

## Tax Alert

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**For further information,  
contact our Team:**



**Hermione Lau  
Theophylactou**  
*Director of Operations*  
[hlau@cubeaudit.com.cy](mailto:hlau@cubeaudit.com.cy)



**Savvas Hadjipierou**  
*Head of Accounting & Tax*  
[shadjipierou@cubeaudit.com.cy](mailto:shadjipierou@cubeaudit.com.cy)

124 Strovolos Avenue,  
Tsigarides Building, 2nd floor,  
Office 203, 2042 Nicosia,  
Cyprus.

**Tel:** (+357) 22003399

**Fax:** (+357) 22003395

**Email:** [info@cubeaudit.com.cy](mailto:info@cubeaudit.com.cy)

**LinkedIn:**

<https://www.linkedin.com/company/cubeauditltd>

**Website:**

<https://www.cubeaudit.com.cy>

## Applying a 10% additional tax for employees with income other than employment income

The Ministry of Finance, through the Tax Department, issued Interpretive Circular no. 54 (“Circular”), on 19 October 2021, which refers to the imposition of 10% additional tax for employees with income other than employment income.

Specifically, the circular refers to the provisions of article 24 of the Assessment and Collection of Taxes Law which provides that a person who earns income other than from emoluments (e.g., rental income) must declare this other income within the same year that it is generated and pay temporary income tax (twice a year).

In addition, the circular mentions the provisions of article 26 of the Assessment and Collection of Taxes Law which states that if the estimated chargeable income is less than 75% of the actual chargeable income (which is declared in the submitted personal income tax return for the year) then there will be an additional tax of 10% on the difference between actual tax payable and the temporary tax paid.

There are some instances where employees generate other income (e.g., rental income), other than their employment income, and declare this other income to their employer using the Form TD59. This approach takes into consideration this other income in the payroll process and calculates and withholds the relevant income tax by taking into consideration both the employment and such other income. In such cases, it is possible that there will be no income tax due or the income tax withheld by the employer may relate to an income which makes up at least 75% of the additional chargeable income.

However, in the situation where an individual does not declare the full estimated chargeable income (e.g. including rental income) and thus does not pay any temporary tax, as provided by the provisions of the Assessment and Collection of Taxes Law, a 10% additional tax will be imposed.

When the amount of income tax, relating to that other income exceeds 75% of the tax attributable to that income and is paid as part of the withholding tax by the employer through the PAYE procedure, then the 10% additional tax will not be required.

In cases where the individual suffered, through payroll withholding, the income tax corresponding to such other income which exceeds 75% of the actual final tax on such other income then:

- a) During the examination of the individual’s income tax return, for the purposes of issuing an Income Tax assessment, the 10% additional tax will not be imposed.
- b) In cases where tax assessment has been issued and the 10% additional tax has been imposed then the individual can submit an objection for the 10% additional tax.

## **About Cube Audit**

Founded in 2015, Cube Audit Ltd is an innovative and progressive professional services firm, incorporated as a Cyprus private limited company. The company is a Certified Public Accountants and Registered Auditors firm and it is authorized by the Institute of Certified Public Accountants of Cyprus (ICPAC) as a Registered Audit and Accounting Company.

We offer a comprehensive range of professional services to both local and international businesses, including Audit and Assurance, Financial Advisory and Business Consulting, Accounting and Financial Reporting, and Taxation.

At Cube Audit, our purpose is to provide tailored, practical and commercially viable advice and solutions to our clients in a diverse range of situations, regardless of complexity, in the areas of audit, accounting, tax and consulting.

Our vision is to be a trusted and respected financial and professional services firm that is built upon integrity, professionalism and a well proven track record.

## **Local and International Tax**

In a world of increasing tax complexity and ever-changing regulations, it is easy to pay too much tax, prepare incorrect tax fillings or not take full advantage of tax benefits and opportunities when undertaking transactions. Our tax team possesses in-depth technical knowledge of both direct and indirect taxes.

We can assist with a wide range of tax matters, including providing a one-stop shop on the application of the Cyprus IP Box tax regime, international tax planning (including taxation of expatriates) and advising on suitable corporate structures (including transfer pricing). We invest heavily in understanding our clients' business and needs in order to develop suitable tax strategies for them.



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