

CYPRUS 2005

1. Overview of the tax-benefit system

The unemployed person is entitled to unemployment benefits for 156 days provided that he is ensured with the Cyprus Social Insurance Scheme and satisfies certain contribution conditions. The same person can reclaim the benefit, provided that 26 weeks passed since the last days he had received the unemployment benefit and that that the person had worked for at least 26 weeks after the last day he had received it.

The Social Assistance applies in any period the person is not gainfully employed anywhere but does not fulfil the conditions for receiving the Unemployment Benefit and does not receive any income from any kind of activities. All allowances relating to housing expenses are included under the Social Assistance scheme and cannot be granted to anyone not receiving the Social Assistance. People receiving the Unemployment Benefit can claim the Social Assistance only if the Benefit received is lower than the social assistance benefit they are allowed to get.

All persons who are insured under the National Social Insurance Scheme can claim the following benefits and allowances: marriage grant, maternity allowance, funeral grant, sickness benefit, unemployment benefit, invalidity pension, old age pension, widow's pension, orphan's benefit, missing person allowance¹ and employment injury benefit.

Public assistance is not taxable.

1.1. *Average Production Worker wage (APW)*²

The 2005 APW earnings level is CYP 11 853.

2. Unemployment insurance

2.1 Conditions for receipt

Unemployment benefit is payable to employed persons and voluntary contributors working abroad in the service of Cypriot employers for any day of unemployment provided that the following conditions are satisfied:

¹ This allowance is granted to the close relatives (wife, children) of missing people from the Turkish invasion in 1974.

² APW refers to the Average Production Wage estimated by the Centre for Tax Policy and Administration (www.oecd.org/ctp). For more information on methodology see Taxing Wages 2004-2005, OECD, 2005, part 5, sections 2 and 3.

- The person should be registered as unemployed
- The person should be capable and willing to work
- The person has reached the age of sixteen but is not above sixty-three years old. The age of sixty-three is extended up to the age of sixty-five if the insured person is not entitled to old age pension.

The Unemployment Benefit is also payable to an unemployed insured person for any period for which he/she attends courses of occupational training.

An insured person however is not considered as unemployed on the following occasions:

- The days he/she is incapable to work due to sickness.
- The days he/she is on holidays.
- Sundays
- Any days for which he/she is being paid by his/her employer
- Any days for which he/she is working at any other occupation in addition to his usual occupation and from which his/her earnings are at least equal to the 1/12 of the basic insurable earnings

2.1.1 *Employment conditions*

The conditions for entitlement to the unemployment benefit are the following:

- The insured person has been insured under the Social Insurance Scheme for at least 26 weeks before he/she became unemployed and has paid, up to the date of unemployment, contributions on insurable earnings not lower than 26 times the weekly amount of the basic insurable earnings³.
- The insured person has paid⁴ or been credited⁵ with contributions in the previous contribution year⁶ on insurable earnings not lower than 20 times the weekly amount of the basic insurable earnings.

It is noted that for the purposes of the above conditions the contributions of a self-employed person are not taken into account, whilst the contributions of a voluntarily insured person are taken into account only in the case of working abroad in the service of a Cypriot employer.

³ The weekly amount of the Basic Insurable Earnings changes from year to year. For 2005 it was CYP 77.47.

⁴ *Paid Insurable Earnings*: Insurable Earnings on which contributions have been paid.

⁵ *Credited Insurable Earnings*: Every insured person can be credited with insurable earnings for any period of full time education after the age of 16 years, for periods of serving in the National Guard, , for periods who is in receipt of sickness, unemployment, maternity, injury benefits or invalidity pension out of the Social Insurance Fund and for the period of paternal leave or period of leave on grounds of force majeure.

⁶ *Previous Contribution year*: For the first semester of each year it is the calendar year before the last and for the second semester it is the last calendar year i.e. for the first semester of 2005, the previous contribution year is 2003 whereas for the second semester of 2005, it is the year 2004.

The unemployment benefit is payable for 156 days (26 weeks) in each period of interruption of employment (Means two days of sickness or unemployment within a period of six consecutive days. Two or more of such periods are considered as being one, if they are not separated by a period of more than 13 weeks). In order to qualify again for unemployment benefit, after the exhaustion of right to benefit, the conditions below must be satisfied:

- 26 weeks have passed since the last day he/she received unemployment benefit, and
- The insured person must have paid contributions on earnings not lower than 26 times the weekly amount of the basic insurable earnings after the day of exhaustion.

2.1.2 Contribution conditions

The employer is obliged by Law to contribute 6.3% on the insured earnings of the employee to the Social Security Fund. The employee also contributes to the Fund with the same proportion. In the Public Sector organisations (Central Government, semi-government organisations and local administration) the employer contributes 9.4 % on the employee's insurable earnings in relation to 3.2% contributed by the employee.

2.2 Calculation of benefit amount

2.2.1 Calculation of gross benefit

The Unemployment Benefit is composed of two parts - the basic and the supplementary Benefit It is calculated based on a system of insurance points set by the Ministry of Work and Social Insurance and the gross earnings received by the unemployed person in the previous one or two years. That is, if the person gets unemployed before the first of July in year X, then the calculation will take place based on the insurable points and the earnings of year X-2. If however the person gets unemployed after the first of July year X, the Unemployment Benefit will be calculated based on the figures of year X-1.

