

Doing Business in Cyprus — Payroll Operations

1. Government requirements

Registration requirements

Income tax, and taxes related to the Social Insurance and the general health care system are the three main taxes associated with Cyprus payroll operations.

When you hire your first employee in Cyprus, you must register as an employer with the authorities of income tax and social insurance. After submitting the relevant application forms along with the required documents, a Tax Identification Code and a Social Insurance Number will be issued on the same day.

Employees must also register with the tax authorities and submit their personal income tax return (form TD1) by the 31st of July following the tax year of assessment.

Income tax payment by employers

Employers are required to withhold payroll-related taxes from the income of their employees under the pay-as-you-earn (PAYE) system and remit these taxes on a monthly basis to the tax authorities by the respective due dates. Late payment results in the imposition of interest on income tax currently at 1.75% (the interest rate changes every year) per annum from the due date and an additional penalty of 1% per month calculated on the basis of months completed.

Employees can provide to their employers the details of any additional income or eligible deductions outside their employment to be considered during income tax calculation. This can be done through a declaration of allowances claimed for the year (form TD59).

The employer's return (form TD7) should be submitted electronically by the 31st of July following the tax year of assessment, which is the same as the calendar year.

Tax residency and income tax

Cyprus tax resident employees are taxed on their worldwide income. In the case of non-Cyprus tax resident employees, tax is levied on the income accruing or arising only from sources in Cyprus.

A Cyprus tax resident is an individual who stays in Cyprus for more than 183 days in the tax year of assessment. The definition also includes an individual who does not stay in any other state for one or more periods exceeding, in aggregate, 183 days in the same tax year and who is not considered a tax resident for tax

purposes in any other state in the same tax year, provided the individual cumulatively meets the following criteria:

- Stays in the country for at least 60 days in the year of assessment
- Exercises any business in the country or is employed in the country, or holds an office for a tax resident in Cyprus at any time during the year of assessment
- Maintains a permanent resident (owned or rented) in the country

Individual income tax rates in Cyprus

| Taxable income | Tax Rate | Amount of tax | Accumulated tax |
|----------------|----------|---------------|-----------------|
| € | % | € | € |
| 0–19,500 | 0 | 0 | 0 |
| 19,501–28,000 | 20 | 1,700 | 1,700 |
| 28,001–36,300 | 25 | 2,075 | 3,775 |
| 36,301–60,000 | 30 | 7,110 | 10,885 |
| Over 60,000 | 35 | — | — |

* Taxable income over EUR60,000 is taxed at the rate of 35% and the accumulated tax will depend on actual amount of taxable income.

Significant exemptions for income tax purposes applying to expatriates

Exemption of 50% on Cyprus remuneration

This applies to any remuneration exceeding EUR100,000 per annum from any employment exercised in Cyprus by an individual who was a tax resident outside Cyprus prior to the commencement of the employment. The 50% exemption applies for the first 10 years of employment. It is not available to individuals whose employment commenced on or after 1 January 2015 if such individuals where:

- Tax residents of Cyprus for a period of three of the five years preceding the year of employment
- Tax residents of Cyprus in the year preceding the year of the commencement of employment Exemption of 20% on Cyprus remuneration or €8.550, whichever is lower

This applies to any remuneration from any employment exercised in Cyprus by an individual who was residing outside Cyprus before the commencement of the employment. This exemption applies for a period of five years commencing from 1 January of the year following the commencement of the employment (provided the employment started during or after 2012). It applies for tax years up to 2020. However, if the 50% exemption (mentioned in the previous point) is claimed, this 20% exemption does not apply.

Rule of 90 days

This rule applies to any remuneration for the rendering of salaried services outside Cyprus to a nonresident employer in Cyprus or to a foreign permanent establishment of a Cyprus resident employer for a total aggregate period of more than 90 days in the year of assessment.

Lump sum repayment

Cyprus tax residents are exempted from any lump sum repayment from life insurance schemes (non-Cyprus resident life insurance schemes should be an approved organization as defined by Cyprus Tax Law) or approved provident funds.

