



Thinking beyond borders: Management of extended business travelers - Cyprus

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Key message

A person's liability to Cyprus tax is determined by their residence status for taxation purposes. The general rule is that a person who is a tax resident of Cyprus is assessable on worldwide income. A person who is a non-tax resident is only assessable on income accruing or arising from sources in Cyprus. Benefits in kind provided to employees are included in the employees' income and are subject to income tax. Taxable income is taxed at graduated rates ranging from 20 percent to 35 percent.

1 Key message

Extended business travelers are liable for Cyprus taxation on employment income relating to their workdays in Cyprus in the instance that the income exceeds the tax-free threshold.

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Income tax

2 Income Tax

2.1 Liability for income tax

A person's liability for Cyprus tax is determined by their residence status. A person can be a resident or non-resident for Cyprus tax purposes. The Cyprus tax law defines the term 'resident in Cyprus' when applied to an individual, meaning an individual who stays in Cyprus for a period or periods exceeding in aggregate 183 days in the year of assessment (1 January – 31 December). A 'non-resident or resident outside Cyprus' will be construed accordingly. There is no de minimus number of days rule in respect of residency start and end dates under Cyprus laws and the Cyprus tax residency is determined solely based on the above described 183-day rule.

The general rule is that a person who is a tax resident of Cyprus is assessable on worldwide income. Non-tax residents are generally assessable on income accruing or arising from sources within Cyprus (i.e., income from employment exercised in Cyprus). Extended business travelers are likely to be considered non-tax residents of Cyprus for tax purposes unless they enter Cyprus with the intention to remain in Cyprus for more than 183 days in a calendar year.

Furthermore, the definition of a Cyprus tax resident has been amended to also provide that, an individual who does not stay in any other country/jurisdiction, for one or more periods exceeding in aggregate 183 days in the same tax year, is deemed as a resident in the Republic in that tax year, if all of the following conditions are met:

1. the individual stays in the Republic for at least 60 days in the tax year
2. exercises any business in the Republic and/or is employed in the Republic and/or holds an office with a Cyprus tax resident person at any time during the tax year
3. maintains (by owning or leasing) a permanent home in the Republic.

The law further clarifies that an individual that cumulatively meets all the above conditions shall not be treated as a Cyprus tax resident in the tax year if, during that year the exercise of any kind of business in the Republic and/or employment in the Republic and/or holding of an office with a tax resident person in the Republic is terminated.

2.2 Tax trigger points for employment income

Technically, there is no threshold/minimum number of days that exempts a person from the requirement to file tax returns and pay tax in Cyprus. To the extent the individual qualifies for relief in terms of the employment income article of an applicable double tax treaty, there will be no tax liability. The treaty exemption will not apply if a Cyprus entity is viewed as the individual's employer. The economic employer approach is not adapted or legislated in Cyprus.

2.3 Types of taxable income

All earnings, whether paid in cash or in the form of a benefit-in-kind (e.g., rental benefit, private use of a motor vehicle, private use of a mobile phone, school fees etc.), made by an employer to an employee are taxable unless specifically exempted. Further, pensions, annuities, rents, etc. are also taxable in Cyprus.

2.4 Tax rates

The first 19,500 Euros (EUR) in annual earnings is tax exempt. Income above this amount is subject to progressive tax rates ranging from 20 to 35 percent. These rates are applicable to both tax residents and non-tax residents. Please find below the progressive income tax brackets:

Chargeable Income (€)	Tax Rate (%)
0-22,000	0
22,000-32,000	20
32,000 – 42,000	25
42,000 – 72,000	30
Over 72,000	35

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Social security

3 Social security

3.1 Liability for social security

Contributions to the Cyprus Social Insurance Fund are mandatory and cover any person that is gainfully employed in Cyprus, either as an employed or as a self-employed person.

Most extended business travelers from within the EU would not be liable for Cyprus social security, as they should be eligible to remain insured in their home country/jurisdiction's social security system under the EU social security regulations (holders of an A1 certificate).

Employees coming from countries/jurisdictions outside the EU (third country/jurisdiction nationals) are generally fully subject to social security payments in Cyprus.

3.2 Liability for national health insurance

As of 1 March 2019, contributions for the National Health Insurance System (NHIS) have been introduced. Please find below a table summarizing the contribution rates for NHIS in Cyprus:

Category	Current rates
Employees	2.65%
Employers	2.90%
Self-employed	4.00%
Income earners (e.g., rents, interests, dividends)	2.65%
Persons holding office	2.65%
Pensioners	2.65%

Note: NHIS contributions are capped to a maximum amount of annual earnings of EUR 180,000.

