



Interpretive circular clarifies 10% additional tax

1 November 2021 - The Cyprus Tax Department issued last month Interpretive Circular No. 54 (The Circular), which relates to the imposition of a 10% additional tax for employees with income other than from employment.

Specifically, the Circular, which was issued on 19 October 2021, refers to Article 24 of the Assessment and Collection of Taxes Law, which provides that a taxpayer who has taxable income other than employment income, such as rental income, must submit a provisional tax declaration and settle the estimated provisional income tax in two installments. Failure to do so results in the imposition of the 10% additional tax.

The Circular also refers to Article 26 of the same Law which provides that if the estimated taxable income is less than 75% of the actual taxable income as this will be declared on the annual personal income tax return, a 10% additional tax on the difference between actual tax payable and the provisional tax paid will be imposed.

There are circumstances where employees generate other taxable income other than their employment income, and declare this to their employer through Form TD59 Claim for Allowances. The employer takes into consideration this other taxable income in the payroll and processes, calculates and withholds the relevant income tax and national health contributions by taking into consideration both the employment and such other taxable income, under the PAYE mechanism.

In such cases, it is possible that there will be no income tax due or the income tax withheld may correspond to an income, which constitutes at least 75% of the additional taxable income. However, since the individual did not declare the estimation of his other taxable income and did not pay any provisional tax as provided by the provisions of the Assessment and Collection of Taxes Law, a 10% additional tax is imposed.

In light of the above, it has been clarified through the issuance of the Circular that, when the amount of income tax corresponding to that other income exceeds 75% of the tax attributable to that income and is paid as part of the withholding tax by the employer through the PAYE process, then the 10% additional tax will not be imposed.

The Circular specifically states that in cases where the taxpayer suffered, through payroll withholding, income tax corresponding to such other taxable income which exceeds 75% of the actual final tax on such other income then:

- a) During the examination of the individual's income tax return, for the purposes of issuing an Income Tax assessment, the 10% additional tax will not be imposed.

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- b) In cases where tax assessment has been issued and the 10% additional tax has been imposed then the individual can submit an objection within the statutory deadlines for the 10% additional tax to be waived.

As always, the Taxation Department of Costas Tsielepis & Co Ltd is at your disposal should you require any further information or clarifications on this or any other tax-related matter.