

# THE OECD TAX-BENEFIT MODEL FOR CYPRUS

Description of policy rules for 2018



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**OECD team:** Olga Rastrigina (lead author), Marion Bachelet, James Browne, Herwig Immervoll, Dirk Neumann, Daniele Pacifico

**National team:** Costas Stavrakis (co-ordinator), Maria Chrysostomou, Niki Odysseos, Yiota Makriyanni and Maria Hadjisoteriou: Ministry of Labour, Welfare, and Social Insurance

This version : June 2018 – via <http://www.oecd.org/els/benefits-and-wages.htm>

REFERENCE: No. VS/2015/0427 (DI150030 & DI151310)

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## *Table of contents*

<b>Preface</b>	<b>5</b>
<b>The OECD tax-benefit model for Cyprus: Policy rules in 2018</b>	<b>6</b>
<b>1. Reference wages</b>	<b>6</b>
<b>2. Unemployment benefits</b>	<b>6</b>
2.1. Unemployment benefit (Ανεργιακό επίδομα)	6
<b>3. Social assistance and housing benefits</b>	<b>9</b>
3.1. Guaranteed minimum income (Ελάχιστο εγγυημένο εισόδημα)	9
3.2. Housing allowance (Επιχορήγηση για το ενοίκιο και τους τόκους στεγαστικού δανείου)	11
<b>4. Family benefits</b>	<b>13</b>
4.1. Child benefit (Επίδομα τέκνου)	13
4.2. Single parent benefit (Επίδομα μονογονεϊκής οικογένειας)	14
<b>5. Childcare for pre-school children</b>	<b>15</b>
5.1. Gross childcare fees	16
5.2. Fee discounts and free provision	16
5.3. Child-care benefits for formal centre-based care	17
5.4. Child care allowance for children not using child care centers	18
5.5. Tax concessions for childcare expenditures	18
<b>6. Social security contributions and payroll taxes</b>	<b>18</b>
6.1. Employee social security contributions (Υψος εισφορών που καταβάλλεται στο Ταμείο Κοινωνικών Ασφαλίσεων από το μισθωτό)	18
6.2. Employer social security contributions (Υψος εισφορών που καταβάλλεται στο Ταμείο Κοινωνικών Ασφαλίσεων από τον εργοδότη)	18
6.3. Payroll taxes (Εισφορές εργοδοτών σε άλλα ταμεία)	18
<b>7. Taxes</b>	<b>19</b>
7.1. Personal income tax (Φόρος εισοδήματος)	19
<b>Annex: Other benefits and direct taxes</b>	<b>20</b>
GMI subsidy for municipal and other taxes (Επιχορήγηση ΕΕΕ για κάλυψη Δημοτικών ή Άλλων Παρόμοιων Τελών)	20
GMI supplement for extraordinary needs (Επιχορήγηση ΕΕΕ για κάλυψη Έκτακτων Αναγκών)	20
GMI supplement for care and assistance (Επιχορήγηση ΕΕΕ για κάλυψη αναγκών φροντίδας)	20
Student grant (Φοιτητική χορηγία)	21

## Preface

The [OECD Tax-Benefit model](#) (**TaxBEN**) incorporates detailed policy rules for tax liabilities and benefit entitlements as they apply to individual families across OECD member countries. Its main use is to calculate the amount of taxes that people are liable to pay, and the government transfers they are likely to receive, in different family and labour-market situations. The model includes legal policy rules that are relevant for people of **working age** (from 18 years old until the statutory retirement age) and their dependent children. Income tax liabilities and benefit entitlements are calculated for a broad set of *stylised* families (“vignettes”, e.g. a married couple of 40 years old adults with two children aged 4 and 6 respectively). Model users are free to change many of these characteristics, including the age and number of children, activity status of adult members, hours of work, current and past earnings levels, unemployment duration, social contribution records, and housing-related costs. The model has been updated annually since the early 2000s for most OECD countries.

TaxBEN’s policy scope includes the main taxes on employment income (earnings), social contributions paid by individuals and by employers, as well as the main cash and near-cash benefit programmes, including unemployment benefits, family benefits, guaranteed minimum-income benefits, cash housing benefits, and employment-conditional benefits. Disability benefits and support for non-parental childcare are included for a sub-set of countries and years. The most important policy areas that are outside the scope of the model include taxes on wealth (e.g. taxes on immovable and movable properties, including local taxes), indirect taxes (e.g. VAT), early-retirement benefits, sickness benefits and in-kind transfers (e.g. free school meals, subsidised transport and free health care).