The weekly rate of the basic benefit is equal to 60% of the weekly average of the basic insurable earnings of the beneficiary in the previous contribution year. The increase for the dependant spouse is payable only if his/her earnings from his/her employment or the rate of the benefit he/she may receive from the Social Insurance Fund, are not higher than the amount of increase for dependants. In the case where both spouses are entitled to a benefit for the same period, the increase for dependants⁶ is payable only to the spouse who is entitled to increase of benefit at a higher rate.

The weekly rate of supplementary benefit is equal to 50% of the weekly average of insurable earnings of the beneficiary in excess of the basic insurable earnings but in no case the supplementary benefit is higher than the weekly amount of the basic insurable earnings. There is no increase for dependants in the supplementary part.

For the years 2000 to 2005, the insurable points had been set as follows:

2000	CYP 3398
2001	CYP 3574
2002	CYP 3603
2003	CYP 3820

2004 CYP 4028
2005 CYP 4155

Example:

Case: The person gets unemployed after the first of July 2005

- Units of year 2004: £4028 that is £77,47 per week
- Earnings of the specific person in year 2004: 9603

Step 1:

Basis for Calculation: $9603/4028$, which equals to 2,38 insurance points. 1 point represents the basic amount of insurable earnings and the rest (1,38) represent the complementary amount of insurable earnings.

Step 2:

Basic amount of benefit: $1 * £77,47 * 60\%$ which equals to £46,48
Complementary amount of benefit: $1,38 * £77,47 * 50\%$, which equals to £53,45

So the weekly amount of allowance for a person with no dependants and average earnings in 2004 £9603 is £99,93.

2.2.2 *Income and earnings disregards*

A day does not count as a day of unemployment if the insured person is gainfully employed on that day, unless the earnings derived on that day do not exceed a prescribed amount, or where the earnings are earned in respect of a period longer than a day, the earnings do not on a daily average exceed that amount. The amount for the year 2006 is CYP 6.65

2.3 **Tax treatment of benefit and interaction with other benefits**

A. Tax Treatment of Unemployment Benefit:

The Unemployment Benefit is non-taxable

B. Interaction with other benefits

In the case the insured person is entitled to Unemployment Benefit as well as to another periodical Benefit out of the Social Insurance Fund during the same period, he/she is paid the benefit with the higher rate. This does not apply in the case where there is entitlement at the same period to unemployment benefit and widow's/widower's pension or missing person's allowance. In this case the insured person is

paid both benefits for the same period and the increase for dependants is payable only to the benefit where the increase for dependants is at a higher rate.⁷

2.4 Benefit duration

In the case of an employed person the payment of the benefit starts from the 4th day of unemployment and in the case of a voluntarily insured person, working in the service of Cypriot employer, the payment starts after the first 30 days of unemployment. The benefit is payable for 156 days in each period of interruption of employment.⁸

2.5 Treatment of particular groups

2.5.1 *Young persons*

Young persons over 16 are entitled to the benefit as long as they satisfy the contribution conditions.

2.5.2 *Older workers*

Older workers above sixty-three years old are not entitled to the benefit. The age of sixty-three is extended up to the age of sixty-five if the insured person is not entitled to old age pension.

2.5.3 *Others if applicable*

A. *Applicants with dependants*

In case the applicant has a dependent spouse then when calculating the unemployment benefit, the weekly rate of the Basic Benefit will increase by one third (1/3). In case the applicant has dependent children or other dependants, then the basic benefit will be increased by one sixth (1/6) (maximum two dependants).

The increase for the dependant spouse is payable only if his/her earnings from his employment or the rate of the benefit he/she may receive from the Social Insurance Fund, are not higher than the amount of increase for dependants. In the cases where both spouses are entitled to a benefit for the same period, the increase for dependants is payable only to the spouse entitled to increase of benefit at a higher rate.

B. *Older People*

⁷ Dependant of the insured person includes: spouse with whom the dependant person is living and is supporting financially, child who has not completed the age of fifteen, unmarried daughter between the ages of 15-23 attending full-time education, unmarried son between 15-23 who is serving at the National Guard or attending full-time education, unmarried child, parent or brother/sister incapable of self-support.

⁸ It means two days of sickness or unemployment within a period of six consecutive days. Two or more of such periods are considered as being one, if they are not separated by a period of more than 13 weeks.

In case the insured person is over 60 and is not entitled to a pension out of the occupational pension scheme, he can claim for the unemployment benefit provided that:

- he has paid contributions on earnings, not lower than 26 times the weekly amount of the basic insurable earnings
- thirteen weeks have passed since the last day he had received the unemployment benefit

C. *Self-employed persons*

None

D. *Disabled persons*

No special treatment for disabled persons

E. *Voluntary insured persons*

None

3. Unemployment assistance

None

3.1 Conditions for receipt

3.1.1 *Employment conditions*

3.1.2 *Contribution conditions*

3.2 Calculation of benefit amount

3.2.1 *Calculation of gross benefit*

3.2.2 *Income and earnings disregards*

3.3 Tax treatment of benefit and interaction with other benefits

3.4 Benefit duration

3.5 Treatment of particular groups

3.5.1 *Young persons*

3.5.2 *Older workers*

3.5.3 *Others if applicable*

[e.g. lone parents, immigrants, part-time employees, self-employed, disabled]

4. Public Assistance

4.1 Conditions for receipt

General Principles

According to the Public Assistance and Services Law 8/91, every person legally residing in Cyprus is entitled to public assistance if his/her resources do not meet his/her basic and special needs. The aim is to ensure a minimum standard of living for persons (and families⁹) whose financial resources are insufficient to meet their basic and special needs. Basic needs include food, clothing, fuel, electricity, water provision, and hygiene products. Special needs may include a rent allowance, a medically prescribed diet allowance, home-care, day-care, residential care, house equipment, house repairs, allowance for mortgage interest deriving from a house loan etc.

