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# Interpretative Circulars issued by the Cyprus Tax Department relating to the tax treatment of Covid-19 related government grants

## In brief

Three Interpretative Circulars have been issued by the Cyprus Tax Department relating to the Tax treatment of Covid-19 related government grants:

- one on 22 June 2020, and
- two on 20 July 2021.

## In detail

### 1. Interpretative Circular 44/2020 of 22 June 2020: 2020 grants provided by the Ministry of Labour and Social Security

These grants are in the form of:

- Unemployment Benefit (within the context of a special plan for partial or full suspension of business operations);
- Special Sickness Benefit;
- Special Leave Benefit (granted to working parents); and
- Special Benefit for the Self-Employed.

The Cyprus tax authorities clarify that:

- these grants should not be subject to income tax as they are not considered as income falling within Article 5 of the Income Tax Law;
- employers are not required to declare these grants in the TD7 forms.

## 2. Interpretative Circular 49/2021 of 20 July 2021: 2021 grants provided by the Ministry of Labour and Social Security

The Cyprus tax authorities clarify that:

- these grants should continue not to be subject to income tax, in the same way as for 2020, even though the Ministry of Labour and Social Security disburses the 2021 benefits to the individuals through the individuals' employers as opposed to the individuals directly.

## 3. Interpretative Circular 48/2021 of 20 July 2021: 2021 grants provided by the Ministry of Finance

These grants are provided to companies and self-employed individuals for the payment of:

- rent;
- instalments (the Ministry of Finance does not clarify the subject matter of the 'instalments');
- other running costs.

The Cyprus tax authorities clarify that:

- the grants relating to the payment of rent or other running costs are not subject to corporate/personal income tax.

*Note: the grants relating to the payment of instalments are not mentioned in the Interpretative Circular, but potentially they may also be exempt.*

- distributions (deemed or actual) by companies out of accounting profits which include the above grants will be subject to both Special Contribution for Defence and to General Health System contributions.

## The takeaway

The Interpretative Circulars provide much needed clarifications with regards to the tax treatment of these Covid-19 related government grants.

## Let's Talk

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

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