This report describes the taxes and benefits that are included in the model and focuses on the rules that are relevant for family, individual and labour-market circumstances that are within its scope. The **Annex** provides information on other cash benefits and taxes on employment incomes that can be relevant for some members of the working-age population, but which are not included in the TaxBEN model.

### Reading notes and further details on the scope and content of this report

- The **reference date** for policy rules described in this report is **January 1, 2018**.
- **Guidelines for completing and updating this report** are provided [here](#).
- Further information on the model, model results, and references to reports and analytical uses is available on the [project website](#). A [methodology](#) document provides a full description of the assumptions underlying the model as well as the model choices that users can make. The symbol  in the text provides a link to a glossary of technical terms.
- Section titles provide the names of taxes and benefits as they are known in the country: first, direct translation into English, then (in brackets) the name in the national language.
- In order to facilitate transparency between the policy descriptions and the associated code in the model, the variable names are indicated in the text in square brackets using the following format: **[variable name]**, for instance: **[AW]** for the average wage.

## The OECD tax-benefit model for Cyprus: Policy rules in 2018

### 1. Reference wages

The preliminary 2018 average wage [AW] is EUR 23 024 per year.<sup>1</sup>

Cyprus has no statutory national minimum wage. However, there are minimum wages for certain professions that have employment contract (these are not covered by the model). [MIN].

### 2. Unemployment benefits

#### 2.1. Unemployment benefit (*Ανεργιακό επίδομα*)

Variable names: [UI\_p; UI\_s]

This is an unemployment insurance benefit. It is contributory, not means-tested and not taxable. (i)

##### 2.1.1. Eligibility conditions (i)

**Age:** The person has reached the age of 16 but is not above 63 years old. The upper age limit is extended up to the age of 65 if the insured person is not entitled to statutory pension.

**Contribution/employment history:** 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 earnings.

The insured person has paid or been credited with contributions in the relevant contribution year<sup>2</sup> on insurable earnings not lower than 20 times the weekly amount of the basic insurable earnings.

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<sup>1</sup> The average wage refers to the total gross annual earnings for actual hours worked. It includes the basic rate of pay for normal hours worked, overtime earnings, cost of living allowance, the year-end and similar bonuses as well as other bonuses and gratuities paid irregularly during the year. Reimbursements of traveling, subsistence and similar expenses are excluded. Payments for days not worked and wages and salaries of apprentices are included. Guaranteed remuneration in the event of sickness is included because it cannot be removed. Payments to employees saving schemes and wages in kind are not included. The figures refer to the gross earnings, i.e. before any deductions for income tax, social insurance fund; medical, provident and other funds have been made.

**Behavioural requirements and related eligibility conditions:**  TaxBEN assumes that the following compulsory conditions are satisfied when simulating unemployment benefits.<sup>3</sup> The benefit claimant is:

- registered as unemployed;
- capable and willing to work.

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

#### 2.1.2. *Benefit amount*

The Unemployment Benefit is composed of two parts: the basic and the supplementary benefit. It is calculated based on a system of insurance points and the gross earnings received by the unemployed person in the relevant contribution year. If the person gets unemployed before 1 July in year X, then the calculation will take place based on the insurable points and the earnings of year X-2. If the person gets unemployed after the first of July year X, the benefit will be calculated based on the figures of year X-1. In the model it is assumed that a person gets unemployed on 1 January 2018, i.e. calculations are based on insurable points in 2016.

The insurable points (earnings) in 2016 were EUR 9 068 per year.

**Basic benefit:** 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 relevant contribution year.

**Increase for dependants<sup>4</sup>:** In case the applicant has a dependent spouse, the weekly rate of basic benefit will increase by one third (1/3). In case the applicant has dependent children or other dependants, the basic benefit will be increased by one-sixth (1/6) for each child. Maximum two dependent children are considered.

The increase for the dependent spouse is payable only if the spouse has no earnings from employment and does not receive any benefit from the Social Insurance Fund. In the case where both spouses are entitled to a benefit for the same period, the increase for dependants is payable only to the spouse who is entitled to increase of benefit at a higher rate.

**Supplementary benefit:** 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

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<sup>2</sup> Relevant contribution year: if the person gets unemployed before 1<sup>st</sup> of July in year X, then the relevant contribution year is X-2. If the person gets unemployed on first of July onwards, then the relevant contribution year is X-1.

<sup>3</sup> Details on behavioural requirements and sanction provisions for unemployment benefits are reported in regularly updated companion reports, see Immervoll and Knotz (2018, forthcoming), [Langenbucher \(2015\)](#) and [Venn \(2011\)](#).

