



50% tax break to foreigners for first employment in Cyprus

22 August 2022 – In an effort to attract foreign executives to Cyprus, a 50% tax break was recently introduced on the first employment remuneration of non-Cyprus residents earning more than €55.000 per year.

On 26 July 2022 the Income Tax Law was amended with the introduction of two new articles, 8 (21A) and 8 (23A), and with the amendments made to the existing Articles 8 (21) and 8 (23).


8 (23A) provides for a 50% exemption to the **first employment** income of foreign individuals with an annual remuneration of more than €55.000. This exemption will be available for a maximum period of 17 years.

Individuals who are not eligible for the exemption under the provisions of article 8 (23A) may take advantage of the new exemption introduced as per article 8 (21A) of the Income Tax Law, which provides for 20% of the gross emoluments or an amount of €8.550 (whichever is lower), to be claimed as an exemption from salaries pertaining to first employment in Cyprus. This exemption is now available for a maximum period of 7 years.

In addition, individuals who have commenced employment in Cyprus during the period 2016-2021 and have been previously claiming an exemption under articles 8(21) or 8(23), may now be eligible to claim the 50% exemption (subject to conditions) under article 8(23A) and, therefore, extend the duration of this exemption for the remaining of the available prescribed years (up to 17 years).

More specifically:

- The “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 €55.000 p.a., by individuals who were not residents 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 his/her 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.
- Commencement of first employment in Cyprus is considered when a person for the first-time exercises salaried services in Cyprus, either for an employer resident of Cyprus, or for an employer not resident of Cyprus, without taking into account occasional full or partial employment for a period not exceeding a total of 120 days in a tax year. The term first employment should be interpreted accordingly.

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- The grandfathering provisions under the “new 50% exemption” provide that tax residents individual can also claim the new exemption in the following cases:
 - Individuals who previously benefited from the provisions of article 8(23) (i.e. old rules) and had continuous employment in Cyprus up to 2021;
 - Individuals who commenced their employment in Cyprus between the tax years 2016-2021, with annual remuneration in excess of €55.000;
 - Individuals who commenced employment in Cyprus between the tax years 2016-2021 with annual remuneration less than €55.000 and within 6 months from the date of publication of the new provisions i.e. 26/7/2022, their annual remuneration exceeded the threshold of €55.000.

For all the above cases, the individual should have been non-Cyprus tax resident for a consecutive period of 10 years prior to the commencement of the employment in Cyprus. In case where an individual falls within any of the above categories, s/he will be eligible to shift to the new exemption under article 8(23A). This exemption will apply as from 1/1/2022, for a maximum period of 17 continuous years, as from the date of commencement of employment in Cyprus.


- The “new 20% exemption” providers that 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 26 July 2022 onwards, is exempt from income tax for a period of 7 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.

This exemption can be claimed from the year following the year of commencement of employment in Cyprus.

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 and therefore more clarifications are expected to be issued by the Commissioner of Taxation. Also, individuals will not be granted this exemption, if they are granted the 50% exemption.

The below existing exemptions **will be terminated** for employments commencing after 26 July 2022:

- Old 20% exemption



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. 26 July 2022) will continue to benefit for the relevant five-year period.

- Old 50% exemption

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. 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.

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