

THE OECD TAX-BENEFIT MODEL FOR CYPRUS

Description of policy rules for 2020



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Reference contact at the OECD: Olga Rastrigina (Tax-Benefit.Models@oecd.org)

National team: Costas Stavrakis (co-ordinator), Maria Chrysostomou, Niki Odysseos, Yiota Makryianni and George Tsiappas: Ministry of Labour, Welfare, and Social Insurance

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Directorate for Employment, Labour and Social Affairs, Jobs and Income Division

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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 unmovable 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 **1 January 2020**.
- **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 2020

1. Reference wages

Average wage **[AW]**: The average full-time wages used in the OECD tax-benefit model are available [here](#)¹. According to the Statistics Cyprus, in 2018 the estimate of the average monthly gross earnings for activities B-N (by NACE Rev. 2) amounted to EUR 23 268 and in 2019 to EUR 23 748. If estimates for further years are not available yet, the model uses wage projections obtained by applying forecasted wage growth² to the latest available wage estimate. The sources for the estimation of the average wage are from administration data of the Social Insurance Services database.

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. 

The benefit 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 on 1 July of year X or after, 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 2020, i.e. calculations are based on insurable points in 2018.

Basic Insurable Earnings in 2018 are EUR 175.11 per week.

One insurable point is 52 times the weekly basic insurable earnings, i.e. EUR 9 106 per year in 2018.

2.1.1. Eligibility conditions

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:

¹ Average Wages are estimated in line with the methodology developed by the [Centre for Tax Policy and Administration](#) at the OECD. For more information on methodology see the latest [Taxing Wages publication](#).

² Wage growth projections are based on [OECD Economic Outlook](#) and [EU economic forecasts](#) (for non-OECD countries).

- The insured person has been insured under the Social Insurance Scheme for at least 26 weeks before he/she became unemployed;
- has paid, up to the date of unemployment, basic insurance equal to at least 26 times the weekly amount of the basic insurable earnings (0.5 insurance point);
- has paid or assimilated insurance in the relevant contribution year at least equal to 20 times the weekly amount of the basic insurable earnings (0.39 insurance point).

Behavioural requirements and related eligibility conditions:  TaxBEN assumes that the following compulsory conditions are satisfied when simulating unemployment benefits.³ 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.

Basic benefit: The weekly rate of the basic benefit is equal to 60% of the weekly value of an insurance point at the basic insurable earnings over the relevant contribution year.

Increase for dependants⁴: In case the applicant has a dependent spouse, the weekly rate of basic benefit will increase by one third (1/3), i.e. the basic benefit will equal to 80% of the weekly value of insurance point. In case the applicant has dependent children or other dependants, the weekly rate will be increased by one-sixth (1/6) for each child. Maximum two dependent children are considered. Thus, a person with dependent spouse and two dependent children will receive basic benefit equal to 100% of weekly value of insurance point.

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 value of insurance points at the supplementary insurance over the relevant contribution year 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.

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

⁴ Dependants 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.

2.1.3. *Benefit duration*

In 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. (Waiting period is not modelled.)

The unemployment benefit is payable for 156 days, 6 days per week, (i.e. for 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.

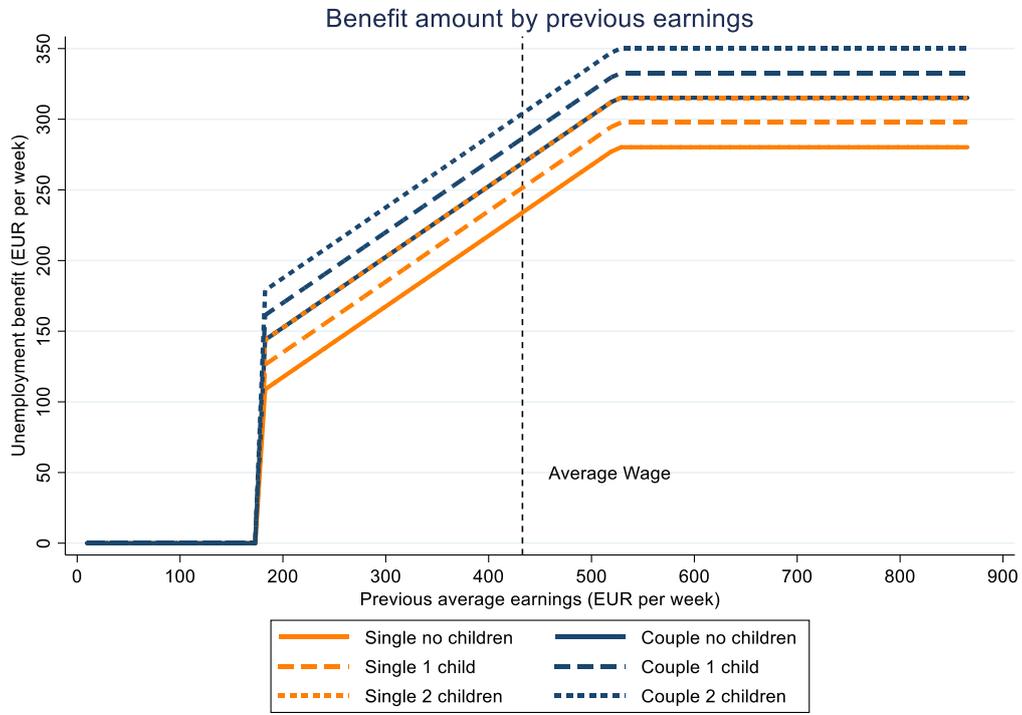
The Unemployment Benefit is considered as income for the purposes of income calculation pertaining to other benefits (i.e. GMI, Child Benefit, etc.).

