

Revised tax rules for Expatriates & Persons wishing to Relocate to Cyprus

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Dear Clients, Associates, and Friends

Cyprus has recently revised the tax framework for expatriates working in Cyprus by broadening their scope and timeline by voting into law amending provisions (**‘revised Expatriate Rules’**) to encourage more companies (and their employees or members) to relocate to Cyprus. The revised Expatriate Rules should be viewed as part of the efforts to enhance Cyprus’ position as a reputable European financial centre while at the same time fostering an affordable, entertainable, safe and friendly environment for business wishing to relocate their operations and personnel.

One may recollect that persons relocating to Cyprus as tax residents with locally taxable personal income (**‘Expatriates’**) can benefit from 20% & 50% exemptions.

A. Existing Law

Sections 8(21) and 8(23) of the Income Tax Law of 2002, 118(I)/2002 (**‘the Tax Law’**) introduced the 20% and 50% exclusion rules (**‘original exclusion rules’**) in relation to employment income. The original exclusion rules apply exclusively, meaning an Expatriate cannot lay a claim to both but **‘either or’**.

The Tax Law set conditions precedent to receiving the tax benefits pursuant to the original exclusion rules.

In brief:

- the **original 20% exclusion rule** applies when an Expatriate was not Cyprus tax resident before the commencement of the employment and applies as from January 1st of the year following the year of commencement of the employment. The Tax Law set a ceiling to €8,550. Finally, the 20% exclusion has limited life span of 5 years and applies up to the year 2025;
- the **original 50% exclusion rule** applies to (a) emoluments that exceed the monetary threshold of **€100,000** as from the year of commencement of the employment, (b) has a limited life span of 10 years, (c) the Expatriate should not have been tax resident in the Republic in any three out of the five-year preceding the commencement of the employment, and (d) the amount of emoluments should exceed the monetary threshold in the first year of employment

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B. Revised Expatriate taxation Rules

- ✦ **Effective date:** The revised Expatriate Rules come into effect as from the date the relevant Government Gazette is published, July 26 2022, through Articles 8(21A) and 8(23A).
- ✦ **Revised 20% exclusion rule – key differences:** The timeline is expanded from 5 to 7 years and will be in effect until 2027 (inclusive). Additionally, it requires that the Expatriate be non-Cyprus tax resident for the 3 consecutive years preceding the commencement of the employment. In parallel it expands the application of the original 20% exclusion rule up until 2027 (inclusive).
- ✦ **Revised 50% exclusion rule- key differences:** The timeline is expanded from 10 to 17 years ('**grace period**'). In addition, the €100,000 monetary threshold is lowered to €55,000. The prerequisite of the **first year**, pursuant to the original 50% exclusion rule, is relaxed by (i) stipulating the **first** or second year that the expatriate should earn €55,000 or (ii) the **first** and the year of termination of the employment, **or** the **last** year of the grace period, that the expatriate should earn €55,000. Additionally, it raises to ten (10) the requisite years that should precede the commencement of the employment.
- ✦ **Transitional provision:** The New 50% exclusion rule may apply to Expatriates that commenced their employment in the Republic **before** January 1st, 2022 if the Expatriate was tax resident outside the Republic for **10 consecutive** years preceding the commencement of their employment. Thereafter the Expatriate should have:
 - ✓ Benefited under the original 50% exclusion rule on a constant basis as from the beginning of their employment, **or**,
 - ✓ Begun the first employment within the period 2016- 2021 and earned annual emoluments exceeding the monetary threshold of €55,000, **or**,
 - ✓ Begun the first employment within the period 2016- 2021 and if the emoluments were below the monetary threshold of €55,000, **within** 6 months as from July 26, 2022 the emoluments exceed the annual monetary threshold of €55,000.

To sum up

The revised Expatriate Rules proliferates the incentives afforded by Cyprus Tax Law to encourage more Expatriates to relocate to Cyprus.

Our team of lawyers and consultants is at your disposal to discuss and navigate these new Laws.