<sup>4</sup> Dependents of the insured person include: spouse with whom the dependent 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 15-25 who is serving at the National Guard or attending full-time education, unmarried child, parent or brother/sister incapable of self-support.

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the basic insurable earnings. There is no increase for dependants in the supplementary part.

#### *2.1.3. Benefit duration*

In case of an employed person, the payment of the benefit starts from the 4<sup>th</sup> day of unemployment and in the case of a voluntarily insured person, working in the service of Cypriot employer, the payment stars after the first 30 days of unemployment.

The unemployment benefit is payable for 156 days (26 weeks) in each period of interruption of employment.

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 or 13 weeks in case he/she has reached the age of 60 and is not receiving a pension, 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.

#### *2.1.4. Means test*

The benefit is not means-tested.

#### *2.1.5. Tax treatment*

The benefit is not taxable.

#### *2.1.6. Interactions with other components of the tax-benefit system*

If 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 case of 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.

The Unemployment Benefit is considered as income for the purposes of income calculation pertaining to other benefits (i.e. GMI, Child Benefit, etc.).

#### *2.1.7. Combining benefit receipt and employment/starting a new job*

A day does not count as a day of unemployment if the insured person is gainfully employed on that day. Where the gainful employment is outside normal working hours and the amount earned does not exceed the daily average of 1/12 of weekly basic insurable earnings (for 2018 €14.53 per day) then unemployment benefit can be paid. There is no limit with respect to the days, as long as the hours are such that do not prevent the unemployed person to enter into full time employment but the amount is strictly observed. Since the unemployment benefit is paid for 6 days per week, the corresponding monthly amount is estimated to €377.78. In the model, only work during normal working hours is considered, thus accumulation with earnings in the model is not possible.

### 3. Social assistance and housing benefits

#### 3.1. Guaranteed minimum income (*Ελάχιστο εγγυημένο εισόδημα*)

Variable name: **[SA]**

This is a non-contributory benefit, means-tested and not taxable.

The Guaranteed Minimum Income (GMI) was enacted in July 2014, replacing the previous Public Assistance. It is described in Section **Error! Reference source not found.** Housing allowance (described in Section 3.2. ) and supplement for child care (described in Section **Error! Reference source not found.**) are provided as part of GMI. There are also some additional payments for extraordinary needs and for care and assistance or if disability is established (not simulated). These benefits are described in the Annex.

##### 3.1.1. Eligibility conditions

The GMI benefit can be claimed by individuals at least 28 years old, or married, or single parent, or orphaned person, or person with disability, or person under the care of the Welfare Services.

The general conditions under which the GMI is provided are as follows:

- Total gross monthly income of family unit is lower than basic needs (including housing allowance).
- The claimant's property is taken into account for the entitlement to GMI (except if it is their main residence) as well as family members' property other than their primary residence, worth more than €100,000. The person's/ family's owned property of residence is not taken into account if it does not exceed 300 m<sup>2</sup>. Immovable property worth from €100,000 until €200,000 is not taken into account, if is burdened the whole or the greater part thereof, due to encumbrance entry or usufruct (before the 11th July 2014). (not simulated).
- Total deposits of family unit are lower than €5.000 for one individual, plus €1.000 for every additional individual in the family unit (not simulated).
- Total monetary assets, other than deposits, are lower than €5.000. Monetary assets include bonds, insurance policies, stocks and similar assets (not simulated).

GMI is provided on the condition that the beneficiary and all eligible family unit members are actively seeking employment and are therefore registered as unemployed. This condition only applies to persons that are capable for work, i.e. are between the age of 18-65, are not in education or employment and are not persons with disabilities or incapable to work for other justified reasons.

##### 3.1.2. Benefit amount

The monthly GMI allowance depends on the composition of the family unit (which determines the level of the needs) and the level of the income of the family unit. The monthly benefit reflects the difference between the level of needs and the level of the income of the family unit, after taking into account various income disregards that are provided for by the legislation.

The minimum consumption basket is a reference basket that was developed for the calculation of the monthly minimum needs of reference family units. The monthly rates for the minimum consumption basket are:

- €480 per month for the applicant (head of family unit)
- €240 for the spouse
- €240 for every dependant that is between 14 and 28 years of age
- €144 for every dependant that is below the age of 14

### *3.1.3. Benefit duration*

There is no fixed duration of the GMI benefit. The benefit is granted for as long as the recipient is in need of assistance, and as long as the recipients and the members of the household abide by the obligations stated in Article 18 of the L.109(I)/2014.