Public assistance may be provided in the form of money and/or services depending on individual needs. Rates for basic needs are reviewed annually to comply with the rising cost of living.

A person in full-time employment is not entitled to public assistance. Supplementary public assistance, however, may be provided to certain high risk groups even if they are employed full-time provided they meet eligibility criteria. These high risk groups are:

- Persons with four or more children,
- Persons with disabilities¹⁰,
- Single parents and
- Families in extremely difficult situations, at risk of dissolution¹¹.

General conditions under which public assistance is provided:

1. Legal residence in Cyprus.
2. Resources are less than basic and special needs as determined by legislation (see calculation on point 4.2.1).
3. In case the person is unemployed, the unemployment benefit received should not be higher than the public assistance

⁹ Under the Public Assistance and Services Law, “family” is interpreted as spouses and their children under the age of 18 (excluding disabled children and children doing their military service) living under the same roof.

¹⁰ A person with disabilities means a person who, due to congenital or environmental factors which took place before the age of 65 years, has any form of incapacity or disadvantage which, taking into account the historical background or other personal information of that person, causes a physical, cognitive or mental limitation, permanent or of indefinite duration, and substantially reduces or excludes the possibility of executing one or more activities or functions which are considered normal or basic for the quality of life of an individual of the same age who does not have that incapacity or disadvantage.

¹¹ A welfare officer makes an assessment as to whether a family falls under this category.

4. Not to have assets or savings amounting to more than CYP 500 (€ 850) for one individual and CYP 250 (€ 425) for every dependant. The whole family should not have **assets or savings** amounting to more than CYP 1.000 (€1.700) total. Claimant's own house, where s/he lives, is exempted.
5. Although public assistance may be provided to a person regardless of his/her age, it is seldom that children under 18 years of age receive public assistance because it is their parents' responsibility to support them. If parents are unable to support their children, then the Director of Social Welfare Services assumes parental rights and is then responsible to support them under the Children's Law, Cap. 352. Furthermore, children with disabilities are entitled to public assistance regardless of their parents economic status.
6. Willingness to work is proved through registration in the Employment Services. Taking into account personal and family circumstances (as assessed by a welfare officer), healthy persons of working age are expected to seek any type of employment.
7. The guaranteed minimum amounts vary according to the number of dependants, the age of dependant children, disability, claimant's (and family's) basic and special needs.

Furthermore, Public assistance is not granted in the following cases:

1. For any period - that is more than a month – during which the applicant has received medical care under the expense of the Republic.
2. In case the applicant owns property other than the house he/she is living in
3. In case the applicant's house can be used in a way that could increase his income.
4. In case the applicant refuses to find a job that would allow him/her to increase his income finding as a sole excuse the childcare (which can be provided by the State, if asked).
5. In case the applicant refuses to give information to the Social Welfare Department regarding his financial situation.

4.2 Calculation of benefit amount

4.2.1 Calculation of gross benefit

The following elements comprise of the Social Assistance.

A. Basic Needs Allowance

This is a fixed monthly amount which covers the applicant's basic needs. It includes food, clothing, fuel, electricity, water provision and hygiene products.

Rates for basic needs are reviewed annually to comply with the rising cost of living (according to the price index). The guaranteed minimum is based on the consumer price index, which is determined by a survey conducted by the Statistical Service.

As of July 1st 2005, monthly rates for basic needs were

- CYP 194 (€ 330) per month for the applicant (head of the household),
- CYP 97 (€ 165) for any dependants of 14 years of age and over (spouse and children) and
- CYP 58,20 (€ 99) for children below the age of 14.

Relations between the amounts are as follows:

- An adult applicant (head of household): 100%
- Person with a disability: 150%
- Child under the age of 14 years: 30%
- Spouse and child of 14 years of age or above: 50%

B. Pocket Money

The applicant receives up to CYP 12 (€ 20) per month to cover any extra needs (for family, social, entertainment and religious needs). In case there are dependant persons in the family, the spouse and children also receive CYP 6 (€ 10) each.

C. Rent Allowance

The rent allowance covers monthly rent or mortgage interest for the house in which the applicant resides. Rent allowance may reach up to 50% of the total basic allowance (both the applicant's and the dependants'). In special cases, the monthly rent allowance may be higher than 50% of the total basic allowance to cover the whole amount of the actual rent paid. The special increased monthly amount may not exceed a period of 12 consecutive months. After this period the standard criteria for the monthly rent allowance *apply*.

D. Central Heating

The applicant is also entitled to an allowance for heating purposes of an amount up to CYP 60 (€ 102) per year. Specifically, the central heating allowance provided by the Social Welfare Services is:

- CYP 20 (€ 34) for children with disabilities
- CYP 40 (€ 68) for 2-person families and
- CYP 60 (€ 102) for 3 and more person families.

