

Cyprus:



Expatriate relief of 20% for lower employment income earners to be extended

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Along with its relatively low personal income tax rates, Cyprus offers a number of advantages to expatriates who take up employment in Cyprus. Ordinarily, taxable income up to Euro 19,500 is effectively exempt from income tax. Taxable income exceeding this amount is subject to progressive income tax rates ranging from 20% to 35% (the latter applicable for income exceeding Euro 60,000). However, incentives for expatriates may be applied in respect of employment income. If an employer-employee relationship exists there are two key forms of expatriate relief that can be used as a deduction for income tax purposes. For each tax year, there is a 50% deduction available to those who earn employment income more than Euro 100,000 annually or, a 20% deduction available to those earning below Euro 100,000.

50% Relief

In the case of a person considered to be a Cyprus tax resident, they may benefit from the 50% deduction (expatriate relief) on personal income tax on the assumption that:

- i. They were not a tax resident of Cyprus in the previous tax year;
- ii. They were not a Cyprus tax resident for any three out of the last five tax years prior to commencement of employment in Cyprus, and
- iii. They are on an employment income exceeding Euro 100,000.

Such a deduction will be granted for 10 years if the annual gross employment income exceeds Euro 100,000. The term 'gross emoluments' includes but is not limited to the following: annual gross salary as a result of the individual's employment in Cyprus, bonuses, benefits in kind or any other type of income directly related to employment in Cyprus.

20% Relief

It is important to note that if the annual gross employment income drops below Euro 100,000, the 50% deduction will not apply. In such cases, however, the 20% deduction may apply with a ceiling of Euro 8,550 per annum (the lower of 20% or Euro 8,550 applies). The deduction, since the tax year 2012, lasted for five years and commenced on the 1st of January in the year following the start of employment (unlike the 50% deduction that commences immediately). Application for the 20% deduction was meant to end at the close of the year 2020 but now, a draft bill suggesting its prolongation for an additional five years has been put before Parliament. If passed, this will effectively mean that qualifying persons may apply for the relief up until 2025, and if successful, receive the deduction for a duration of ten years from the commencement of their employment.

Illustrative table

50% relief	20% relief
Full deduction / no ceiling	Ceiling of Euro 8,550 per annum (the lower of 20% or Euro 8,550 applies)
Granted immediately	Granted following the commencement of employment
Availability for 10 years	5 years period to be extended to 10 years (provided that the draft bill is passed)
No expiration	Expires by the end of 2025 (provided that the draft bill is passed)

The extension of the 20% expatriate relief would be a welcome addition in an environment currently characterized by the uncertainty of Covid-19. Whilst the 50% relief is and will still be available to higher employment income earners, the 20% extension is a welcome addition for lower employment income earners. Both could prove a very useful tool, for attracting a wide range of individuals to take up employment in Cyprus. These could include high profile individuals, individuals who are directors or shareholders of the companies, and, those being employed by them. It could also incentivize individuals who have completed their studies abroad to return to Cyprus to work, provided they were not Cyprus tax residents in the previous year.

For more information over this matter, please contact Elena Christodoulou or your usual contact at Elias Neocleous & Co LLC.

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