



Cyprus – New First Employment Incentives

The long-anticipated tax incentives offered to individuals in relation to first-time employment in Cyprus were published in the Official Gazette of the Republic of Cyprus on 26 July 2022.¹ The new incentives introduced in the income tax legislation are part of a wider strategy of the Cyprus government for attracting businesses and talented individuals from abroad.

Under the new provisions introduced under Article 8(23A) of the income tax legislation, a 50-percent exemption from tax for income in relation to first-time employment in Cyprus is now available for individuals with annual remuneration in excess of €55,000 (down from the previous threshold of €100,000). This exemption will be available for a maximum period of 17 years.

Individuals who are not eligible for the 50-percent exemption may take advantage of the new exemption introduced in Article 8(21A) of the income tax legislation, whereby 20 percent of the compensation or an amount of €8,550 (whichever is lower), can be claimed as an exemption from income tax on compensation from first-time employment in Cyprus. This exemption is available for a maximum period of seven years.

In addition, under the new provisions, individuals who began employment in Cyprus prior to the effective date of the new incentive provisions and who have previously claimed an exemption under Articles 8(21) or 8(23), may now be eligible to claim an exemption (subject to conditions) under Article 8(23A) that would extend the duration of the exemption for the remainder of the available prescribed years, up to 17 years.

WHY THIS MATTERS

The new incentives are expected to attract to Cyprus highly-skilled and high-earning individuals, either as employees of a Cypriot entity or as employees of a non-Cypriot entity through a remote working arrangement (e.g., digital nomads). Employers and foreign nationals will want to consider eligibility for the incentives.

Analysis of the New Provisions

The New 50-Percent Exemption under Article 8(23A)

Under the new provisions, individuals who begin their first-time employment in Cyprus from 1 January 2022 onwards, will be eligible to exempt 50-percent of their employment income from individual income tax, assuming the following conditions are satisfied:

- The individual has not been a Cyprus tax resident for at least 10 consecutive years prior to the commencement of the employment in Cyprus;

- The annual remuneration from employment in Cyprus exceeds €55,000 in either the first or the second year of employment in Cyprus.

KPMG NOTE

This exemption is available for a maximum period of 17 years, may only be claimed once by the individual, and may be used from the year of commencement of employment in Cyprus. The legislation clarifies that in tax years for which the conditions are not satisfied (if for example, annual remuneration is less than €55,000), the 50-percent exemption will not be granted for that specific tax year.

Grandfathering Provisions

Under the grandfathering provisions of the legislation, an exemption under Article 8(23A) can also be claimed in the following cases:

- Individuals who previously benefited from the old provisions of Article 8(23) and had continuous employment in Cyprus up to 2021;
- Individuals who commenced their employment in Cyprus between tax years 2016-2021, with annual remuneration in excess of €55,000;
- Individuals who commenced employment in Cyprus between 2016-2021, with annual remuneration of less than €55,000, and within six months from the date of publication of this legislation, 26 July 2022, their annual remuneration exceeded the threshold of €55,000.

The Old 50-Percent Exemption under Article 8(23)

Individuals who previously benefited from the first-time employment exemption under Article 8(23), for employment commencing prior to the date of publication of this legislation and who do not fall within any of the grandfathering cases above, can continue to claim the exemption of Article 8(23), up to the completion of the available 10-year period.

The New 20-Percent Exemption under Article 8(21A)

Under the new provisions of the legislation, individuals who take up first-time employment in Cyprus after 26 July 2022, with annual remuneration lower than €55,000, will be eligible for a 20-percent or €8,550 exemption (whichever is lower) from their employment income, for a maximum period of seven years.

In order for an individual to be able to claim the relevant exemption, the individual should have been employed outside of Cyprus at a non-Cyprus tax resident employer for at least three consecutive years prior to the commencement of the employment in Cyprus.

KPMG NOTE

This exemption can be claimed from the year following the year of commencement of employment in Cyprus (e.g., in case where employment commenced during 2023, the relevant exemption will be available for the years 2024-2030).

The Old 20-Percent Exemption under Article 8(21)

Individuals who commenced their employment in Cyprus prior to 26 July 2022, and who already benefited from the exemption under Article 8(21), but do not fall within any of the above grandfathering provisions, may continue to claim the exemption of Article 8(21) up to the completion of the available five-year period.

FOOTNOTE:

1 The Income Tax (Amendment) (No. 6) Law of 2022 (in Greek):

[https://www.mof.gov.cy/mof/tax/taxdep.nsf/All/BAD000993D5F3938C22588910032A3DE/\\$file/N121\(I\)2022.pdf?OpenElement](https://www.mof.gov.cy/mof/tax/taxdep.nsf/All/BAD000993D5F3938C22588910032A3DE/$file/N121(I)2022.pdf?OpenElement) .

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