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 2020 EUR 14.66 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 EUR 381.16. In the model, only work during normal working hours is considered, thus accumulation with earnings in the model is not possible.

Figure 1. Unemployment benefit

40-year old single person and couple with or without children



Note: The figure shows unemployment benefit of the first adult. In a couple, the second adult is assumed to be out of work and not eligible for unemployment benefits, and thus is considered as dependant in the calculation of the unemployment benefit of the first adult. Both children are also considered as dependants. There are no increases for any subsequent children. Benefit amount remains the same throughout its duration (26 weeks). Calculations assume that the first adult has employment record of at least 26 weeks.

Source: OECD Tax-Benefit Model.

3. Social assistance and housing benefits

The Guaranteed Minimum Income (GMI) was enacted in July 2014, replacing the previous Public Assistance. It is described in Section 3.1. Housing allowance (described in Section 0) and supplement for child care (described in Section 5.3.) are provided as part of the 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. *Guaranteed minimum income* (Ελάχιστο εγγυημένο εισόδημα)

Variable name: **[SA]**

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

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 EUR 100 000. The person's/ family's owned property of residence is not taken into account if it does not exceed 300 m². Immovable property worth from EUR 100 000 until EUR 200 000 is not taken into account, if is burdened the whole or the greater part thereof, due to encumbrance entry or usufruct (before 11 July 2014). (*not simulated*)
- Total deposits of family unit are lower than EUR 5 000 for one individual, plus EUR 1 000 for every additional individual in the family unit (*not simulated*).
- Total monetary assets, other than deposits, are lower than EUR 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:

- EUR 480 per month for the applicant (head of family unit)
- EUR 240 for the spouse
- EUR 240 for every dependant that is between 14 and 28 years of age
- EUR 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 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 EUR 500, the first EUR 170 is excluded.
- For monthly income less than EUR 500, the income excluded is calculated as follows:
 - The first EUR 50 are not taken into account
 - The next EUR 50 until EUR 200, 40% is excluded

- The next EUR 200 until EUR 500, 20% is excluded
- If the applicant or the spouse is a handicapped person, then the first EUR 512 is excluded.
- From the monthly income for every adult child who is below the age of 28, 50% of the first EUR 480 are excluded.
 - For income exceeding EUR 480, it is taken into account as follows:
 - The next EUR 480 until EUR 1000, 10% is excluded
 - The next EUR 1000 until EUR 2000, 15% is excluded
 - For income exceeding EUR 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

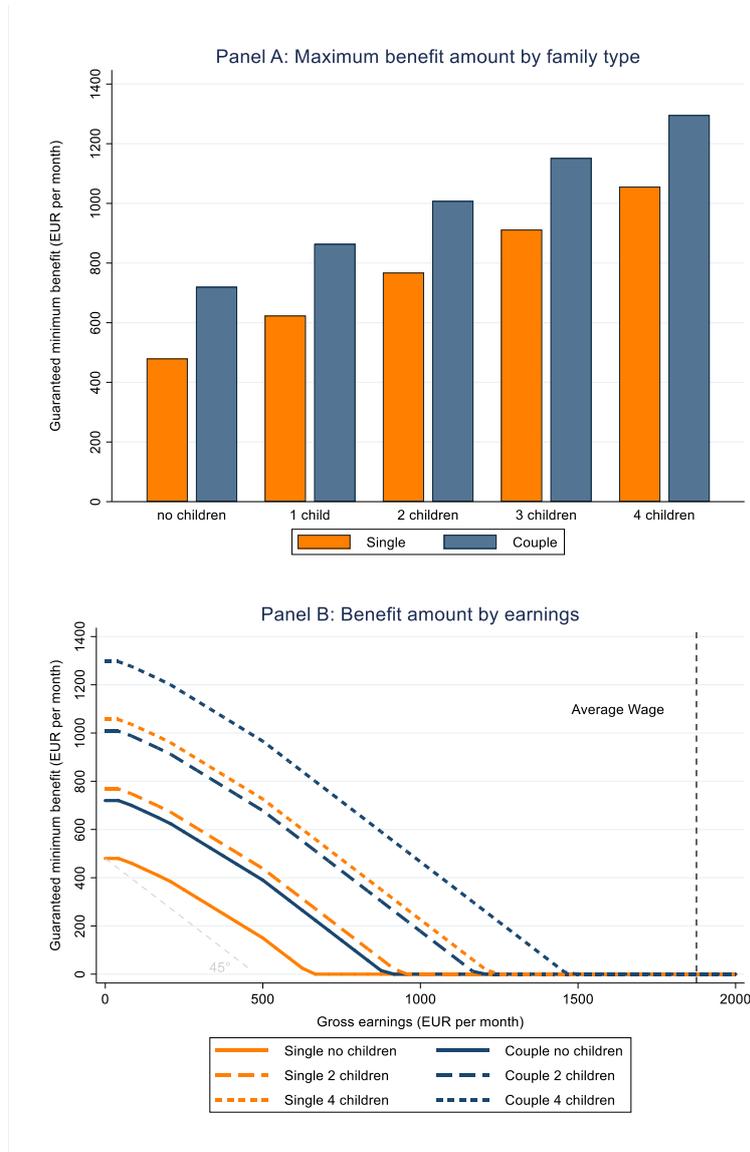
None.