Cyprus tax resident individuals should contribute to the NHIS on their worldwide income and non-Cyprus tax resident individuals should contribute to the NHIS only in respect of their Cyprus sourced income, as per the relevant NHIS rates.

Further, it should be noted that in accordance with the informational guidance issued by the Cyprus Tax Department, individuals who have an obligation to pay Social Insurance contributions in any other Member States and have in their possession an A1 certificate should not be subject to NHIS contributions in Cyprus.

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Compliance obligations

4 Compliance obligations

4.1 Employee compliance obligations

Tax returns are due by 31 July following the tax year-end and are submitted in an electronic format via the Taxisnet System.

4.2 Employer reporting and withholding requirements

Tax on employment income must be withheld by the employer, under the Pay-As-You-Earn (PAYE) system and remitted to the tax authorities monthly. This tax is credited towards the employee's final tax liability. The employer has the obligation to submit annually tax form (T.D.7) entitled 'Employer's Return of Employees'. This return should be filed by the employer no later than 31 March of the year following the year of assessment, electronically via the TFA System.

In addition, employers are now required to submit the Monthly T.D.7 (Employer's Monthly Statement of Employees). This monthly return should be filed electronically through the TFA System by the end of the month following the reporting month.

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Immigration

5 Immigration

5.1 Work permit/visa requirements

A visitor's entry visa does not entitle you to work in Cyprus. A business visitor will be entitled to conduct normal business visitor activities (i.e. attending meetings, visit to sites, negotiation of contract etc.) within a specified time.

Persons wishing to enter Cyprus for employment or business should normally be in the possession of entry permits prior to their arrival in Cyprus.

Employees from outside the EU/EEA wishing to live or work in Cyprus must apply for a work and residence permit.

Individuals from the EU do not need to apply for a work permit, but they do need to register with the Cyprus migration authorities by obtaining the MEU1 certificate within 4 months from their date of entry into Cyprus. According to the relevant legislation, the EU individuals have the right to reside in Cyprus for a period not exceeding 3 months, without any conditions or formalities. However, in practice, the MEU1 certificate may be required for trips in Cyprus for less than 3 months for registration with the Cyprus Tax Department.

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Other issues

6 Other issues

6.1 Double taxation treaties

In addition to the Cyprus domestic tax legislation that provides unilateral relief from international double taxation, Cyprus has entered into double taxation treaties currently with more than 65 countries/jurisdictions to prevent double taxation and allow cooperation between Cyprus and overseas tax authorities in enforcing their respective tax laws.

6.2 Permanent establishment implications

There is the potential that a permanent establishment (PE) could be created as a result of extended business travel, but this would be dependent on the type of services performed and the level of authority the employee has, which needs to be decided on a case-by-case basis.

6.3 Indirect taxes

Since 13 January 2014, the standard Value Added Tax (VAT) rate in Cyprus is 19 percent. A reduced VAT rate of 3 percent applies to certain products and services such as books, newspapers, magazines and waste collection services. A reduced VAT rate of 5 percent applies to various products and services such as foodstuff and medicine, admission to shows, theatres, concerts, use of sporting facilities and provision of hairdressing services. Also, a reduced VAT rate of 9 percent applies to hotel accommodation, public transport and catering services.

6.4 Transfer pricing

From 2022 Cyprus introduced mandatory documentation requirements on transfer pricing (law and regulations). The law and regulations are aligned with the recommendations set forth in the OECD Transfer Pricing Guidelines. The aim of the new law and regulations is to ensure compliance of covered entities with the arm's length principle. Transfer pricing issues may be relevant for extended business travel. In particular, if a business traveler is being paid by an entity in one country but conducting activities for the benefit of a related party in another country. In this case, it might effectively constitute a service transaction between related parties, and it may be appropriate to charge an arm's length price for such services. The scope and nature of such activities, as well as service fee for it, should be determined on a case-by-case basis.

6.5 Local data privacy requirements

Cyprus has data privacy laws. Organizations have a legal duty to keep data private and secure.

6.6 Exchange control

Cyprus does not restrict the flow of currency in and out of the country/jurisdiction. However, certain reporting obligations are imposed to control tax evasion and money laundering.

6.7 Non-deductible costs for assignees

Non-deductible costs for assignees include for example, children's school fees, commuting to and from work, and all other costs considered as being of a private nature.

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