### *3.1.4. Means test*

The following categories are included from the calculation of the income for the GMI:

- income from work of the applicant as well as the family members,
- income from real property and movable assets,
- income from any pension plan, pension fund, social insurance plan or occupational plan,
- alimony, and
- benefits and grants given by the government and the Social Insurance Scheme.

The following categories of income are excluded from the calculation of income:

- Benefits and grants provided due to disability by the Department for Social Integration of People with Disabilities
- Funeral allowance
- Childbirth allowance
- Soldiers grant
- Income relating to training allowance or to acquire vocational experience
- Students' grant
- Soldiers' allowance
- Charity Organisations' contributions
- Scheme supporting pensioners' households with low income
- Monthly allowance granted by the Ministry of education and Culture to people of literature and arts
- Amounts provided by persons belonging to the family unit, from the Welfare Lottery Fund or economic assistance granted from the Ministry as an emergency financial aid given upon approval of the Minister

Furthermore, the following discounts (income disregards) are given when calculating the level of income from employment:

- Concerning the monthly income from work of either the applicant or the spouse, if the income exceeds €500, the first €170 is excluded.

- For monthly income less than €500, the income excluded is calculated as follows:
  - The first €50 are not taken into account
  - The next €50 until €200, 40% is excluded
  - The next €200 until €500, 20 % is excluded
  - If the applicant or the spouse is a handicapped person, then the first 512€ is excluded.
- From the monthly income for every adult child who is below the age of 28, 50% of the first €480 are excluded.
  - For income exceeding €480, it is taken into account as follows:
    - The next € 480 until € 1000, 10% is excluded
    - The next €1000 until €2000, 15% is excluded
    - For income exceeding €2000, 20% is excluded.

### *3.1.5. Tax treatment*

The benefit is not taxable.

### *3.1.6. Interaction with other components of the tax-benefit system*

None.

### *3.1.7. Combining benefit receipt and employment/starting a new job*

The benefit can be combined with employment.

## **3.2. Housing allowance (Επιχορήγηση για το ενοίκιο και τους τόκους στεγαστικού δανείου)**

Variable name: **[HB]**

This is a non-contributory benefit, means-tested and not taxable.

Housing allowance is provided as part of the Guaranteed Minimum Income (see 3.1.). In the model it is simulated separately from GMI and is classified as “Housing benefits”.

### *3.2.1. Eligibility conditions*

The general condition for receiving a housing allowance is being entitled to the GMI. The housing allowance is provided either when the beneficiary is living under rent or when the applicant is living in an owned house for which they have to pay mortgage interest for the housing loan.

### *3.2.2. Benefit amount*

The housing allowance is granted when either the beneficiary is living in a rented property or in an owned property for which they pay mortgage interest. The level of the housing allowance is calculated according to the composition of the family unit and the district of residence.

The estimated area of residence of a person is 55 square meters. No additional calculated space for the spouse.

An additional 25 square meters is added in the following cases:

- Persons with disabilities or in case with the applicant stays with a disabled person.
- In the case where the applicant's family unit includes: 1 minor child, 2 minors of the same sex and/ or an adult child. For any further child the general rule is that the space is accounted for every 2 additional minors of the same sex and / or for every additional child. For instance, if the 2<sup>nd</sup> minor child is of different sex 25m<sup>2</sup> is accounted. If the 2<sup>nd</sup> child is of the same sex as the 1st no further space is accounted for. If there are three children of the same sex, 20 m<sup>2</sup> shall be assigned for the 1<sup>st</sup> and 2<sup>nd</sup> and 25m<sup>2</sup> shall be assigned for the 3<sup>rd</sup>. If there are two boys and one girl, 20m<sup>2</sup> shall be assigned for the boys and 25m<sup>2</sup> shall be assigned for the girl.

The amount granted is also in relation to the district of residence of the applicant, whereas different amounts are granted by district as follows:

- Nicosia/ Limassol/ Famagusta: 2,80€/m<sup>2</sup>
- Larnaca: 2,45€/m<sup>2</sup>
- Paphos: 1,75€/m<sup>2</sup>

In the model the region of Nicosia-Limassol-Famagusta is assumed.

Additionally, for persons with disabilities, the total housing allowance can be increased by 20%, or up to 50% for persons dependent upon wheelchairs or persons with increased needs of care and assistance (not simulated).

All children in the model are assumed to be below 18 years old. Sex of children is not specified in the model. Thus, the maximum potential benefit amounts (given the number of children) are simulated. In case of a family with 2 children, this means assuming children of different gender (the benefit is 280 EUR per month). In case of a family with 4 children, this means assuming three children of the same gender and one child of the opposite gender (the benefit amount is 360 EUR per month).

