

Cyprus Employment Law and Taxes

Practical guide for employers and employees (Cyprus)

Disclaimer: This document is for general information only and does not constitute legal or tax advice. Rates and rules can change. Always confirm with a licensed accountant/payroll provider or legal advisor.

A. Employment Setup and Legal Basics

1. Written terms / Employment contract

Employers should provide written terms of employment. A contract (or written statement of terms) typically includes:

- Employer and employee details
- Job title and duties
- Start date and duration (if fixed-term)
- Working hours and work pattern
- Gross salary, payment frequency, and any allowances/benefits
- Annual leave and other leave entitlements
- Notice period and termination terms
- Any collective agreement/sector rules that apply

2. Employer registration and employee declaration

Before employing staff, employers generally need to:

- Register as an employer with the Social Insurance Services and obtain an employer registration number.
- Ensure the employee has a Social Insurance Number.
- Declare the employment through the competent national employment declaration system (e.g., ERGANI / relevant Ministry system) in line with requirements and deadlines.
- Maintain employee records (ID details, job role, salary, working time records where required).

3. Payslips, payroll records, and payment

Good payroll practice (and commonly required) includes:

- Pay wages on the agreed date (typically monthly).
- Provide a payslip showing: gross pay, deductions, employer/employee contributions (where shown), and net pay.
- Keep payroll documentation and employment records for the legally required retention period.

4. Gross vs net salary

Gross salary is the amount agreed in the contract before deductions. Net salary is what the employee receives after statutory deductions (typically Social Insurance, GESY, and PAYE income tax).

B. Payroll Deductions and Employer On-Costs

In Cyprus, employees usually have deductions from gross pay, and employers usually pay additional contributions on top of gross salary. Exact applicability can vary by sector and employee status.

1. Typical employer contributions (indicative rates)

Contribution	Who pays	Indicative rate (of gross)
Social Insurance	Employer	~8.8%
GESY (General Healthcare System)	Employer	~2.9%
Social Cohesion Fund	Employer	~2.0%
Redundancy Fund	Employer	~1.2%
Industrial Training / HR Development Fund	Employer	~0.5%
Holiday Fund (where applicable)	Employer	Sector-dependent

2. Typical employee deductions (indicative rates)

Deduction	Withheld by	Indicative rate
Social Insurance	Employer (from salary)	~8.8%
GESY	Employer (from salary)	~2.65%
PAYE income tax	Employer (from salary)	Progressive (see Section C)

Note: Contribution rates may be subject to earnings ceilings, special categories, or sector rules. Always confirm current rates and applicability.

C. Taxes in Cyprus (Effective from 1 January 2026)

1. Personal income tax (employees) – progressive bands

Personal income tax is calculated on annual taxable income using progressive bands.

Annual taxable income (€)	Tax rate	Cumulative tax (end of band)
0 – 22,000	0%	0
22,001 – 32,000	20%	2,000
32,001 – 42,000	25%	4,500
42,001 – 72,000	30%	13,500
Over 72,000	35%	—

PAYE (Pay As You Earn): employers typically withhold income tax each pay period and remit it to the Tax Department.

2. Corporate income tax (companies)

From 1 January 2026, the standard corporate income tax rate in Cyprus is:

Corporate income tax (CIT): 15%

This rate generally applies to taxable profits of Cyprus tax-resident companies and Cyprus permanent establishments, subject to the Income Tax Law and specific exemptions/reliefs.

3. Common related taxes (summary)

Depending on the situation, additional taxes may apply. Examples include:

- **Special Defence Contribution (SDC):** applies mainly to certain investment income for Cyprus-domiciled individuals; reforms from 2026 include significant changes (e.g., dividend SDC reduced to 5% for Cyprus-domiciled individuals).
- **Capital Gains Tax (CGT):** may apply to disposal of Cyprus immovable property or shares in companies that directly/indirectly own such property (subject to rules).
- **Withholding tax:** can apply in specific cross-border scenarios; rules depend on the type of payment and treaty position.

D. Core Employee Rights (High-Level)

Employee rights depend on the contract, sector rules, and legislation. Common areas include:

- Annual leave entitlement (statutory minimums apply depending on working pattern)
- Public holidays and holiday pay rules (vary by sector/contract)
- Sick leave (typically linked to Social Insurance eligibility and employer policy/contract)
- Maternity, paternity, and parental leave (as provided by law)

- Working time, rest breaks, and overtime arrangements (contract/sector rules)
- Equal treatment and anti-discrimination protections

E. Practical Example (Illustrative)

A simplified example helps explain gross vs net and employer cost. Actual payroll depends on tax residence, deductions, allowances, ceilings, and individual circumstances.

Example: Employee gross salary €2,500/month

Item	Illustrative amount
Gross salary	€2,500.00
Employee Social Insurance (~8.8%)	€220.00
Employee GESY (~2.65%)	€66.25
PAYE income tax	Depends on annual taxable income
Net salary	Gross minus deductions
Employer on-costs (indicative)	Add employer contributions on top of gross