



**K. TREPPIDES
& CO LTD**

Direct Taxation

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***Circular with clarifications on employment income
tax exemptions***

Following our August Newsletter Issue 07/2022 regarding the new employment income tax exemptions, we would like to inform you that the Cyprus Tax Department has issued Circular [10/2022](#) providing clarifications on the practical application of these exemptions.

First Employment

The Circular clarifies that the exemptions are granted only on the remuneration earned from **first** employment in Cyprus. An individual is not considered as having a first employment in Cyprus or ceases to have a first employment in Cyprus in the following cases:

- i. When the individual had exercised salaried services in Cyprus at any time in the past, and such services did not constitute occasional employment.

- ii. When the individual terminates the contract of his/her first employment and concludes a new employment contract with another employer. However, in case where the new employer is part of the same consolidated group for accounting purposes, the individual is considered to maintain his/her first employment.
- iii. When the individual has a second or more employments in other employers that run parallel with the first employment. In such case, the exemption shall be granted only on the remuneration from first employment. However, if the other employers are part of the same consolidated group for accounting purposes as the first employer, then all such employments shall be treated as first employment and the exemption may be applied on the remuneration from all such employments.

The term “occasional employment” refers to any full time or part time employment exercised in Cyprus:

- i. Under a contract of total duration (including any renewals and periods during which the individual might have exercised his/her duties outside Cyprus) not exceeding 120 days, or
- ii. Without a contract, and the total duration of the employment does not exceed 120 days.

Any probation period which might be provided for in the employment contract constitutes part of the said employment.

Remuneration from (first) employment

As per the clarifications provided in the Circular, remuneration from employment refers to any gain or benefit from salaried services exercised in Cyprus which falls within the provisions of Article 5(1b) and 5(2b) of the Income Tax Law, but does not include:

- i. Any gain or benefit from salaried services of a person who is a resident of Cyprus deriving from services exercised outside Cyprus for a foreign employer. However, the remuneration from salaried services exercised outside Cyprus by a person who is a resident of Cyprus and who is employed by a company resident of Cyprus, or by a permanent establishment in Cyprus of a company not resident of Cyprus, is treated as remuneration from employment provided that such services are performed for the Cypriot resident employer.
- ii. Any amounts of income which are not taxable under the provisions of Article 8 of the Income Tax Legislation.
- iii. Any gain or benefit from holding an office. However, in case where a person receives remuneration from employment in Cyprus and at the same time receives remuneration for acting as an Executive Director, either to the same company or to another company which is part of the same consolidated group for accounting purposes, the Executive Director remuneration shall be included in the remuneration from employment.

Clarifications regarding the 20% exemption (Article 8(21A))

The exemption shall be applicable only for persons who meet all of the below conditions:

- i. Were employed outside Cyprus by a foreign employer under full-time employment.
- ii. The employment mentioned in point (i) above relates to a period of at least 3 consecutive years immediately before the commencement of employment in Cyprus (i.e., 36 consecutive months before the commencement of employment in Cyprus). The term “immediately before the commencement of employment in Cyprus” is interpreted as a period not exceeding 4 months between the date of termination of employment to the foreign employer and the date of commencement of first employment in Cyprus.

Clarifications regarding the 50% exemption (Article 8(23A))

Amongst others, the Circular provides the following clarifications:

- i. Individuals commencing first employment in Cyprus as from 01/01/2022 may be eligible to claim the exemption if the **actual** remuneration from first employment in Cyprus earned by the individual during the first or second year of employment exceeds EURO55,000 annually. Any bonus paid to the individual may be included in the calculation of the remuneration provided that the payment of the bonus is provided for in the employment contract and is paid under a bonus performance scheme or based on objective and quantifiable criteria. Any salary increases which are paid to the individual retrospectively after the lapse of the second year of employment shall not be taken into account.
- ii. The exemption may be granted in any tax year (up until completion of 17 years from the year of commencement of employment (inclusive)) during which the actual remuneration from first employment exceeds EURO55,000, with the

exception of the year of commencement of employment and the year of termination of employment.

- iii. The exemption is granted for a period of 17 consecutive tax years starting from the tax year of commencement of employment in Cyprus and this period cannot be extended or suspended for any reason.

For any further information and/or clarifications required please do not hesitate to contact us.



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