

**Report of the Parliamentary Finance and Budget Committee on
the Income Tax (Amendment) Bill (No. 10)
Law of 2022"**

Present:

Christiana Erotokritou, president	Christos Christofidis
Chrysis Pantelidis	Sotiris Ioannou
Haris Georgiadis	Ilias Myrianthous
Onofrios Koullas	Alekos Tryfonidis
Savia Orfanidou	
Excellent Damianou	
Andreas Kavkalias	

Non-Committee Members:

Stavros Papadouris

The Parliamentary Finance and Budget Committee studied the most above bill in its four sessions, held on the 3rd and 24th April, as well as on 15 and 22 May 2023. As part of the meetings representatives of the Ministry were summoned and attended before the committee of Finance, of the Tax Department of the same ministry, of the Legal Service of the Republic, of the Association of Certified Accountants of Cyprus (SELK), of Pancyriot Bar Association and the "TechIsland" organization.

It is noted that the Cyprus Association of International Activities Companies (CIBA), although invited, was not represented at the committee meetings.

It is noted that in the context of the discussion of the bill in question Mr. Marios Mavridis, who was not a member of the committee, also attended.

The purpose of the proposed law is to amend the Taxation Act Income Law, so that the exemption of fifty percent (50%) of the fee person from his first employment in the Republic from the imposition of tax

of income to be granted until the period of seventeen is exhausted tax years and not be terminated in case the person changes employer.

According to what the representative of the Ministry of Finance stated, with based on the existing legislative framework, natural persons, who immediately before the start of their first employment in the Republic were non-residents Republic for a period of at least ten consecutive years and their remuneration from employment in the Republic exceeds €55,000 per year, they are entitled to claim exemption of 50% of their remuneration from the imposition of tax income for a period of seventeen years.

According to the same representative, in the framework of the implementation of the existing measure, it was found that natural persons who change employers within the said period they become non-beneficiaries of the tax exemption, as they cease to meet the criterion of non-resident in the Republic for a specified period of time before their first employment.

As the official herself mentioned, with the proposed regulations it is abolished prerequisite concerning the first employment in the Republic, in order to someone becomes a beneficiary of the measure, but at the same time they increase from ten to fifteen years the natural person required to be a non-resident in Republic, so that it falls under the aforementioned regulations and is a beneficiary thereof proposed tax exemption.

The representative of the Tax Department stated that with the proposed arrangements, an expansion of the tax exemption framework is achieved, which becomes more attractive to natural persons, as it is guaranteed if they are met specific criteria, long tax exemption period.

According to the same representative, because the prerequisite for remuneration beyond of €55,000 is not particularly high, its increase from ten to fifteen years period during which the natural person must be a non-resident in the Republic before from his first employment, in order to become a beneficiary, it is deemed necessary, since limits abuse of the measure, which had been observed with implementation of the existing legislative framework.

The SELK representative, without disagreeing with the proposed arrangements, recommended that appropriate amendments be made to the bill so that it does not adversely affect natural persons, to whom the aforementioned has already been granted tax exemption based on current legislation.

The representative of the Pancyriot Bar Association, after agreeing with the aims and objectives of the bill under reference, pointed out the need for a stable tax framework, which is not subject to frequent revisions.

The representative of the organization "TechIsland" agreed with the goals and the aims of the bill and stated that with the proposed arrangements the attraction of foreign skilled workers to the Republic is achieved potential with a high standard of living.

In the context of the discussion, the committee was concerned with issues concerning among others to the amount of the tax exemption provided, during its validity measure, in cases of abuse, in the retroactivity of the proposed ones regulations, as well as the criterion of first employment, in order for a person to becomes a beneficiary of the tax exemption.

In addition, information was requested regarding natural persons in which such tax exemption has already been granted under applicable law,

as well as further clarifications regarding the implementation of the proposed regulations and the criteria for admitting employees to the new tax exemption framework.

In relation to the issues raised, the representative of the Ministry of Finance stated, among other things, the following:

1. The tax exemption of 50% of a person's remuneration from employment in the Republic selected on the basis of corresponding arrangements in force in other states members, with the aim of making the tax framework of Cyprus as simple as possible attractive and competitive.
2. The duration of the tax framework was set at seventeen years on the basis of corresponding tax regulations provided for in the national legislation and it is judged that this framework provides security and stability to people who choose to relocate and work in the Republic.
3. Transitional provisions should be incorporated into the bill, so that ensure that people who were employed within 2022, as well as the cases of taxpayers who fell under the previous tax framework until the date application of the proposed settings.

The representative of the Tax Department stated that, although in the context control of the implementation of the measure, the competent department conducts investigations, in order to any abuses are found, the detection of such cases is not easy. As the official herself mentioned, the proposed increase from ten to fifteen years of the period the natural person must be non-resident in Republic before his first employment to become his beneficiary framework is expected to contribute to limiting such phenomena. Regarding the data requested and concerning natural persons who have already benefited

of the tax exemption framework, the same spokeswoman noted that these will be available upon submission of tax returns for the year 2022.

It is noted that, based on the opinions expressed by all of them involved agencies, as well as the comments of the committee, the Ministry Finance presented three revised texts of the bill, with final text submitted on May 8, 2023, as well as related data by applying the suggested settings.

In particular, based on the provisions of the final text, the following are foreseen:

1. Taxpayers who have become beneficiaries on the basis of the existing one tax exemption framework until its application date of the proposed law will continue to benefit from the measure until it expires of seventeen, provided they continue to work in their first employer.
2. Existing and new workers in the Republic who were not residents in Republic for a period of fifteen fiscal years before its commencement first employment will benefit from the tax exemption, regardless of for the purposes of applying the legislation, as a first employment if any their employment in the Republic which preceded their transfer to abroad.
3. The tax exemption is granted for a period of seventeen consecutive periods tax years or until the repeal of the measure in question with a relevant amendment of the legislation, whichever occurs earlier.

In the context of the examination of the revised texts of the bill, the involved bodies agreed with the modifications made to them.

The Parliamentary Finance and Budget Committee, after receiving

taking into account everything that was put before it, it came to the following positions:

1. The chairperson of the committee and the member of parliament

group of the Democratic Party, the members of parliament

group of the Democratic Alarm, the members of its parliamentarians

of the AKEL-Left-New Forces parliamentary group, the member of parliament

of the National People's Front, as well as its member of parliament

Democratic Party-Cooperation of Democratic Forces, reserved

to be placed during the discussion of the matter in the plenary session of the body.

2. The member of the parliamentary committee of the EDEK Socialist Party was in favor

of passing the bill into law.

Based on the above positions, the Parliamentary Committee
of Finance and Budget submits its present report for purposes
taking a final decision on the bill, as it has finally been revised, at
stage of its discussion in the plenary session of the body.

May 30, 2023

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