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

The benefit can be combined with employment.

Figure 2. Guaranteed minimum income

40-year old single person and couple with or without children



Note: Results assume no receipt of child benefit and single parent benefit, which are usually included in the means test for guaranteed minimum income. Children are below 14 years old. Panel A shows maximum benefit amount for a jobless family with no income. Panel B shows the reduction in benefit amount as one adult starts working. 45° line shows how the benefit for a single person without children would decrease if the benefit would have been reduced by 1 Euro for every Euro earned.

Source: OECD Tax-Benefit Model.

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.

In the model, rented accommodation is assumed.

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 m². No additional calculated space for the spouse.

An additional 20 m² / 25 m² is added in specific cases:

25 m² are added as follows:

- 25 m² for persons with disabilities or in case the applicant stays with a disabled person (*not modelled*). The added 25 m² is excluded from any of the categories below. It's a given right on its own.
- 25 m² for 1 minor child (i.e. below 18 years old), or
- 25 m² for 2 minors of the same sex, or
- 25 m² for an adult child (i.e. dependent child 18 to 28 years old).

20 m² are added as follows:

- For every two (2) additional minor children of the same sex belonging to the family unit of the applicant and / or beneficiary
- For each one (1) additional adult child belonging to the family unit of the applicant and / or beneficiary
- For each additional minor child belonging to the family unit of the applicant and / or beneficiary, depending on the composition of the rest of the family and if not covered by the cases covered by 25 m² as they are mentioned above.
- For instance:
 - If the 2nd minor child is of different sex 20 m² is accounted.

- If the 2nd child is of the same sex as the 1st no further space is accounted for.
- If there are three children of the same sex, 25 m² shall be assigned for the 1st and 2nd and 20 m² shall be assigned for the 3rd.
- If there are two boys and one girl, 25 m² shall be assigned for the boys and 20 m² shall be assigned for the girl.

All children in the model are assumed to be below 18 years old; sex of children is not specified. In situation when the benefit amount depends on the gender of children, the most generous benefit is modelled. For example, in case of a family with 2 children, it is assumed that they are a boy and a girl; for families with four children, they are assumed to be 3 boys and 1 girl or 1 boy and 3 girls.

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: EUR 4.06 per m² (*assumed in the model*)
- Limassol: EUR 4.41 per m²
- Larnaca: EUR 3.50 per m²
- Paphos/Famagusta: EUR 2.94 per m²

Housing allowance is granted for renters and owners still paying mortgage interest. The housing allowance depends on the composition of the family unit and the district of residence.

Moreover the total housing allowance can be increased by 20% for persons with disabilities and up to 50% for wheelchair – dependent persons or those with increased needs of care and assistance (*not modelled*).