The amount of the benefit can never exceed the actual rent.

### *3.2.3. Benefit duration*

There is no fixed duration of the benefit. The benefit is granted for as long as the recipient is in need of assistance of the GMI and as long as the recipients and the members of the household abide by the obligations stated in Article 18 of the L.109(I)/2014.

### *3.2.4. Means test*

See section 3.1.4. If the means-test for GMI is satisfied, the beneficiary is entitled to housing allowance. In the model GMI and housing allowance are calculated separately. Each of them is reduced proportionally due to means-test.

### *3.2.5. Tax treatment*

Benefits are not taxable.

### 3.2.6. Interaction with other components of the tax-benefit system

There is no interaction with other benefits, except that the claimant has to be an approved GMI beneficiary

### 3.2.7. Combining benefit receipt and employment/starting a new job

The benefit can be combined with employment.

## 4. Family benefits

### 4.1. Child benefit (*Επίδομα τέκνου*)

Variable name: **[FB\_main]**

This is a non-contributory benefit, means-tested and not taxable.

#### 4.1.1. Eligibility conditions

The child allowance is granted to the family only for the number of unmarried and dependent children who live with the family under the same roof. The term dependent children is defined as children:

- Up to 18 years of age
- Aged up to 19 years if they are attending a secondary education school
- Aged up to 21 years if they serve in the National Guard
- Irrespective of age, children who lack a permanent capacity to support themselves.

Eligibility criteria for the child benefit include:

- The family does not own assets (including immovable and movable property, deposits etc.) in excess of €1.2 mil in current prices (not simulated).
- The family's gross annual income for the previous year does not exceed €49,000 for families with one dependent child and €59,000 for families with two dependent children. For each additional child over two, the threshold is increased by € 5,000, i.e., for three children is € 64,000, for four children is € 69,000 etc. (in the model current income is tested).

#### 4.1.2. Benefit amount

Child benefit is calculated in respect with the number of eligible children and the level of the gross annual income of the family, in accordance with the following table:

Number of Children	Annual Child Benefit amount, per child, for families with gross annual income for the previous year (2017):			
	Up to €19.500	€19.500-€39.000	€39.001-€49.000	€49.001-€59.000
1 child	€475	€425	€380	€0
2 children	€570	€520	€380	€345
3 children	€1,045	€995	€760	€690
4 children plus	€1,675	€1,525	€1,260	€1,135

The rate of child benefit paid to a family with three dependent children and a total annual gross income between €59,000 and €64,000 is €690.00 per child per year. For a family

with four dependent children and the same total gross income the rate is EUR 1,135.00 per child per year. The rate of child benefit paid to a family with four dependent children and a total annual gross income between €64,000 and €69,000 is €1,135.00 per child per year.

#### *4.1.3. Benefit duration*

As long as the eligibility conditions hold during the calendar year of 2018.

#### *4.1.4. Means test*

The benefit amount depends on the total gross annual family income gained during the previous year as described in Section 4.1.2. Gross annual income includes primary income, public fund, unemployment benefit, sickness benefit, maternity benefit, child birth grant, interest dividend, child maintenance fees and public pensions.

#### *4.1.5. Tax treatment*

The benefit is not taxable.

#### *4.1.6. Interaction with other components of the tax-benefit system*

Child benefit does not affect the individuals tax base. However it is included in the means-test for calculating GMI.

#### *4.1.7. Combining benefit receipt and employment/starting a new job*

The benefit can be combined with employment as long as the means-test is satisfied.

### **4.2. Single parent benefit (Επίδομα μονογονεϊκής οικογένειας)**

Variable name: **[LPB]**

This is a non-contributory benefit, means-tested and not taxable.

#### *4.2.1. Eligibility conditions*

The Single Parent Benefit is provided to a single parent family with respect to dependent children.

The term dependent children is defined as children:

- Up to 18 years of age
- Aged up to 19 years if they are attending a secondary education school
- Aged up to 21 years if they serve in the National Guard
- Irrespective of age, children who lack a permanent capacity to support themselves.

Single parent family means a family where a lone parent, without a spouse/companion, lives with at least one dependent child, either from marriage or out of wedlock and lives alone because he/she is single, widowed, divorced or because one of the parents is declared by the court as a missing person.

Eligibility criteria for the Single Parent Benefit include:

- The family does not own assets (including immovable and movable property, deposits, etc.) in excess of €1.2 million in current prices (not simulated).