The following are some of the allowable deductions for income tax purposes:

- Contributions to the Social Insurance and General Health System contributions
- Contributions to approved provident funds and medical insurance
- Subscriptions to trade unions or professional bodies
- Donations to approved charitable organizations

2. Pension requirements

Registration requirements

Once a company has registered with the social insurance authorities, the employer should inform the authorities about newly hired employees.

Usually, all employees are registered with the authorities by their first employers. In case an employee has not yet obtained a Social Insurance Number, the registration should be made by submitting the application form together with a copy of the employee's passport to the social insurance authorities.

The Social Insurance Scheme in Cyprus is financed by contributions paid by the employers, the insured persons and the state. The scheme provides benefits to insured persons, such as maternity allowance, sickness and unemployment benefits.

People who have reached the retirement age, which is currently 65 (early retirement may also be possible), and who meet the appropriate conditions in terms of their contributions to the Social Insurance Fund receive a pension.

The contributions are calculated by applying the relevant contribution rates (as per the following table) to the weekly wages or monthly emoluments.

Calculation of contributions

| | % |
|--|------|
| Self-employed individual | 15,6 |
| Employee | 8,3 |
| Employer | 8,3 |
| Employer's contribution to the Redundancy fund | 1,2 |
| Employer's contribution to the Human Resource Development Authority fund | 0,5 |
| Social Cohesion fund | 2 |

The above-mentioned contributions, except to the social cohesion fund, are subject to an upper income limit of €4,572 per month or €1,055 per week.

Contributions to the general health care system

The general health care system in Cyprus came into effect on 1 March 2019; its main purpose is to provide health care coverage to individuals. Under the system, an employer is responsible to withhold 1.7% (which will be increased to 2.65% from 1 March 2020) from the employees' emoluments and contribute 1.85% (which will be increased to 2.9% from 1 March 2020) on the income. There is an annual cap of €180,000 for the payment of general health care system contributions.

In general, contributions to the social insurance and general health care system (subject to exemptions) are paid by an employer every month using the statement of emoluments and contributions form. The payment should be made no later than the end of the month following the month for which the contributions refer to. A penalty of 3% per month is imposed for late payments, with a maximum of 27%.

3. Employment obligations

Minimum monthly salary

While many activities do not have an official minimum salary, vulnerable categories have a set minimum wage, depending on the activity.

Working time

As per the Cyprus Employment Law, the maximum hours of work per week is 48. The normal pattern of working hours in Cyprus is 40 hours per week. When the daily period of work is more than six continuous hours, the employee is entitled to a break with the duration of at least

15 minutes.

Minimum annual leave

Depending on the work schedule, employees who work five days per week are entitled to a minimum of 20 days of annual leave paid by the employer. The annual leave is extended to 24 days if the employees work six days a week.

Sick leave

Social insurance authorities are responsible for sickness allowance. After submitting the relevant application form to the authorities, an employee may be granted sickness benefit from the fourth day of absence from work due to illness. The level of benefit is calculated as a percentage of average weekly insured amount of earnings on which contributions were made by or for the insured person during the respective contribution year under the Social Insurance Scheme.

4. Payroll requirements

Payment frequency

There is no specific guidance with respect to the standard pay period. Employers can adjust their pay periods according to the working conditions. Weekly or monthly payments are the most common, with most employers paying salaries by the end of each month.

Payslips

There is no specific rule for pay slips. However, the general practice in Cyprus is to provide pay slips on a monthly basis in electronic or hard copy form.

5. Banking requirements related to payroll

There are no specific requirements regarding the mode of payment. However, for the calculation of income tax, social insurance and general health system deductions as well as contribution amounts should be converted to euro.

The settlement of PAYE can be made online or through wire transfer from a foreign bank account.

The payment of social insurance can be made by cash or check to the district office of Social Insurance Services. Online payment option is available by registering to the authority's e-payment facility; payments are made using the Single Euro Payments Area protocol.