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 and 19 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*

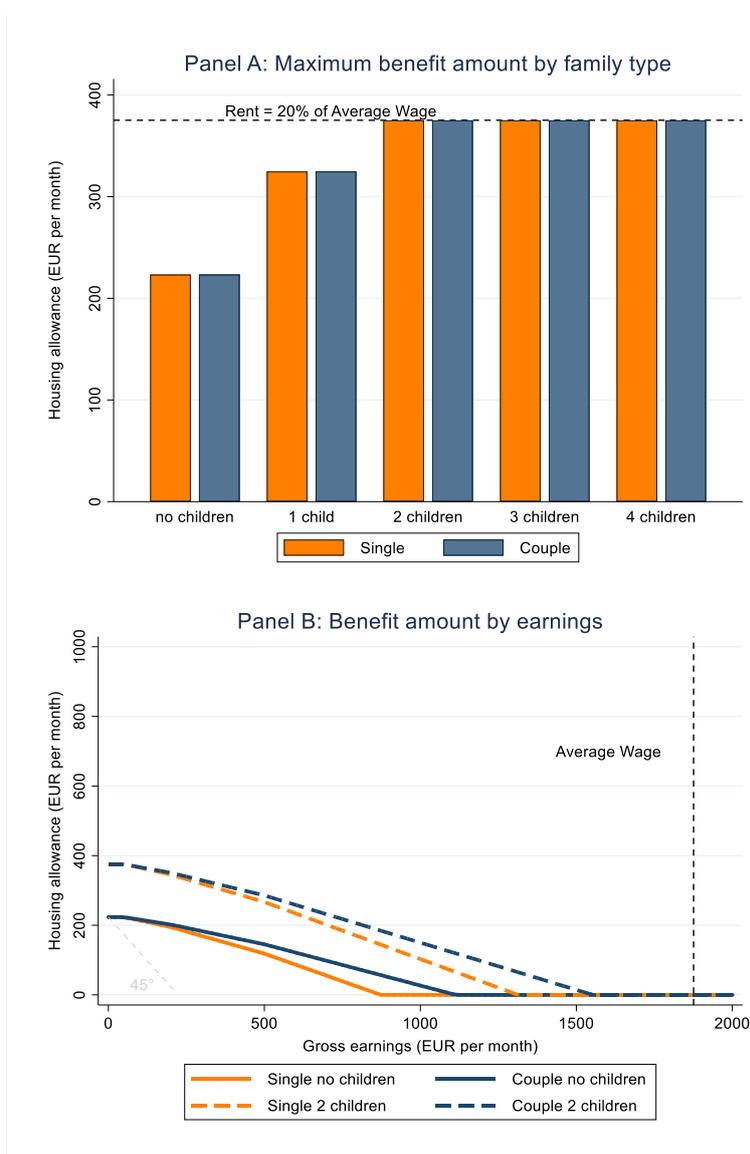
There is no interaction with other benefits, except that the claimant has to be an approved GMI beneficiary.

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

The benefit can be combined with employment.

Figure 3. Housing allowance

40-year old single person and couple with or without children

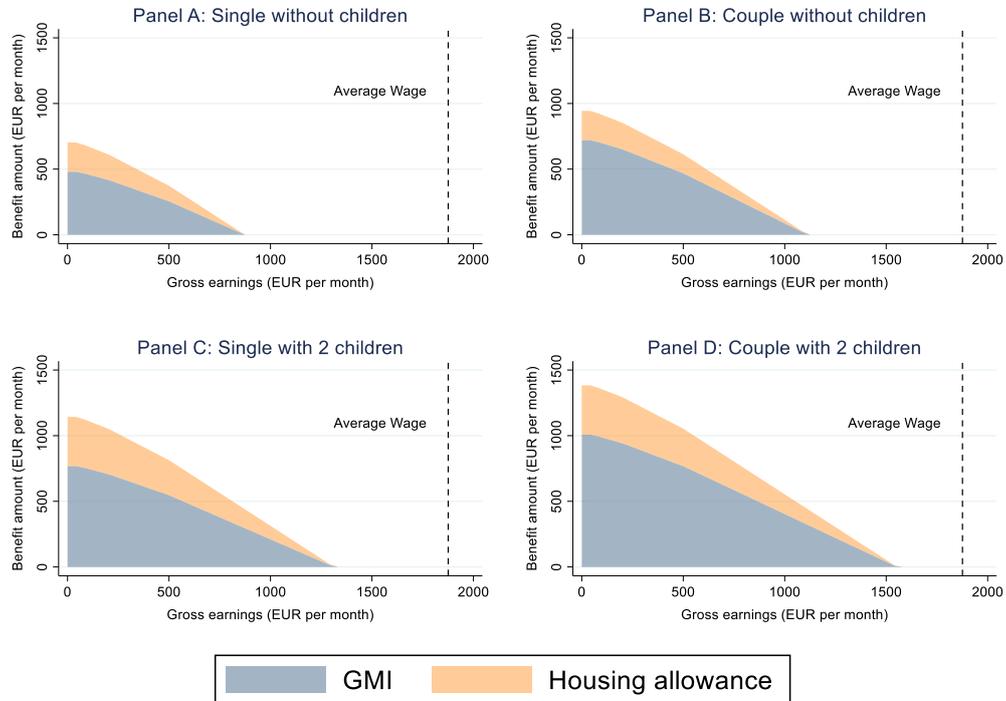


Note: Results assume no receipt of child benefit and single parent benefit, which are usually included in the means test for housing allowance. Children are below 14 years old; in a family with two children they are assumed to be a boy and a girl (i.e. the most generous benefit amount is simulated). Rent is assumed to be 20% of average wage for all family types. The benefit cannot exceed the actual rent. Family is assumed to live in Nicosia. Panel A shows maximum benefit amount for a jobless family with no income. Panel B shows the reduction in benefit amount as one adult starts working. 45° line shows how the benefit for a family without children would decrease if the benefit would have been reduced by 1 Euro for every Euro earned. Housing allowance is part of the guaranteed minimum income package. When a person starts working, it is assumed that the main GMI benefit and housing allowance are decreasing proportionally.