For the Winter period of 2005-2006 the persons receiving Social Assistance will automatically receive an extra £200 per year to cover the expenses of the central heating. This allowance is provided by the Ministry of Finance and it is *not taken into account by the Welfare Department when calculating the compensation to the low wage earners*

E. House Expenses

- i. The applicant is entitled to receive allowances covering the following issues:
 - Equipment for the home: there is no minimum or maximum amount. The amount varies depending on claimant's needs. It may include furniture and electrical equipment
 - House repairs: a lump sum of up to CYP 500 (€ 850) may be provided.
 - Mortgage interest, municipality taxes and other relevant taxes.
- ii. A Social Benefit for the Improvement of Housing Conditions may also be provided. This Scheme aims at improving the living conditions of public assistance recipients or persons at risk of becoming recipients of public assistance. The scheme provides for house repairs and house extensions. The maximum amount granted is CYP 7.000 (€11.900). Entitlement is granted provided the applicant owns the house in which s/he resides or his residence in a house owned by another person is guaranteed.

F. Social Insurance Contributions

In special cases, the Social Welfare Services may approve an allowance to cover monthly contributions to the Social Insurance Scheme, if due to serious reasons they were interrupted and their continuance is vital for the person's independency from public funds.

G. Emergency Public Assistance

The Director of Social Welfare Services is authorised in certain cases to provide public assistance without following the set procedure for the investigation of the socio-economic situation of the applicant. This right may be exercised when a person is in an urgent need for public assistance as a result of special personal circumstances or unexpected or emergency situations. For example, in cases of earthquakes, floods, fire etc.

H. Care

Recipients of public assistance who are in need of short- or long-term care may be provided in kind and/or cash benefits for care. The claimant cooperates with a welfare officer to develop a personal care plan (e.g. type of care, frequency) based on individual needs. Care services may include home care, day care and residential care and may be provided by the governmental, non-governmental and private sectors.

Home care may include housework and personal care (e.g. dressing, personal hygiene, shopping, visit to the doctor). The State may pay (fully or partly) a private home carer who may be a family member. It is possible to compensate a family member who provides long-term care (if a family member is required to quit a job for that purpose or s/he is of low socio-economic standing) or a friend or a non-governmental organisation offering home care services for the provision of long-term care to persons entitled to public assistance who are in need of care. Cash allowances vary depending on the needs and the type of care required (maximum amount CYP 200 or € 340).

Day care may include specialised services such as occupational therapy, physiotherapy, meals and laundry services. The State may pay a cash benefit to recipients of public assistance who are in need

of long-term care in order to assist or enable them to pay for care in a day center depending on the person's financial situation. Cash benefits may vary from CYP 50 to CYP 80 per month (€ 85 to € 136), depending on the beneficiaries' needs and the type of services provided depending on the beneficiary's needs and the type of services provided.

In addition to free residential care in public institutions, the state may pay monthly cash benefit for residential care in private or non-governmental homes for persons entitled to public assistance. Cash benefits may vary from (CYP 300 or €510 – CYP 358.17 per month. Residential homes may be public, private or non-governmental.

Recipients of Public Assistance are expected to make a contribution of 80% of their social insurance benefit towards the fees for residential care (public, non-governmental or private). In cases where home care is provided, a recipient's income from whatever source is taken into account when estimating their supplementary public assistance entitlements in either cash or in kind benefits.

Social Welfare Services set a ceiling on the fees for home-care and residential care paid through the public assistance fund. Rates are reviewed annually. Current rates for care are as follows:

- Home Care: CYP 3,00 (€5,10) per hour or a maximum of CYP 200 (€340) per month.
- Residential Care: CYP 300 (€510) – CYP 358,17 (€609) per month.

I. Other Allowances

- i. A Christmas bonus and an Easter bonus are provided. The Christmas bonus is equal to the amount of basic allowance (minus any Christmas bonus from work or social insurance) and the Easter bonus is a fixed amount of CYP 30 (€51) for each beneficiary.
- ii. An amount of up to CYP 500 (€850) may be granted for training or professional equipment for the claimant or a dependant.
- iii. Supplementary public assistance may be provided for clothing or house equipment or to persons who suffer with mental, physical or other disability.

Case examples, monthly amounts (basic needs and personal expenses) for households with no other income):

- Single person: CYP 206,00
- Couple without children: CYP 309,00
- Couple with 1 child (10 years): CYP 373,20
- Couple with 2 children (8, 12 y.): CYP 437,40
- Couple with 3 children (8, 10, 12 y.): CYP 495,60
- Single parent, 1 child (10 years): CYP 270,20
- Single parent, 2 children (8, 10 y.): CYP 334,40

4.2.2 Income and earnings disregards

The following categories of income and assets are excluded:

- Income and savings of dependant children under the age of 18 years of age (e.g. child maintenance)
- Up to CYP 500 (€ 850) of savings for the recipient and up to CYP 250 (€ 425) of savings for each dependant
- Benefits from the "Relief Fund for Affected Persons"
- Child contribution to parents, if child lives and works abroad
- financial aid from non-profit organisations
- Allowance for a severe disability, marriage, maternity or funeral benefits provided by the Social Insurance Scheme
- Any amount granted by the Children's Benefit Scheme.

