

Cyprus Tax Alert

4 July 2023

AMENDMENTS TO THE ARTICLE 8(23) – 50% TAX DEDUCTION

On 30th June 2023, the Income Tax legislation was amended as regards the existing Article 8(23A) in relation to the 50% tax deduction given to employees who come to Cyprus to be employed.

Basic incentive

We remind you that Article 8(23) & 8(23)A provide for a tax deduction of 50% on the remuneration of an employee of a Cyprus permanent establishment if in the previous tax year the employee was residing overseas, as an incentive to attract high calibre talent in Cyprus.

Effective date

These changes have retrospective effect as from 1 January 2022

Conditions

It must be highlighted that certain conditions need to be met to grant the tax deduction.

The changes on the articles are summarized as follows:

- 1) Individuals who meet the conditions for the 50% exemption are allowed to continue to benefit from this exemption even if they change employer during the years they are entitled to claim the 50% exemption.
- 2) For the purposes of claiming the 50% exemption, the number of years that an individual must not have been resident in the Republic before his first employment in the Republic has been increased from 10 to 15 consecutive tax years.

3) The following sentence has been deleted:

“The exemption is granted during the tax year of termination of employment in Cyprus or at the end of the 17 years period, provided that the remuneration from employment in Cyprus during the last 12 months of employment in Cyprus exceeds €55.000”.

4) Individuals who during the year 2022 qualified for the 50% exemption, based on the initial provisions of article 8(23A), and now based on these amendments, do not qualify for the 50% exemption, have the right to continue claiming the 50% exemption provided that the conditions of article 8(23A) which were in force before the tax amendments came into force are met.

5) The tax exemption is granted for a period of seventeen (17) tax years or until the abolishment of the said subsection of the legislation, whichever occurs earlier, commencing as of the year of commencement of first employment in the Republic.

6) The exemption is granted in 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.

Re "first employment", Article 8(23A) provides that:

Commencement of first employment in the Republic is considered when a person for the first-time, after a period of fifteen consecutive tax years in which he did not exercise any salaried services in the Republic, commences to exercise salaried services in the Republic, either for an employer resident in the Republic, or for an employer not resident in the Republic.

Transitional rules

Furthermore, regarding employments which commenced before 1st January 2022, article 8(23A) provides that:

Irrespective of the year of commencement of the first employment in the Republic, the provisions of article 8(23A) shall apply from

1st January 2022 and until the completion of the period of seventeen consecutive tax years, or until the abolishment of the said subsection of the legislation, whichever occurs earlier, beginning from the tax year in which the first employment commenced in the Republic of a person, who has continuous employment in the Republic from the year of commencement of his first employment up until the tax year 2021 and for a period of at least fifteen consecutive years immediately before the commencement of his first employment in the Republic was not a resident of the Republic and:

- i. benefited from the 50% exemption in accordance with the provisions of article 8(23) of the Income Tax Law, or
- ii. whose first employment in the Republic commenced during the years 2016 to 2021 with remuneration exceeding €55.000 p.a, or
- iii. whose first employment in the Republic commenced during the years 2016 to 2021 with a remuneration that did not exceed €55.000 per annum and within a period of six months from the date of publication of the Income Tax amendments, the said remuneration exceeds €55.000 per annum.

Finally, it is noted that:

- 1) in case the exemption of article 8(23A) of the Income Tax Law is granted, the exemptions of articles 8(21), 8(21A) and 8(23) of the Income Tax Law are not granted.
- 2) the exemption is granted to each person once lifetime, for those years that the provisions of article 8(23A) apply.

3) Notwithstanding the remaining provisions of article 8(23A) of the ITL, a person who was a beneficiary of the exemption of article 8(23A) of the prior to the publication of the tax amendments of 2023, continues to benefit from the exemption of 50% of the remuneration from first employment, provided that the conditions of article 8(23A) are met, before the tax amendments of 2023 came into force.

For any assistance, please feel free to contact us.

Our contact details:

Nicholas Stavrinides
Tax Partner
nicholas.s@pkf.com.cy

+357 25 868 000