Source: OECD Tax-Benefit Model.

Figure 4. Guaranteed minimum income and housing allowance

40-year old single person and couple with or without children



Note: Results assume no receipt of child benefit and single parent benefit, which are usually included in the means test for guaranteed minimum income and housing allowance. Children are below 14 years old; in a family with two children they are assumed to be a boy and a girl (i.e. the most generous housing allowance amount is simulated). Rent is assumed to be 20% of average wage for all family types. Family is assumed to live in Nicosia. Figures show reduction in benefit amount if one adult starts working. It is assumed that the GMI benefit and housing allowance are decreasing proportionally.

Source: OECD Tax-Benefit Model.

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 20 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 has its legal and continuous residence for at least five consecutive years prior to the application submission, in the areas under the effective control of the Republic of Cyprus.
- The family does not own assets (including immovable and movable property, deposits etc.) in excess of EUR 1.2 million in current prices (not simulated). The value of any possible alienation of assets that took place within 24 months prior to the application submission date, is also included in the calculation of the total value.
- The family's gross annual income for the previous year does not exceed EUR 49 000 for families with one dependent child and EUR 59 000 for families with two dependent children. For families with more than two dependant children, the threshold is increased by EUR 5 000 per child, i.e., for three children is EUR 64 000, for four children is EUR 69 000 etc. (In the model current income is tested).

4.1.2. Benefit amount

Number of Children	Annual Child Benefit amount (EUR per child) for families with gross annual income (EUR) for the previous year (2019):					
	Up to 19 500	19 500.01 - 39 000	39 000.01 - 49 000	49 000.01 – 59 000	59 000.01 – 64 000	64 000.01 – 69 000
1 child	475	425	380	0	0	0
2 children	570	520	380	345	0	0
3 children	1 045	995	760	690	690	0
4 children plus	1 675	1 525	1 260	1 135	1 135	1 135

Note: The annual benefit amount for year 2020 is increased by 1.97%.

For families whose total gross income exceeds EUR 59 000 the amount of child benefit equals to the benefit paid to the families with total gross income between EUR 49 001 and EUR 59 000.

4.1.3. *Benefit duration*

As long as the eligibility conditions hold during the calendar year of 2019.

4.1.4. *Means test*

The benefit amount is inversely proportional to the total gross annual family income gained during the previous year as described in Section 4.1.2. The gross annual income earned during the previous calendar year, i.e. the year before the year of the payment of the benefit, includes gross income received by all members of the family from work, employment, self-employment, pensions, rents, dividends, interest on deposits / securities / bonds in Cyprus and / or abroad. Also, the Minimum Guaranteed Income, any Public Assistance granted by the Social Welfare Services, or any other benefit granted by any government agency, such as unemployment benefit, sickness benefit, maternity benefit, child birth grant, etc., should be taken into account.

In the model, all calculations are done based on current income. It is assumed that a person first applies to child benefit and only then to GMI. Hence, GMI is not included in the means test for child benefit. However, child benefit is included in the means test for GMI.

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 individual's 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 20 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 is allowed to child benefit.
- The family does not own assets (including immovable and movable property, deposits, etc.) in excess of EUR 1.2 million in current prices (not simulated). The value of any possible alienation of assets that took place within 24 months prior to the application submission date, is also included in the calculation of the total value.
- The family's gross annual income for the previous year does not exceed EUR 49 000 (in the model, current income is tested).
- The family has legal and continues residence in the Republic of Cyprus for at least five years prior to the application for Single Parent Benefit (assumed to hold).

4.2.2. *Benefit amount*

Gross Family Income (EUR per year)	Single parent benefit (EUR per child per year)
Up to 39 000	2 160
39 001 to 49 000	1 920

Note: The annual benefit amount for year 2020 is increased by 1.97%.

4.2.3. *Benefit duration*

For as long as the single parent has eligible children and is living alone, without a spouse/companion/a person living together during the calendar year 2020.

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 4.2.2.