Furthermore, the following discounts are made in the calculation of the net amount of public assistance:

- A fixed amount of CYP 20 (€ 34) is discounted from the monthly income deriving from earnings from work of the applicant and his/her dependants.

A higher amount is discounted in the case of:

- Persons with disabilities: CYP 100 (€ 170) per month.
- Single parents: CYP 100 (€ 170) per month or 50% of their income, whichever is higher.
- Old persons: CYP 40 (€ 68) per month.

4.3 Tax treatment of benefit and interaction with other benefits

Public Assistance is not taxable

4.4 Benefit duration

There is no fixed duration of public assistance allowance. The allowance is granted for as long as the recipient is in need of assistance. The Social Welfare Services examine each case on an individual basis.

4.5 Treatment of particular group

As mentioned on previous points, according to the Public Assistance and Services Law, special provisions are made for particular groups such as children, persons with disabilities, single parents, parents with four or more children and older persons.

4.5.1 Young persons

None

4.5.2 *Older workers*

In addition to the special provisions of the Public Assistance and Services Law mentioned above, the following Schemes for persons older than 63 years of age (and persons with disabilities) are implemented by the Social Welfare Services:

- i. *Family Support for the Informal Care of Elderly and Disabled Members* may be provided to persons 63 years of age and older. The maximum amount, which may be granted, is CYP 6.000 (€10.200). The grant is subject to the beneficiary's needs for house repairs, extensions and/or house equipment. The subsidisation may be granted in installments, based on actual costs. House repairs and/or equipment are meant to help the elderly become more functional and remain at their home (or the informal carer's home) for as long as possible.
- ii. *Subsidisation Scheme for the Self-Employment of the Elderly*. The maximum amount, which may be provided, is CYP 1.500 (€2.550) for one person and CYP 2.250 (€3.825) for a couple. Subsidization is based on actual costs and is granted once. The claimant may re-apply for a new grant after 5 years.
- iii. *Subsidisation of holidays for the elderly and persons with disabilities*. The maximum amount, which may be granted, is CYP 150 (€255). A beneficiary may be subsidised every two years.
- iv. *Central Heating Benefit*: For the year 2005 (covering Winter 2005/2006) an extra amount of CYP 50 CYP was given to older persons (above 63 years of age) receiving a pension between 225 and 500 CYP. In case the pensioners receive a pension of less than 225 CYP then the allowance is increased to 75 CYP. *This allowance is granted by the Ministry of Finance*

4.5.3 *Others if applicable*

A. *Persons with disabilities (see 4.1. for a definition of the term)*

The Public Assistance and Services Law includes provisions which are in favour of persons with disabilities. For example:

- Persons with disabilities may still be eligible to supplementary public assistance even if they are gainfully employed full-time.
- Persons with disabilities who are public assistance recipients are also entitled to a monthly disability allowance which is half of the basic needs allowance (i.e. in 2005 it was CYP 97 or €165).
- Persons with disabilities or recipients with a mental illness may be entitled to a care allowance.
- Blind persons are entitled to receiving an annual benefit of CYP 1800
- People with sight or mobility disabilities working or studying in Cyprus are entitled to a monthly allowance of up to CYP48 depending on the distance between their home and their work/educational institution.(*granted by the Ministry of Finance*)
- Disabled persons are entitled to take part in the financial assistance plan for purchasing a car(*administered by the Ministry of Finance*)
- See also Sections 4.2.1 for and 4.2.2 and 4.2.5 above for provisions and Schemes in favour of persons with disabilities.

B. Single Parents

- Supplementary public assistance may be provided to single parents even if they are in full-time and gainful employment provided that they meet the eligibility criteria.
- See also Section 4.2.2 above.

C. Large Families and families facing a risk of dissolution

- Applicants with four children or more under the age of 18 years and applicants with serious family problems may be entitled to supplementary public assistance even when they are in full-time and gainful employment.
- Women with four children or more are entitled to apply for the motherhood allowance after their children become eighteen years old.
- See also Section 4.2.2

D. Refugees

According to the Refugee Laws of 2000 to (N.2) 2004, recognised refugees are entitled to public assistance on the same terms and conditions as nationals.

5. Housing benefits

Regarding housing allowances provided to public assistance recipients, please refer to paragraph 4.2.1.C, D and E.

5.1 Conditions for receipt

Entitlement to Public Assistance

5.2 Calculation of benefit amount

5.2.1 Calculation of gross benefit

5.2.2 Income and earnings disregards

5.3 Tax treatment of benefit and interaction with other benefits

5.4 Treatment of particular groups

All public assistance recipients are entitled to the provisions of the relevant legislation and a Social Benefit Scheme for the Improvement of Housing Conditions (points 4.2.1. C, D and E). An additional scheme is available for older persons and persons with disabilities (4.5.2.i).

5.4.1 Young persons

5.4.2 Older workers

5.4.3 Others if applicable

6. Family benefits

6.1 Conditions for receipt

The applicant should fulfil the following conditions:

- He/she must have a child of less than eighteen years of age
- He/she must have a child between eighteen and twenty-five years of age who is soldier.
- He/she must have a child between eighteen and twenty three years of age who is studying in Cyprus or abroad.
- He/she must have a child who is physically or mentally disabled. Age is not a condition in this case

6.2 Calculation of benefit amount

All families are entitled to receive an allowance of CYP 200 per year for each child they have fulfilling provisions mentioned above.

