acquisition cost and the sale price, taking into account certain deductions and allowances and subject to specific adjustments made. The current capital gains tax rate in Cyprus is 20%. CGT applies both to direct and indirect disposals involving immovable property, so on the sale of shares, as mentioned before, CGT is imposed on the market value of the property that is owned by the relevant Cyprus company and not on the whole consideration for the relevant sale.

(c) Profits from the sale of immovable property are not subject income tax (IT) unless the seller is a land developer, or has entered into a number of transactions, in which case, he is considered to be trading in land. In such case, IT is imposed on the realised profit. Usually, persons trading in land are trading under a company. Cyprus companies pay IT (corporation tax) at the rate of only 12,5%, which is one of the lowest income/corporation taxes in Europe.



(d) As described above, the tax relating to the Equal Burdens Agency, which is at a flat rate of 0.4% and is payable by the seller, on the proceeds of sale of immovable property.

(e) Once the transfer of title is completed, the new owner becomes liable for certain relatively minor annual property taxes. These depend on the location of the property and commonly are:

- a. Municipal taxes imposed by the local authority where the property is based (calculated on the market value of the property).
- b. Other taxes relating to services offered to the property (for example sewage tax).

It is worth noting that here is no inheritance tax in Cyprus and no estate tax is imposed under the tax laws of Cyprus.

DISCLAIMER – The contents of this article are provided for general information purposes and do not constitute legal or other professional advice or an opinion of any kind; the actual process may vary depending on the specific circumstances. Persons interested in the subject matter are advised to seek specific legal advice for their case engaging a qualified Cyprus lawyer with the relevant expertise in immovable property transactions



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