The gross annual income earned during the previous calendar year, i.e. the year before the year of the payment of the benefit, includes gross income received by all members of the family from work, employment, self-employment, pensions, rents, dividends, interest on deposits / securities / bonds in Cyprus and / or abroad. Also, the Minimum Guaranteed Income, any Public Assistance granted by the Social Welfare Services, or any other benefit granted by any government agency such as unemployment benefit, sickness benefit, maternity benefit, child birth grant, etc., should be taken into account.

In the model, all calculations are done based on current income. It is assumed that a person first applies to single parent benefit and only then to GMI. Hence, GMI is not included in the means test for single parent benefit. However, single parent benefit is included in the means test for GMI.

4.2.5. *Tax treatment*

The benefit is not taxable.

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

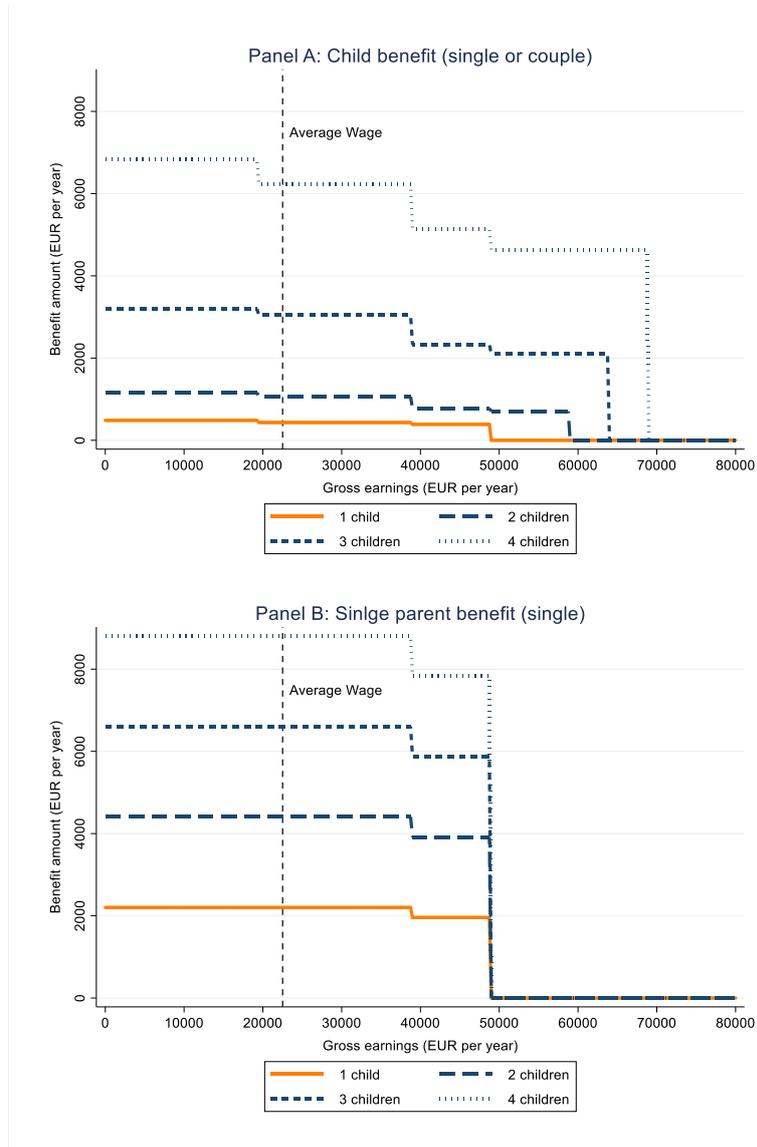
Single parent benefit does not affect the individual's tax base. However, it is included in the means test for calculating GMI.

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.

Figure 5. Family benefits

40-year old single person or couple with children



Note: Children are below 18. Figures show reduction in benefit amount if one adult starts working. The second adult in a couple is assumed to be out of work. Adults do not receive unemployment benefits. In Panel A, the benefit amounts are the same for a single parent and a couple. The means test is based on total household income (not “per capita” income). In Panel B, only single parent is eligible for the benefit. Source: OECD Tax-Benefit Model.

5. Net costs of Early Childhood Education and Care

The **reference date** for the policy rules described in this section is **1 January 2020**.

Child-care and early childhood education services are provided by the public, non-governmental and private sector. There is no legislative framework covering the fees for the childcare services provided by the non-governmental and private sector in Cyprus. However, the "Private School Law of 2019" regarding the establishment and operation of early childhood education (private kindergartens), gives the authority to the Ministry of Education, Culture, Sport and Youth (MECSY), to oblige the owners of the private kindergartens to sign an agreement with the parents, which will be assuring that the fees will remain stable throughout their children's enrollment.

Early Childhood Education and Care (ECEC) is organised in separate settings for younger and older children and is provided by different authorities-ministries, accordingly.

