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Amendment of Articles 8(21) and 8(23) of ITL – First Employment Income Tax Exemptions

On 14 July 2022, the House of Representatives voted amendments to the Articles 8(21) and 8(23) of the Income Tax Law (ITL) related to the income tax exemptions granted to employees who take up first employment in Cyprus. The amended provisions of the Law have been published in the Government Gazette on 26 July 2022.

The details of the amended legislation are the following:

Article 8(21) of the Income Tax Law-20% exemption

- New Article of the Law covering the exemption is Article 8(21A).
- The amended provisions of the Law will apply for new employees, the employment of whom commences as from the publication date and up until the year 2027 inclusive.
- Based on the amended Article 8(21A), individuals who take up first employment in Cyprus and were not residents of Cyprus for a period of at least 3 consecutive years prior to the commencement of their employment and were employed outside of Cyprus by a non-resident employer, will be eligible for the exemption of 20% (or €8.550, whichever is the lower). The amended exemption will be granted for 7 years, starting from the tax year following the year of employment in Cyprus.

Note - Article 8(21)

Individuals who are currently eligible for the exemption of 20% under the provisions of the Article 8(21), before the amendments, and who are not eligible for the transitional provisions of the new Law will continue to claim the exemption for the remaining years, based on the provisions of the Law before the amendments.

Article 8(23) of the Income Tax Law-50% exemption

- New Article of the Law covering the exemption is Article 8(23A).
- The amended provisions of the Law will apply for new employees the employment of whom commences on or after 1 January 2022.
- Based on the amended Article 8(23A), individuals who take up first employment in Cyprus and were not residents of Cyprus for a period of at least 10 consecutive years prior to the commencement of their employment, will be eligible for the exemption of 50% provided their salary exceeds the amount of €55.000. The amended exemption will be granted for 17 years, starting from the tax year of employment in Cyprus.

Notes - Article 8(23)

1. The exemption of 50% will be granted in any tax year in which the remuneration from employment in Cyprus exceeds the amount of €55.000, irrespective of whether in any tax year the said remuneration falls below the amount of €55.000, provided that during the first or second year of employment the remuneration exceeded the amount of €55.000 per annum and subject to the provision that the Commissioner is satisfied that a variation in the annual remuneration from employment in the Republic does not constitute an arrangement aimed at obtaining the exemption.
2. The exemption is granted in the tax year of commencement of first employment provided that the remuneration from the first employment in the Republic during the first twelve months exceeds the amount of €55,000. Same applies in the tax year of termination of employment in the Republic or the end of the period of seventeen years, provided that the remuneration from employment in the Republic during the last twelve months exceeds the amount of €55,000.
3. Individuals whose employment commenced prior to January 2022, may also be eligible to transition into the provisions of the new Article 8(23A), subject to certain conditions (see below 'transitional provisions').

Transitional provisions

Individuals whose employment commenced before 1 January 2022 and who were not Cyprus tax residents during any of the 10 years preceding the year of their employment in Cyprus, may also be eligible to transition into the provisions of new Article 8(23A) for the 50% exemption during any tax year in which their remuneration exceeds the amount of €55.000, starting from year 2022 and until the completion of 17 consecutive years from the year of their employment, provided they meet one of the following conditions:

- The individuals were eligible for 50% exemption under the provisions of Article 8(23) of the Income Tax Law, and have continuous employment in Cyprus from the year of employment until the tax year 2021; or
- The individuals were first employed in Cyprus during the period 2016-2021 with remuneration exceeding the amount of €55.000 per annum; or

- The individuals' first employment in Cyprus commenced during the period 2016-2021 with remuneration not exceeding the amount of €55.000 per annum, and within 6 months from the date of publication of the new Law in the Cyprus Government Gazette, their remuneration will exceed the amount of €55.000.

Finally, it is further provided in the Law that:

- i. In case the exemption of Article 8(23A) of the Income Tax Law is granted to a taxpayer, the exemptions of articles 8(21), 8(21A) and 8(23) of the Income Tax Law cannot be granted.
- ii. Tax exemption is granted to each taxpayer once for life, for those years that the provisions of article 8(23A) of the Income Tax Law apply for.

Our firm's tax team is at your disposal for any further information or assistance you may need in relation to the above.