6.3 Treatment of particular groups

6.3.1 Young persons

Students

Students studying in Cyprus or abroad are entitled to the following benefits:

- A annual fixed allowance of CYP 1000.
- An extra allowance of maximum of CYP500 in case they pay fees.

7. Childcare for pre-school children

Child-care services are provided by the public, non-governmental and, mostly, by the private sector. Child care (ages 0-5) is provided and inspected by the Ministry of Labour and Social Insurance (Social welfare Services), while pre-school education (3-6 years) is provided and inspected by the Ministry of Education and Culture. Compulsory education starts at age 4^{8/12} years.

An analytical table of the enrollment ratios by age group, sex and level of education is shown in Appendix I (Statistics of Education).

The fraction of children in childcare is 48,6% (Statistics of Education 2002/2003).

7.1 Out-of-pocket childcare fees paid by parents

There is no legislative regulation providing for the fees of childcare facilities. Fees may vary according to the service provided (i.e. full/ part time), the age of the child, geographical area etc. Types of care include childcare centres and childminders.

As regards public childcare provided by the Social Welfare Services

- Fees are regulated by circulars of the Social Welfare Services. Fees vary depending on parents' income and the number of children within the same family who attend the day-centre. Fees are set at a rate of 10% of the parents' net income. The minimum amount is CYP 20 (€ 34).
- When calculating the net income, the following are deducted: (i) any compulsory by law taxes/contributions (e.g. income tax, social insurance etc) (ii) CYP 60 (€ 102) for each dependant person (iii) rent up to an amount of CYP180 (€ 306) for 2 person-families, up to CYP 210 (€ 357) for 3-4 person families and up to CYP 250 (€ 425) for larger families or (iv) loan payment up to CYP 250 (€ 425) (v) 30% of net income received from employment for single parent families (vi) Benefits from the "Relief Fund for Affected Persons" (vii) Children's Benefit Scheme (viii) any fees given for other childcare services. The District Welfare Officer may reduce the fees up to 50% for the second or more children from the same family or in certain cases the children may be accepted to public childcare for free.
- It is expected that parents in full-time employment can pay these fees.

Fees for non-government childcare services tend to be lower than fees for private childcare. Average fees are set between CYP 40 - CYP 60 (€68 - 102) for children between 2-4^{8/12} and between CYP 60-90 (€ 102 - 153) for infants.

Fees in private childcare centres vary. Fees may vary from CYP 80 (€ 136) to CYP 200 (€340).

Fees are taken into account when determining entitlement to benefits such as public assistance. Public assistance recipients, who use the public childcare facilities, do not pay any fees. If they use other childcare facilities an amount of CYP 40 - CYP 60 (€68 - 102) maximum per month is paid through the public assistance allowance for every child.

8. Employment-conditional benefits

None except the People with Disabilities

8.1 Conditions for receipt

8.2 Calculation of benefit amount

8.2.1 Calculation of gross benefit

8.3 Tax treatment of benefit and interaction with other benefits

8.4 Benefit Duration

8.5 Treatment of Particular Groups

8.5.1 Young persons

8.5.2 Older workers

8.5.3 Others

A. Disabled Persons

The actions for the people with disabilities include:

- a. The enhancement of facilities and services for social integration and vocational rehabilitation of adults with severe disabilities. Incentive schemes for the employment of people with severe disabilities in the private sector, either through coverage of part of costs for their adjustment to the work place (up to 50% of the annual salary or up to £3.000) or through the subsidization of their labour cost (up to 40% of the annual salary or up to £2.400).
- b. The subsidization of contributions to the Social Insurance Fund, for the disabled who will be employed in private sector establishments (up to 20% of the annual salary or up to £1.200).

9. Lone-parent benefits

Please refer to sections 4.2.2 and 4.5.3

10. Tax system

10.1 Income tax

10.1.1 Tax allowances and credits

10.1.1.1 Standard allowances

Standard Tax Allowances For the years 2004-2005 a basic allowance (free of tax) of 10000 CY pounds is given from the taxable income.

10.1.1.2 Tax Credits

The tax credits had been revised for the years 2003 and onwards. The only tax credit given is the tax credit for trade union subscriptions..

10.1.1.3 State and Local Taxes

The municipal professional tax that has been paid by each person working in the area of each municipality according to his/her earnings until 2002 has now been cancelled. This is one of the reasons that the income taxes has been reduced from the year 2003 and onwards.

10.2 Treatment of family income

The income taxing system of Cyprus refers to the income of each person individually and not to the total income of the family as a whole. Thus every person that has income is taxed individually.

10.3 Social security contributions and payroll taxes

10.3.1 *Contributions paid by employees*

[please describe the rules used to calculate contributions paid by **employees** as well as **benefit recipients**]

[please also indicate employee's insurance contributions that are compulsory but not regarded as a tax, if applicable (e.g. compulsory private health insurance). See Annex for details on this distinction.]

The only fund that is compulsory by law is the Social Insurance Fund where each employee contributes 6,3% on his/her annual gross earnings. The medical and provident funds are voluntary funds.

10.3.2 *Contributions paid by employees*

There are two categories of social contributions, the Contributions which are compulsory by Law and the various funds in which the employer contributes voluntarily. It has been decided that for the calculation of the various social indicators (Tax Rate on Low Wage Earners. Low Wage Trap, Unemployment Trap etc.), only the compulsory social contributions should be taken into account.