- **Childcare services** for children up to 4 years and 8 months include day nurseries, childminders and after school day centres. They are inspected by the Ministry of Labour, Welfare and Social Insurance (Social Welfare Services - SWS).
- **Early childhood education** (from 3 to 5 years and 8 months) is provided in kindergartens and inspected by the Ministry of Education, Culture, Sport and Youth (MECSY).

Provision for the children attending childcare services has a childcare focus, while provision for older children attending kindergartens, has an intentional educational component.

Compulsory education starts at the age of 4 years and 8 months. The MECSY is responsible to ensure that all children aged between 4^{8/12} and 5^{10/12} years old can enrol in a public kindergarten. However, parents may choose to enrol their children in an approved private kindergarten school.

5.1. Gross childcare fees

Variable name: **[CYcc_cost]**

There is no legislative regulation providing for the fees of childcare facilities in private or non-governmental settings. Fees may vary according to the service provided (i.e. full/ part time attendance, type of activities provided, meals), the age of the child, geographical area, etc. Types of childcare services include childcare centres and childminders.

Children from 3 to 5 years and 8 months

Public Kindergartens

Public kindergartens are established by the MECSY. Pre-primary education is offered freely to children aged **4 years and 8 months to 5 years and 10 months** (in the model identified as 5 to 6 years old) who attend public kindergartens. The majority of public kindergartens do not have fees for meals as children bring food (breakfast and snacks) from home.

Younger children aged **3 years to 4 years and 8 months** (in the model identified as 3 to 4 years old) can take up vacant places in public kindergartens and pay low fees – a symbolic amount of EUR 42 per child per month. Full fee exception is given to poor families (those

receiving GMI on monthly basis). For families with four children or above fees are reduced to EUR 25 per child per month.

Public kindergartens are operating according to formal education timetable, that is 7:30 – 13:05.

All-day optional public kindergartens function on a voluntary basis from October until May, with additional afternoon periods (13:05 - 15:05 or 13:05 - 16:00) five times a week. The expenses for the children's meals provided in all-day optional kindergartens are covered by parents. The monthly fee for the meals is between EUR 50-60.

The demand for enrolment in public kindergartens exceeds the number of places available. Admission is based on the selection criteria laid down by a Decision of the Ministers. Selection criteria include special educational needs, the financial status of the family, the child's age and other special criteria that promote inclusion.

Other kindergartens

In addition, there are also community and private kindergartens. The attendance fees for community kindergartens MECSY (EUR 80 to EUR 120 per child per month) are much less than for private childcare facilities (on average EUR 240 per child per month for school year 2019-2020).

The MOECSY operates 273 public kindergartens (academic year 2019-2020) and subsidies also the operation of community kindergartens (74 kindergartens academic year 2019-2020) which function together with the public kindergartens most of the times and cater mainly for children aged 3 – 4^{8/12} years.

Private childcare is a dominant type of care in Cyprus for 3-4 years olds. This is what is assumed in the model. 5-year old children are assumed to start compulsory pre-school education, and thus, are outside the scope of the model.

Children below 4 years and 8 months⁵

Children below 4 years and 8 months can attend day care centres for pre-school aged children, inspected by the SWS, operated by the private sector (for profit and non-profit/NGOs).

Fees for childcare services in all-day care centres for pre-school-aged children provided by NGOs tend to be lower than fees for private childcare settings. In the NGO facilities, average fees per child per month are set between EUR 70 - 220 for children between 2 and 4^{8/12} and between EUR 100-350 for infants. Fees in private childcare centres vary from EUR 200 to 400 per child per month (the fee of EUR 300 per month is assumed in the model).

Fees for childcare services provided by Child Minders may vary between EUR 250-350 per child per month. Child Minders provide childcare services at their own residence to a small number of children and according to the latest data there are 60 registered Child Minders.

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

⁵ Estimated fees provided in this section are based on administrative data of the SWS.

state aid based on certain criteria for the development and functioning of quality social care programmes (i.e. day care centres). In particular, in 2019 an amount of over EUR 2.7 million was provided for the funding of 131 programmes covering child care needs (Day Care Centers including for children with disabilities).

5.1.1. Discounts for part-time usage

Kindergartens

Public kindergartens are operating according to the formal education timetable, that is 7:30-1:05. These kindergartens are usually for free and do not offer meals. All-day optional public kindergartens function on a voluntary basis. The meal fees are covered by parents. Parents receiving guaranteed minimum income, are exempted.

Information on average costs for part-time attendance in private facilities is not available. Therefore, this option is not included in the model.

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 EUR 42. Full fee exception is given to poor families (those receiving GMI on monthly basis). For families with four children or above fees are reduced to EUR 25 per child per month.

It should be noted that the fees for the childcare services provided by the private and the non-governmental sectors are set autonomously by the providers and there are no regulations.

