

NEW MEASURES TO ATTRACT FOREIGN INVESTMENT AND ENHANCE BUSINESS ACTIVITY IN CYPRUS

A. The Announcement

On 15th October 2021, the Cyprus Minister of Finance announced a very attractive set of measures to boost business inflow into Cyprus. The new strategy seeks to attract businesses with emphasis, among others, on high technology, shipping, innovation, and research and development. Residence, employment, taxation, citizenship and simplification of procedures are among the incentives of the new strategy aiming to promote Cyprus as a sustainable business and trade centre in the European region.

B. Business Facilitation Unit

During the first quarter of 2022, the existing Fast Track Business Activation Unit which is operated by the Ministry of Energy, Commerce and Industry, for Companies of Foreign Interests shall be renamed to the "Business Facilitation Unit" to assist all eligible companies with the registration procedure and obtaining the relevant permits for employment of third country nationals.

The Unit will be the focal point of contact in an effort to expedite and ease the procedure. Its responsibilities shall include inter alia overseeing company registration, registration with the social insurance, VAT registry and the income tax authorities, guiding the establishment, licensing and operations of such companies and facilitating the issuance and renewal of residence and employment permits for

employees working in the below listed eligible companies.

The following companies shall be eligible to register through the Business Facilitation Unit for the purposes of employment of third country nationals (i.e. non-EU nationals):

1. Cyprus companies relating to high-end technology and innovation;
2. Foreign companies which are either operating or intend to operate in Cyprus and which carry on their business activity in independent offices in Cyprus, which are separate from any private residence or other office;
3. Cyprus shipping companies;
4. Cyprus pharmaceutical companies or Cyprus companies who are engaged in the fields of biogenetics and biotechnology.

Employment of highly skilled employees

Salary/position-based categories of employment (previously Directors, Key Personnel, Specialists) will no longer apply and a minimum gross monthly salary of €2.500 will be introduced for all highly skilled employees provided that: (a) they have the required academic skills or at least 2 years of relevant experience; and (b) have a minimum of 2-year employment contract. The maximum number of third country nationals is 70% of the total number of employees in a 5-year period from the date of the registration of the company by the Business Facilitation Unit.

Employment of support staff

Companies will be able to employ third country nationals as support staff, with a maximum gross monthly salary of €2.500 provided that such number of third country nationals employed does not exceed 30% of all support staff.

The residency and work permits will be issued within 1 month and will have a validity period of up to 3 years.

C. Family re-unification rights of third country nationals

Spouses of third country nationals who have obtained a residence and work permit in Cyprus and who receive a minimum gross monthly salary of €2.500 (i.e. other than for support staff) shall enjoy immediate and free access to the Cyprus labour market and the right to paid employment in Cyprus.

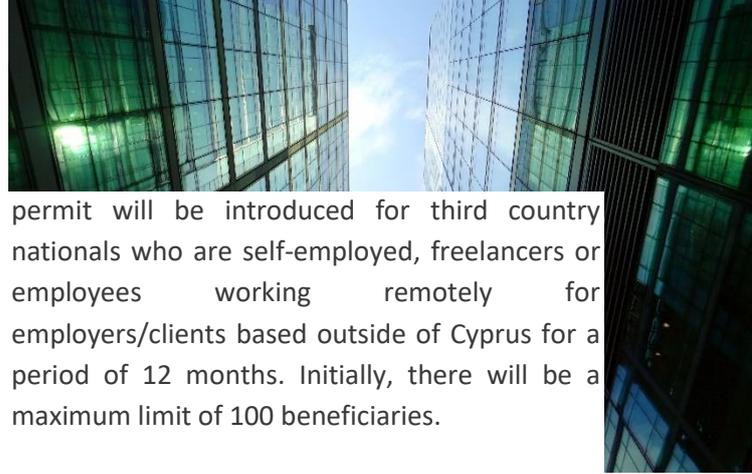
D. Expedite and ease of process of granting residency and work permits

During the first quarter of 2022, new amendments to current law and regulations on immigration are expected to be announced by the Ministry of Interior aiming to simplify the process and expedite the examination of the applications for the issuance of residency and work permits.

