



Tax treatment of Covid-19 related government grants and benefits

7 September 2021

The Cyprus Tax Department has announced three interpretative Circulars relating to the tax treatment of Covid-19 related government grants:

1. Interpretative Circular 44/2020 dated 22 June 2020

The Cyprus Tax Authorities clarify that the below grants should not be subject to income tax as they are not considered as income under of Article 5 of the Income Tax Law.

- Unemployment Benefit (special plan for partial or full suspension of business operations)
- Special Sickness Benefit
- Special leave benefit (granted to working parents)
- Special benefit for the Self-Employed.

2. Interpretative Circular 49/2021 dated 20 July 2021

The Cyprus Tax Authorities confirm that the above Interpretative Circular 44/2020 dated 22 June 2020 is valid and the grants included in the respective circular should continue to be exempt from income tax even though the Ministry of Labour and Social Insurance provided the benefits to the individuals through their employers and not directly to the individuals.

3. Interpretative Circular 48/2021 dated 20 July 2021

The Cyprus Tax Authorities clarify that the grants relating to the below are not subject to corporation or income tax.

- Rent
- Other running costs

However, the distributions (deemed or actual) by companies out of the accounting profits which include the above grants will be subject to both Special Contribution for Defence and to General Health System contributions.

As always, the Taxation Department of M.C. FANDEOS CO LTD is at your disposal should you require any further information or clarifications.

