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# Attracting talent to Cyprus: New employment income tax exemptions

## In brief

On 15 July 2022, the Cyprus House of Representatives voted in favour of a bill which replaces two of the existing income tax exemptions for employment income with new versions. In order for the legislative amendment to enter into force, it needs to be published by the Office of the President of the Republic in the Cyprus Government Gazette (the Publication Date), which is expected imminently.

We outline below the new income tax exemptions, which are subject to conditions:

- “New 50% exemption” on remuneration will apply as from 1 January 2022, for first employments commencing as from 1 January 2022 exercised in Cyprus with remuneration exceeding EUR55.000 p.a., by individuals who were not a resident of Cyprus for a period of at least 10 consecutive tax years immediately prior to the commencement of their employment in Cyprus. For each individual the exemption will apply once in their lifetime for a period of 17 years. Subject to certain conditions, individuals whose employment commenced prior to 1 January 2022, may also be eligible to transition into the new 50% exemption.
- “New 20% exemption” on remuneration (up to a maximum amount of exemption of EUR8.550 p.a.) will apply as from the Publication Date, for first employments commencing after the Publication Date exercised in Cyprus, by individuals who immediately prior to the commencement of their employment in Cyprus were not a resident of Cyprus for a period of at least 3 consecutive tax years and were employed outside of Cyprus by a non-resident employer. For each individual the exemption will apply for a period of 7 years, starting from the tax year following the tax year of commencement of employment. In order to prevent duplication of these new exemptions, individuals granted the above mentioned 50% exemption, will not be eligible for this exemption.

Individuals who do not meet the conditions to transition into the new 50% exemption, but who nevertheless are eligible for the existing 20% and 50% exemptions on employment remuneration, will continue to benefit from the existing exemptions respectively (the existing 20% exemption being for a total period of 5 years for each individual and the existing 50% exemption being for a total period of 10 years for each individual).

Importantly the existing 20% and 50% exemptions will cease to be available for employment commencing after the Publication Date (which is expected imminently).

We provide more detail below.

## In detail

### i. New 50% exemption

Eligibility and period of the new 50% exemption from income tax, which applies as from 1 January 2022, is summarised below:

Date of commencement of first employment exercised in Cyprus by the individual...						
Prior to 2022	OR	2016-2021	OR	2016-2021	OR	2022 onwards
<p>For individuals who benefitted from the existing 50% exemption and have continuous employment in Cyprus up to and including 2021</p> <p><b>PwC observation:</b> The voted bill does not explicitly refer to a <b>first</b> employment exercised in Cyprus for this category. It remains to be seen whether this will be a condition applied also to this category.</p>		<p>Remuneration at commencement of first employment in Cyprus exceeded EUR55.000 p.a.</p>		<p>Remuneration at commencement of first employment did not exceed EUR55.000p.a., &amp; within 6 months following the Publish Date remuneration exceeds EUR55.000 p.a.</p>		<p>In the first or second year of first employment the remuneration exceeds EUR55.000p.a.</p>

Conditions and period of the new 50% exemption across all the above categories of employment commencement date:

- The individual's remuneration from employment in Cyprus must exceed EUR55.000 p.a.
- The individual must be a non-resident of Cyprus for at least 10 consecutive tax years immediately prior to commencing employment.
- First employment exercised in Cyprus is defined in the voted bill as when an individual first performs salaried services in Cyprus (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.
- For each individual the period of the exemption is for 17 tax years from the tax year of commencement of first employment in Cyprus.

**PwC observation:** We understand that for individuals who commenced their eligible employment prior to 2022, the 17 year period is to be counted as from the employment commencement date.

For example, an individual who commenced employment in Cyprus in 2017 and who is eligible for the new 50% exemption will have a period of 12 tax years under the new 50% exemption, starting with tax year 2022.

- There is no annual cap on the amount of the exemption.
- Each individual may receive the new exemption for the relevant period (17 year period) only once per lifetime.
- Specific rules in the voted bill deal with the first and final tax year of the relevant employment, and also with remuneration levels that fluctuate below the EUR55.000 p.a.threshold.

#### **PwC Observations:**

1. We illustrate the application of the above exemption by way of an example:  
An individual satisfies the conditions for eligibility of this exemption in 2022 and earns in 2022 remuneration from employment exercised in Cyprus of EUR62.000. This remuneration is the individual's only worldwide income earned in 2022. The individual is entitled to EUR6.200 of deductions (for personal payments made to the Social Insurance and General Health System funds, pension and provident fund contributions and life insurance premiums, under their relevant conditions).

In such a case income tax payable in Cyprus (based on 2022 tax rates) amounts to EUR1.060, equivalent to an effective tax rate on gross income of less than 2% in this case. This is because only 50% of the remuneration minus deductions is subject to Cyprus income tax (with the other 50% of remuneration being exempt). Thus the taxable income for the individual for 2022 is EUR24.800 (EUR 31.000-EUR 6.200). Income tax for 2022 takes into account the EUR19.500 nil rate band such that the income tax payable is EUR1.060 ((EUR24.800 - EUR19.500)\*20%) for this individual.