E. The Cyprus Digital Nomad Visa

A new era of remote work for millions of employees as a result of the Covid-19 pandemic may portend a significant shift in the way a large segment of the workforce operates in the future.

As a result of that and in line with international practices employed by other European countries on remote work, it is estimated that during the first quarter of 2022 a new type of residence



permit will be introduced for third country nationals who are self-employed, freelancers or employees working remotely for employers/clients based outside of Cyprus for a period of 12 months. Initially, there will be a maximum limit of 100 beneficiaries.

Residency period and family re-unification rights

Individuals who were granted a Digital Nomad Visa shall have the right to stay in Cyprus for up to 1 year, with the right to renew for another 2 years. They would also have the right to re-unification with their family members, to whom, a residence permit would be granted, following a successful application, and which would expire at the same time as the one of the digital nomad who will be acting as their sponsor. During their stay in Cyprus, the spouse or the civil partner of the person who is granted a Digital Nomad Visa, and the minors of their family are not permitted to work or engage in any kind of economic activity in Cyprus.

Tax Residency Status

It is important to note that a holder of Digital Nomad Visa has the right to be considered as a tax resident of Cyprus provided that he/she lives in the country for one or more periods that in total exceed 183 days within the same tax year and they are not tax residents in any other state.

Criteria to qualify for a Digital Nomad Visa include inter alia the following:

1. A written declaration whereby the third country national wishing to apply for a Digital Nomad Visa declares and confirms that he/she will not undertake any employment in Cyprus and that he/she intends to reside in Cyprus for the purposes of working remotely for employers/clients based outside of Cyprus;



2. Proof of a monthly fixed net income of at least €3.500 to cover such third country national's living expenses for the whole duration of his/her stay in Cyprus (evidenced by payslips, bank statements, etc.). The said amount is increased by 20% for a spouse/civil partner and by 15% for each child;
3. Healthcare coverage (General Healthcare System – GHS) of the third country national; and
4. Clean criminal record by the country of residence of the third country national.

F. Tax incentives

A number of tax incentives are currently being considered, which are expected to be presented to the House of Parliament by the end of December 2021 and to be approved during the first quarter of 2022. Such incentives include inter alia the following:

1. *Expansion of the existing income tax exemption of 50% for taking up employment in Cyprus:* A draft bill is currently being drafted in order to (a) expand the personal income tax exemption of 50% to cover new Cyprus tax resident employees with salary income of at least €55.000; and (b) to permit existing beneficiaries of the scheme to extend the exemption from 10 to 17 years. Potential beneficiaries are individuals with income between €55.000 - €100.000 for the remaining period of 17 years;
2. *Extension of tax exemption for investment in innovative companies:* It is currently being considered to extend the tax exemption of 50% for investment in certified innovative companies to corporate investors (currently this is only applicable to natural persons).
3. *Increased tax deductions for research and development (R&D) expenses:* It is further considered to enhance tax deduction by 20% on R&D expenses, i.e., 120% of the actual

expenditure incurred may be deducted from taxable income.

G. Cypriot citizenship

It is expected that a draft bill amending the Aliens and Migration Law Cap. 105 will be presented to the House of Parliament by the end of December 2021 proposing the following amendments:

1. A reduction in the eligibility period for applying for the Cypriot citizenship from 7 years of residence and work in Cyprus to 5 years; and
2. A further reduction to 4 years for holders of certifications proving that they are fluent in the Greek language.

The aim is for the relevant legislation to be approved by the House of Parliament during the first quarter of 2022.

H. Conclusion

The implementation of these new measures is definitely a welcome strategy. The establishment and operation of international companies in Cyprus will undoubtedly offer high and sustainable added value to the Cyprus economy, through the creation of new jobs and increased demand for domestic services, but will also redefine the country's development model.

Disclaimer

The above is intended to provide a brief guide only and does not constitute legal advice.

Please do not hesitate to contact us at info@mhadlaw.com for further information or assistance.