Compulsory social contributions refer to

- (a) the Social Insurance Fund i.e. 6,3% on gross earnings,
- (b) Redundancy and Industrial Training Fund i.e. 1,7% on gross earnings,
- (c) Annual Leave Fund. (Between 6 – 9% accordingly). This fund is compulsory for the employers that do not pay the annual leave of their employees
- (d) Social Cohesion Fund: This is a new fund that started operation in the year 2003. According to the law, employers are obliged to contribute 2% on the employee's earnings.

[please describe the rules used to calculate contributions paid by **employers**]

[please also indicate employee's insurance contributions that are compulsory but not regarded as a tax, if applicable (e.g. compulsory private health insurance). See Annex for details on this distinction.]

10.3.3 Payroll taxes

[This heading covers taxes paid by employers, employees [...] either as a proportion of payroll or as a fixed amount per person, and which do not confer entitlement to social benefits. See Annex for details].

10.4 Calculation of Income Tax finally paid

The taxable income is derived from the formula: (*Gross Income – (Tax Credits+ State and Local Taxes+ Employees Compulsory Contributions)*)

- (a) The income tax finally paid for the year 2005 is presented below:

<u>Taxable Income(£?)</u>	<u>% of Income Tax</u>
Up to 10000	nil
10001 – 15000	20%
15001 – 20000	25%
20001 and over	30%

10.5 Treatment of particular group

No special treatment for specific groups.

11. Part-time work

11.1 Special benefit rules for part-time work

11.2 Special tax and social security contribution rules for part-time work

12. Policy developments

A. *Economic Developments and Labour Market Context*

The Cyprus economy combines flexibility with a well-functioning labour market. GDP growth is estimated to reach 4.1% in 2005 up from 3.8% in 2004 and 1.9% in 2003. Average GDP growth is expected to be around 4.3% in the period 2005-2009 compared to 3.2% between 2001-2005.

The Cypriot labour market is characterized by conditions of near full employment and, relative to other EU member states, high participation and employment rates. Specifically, in 2004, the overall participation rate amounted to 72.6%. The overall employment rate was 69.1%, while the employment rate for women stood at 59.0%, only marginally below the 2010 Lisbon targets of 70% and 60% respectively. The employment rate for older workers was at 50.1%, exceeding marginally the relevant Lisbon 2010 target of 50%.

In 2004, the unemployment rate, according to the Labour Force Survey was 5% of the economically active population, considerably lower than the EU average. However, Cyprus has been lagging behind in terms of productivity growth, which stood at only 72.2 in 2004, in comparison to 100 for the EU-25.

Additional characteristics of the labour market in Cyprus comprise the following:

- The labour market operates in an environment with a well established social dialogue;
- Quantitative imbalances between supply and demand in the labour market are observed, mainly, in the sectors of hotels and restaurants, wholesale and retail trade as well as construction. At the occupational level, there are shortages in technical and low skilled occupations;
- The employment of large numbers of foreign workers, particularly in unskilled or low-skilled occupations;
- Weaknesses of the educational system in responding to labour market needs in a flexible way;
- Concentration of unemployment among the youth, women and older persons;
- Low utilization of flexible forms of employment, including part-time employment;
- Low labour participation rate of persons with special needs;
- Room for further increase of the participation rate of women in the labour market, indicating an increased need for care services for dependent persons.

B. *Challenges / National Targets in relation to the European Employment Strategy (EES)*

The overall objectives of the Cyprus employment policy initiatives, in line with the EES, concentrate on enhancing the conditions of full employment, improving quality and productivity at work and strengthening social cohesion. The achievement of the above targets requires an effective tackling of the major challenges confronting Cyprus. The main challenges faced by Cyprus are the following:

1. Maintaining high rates of increase of the labour supply, particularly by raising the old-aged and female participation rates and reducing gender inequality;
2. Increasing the flexibility of the labour market;
3. Orderly management of economic migration issues to serve the economic and social needs of the country;
4. Further development of human capital;
5. Enhancing further the conditions of social cohesion.

C. Policy Initiatives addressing the Key Challenges and Employment Priorities

Taking into account the above-mentioned challenges and labour market priorities, as well as the country specific recommendations adopted by the Council in 2004 and still valid, Cyprus has been promoting a range of policy initiatives and measures. These are analysed extensively in the employment chapter of the Cyprus National Lisbon Programme (NLP), but an indicative list is outlined below.

Priority I: Attract and retain more people in employment

- Promotion of Modern and Flexible Forms of Employment in order to facilitate the access of Women to the labour market (EG 18).
- Promotion of training and employability of economically inactive women, the unemployed and young school leavers (3 Schemes) (EG 18).
- Development of family support programmes, to be implemented by NGOs (care for children, elderly and disable (EG 18).
- Vocational training and incentives to employers to hire public assistance recipients in order to promote their occupational rehabilitation (EG 19).
- Modernization of the Public Employment Services (EG 20).
- Implementation as from 2006 of a new strategy for the effective management of economic migration (EG 20).