- The family's gross annual income for the previous year does not exceed €49.000 (in the model current income is tested).
- The family has permanent and usual residence in the Republic of Cyprus for the three years prior to the application for Single Parent Benefit (assumed to hold).

#### *4.2.2. Benefit amount*

Single Parent Benefit is calculated in respect with the number of eligible children and the level of the gross annual income of the single parent family, in accordance with the following table:

Gross Family Income	Single parent benefit, per child, per year
Up to €39.000	€2.160
€39.001 to €49.000	€1.920

#### *4.2.3. Benefit duration*

For as long as the single parent has eligible children and is living alone, without a spouse during the calendar year 2018.

#### *4.2.4. Means test*

The benefit amount depends on the total gross annual family income gained during the previous year as described in Section **Error! Reference source not found.** Gross annual income includes primary income, public fund, unemployment benefit, sickness benefit, maternity benefit, child birth grant, interest dividend, child maintenance fees and public pensions.

#### *4.2.5. Tax treatment*

The benefit is not taxable.

#### *4.2.6. Interaction with other components of the tax-benefit system*

Single parent benefit does not affect the individual's tax base. However, it is included in the means-test for calculating GMI.

#### *4.2.7. Combining benefit receipt and employment/starting a new job*

The benefit can be combined with employment as long as the means-test is satisfied.

### **5. Childcare for pre-school children**

The **reference date** for the policy rules described in this section is **July 1, 2018**.

Child-care services are provided by the public, non-governmental and, mostly, by the private sector.

Childcare services for children up to 4 years and 8 months are inspected by the Ministry of Labour, Welfare and Social Insurance (Social Welfare Services), while pre-school education (from 3 to 5 years and 8 months) is provided and inspected by the Ministry of Education and Culture (MOEC). Compulsory education starts at age 4 years and 8 months.

### **5.1. Gross childcare fees**

Variable name: **[CYcc\_cost]**

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.

Pre-primary education is **offered freely** to children aged 4 years and 8 months to 5 years and 8 months (in the model identified as 5 to 6 years old) who attend public kindergartens. **Younger children** aged 3 years to 4 years and 8 months (in the model identified as 3 to 4 years old) **take up vacant places** in public kindergartens and pay low fees – a symbolic amount of €42 per child per month. **Full fee reduction** is given to poor families (those receiving GMI on monthly basis) or families with four children or above (fees are €25 per child per month). Public kindergartens are operating according to formal education timetable, that is 7:30 – 13:05.

In addition, the attendance fees for community kindergartens, which function together with the public kindergartens of the MOEC, are much less than the private schools and vary from €80-€120 per child per month.

Fees for childcare services provided by NGOs tend to be lower than fees for private childcare. Average fees per child per month are set between €65-€180 for children between 2-4<sup>8/12</sup> and between €100-€390 for infants.

Fees in private childcare centres may vary from €150 to €400 per child per month.

Fees for childcare services provided by Child Minders may vary between €250-€350 per child per month.

#### **5.1.1. Discounts for part-time usage (not modelled)**

None.

### **5.2. Fee discounts and free provision**

Pre-primary education is **offered freely** to children aged 4 years and 8 months to 5 years and 8 months who attend public kindergartens. **Younger children** aged 3 years to 4 years and 8 months **take up vacant places** in public kindergartens and pay low fees – a symbolic amount of €42.

#### **5.2.1. Eligibility**

The Ministry of Education and Culture (MOEC) **assessed and reviewed the criteria used to allocate the vacant places to younger children** of non-compulsory education (aged 3 to 4 years and 8 months old), in public kindergartens, due to the socioeconomical changes the last years in Cyprus. According to the revised criteria, priority is given to children at risk and socioeconomic deprivation. For example, some of the new criteria include children under the protection/supervision of the Welfare Office or orphans or poor children whose parents are unemployed, children of a family with many children or a single parent family as well as children of political refugees or of different origin.

### *5.2.2. Amount of discount or free provision*

### *5.2.3. Variation by income*

## **5.3. Child-care benefits for formal centre-based care**

Variable name: **[cc\_benefit]**

A targeted (means-tested) childcare benefit exists under the GMI legislation. The childcare needs of GMI beneficiaries are covered through the Scheme for the Subsidisation of Care Services (Decree 162/2016). GMI beneficiaries may receive monthly an amount of up to €102 per child for the use of approved childcare facilities (i.e. day care centres for pre-school children, child minders, public kindergartens of the MOEC and day care centres for school age children), provided by the public sector (MOEC), the private sector and the non-governmental sector. The amount of the benefit cannot exceed actual childcare expenses incurred by parents. In the model this benefit is always zero because GMI recipients have full fee reduction in public kindergartens. Other childcare costs are not considered in the model.