Contributions to the Social Insurance and General Health System funds would remain applicable based on the full remuneration of EUR62.000, with their applicable caps.

2. The voted bill does not require the individual to become a Cyprus tax resident in order to benefit from the new 50% exemption. Whilst it is likely that most individuals benefiting from the new 50% exemption will be/become Cyprus tax resident it may be the case that for some individuals their limited presence in Cyprus per tax year may not render them a Cyprus tax resident. Furthermore, the voted bill does not require the employer to be a Cyprus tax resident employer.

## ii. New 20% exemption

Eligibility and period of the new 20% exemption from income tax, which applies as from the Publication Date, is summarised in the below:

Date of commencement of first employment exercised in Cyprus by the individual

After the Publish Date (expected imminently) until 31 December 2027

Conditions and period of the new 20% exemption across the above category of employment commencement date:

- Immediately prior to the commencement of their first employment in Cyprus, the individual must be a non-resident of Cyprus for at least 3 consecutive tax years and must be employed outside of Cyprus by a non-resident employer.
- First employment exercised in Cyprus is defined in the voted bill and is the same as for the new 50% exemption (refer to new 50% exemption summary above).
- For each individual the exemption will apply for a period of 7 tax years/calendar years, starting from the year following the year of commencement of employment.
- There is an annual cap on the amount of exemption; the maximum amount of the exemption is EUR8.500.  
The cap is applicable in case of remuneration in Cyprus exceeds EUR42.750 p.a..
- In order to prevent duplication of these new exemptions, individuals granted the above mentioned 50% exemption, will not be eligible additionally for this exemption.

**PwC Observation:** As is also the case for the new 50% exemption, the voted bill does not require the:

- (i) individual to become a Cyprus tax resident in order to benefit from the new 20%,
- (ii) the employer to be a Cyprus tax resident employer.

## iii. Closing of the existing 20% and 50% exemptions to new entrants

There are two existing exemptions for remuneration from employment exercised in Cyprus that will be closed to new entrants for employments commencing after the Publication Date (which is expected imminently), these are:

- The “existing 50% exemption” for remuneration from any employment exercised in Cyprus by an individual who was not a resident of Cyprus before the commencement of the employment. The exemption applies for a period of 10 years for employment commencing as from 1 January 2012, provided that the annual remuneration exceeds €100.000. For employment commencing as from 1 January 2015, the exemption does not apply in case the said individual was a Cyprus tax resident for 3 (or more) tax years out of the 5 tax years immediately prior to the tax year of commencement of the employment nor in the preceding tax year.
- The “existing 20% exemption” for remuneration from any employment exercised in Cyprus by an individual who was not a resident of Cyprus before the commencement of the employment. The exemption is available for a period of 5 years for employment commencing during or after 2012. This exemption may not be claimed in addition to the immediately above mentioned existing 50% exemption for employment income.

**PwC Observations:** Individuals qualifying for the above existing 50% and 20% exemptions before their closing, will continue to benefit for the relevant periods (10 and 5 years in total, respectively) of these exemptions, subject to their conditions, unless the individual is also eligible to benefit from the new 50% exemption, in which case the individual will benefit from the new 50% exemption (with its longer period of 17 years in total).

## The takeaway

The new 20% (7 year period) and 50% (17 year period) exemptions are more generous than the existing 20% (5 year period) and 50% (10 year period) exemptions, in terms of their period of benefit. Furthermore, the threshold for the 50% exemption is lower under the new 50% exemption (EUR55.000 p.a.) as compared to the existing exemption (EUR100.000 p.a.) allowing more individuals with lower remuneration levels to benefit from the exemption. On the other hand, the conditions on the individual for eligibility criteria is stricter in some respects, especially where an individual has previously resided/worked in Cyprus. Individuals will therefore need to assess carefully which exemption, if any, they are entitled to.

More guidance is expected in the near future from the Cyprus tax authorities on matters relating to the practical interpretation of the new exemptions, including inter alia, whether non-executive directorships may qualify for the new exemptions, whether the individual may change employers during the period of the exemption and still remain eligible and on the interpretation of the definition of first employment.

The new provisions of the voted bill, along with the numerous benefits of Cyprus on a personal level eg safety, high quality lifestyle, healthcare and education, are expected to further assist in attracting and retaining individuals who qualify for the new exemptions across all sectors of the Cyprus economy, as there are no restrictions as regards to the sector the employee may work in. The new provisions are part of wider measures being taken by the Cyprus government to assist business growth in Cyprus, noting in particular that earlier this year, the Cyprus Government has upgraded even further its Migration regime, which facilitates efficient relocation of large numbers of staff and their families, from EU and non-EU countries.

To assist you in the broader considerations of relocating to Cyprus please refer to our publication [Your Journey to Cyprus - Relocation Guide](#). For more details on the Cyprus tax system please refer to our publication [Tax Facts & Figures 2022 - Cyprus](#).

## Let's Talk

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

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