

GMS Flash Alert

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Cyprus – Amending Law on 50-Percent Exemption and First-Time Employment

On 30 June 2023, an amending law with regards to Article 8(23A) of the Cyprus income tax legislation was published in the Official Gazette of the Republic of Cyprus.¹ The amending legislation has a retrospective effect, as from 1 January 2022.

As per the amending law, various changes have been introduced with regards to the eligibility conditions for the 50-percent exemption from income tax for first-time employment in Cyprus.

It should be noted that, as a result of its retrospective application, special provisions have also been introduced for individuals who were eligible for the 50-percent exemption under the initial Article 8(23A), as it was in place prior to the publication of the amending law, but those individuals do not satisfy all the conditions under the amended Article 8(23A).

For further details regarding the provisions of Article 8(23A) as initially introduced in 2022, please see [GMS Flash Alert 2022-202](#), 10 November 2022.

WHY THIS MATTERS

As compared with the earlier legislation, individuals will have to have been outside of Cyprus for a longer period of time – now 15 consecutive tax years as opposed to 10 years – to take up employment in Cyprus and be eligible for the 50-percent exemption intended for those undertaking first employment in Cyprus. This may be seen by some as a limitation on eligibility.

On the other hand, greater flexibility is introduced in respect of the eligible individual's ability to change employers during the exemption eligibility period and still be able to continue to claim the 50-percent exemption on employment income.

1. Analysis of Amended Provisions of Article 8(23A)

The amended provisions of Article 8(23A) relate to the following areas:

1.1 Amended Definition of "First Employment in the Republic"

As per the previous version of Article 8(23A), an individual is deemed to have "commenced first employment in the Republic" when for the first time he or she exercises salaried services in the Republic either for an employer resident in the Republic or to a nonresident employer in the Republic, without taking into consideration occasional full-time or part-time employment in the Republic for a period not exceeding in total 120 days in a tax year.

As per the amending legislation, an individual is now deemed to have "commenced first employment in the Republic" when for the first time, following a period of 15 consecutive tax years whereby the individual has not exercised any employment services in the Republic, he or she has commenced the exercise of salaried services in the Republic, either to an employer resident in the Republic or to an employer nonresident in the Republic.

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As per the amended definition of "first employment in the Republic" an individual is now deemed to have first employment in Cyprus, if for a period of 15 consecutive tax years he or she has not exercised any employment in Cyprus, whereas previously, the relevant exemption was applicable only to first-time employment exercised ever in the Republic (with the exception of occasional or part-time work for a period not exceeding 120 days).

On that basis, individuals that have been outside of Cyprus for a long period of time (more than 15 consecutive tax years) and now return to Cyprus to take up employment, will satisfy the requirements of first employment in Cyprus as part of this exemption.

1.2 Employment Income Eligible for 50-Percent Exemption

As per the previous version of Article 8(23A), the 50-percent exemption is applicable only to employment income with regards to first employment in Cyprus and therefore the exemption cannot continue once first employment is terminated, e.g., in cases where a change of employer takes place.

As per the amending legislation, the 50-percent exemption is available to eligible individuals with regards to income arising from any employment in Cyprus (assuming that they satisfy the requirements for first employment – see point 1.1 above).

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An individual who is eligible for this exemption as per the amended legislation is now allowed to change employers during the exemption eligibility period and still be able to continue to claim the 50-percent exemption on employment income, which is a very positive development.

1.3 Period of Non-Cyprus Tax Residency Prior to Commencement of First Employment in Cyprus Extended to 15 Years

As per the previous version of Article 8(23A), an individual should not have been a Cyprus tax resident for a period of at least 10 consecutive years prior to the commencement of first employment in Cyprus in order to be eligible to claim the relevant exemption.

As per the amending legislation, in order for a taxpayer to be eligible to claim the relevant exemption, the individual should not have been a Cyprus tax resident for a period of at least 15 consecutive years prior to the commencement of first employment in Cyprus.