### *5.3.1. Eligibility*

In order to receive the childcare benefit the person must be an approved GMI beneficiary fulfilling the relevant eligibility conditions of the GMI (see Section **Error! Reference source not found.**).

### *5.3.2. Benefit amount*

Up to €102 per child per month. It should be noted that this amount is not fixed as it is incorporated in the total amount of the GMI benefit, and in the case the beneficiary has an income that is taken into account for the final calculation of the GMI benefit, then the childcare benefit may be reduced accordingly.

### *5.3.3. Benefit duration*

The childcare benefit is provided for pre-school (up to 5 years and 8 months) and school age children (up to 18 years old). In practice children up to 12 years old use afterschool activities. In the model, only pre-school age children are considered for this benefit.

### *5.3.4. Means test*

If the means-testing for GMI is satisfied, the beneficiary is entitled to the childcare allowance (see Section 3.1.4.).

### *5.3.5. Tax treatment*

Benefit is not taxable.

### *5.3.6. Interaction with other benefits*

There is no interaction with other benefits, other than for the claimant to be an approved GMI beneficiary.

### *5.3.7. Combining benefit receipt and employment/starting a new job*

The benefit can be combined with employment, as long as the eligibility conditions for the GMI are fulfilled.

### **5.4. Child care allowance for children not using child care centers**

None.

### *5.5. Tax concessions for childcare expenditures*

None.

## **6. Social security contributions and payroll taxes**

### **6.1. Employee social security contributions** (*Υψος εισφορών που καταβάλλεται στο Ταμείο Κοινωνικών Ασφαλίσεων από το μισθωτό*)

Variable names: **[sc\_p; sc\_s]**

The only fund that is compulsory by law for the employee is the Social Insurance Fund where each employee contributes 7,8% on his/her insurable earnings<sup>5</sup>. The medical and provident funds are voluntary funds (and therefore are not simulated).

### **6.2. Employer social security contributions** (*Υψος εισφορών που καταβάλλεται στο Ταμείο Κοινωνικών Ασφαλίσεων από τον εργοδότη*)

Variable name: **[sscr\_p; sscr\_s]**

The Employer is obliged by Law to contribute to the following funds:

- The Social Insurance Fund: The employer contributes 7.8% on the insurable earnings of the employee to the Social Security Fund.<sup>6</sup>
- Redundancy Fund: 1.2% on gross earnings.

### **6.3. Payroll taxes** (*Εισφορές εργοδοτών σε άλλα ταμεία*)

Variable names: **[sscr\_p; sscr\_s]**

The following two funds fall under the description of Payroll Taxes:

- Social Cohesion Fund: According to the law, employers are obliged to contribute 2% on the employee's earnings.
- Industrial Training Fund: The employer contributes 0.5% on the employee's earnings.

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<sup>5</sup> Insurable earnings: gross earnings up to a ceiling of €4.533 per month or €54.396 per year for 2018.

<sup>6</sup> In the Public Sector organizations (central government, semi-government organizations and local administration), the employer contributes 11.65% on the employee's insurable earnings in relation to 3.95% contributed by the employee for employees covered by occupational pension schemes. This is not simulated in the model.

## 7. Taxes

The income tax 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.

### 7.1. Personal income tax (*Φόρος εισοδήματος*)

Variable name: **[IT\_P; IT\_s]**

#### 7.1.1. Tax allowances

There are no tax allowances in Cyprus, but there is a zero income tax bracket (see Section 7.1.3.).

#### 7.1.2. Tax base

The tax base is derived by subtracting employee social insurance contributions from gross income.

#### 7.1.3. Income tax schedule

The income tax schedule for the year 2014 is presented below:

Taxable Income	% of income tax
0 to €19.500	0%
€19.500 to €28.000	20%
€28.000 to €36.300	25%
€36.300 to €60.000	30%
Over €60.000	35%

#### 7.1.4. Tax credits

The only tax credit is the tax credit for trade union subscriptions. It is not simulated.

## Annex: Other benefits and direct taxes

This section provides a brief description of other cash benefits and taxes on employment incomes in Cyprus that are relevant for some members of the population below the statutory retirement age, but which are not included in the OECD tax-benefit model.

### **GMI subsidy for municipal and other taxes** (*Επιχορήγηση ΕΕΕ για κάλυψη Δημοτικών ή Άλλων Παρόμοιων Τελών*)

All GMI beneficiaries are entitled to an additional subsidy to cover for the cost of some municipal taxes. This subsidy is provided only after the taxes have been paid for to the relevant authority, and under the condition that any discount offered by the relevant authority, has been claimed by the beneficiary.

