

GMS Flash Alert



2022-202 | November 10, 2022

Cyprus - Issuance of Circular on New Incentives for First-Time Employment

On 1 November 2022, the Cyprus Tax Department (Τμήμα Φορολογίας) issued interpretative Circular 10/2022¹ (“Circular”) in connection with the recently-introduced incentives for first-time employment in Cyprus under Articles 8(21A) and 8(23A) of the country’s income tax law. (For prior coverage, see [GMS Flash Alert 2022-146](#), 4 August 2022.)

To briefly recap, the Cyprus government published the Income Tax (Amendment) (No. 6) Law of 2022 in the country’s official gazette on 26 July with respect to amending existing income tax exemptions for employment income provided in Articles 8(21) and 8(23) of Cyprus’ Income Tax Law.

WHY THIS MATTERS

Given the effort to attract highly-skilled labour and foreign talent, this is a positive development, as the Circular issued by the Tax Department provides guidance to taxpayers and their employers with regards to the eligibility of individuals for the newly-introduced incentives for first-time employment in Cyprus.

It is important to note that a large number of practical examples is also included in the Circular. In light of that, it can be inferred that for many ‘real life’ cases, interpretation of the legislation itself was not sufficient to determine whether the incentives under 8(21A) and 8(23A) could be granted. The Circular provides important guidance and clarifications.

Background

Under existing Article 8(23) individuals with annual remuneration of more than €100,000 may claim a 50-percent exemption from tax for income in relation to first-time employment in Cyprus. With the amendment that passed, new Article 8(23A) provides that the employee’s annual income threshold is reduced to €55,000 and the time over which the exemption can be claimed is prolonged from a maximum period of 10 years to 17 years. It is noted that the provisions of

Article 8(23A) may apply to individuals who commenced their employment after 1 January 2022, subject to grandfathering provisions for qualified employees with employment before January 2022.

Under Article 8(21) individuals with annual remuneration lower than €100,000 were able to claim a 20-percent exemption from tax for income in relation to first-time employment in Cyprus or an amount of €8,550, whichever is lower, for a maximum period of five years. Under the new Article 8(21A), an exemption of 20 percent or €8,550 (whichever is lower) can be claimed for a maximum period of seven years. The provisions of Article 8(21A) may apply to individuals who commenced their employment in Cyprus after 26 July 2022.

In Brief: Details on the Circular

The Circular covers the following matters:

- General clarifications regarding the applicability of the incentives introduced, under Articles 8(21A) and 8(23A);
- Specific clarifications, interpretation of various terms, and guidance with regards to the applicability of each incentive introduced, under Articles 8(21A) and 8(23A);
- Guidance through practical examples in regards to the incentives introduced under Articles 8(21A) and 8(23A) and their applicability to various scenarios.

KPMG NOTE

If taxpayers and employers need assistance understanding and assessing how the provisions under Articles 8(21A) and 8(23A) may apply to them, they should contact their usual tax professional or the tax team with KPMG in Cyprus (see the Contact Us section).

FOOTNOTE:

1 For the Circular issued by the Cyprus Tax Department (in Greek), click [here](#) .

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RELATED RESOURCE:

This article is excerpted, with permission, from “Interpretive Circular in connection to the new incentives for first employment in Cyprus” in *Tax Alert*, a publication of the KPMG International member firm in Cyprus.

Contact us

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