Priority II: Improve adaptability of workers and enterprises

- Government Grants Scheme supporting SMEs for the use of ICT and the promotion of technological upgrading (EG 21).
- Programme for the Creation of New Enterprises of High Technology and Innovation through Business Incubators, promoting new production methods, including knowledge-intensive products (EG 21).
- Schemes encouraging Female and Youth Entrepreneurship. These aim to foster economic restructuring. They target women and young people aged 18-55 and 20-39 respectively, who wish to engage in various business sectors (EG 21).

Priority III: Increase investment in human capital through better education and skills

- Development of a comprehensive lifelong learning strategy (EG 23).
- Modernisation of the Apprenticeship Scheme to become a more desirable and practical option (EG 23).
- Further support of the training infrastructure of institutions and enterprises (EG 24).
- Introduction of an Appraisal and Certification System for Training Providers (EG 24).
- Introduction of a vocational qualifications system (EG 24).

D. Policy changes for 2006

As of July 1st 2005, the rate for the basic needs increased as follows:

- For the applicant, it increased from CYP 187,5 (€ 319) to CYP 194 (€ 330)
- For dependants older than 14 years of age changed from CYP 93,75 to CYP 97 (€ 159 - 165)
- For dependants less than 14 years of age changed from CYP 56,25 to CYP 58,20 (€ 96 - 99)

Future policy changes announced in 2005 by the Ministry of Labour and Social Insurance

During 2006, it is expected that an amended Public Assistance and Services Law will come into force. Below are some of the provisions which will be introduced by the new legislation:

1. Calculation of the amount of Public Assistance Allowance

- There is an increase in the monthly Rent Allowance to a maximum of CYP 350 (€ 595). The same amount may be provided as an instalment and interest towards a housing loan made by the recipient for the house s/he lives in.
- An amount not exceeding CYP 1.000 (€1.700) may be provided for house repairs.
- An amount of up to CYP 1.000 (€1.700) may be provided for vocational training, tools or other equipment.

2. Income and Earnings disregards

- Savings up to CYP 2.000 (€3.400) for the applicant and CYP 1.000 (€1.700) for each dependant are disregarded for the purpose of eligibility for public assistance provided that the total amount does not exceed CYP 5.000 (€8.500).

- Benefits received by persons with disabilities from the Ministry of Finance¹², the Ministry of Education¹³ and any compensation received because of injury from an accident are discounted when calculating public assistance.

3. *Employment Incentives*

When calculating public assistance allowance, income from the employment of a recipient (CYP50 or € 85), employment of a recipient with disabilities (CYP 200 or a € 340), employment of a recipient older than 63 years of age (CYP 100 or € 170) and from employment of a single parent (CYP 150 or € 255) are discounted.

Public assistance may be continued and gradually reduced for one year after the employment of a recipient. Specifically, the person is entitled to the full amount of public assistance for the first 4 months after his/her employment, to 2/3 of the allowance for the next 4 months and then to 1/3 of the allowance for the rest of the year. If the person, however, receives public assistance according to the above provisions, for four months, s/he will not be entitled to public assistance before the elapse of 6 months after s/he became unemployed, unless the person is incapable to work or it is impossible for him/her to find employment.

¹² Transportation benefit provided to persons with disabilities and the special grant provided to persons with sight problems under Article 6 of the Special Grants Law of 2002.

¹³ Special Honour Grant given to Low-Income Persons of Intellect and Art.

ANNEX DEFINITION OF SOCIAL SECURITY CONTRIBUTIONS AND PAYROLL TAXES.

The following text has been adapted from Annex A of the OECD Revenue Statistics.

Social security contributions to general government

Classified here are all compulsory payments that confer an entitlement to receive a (contingent) future social benefit. Such payments are usually earmarked to finance social benefits and are often paid to institutions of general government that provide such benefits. However, such earmarking is not part of the definition of social security contributions and is not required for a tax to be classified here. However, conferment of an entitlement is required for a tax to be classified under this heading. So, levies on income or payroll that are earmarked for social security funds but do not confer an entitlement to benefit are excluded from this heading and shown under personal income taxes or taxes on payroll and workforce. Taxes on other bases, such as goods and services, which are earmarked for social security benefits are not shown here [...] because they generally confer no entitlement to social security benefits.

Contributions for the following types of social security benefits would, *inter alia*, be included: unemployment insurance benefits and supplements, accident, injury and sickness benefits, old-age, disability and survivors' pensions, family allowances, reimbursements for medical and hospital expenses or provision of hospital or medical services. Contributions may be levied on both employees and employers.

Social security contributions paid to institutions outside general government

Contributions to social insurance schemes which are not institutions of general government and to other types of insurance schemes, provident funds, pension funds, friendly societies or other saving schemes [are included here if they are compulsory or quasicompulsory (e.g., by virtue of agreement with professional and union organisations)]. Provident funds are arrangements under which the contributions of each employee and of the corresponding employer on his/her behalf are kept in a separate account earning interest and withdrawable under specific circumstances. Pension funds are separately organised schemes negotiated between employees and employers and carry provisions for different contributions and benefits, sometimes more directly tied to salary levels and length of service than under social security schemes.

Payroll taxes

This heading covers taxes paid by employers, employees [...] either as a proportion of payroll or as a fixed amount per person, and which do not confer entitlement to social benefits. Examples of taxes classified here are the United Kingdom national insurance surcharge (introduced in 1977), the Swedish payroll tax (1969-1979), and the Austrian Contribution to the Family Burden Equalisation Fund and Community Tax.