The municipal taxes that can be claimed under the above provisions are:

- Sewer rates imposed by the sewer board on the value of the property
- Garbage collection charge by the local authorities
- Municipal tax for main place of residence.

These taxes are not simulated in the model.

### **GMI supplement for extraordinary needs** (*Επιχορήγηση ΕΕΕ για κάλυψη Εκτακτων Αναγκών*)

In certain cases, additional assistance can be provided to GMI beneficiaries, when they are faced with emergency, extraordinary or unforeseeable expenses. Such expenses may include emergency repairs to the house due to a disaster, replacement of furniture or appliances under certain circumstances and other similar extraordinary expenses.

### **GMI supplement for care and assistance** (*Επιχορήγηση ΕΕΕ για κάλυψη αναγκών φροντίδας*)

GMI beneficiaries who are in need of short or long term care and assistance are provided with either in kind services or a cash reimbursement of the cost for acquiring the service. Care services may include home care, day care and residential care, and they may be provided by the governmental, non-governmental or private sector.

**Home care** covers an extensive range of care services which include personal and household care. To cover the needs of home care either by an approved physical and/or legal entity, or by a Domestic Worker, the maximum amount of the subsidy is €400/month per family unit. The amount has been increased from 240€ to 400€ based on the revised Decree 75/2016, dated 8.3.2016. For extraordinary and justified cases a higher amount can be covered, for instance, when additional care attendants are required.

**Day care** is provided by approved adult centres which serve elderly people and people with disabilities during the day and which may be operated by physical and/or legal entities (NGOs, Local Authorities, private sector). Day-care service providers look after people for a number of hours during the day and they provide them with - amongst other things - care services, meals, creative activities and entertainment. It is more flexible and enhances the service provided both to the people themselves, contributing to their social inclusion, and to working members of their family who are burdened with their care. The State may pay a cash benefit of up to €137 for day care provided by approved physical and/or legal entities. In some cases the transportation/accompanying costs are also covered.

**Residential care:** covers 24-hour care, where the person requires continuous support and their needs cannot be covered by family members or other supportive services in their environment. The State may pay monthly cash benefit for residential care provided by approved physical and/or legal entities. Cash benefits vary from €625 to €745 (without VAT) per month depending on the care needs of the beneficiary (e.g. bedridden, mobility difficulties or not).

**Child care:** See Section 5.3.

In all cases where care is provided, a recipient's income from whatever source is taken into account when estimating his/her supplementary entitlements in either cash or in kind benefits.

#### **Student grant (Φοιτητική χορηγία)**

Students studying in recognized tertiary education institutions in Cyprus or abroad are entitled to a student grant. The student grant is payed annually to the family, for each eligible student, according to the following table:

Family Income	Annual Student Grant	Additional Grant for institutions with fees	Additional Grant for families with 3 or more children
Up to €39.000	€1.710	€855	€855
€39.001 to €49.000	€1.580	€790	€790
€49.001 to €59.000	€1.450	€725	€725

#### **Child care for pre-school children (σύστημα προσχολικής εκπαίδευσης και φροντίδας)**

The MOEC is responsible to ensure that all children aged between 4 8/12 and 5 8/12 can enrolled in a public kindergarten. Parents can also choose to enrol their child in a private kindergarten. In addition, in public kindergartens the educational needs of a number of 3 - 4 8/12 year olds are satisfied, provided that there are available places. The MOEC operates 271 public kindergartens (academic year 2016-2017) and subsidies also the operation of community kindergartens (80 kindergartens academic year 2016-2017) which function together with the public kindergartens most of the times and cater mainly for children aged 3 - 48/12 years.

Government's priority over the years is the provision of accessible, affordable and quality social care programmes at local level with the involvement of local stakeholders. In this direction, the Ministry of Labour, Welfare and Social Insurance implements the State Aid Scheme, under the Regulation 360/2012, where NGOs and Local Authorities may receive state aid based on certain criteria for the development and functioning of quality social

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care programmes (i.e. day care centres for pre-school / school age children). In 2017, 155 organisations received state aid for the operation of 241 social care programmes (of which 126 are for children) at local level with a total budget of over 7,5 ml euros.

Childcare services for children up to the age of compulsory education (48/12 years) is also provided by Child Minders which are registered based on the relevant legislative framework (Children's Law, Subject 352 and Regulations) and are inspected by the Social Welfare Services. Child Minders provide childcare services to a small number of children and according to the latest data there are 60 registered Child Minders.