



NEW INCOME TAX EXEMPTIONS FOR EMPLOYMENT INCOME TO ATTRACT FOREIGN TALENT

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

The amending law was voted in the context of the Government's strategy to attract and retain foreign talent to Cyprus, as the framework was approved by the Council of Ministers in October 2021.

Existing income tax exemptions for employment income

The below existing exemptions will cease to be available for employments commencing after 26 July 2022:

- **Article 8(21)**

20% of the remuneration or €8,550 (whichever is the lower) from any employment exercised in Cyprus by an individual who was resident outside Cyprus before the commencement of his/her employment in Cyprus is exempt from tax. The exemption is available to qualifying individuals commencing employment in Cyprus between 2012 and 2025 and is provided for five years, starting from the tax year following the year of employment.

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

- **Article 8(23)**

50% of the remuneration from any employment exercised in Cyprus by an individual who was resident outside Cyprus before the commencement of his/ her employment in Cyprus is exempt from tax. The exemption applies for a period of ten years starting from the first year of employment in Cyprus, provided that the income from such employment exceeds €100,000 per annum.

The 50% exemption would not be granted to an individual who has been a Cypriot tax resident for at least three out of the last five tax years immediately prior to the year of commencement of employment or to an individual who has been a Cypriot tax resident in the tax year immediately prior to the tax year of commencement of employment.

Individuals who meet the conditions for this exemption before its termination date (i.e. 26th 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.

New income tax exemptions for employment income

The new exemptions provide the following:

- **New article 8(21A)**

As from 26th July 2022, 20% of the remuneration of employees (up to a maximum amount of exemption of €8,550 per annum), whose first employment in Cyprus commenced from 26th July 2022 onwards, is exempt from income tax for a period of seven years, provided the employees, immediately before the commencement of their employment in Cyprus:

- were not residents of Cyprus for a period of at least three consecutive tax years, and
- were employed outside of Cyprus by a non-resident employer.

The exemption will be first granted in the tax year following the tax year of commencement of employment.

It is important to note that 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.

- **New article 8(23A)**

As from 1st January 2022, 50% of the remuneration of employees, whose first employment in Cyprus began from 1st January 2022 onwards, is exempt from income tax for a period of 17 years, provided that their remuneration per year exceeds €55,000 and the employees were not residents of the Republic for a period of at least 10 consecutive years immediately before the commencement of their employment in Cyprus.

The first employment in the Republic starts from 1 January 2022 onwards and the period of 17 years starts from the month of employment in Cyprus.

Individuals whose employment commenced before 1 January 2022, may also qualify for the new 50% exemption, as per the below table:



Date of commencement of 1 st employment in Cyprus	Eligibility for exemption
2016 – 2021	<ul style="list-style-type: none"> Employees whose remuneration at commencement of first employment in Cyprus exceeded €55,000 p.a. or Employees whose remuneration at commencement of first employment did not exceed €55,000 p.a., and within 6 months from 26 July 2022 their remuneration exceeds €55,000 p.a.
Up to 2021 (for existing beneficiaries)	<ul style="list-style-type: none"> Existing employees who benefitted from the existing 50% exemption and have continuous employment in Cyprus up to and including 2021

Clarifications as per the amending law:

- “Commencement of first employment exercised in Cyprus” is defined 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 exemption will apply once in their lifetime for a period of 17 years, starting from the tax year of commencement of first employment in Cyprus
- The exemption is granted for any year in which the remuneration from employment in Cyprus exceeds €55,000, regardless of whether in any tax year the remuneration is reduced below €55,000, provided that in the first or second year of employment in Cyprus the remuneration exceeded €55,000 p.a. and the Commissioner is satisfied that the fluctuation in the annual remuneration is not an arrangement put in place with the purpose of obtaining the exemption.
- The exemption is granted in the tax year of commencement of first employment, provided that the remuneration from first employment in Cyprus in the first 12 months exceeds €55,000, as well as during the tax year of termination of employment in Cyprus or the termination of the period of 17 years, provided that the remuneration from employment in Cyprus during the last 12 months exceeds €55,000.
- Similarly with the 20% exemption, it is not required for the individual to become a Cyprus tax resident to benefit from the new 50% exemption, nor for the employer to be a Cyprus tax resident employer.
- Individuals who are granted this exemption cannot be granted the exemptions provided in articles 8(21), 8(21A) or 8(23) mentioned above.

We expect that the Cyprus Tax Authorities will issue further guidance to provide clarifications on the practical application of the above exemptions.