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The required period of time that an individual should be a non-Cyprus tax resident prior to commencement of first employment in Cyprus, in order to be eligible for the amended 8(23A) exemption, has now been extended from 10 years to 15 years. This was a trade-off for allowing the change of employer and still qualify for the 50-percent exemption.

1.4 Special Provision Introduced for Individuals That Were Eligible for the Exemption under the Previous Version of Article 8(23A)

Individuals that commenced employment in Cyprus prior to the date of publication of the amending legislation of Article 8(23A) (i.e., 30/6/2023) and were eligible for this exemption in accordance with the provisions of the previous version of Article 8(23A), can still continue to benefit from that exemption, provided that all the relevant conditions that were previously in place are satisfied.

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As a result of the retrospective effect of the amending legislation there may be cases where existing taxpayers that were eligible for the previous version of the exemption under Article 8(23A), do not satisfy the new exemption eligibility conditions under the amended Article 8(23A) and more specifically the non-Cyprus tax residency requirement of 15 years (previously 10 years – see point 1.3. above).

In such cases, the individuals will be able to continue to claim the 50-percent exemption as per the provisions of the previous version of Article 8(23A), for the remaining available years as from the commencement of first employment in Cyprus.

It is noted that the relevant exemption in those situations will be available only to employment income arising from the first employment of the taxpayer in Cyprus.

2. Overview of 8(23A) Exemption as per the Amending Legislation

As per the amending provisions of the legislation, individuals who take up first employment in Cyprus as from 1 January 2022 onwards, will be eligible to exempt 50 percent of their employment income, assuming the following conditions are satisfied:

- The individual has not been a Cyprus tax resident for at least 15 consecutive years prior to the commencement of first employment in Cyprus; and
- The annual remuneration from employment in Cyprus is in excess of EUR 55,000 (this annual remuneration threshold of EUR 55,000 can be achieved either in the first or in the second year of employment in Cyprus).

The exemption is available for a maximum period of 17 tax years (lifetime exemption) starting from the year of commencement of first employment in Cyprus.

It is clarified that in cases where in a tax year the relevant conditions are not satisfied (e.g., annual remuneration is less than EUR 55,000) the above-stated exemption will not be granted for that specific tax year.

Grandfathering Provisions

As per the grandfathering provisions of the amending legislation, an exemption under Article 8(23A) can also be claimed in the below-noted cases.

Irrespective of the year of commencement of first employment in the Republic, the provisions of amended 8(23A) apply as of 1 January 2022 and until the completion of 17 consecutive tax years or until the provision of the legislation is revoked (whichever is sooner), starting from the tax year in which the first employment in the Republic commenced. This applies for an individual who has continuous employment in the Republic from the year of commencement of employment up to and including the tax year 2021 and who for a period of at least 15 consecutive years immediately preceding the commencement of first employment in the Republic was not a resident of the Republic and:

- i. benefited from the exemption provided in Article 8(23); or
- ii. whose first employment in the Republic commenced between the years 2016 and 2021 with remuneration that exceeded EUR 55,000 per annum; or
- iii. whose first employment in the Republic commenced between the years 2016 and 2021, with remuneration that did not exceed EUR 55,000 per annum and within a time period of six months from the date of publication in the Official Gazette of the Republic of the Income Tax (Amending) (No. 6) Law of 2022 – 26 July 2022, the remuneration exceeds EUR 55,000.

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The amending income tax law of Article 8(23A) which was published on 30 June 2023, with retrospective effect as from 1 January 2022, is a very positive development, as eligible individuals are now more flexible in terms of changing employers during the exemption eligibility period.

As per the grandfathering provisions that were introduced in the amending legislation of Article 8(23A), individuals that commenced first employment in Cyprus prior to 2022, subject to conditions, can also benefit.

FOOTNOTE:

1 (In Greek) Ο περί Φορολογίας του Εισοδήματος (Τροποποιητικός) Νόμος του 2023 can be accessed by clicking [here](#).

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RELATED RESOURCE:

This article is excerpted, with permission, from “[Amending Law on Article 8\(23A\)](#)” published in *Tax Alert* (30 June 2023), a publication of the KPMG International member firm in Cyprus.

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