

TAX NEWSLETTER - AUGUST 2022

NEW INCOME TAX INCENTIVES FOR FOREIGN TAX RESIDENT INDIVIDUALS FOR THEIR FIRST EMPLOYMENT IN CYPRUS

On 26 July 2022, an amending law was published in the Gazette in relation to the income tax exemptions for employment income, provided in Articles 8(21) and 8(23) of the Income Tax Law with the introduction of Articles 8(21A) and 8(23A).

Income tax exemptions prior to the amendments will cease to be available for employment commencing after 26 July 2022.

Article 8(21) applicable for employments commenced before 26 July 2022:

Under paragraph 21 of section 8 of the Law an exemption equal to 20% of the remuneration from any office or employment exercised in Cyprus by an individual or €8.550, whichever is the lower, is granted.

This exemption is granted to individuals who were based overseas and who were non-Cypriot tax residents before the commencement of their employment in Cyprus.

The exemption is available to qualifying individuals commencing employment in Cyprus between 2012 and 2025 and applies for a period of five years commencing from the 1st January following the year of commencement of employment.

Individuals who meet the above conditions for this exemption before its termination date (i.e. 26 July 2022) will continue to benefit for the relevant five-year period.

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Article 8(21A) applicable for employments commenced after 26 July 2022:

The new article 8(21A) introduced in the Income Tax Law has as a purpose the application of the 20% tax exemption or €8.550, whichever is the lower, for remuneration received from first employment* in Cyprus by a person who for three (3) consecutive years prior to the commencement of his employment in Cyprus was not resident of Cyprus and employed outside Cyprus for an employer not resident in Cyprus.

The above tax exemption is granted to a person who's first employment* in Cyprus commenced after the date that the provisions of the new law article 8(21A) were published in the Official Gazette of the Republic (i.e after 26/7/2022) and up until the year 2027 inclusive.

The exemption will be granted for a period of 7 years following the tax year of commencement of employment.

The Law does not require the individual to become a Cyprus Tax resident to benefit from the new 20% exemption, nor the employer to be a Cyprus tax resident employer.

Individuals will not be granted this exemption if they are granted the 50% exemption mentioned below.

Article 8(23) applicable for employments commenced before 26 July 2022:

Under paragraph 23 of section 8 of the Law, an exemption equal to 50% of the remuneration from any office or employment exercised in Cyprus is granted for a period of 10 years.

The exemption under this paragraph is given to an individual who was a non-Cypriot tax resident before the commencement of his employment in Cyprus, provided that his total emoluments exceed €100.000, per year, starting from the first year of employment.

For employments which start after 1 January 2015, an individual will be entitled to this benefit, only if he was not a tax resident of Cyprus for any 3 out of the last 5 years prior to the commencement of his employment in Cyprus and at the same time he was not a tax resident of Cyprus during the previous tax year.

The exemption is granted in any tax year that his income from employment exceeds €100.000 per annum, irrespective of whether the income drops below €100.000 in any year, provided that when the employment started the income exceeded €100.000 and provided the Tax Commissioner is satisfied that the increase/decrease in the annual income is not made for the purposes of obtaining this tax benefit.

Individuals who meet the above conditions for this exemption before its termination date (i.e. 26 July 2022) will continue to benefit for the relevant 10-year period unless the individual also qualifies for the new 50% exemption. In such a case the individual will benefit for a longer period of 17 years under the new law.

Article 8(23a) applicable for employments commenced after 01 January 2022:

The new article 8(23A) introduced in the Income Tax Law has as a purpose the application of the 50% tax exemption for remuneration from first employment* which is exercised in Cyprus by a person who was resident outside Cyprus for a period of at least 10 consecutive years prior to the commencement of the employment in Cyprus and the first employment* in Cyprus is commenced after 1st January 2022.

The tax exemption is granted for a period of 17 tax years, commencing from the first year of employment in Cyprus.

The tax exemption is granted in any year in which the remuneration from employment in Cyprus exceeds €55.000, irrespective of whether in any tax year the said remuneration falls below €55.000, provided that:

- During the first or second year of employment in Cyprus, the said remuneration exceeded €55.000 annually and,
- The Commissioner is satisfied that a variation in the annual remuneration from employment in Cyprus does not constitute an arrangement aimed at obtaining the exemption.

The exemption is granted in the tax year of commencement of the first employment, provided that the remuneration from the first employment* in Cyprus during the first twelve months exceeds €55.000, as well as in the tax year of termination of employment in Cyprus or the end of the period of seventeen years, provided that the remuneration from employment in Cyprus during the last twelve months exceeds €55.000.

The Law does not require the individual to become a Cyprus Tax resident to benefit from the new 50% exemption, nor the employer to be a Cyprus tax resident employer. Individuals will not be granted this exemption if they are granted the 20% exemption mentioned under articles 8(21) or 8(21A).

* Commencement of the first employment exercised in Cyprus is defined as when an individual performs salaried services in Cyprus for the first time (for a resident or non-resident employer), without taking into account occasional full or part-time employment in Cyprus for a period not exceeding a total of 120 days in a tax year.

Our team of experts remains at your disposal for assistance in the assessment of the eligibility of the above exemptions and the application of the above sections of the law during the preparation of your income tax return.

Best regards,

HLB Cyprus Tax Team



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