5.2.1. Eligibility

The Ministry of Education, Culture, Sport and Youth (MECSY) 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 socioeconomic changes during 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 legal protection of the Director of Social Welfare Services or orphans or poor children whose parents are unemployed, children of a family with many children (four and above) or families with three children or a single parent family as well as children of Roma families.

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 EUR 102 per child for the use of approved childcare facilities (i.e. day care centres for pre-school children, child minders and day care centres for school age children), provided by the private sector and the non-governmental sector. The amount of the benefit cannot exceed actual childcare expenses incurred by parents.

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 3.1.).

5.3.2. Benefit amount

Up to EUR 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 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

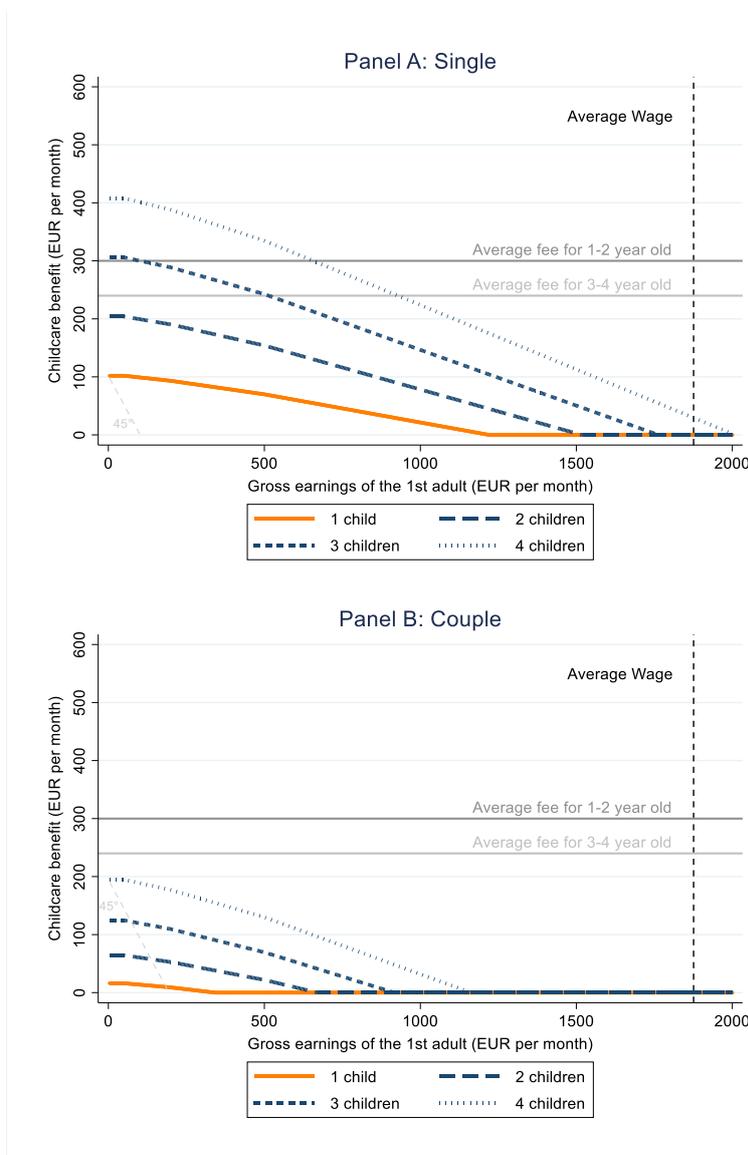
None.

5.5. Tax concessions for childcare expenditures

None.

Figure 6. Childcare benefit

40-year old single person or couple with children



Note: Results assume no receipt of child benefit and single parent benefit, which are usually included in the means test for childcare benefit. Children are between 1 and 4 years old. Figures show reduction in childcare benefit amount if earnings of the first adult are increasing. The second adult in a couple is assumed to work full-time at 67% of average wage. Parents are using private childcare facilities full-time for all children. The figures show average monthly fees for one child in private childcare facilities. Childcare benefit is part of the guaranteed minimum income package. When earnings increase, it is assumed that the main GMI benefit and childcare benefit are decreasing proportionally. 45° line shows how the benefits would decrease if they would have been reduced by 1 Euro for every Euro earned.

Source: OECD Tax-Benefit Model.

6. In-work benefits

There are no in-work benefits in Cyprus.

7. Social security contributions and payroll taxes

7.1. 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 8.3% on his/her insurable earnings⁶. The medical and provident funds are voluntary funds (and therefore are not simulated).

7.2. 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 8.3% on the insurable earnings of the employee to the Social Security Fund.⁷
- Redundancy Fund: 1.2% on gross earnings.

7.3. Payroll taxes (Εισφορές εργοδοτών σε άλλα ταμεία)

Variable names: **[SSCR_p; SSCR_s]**

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

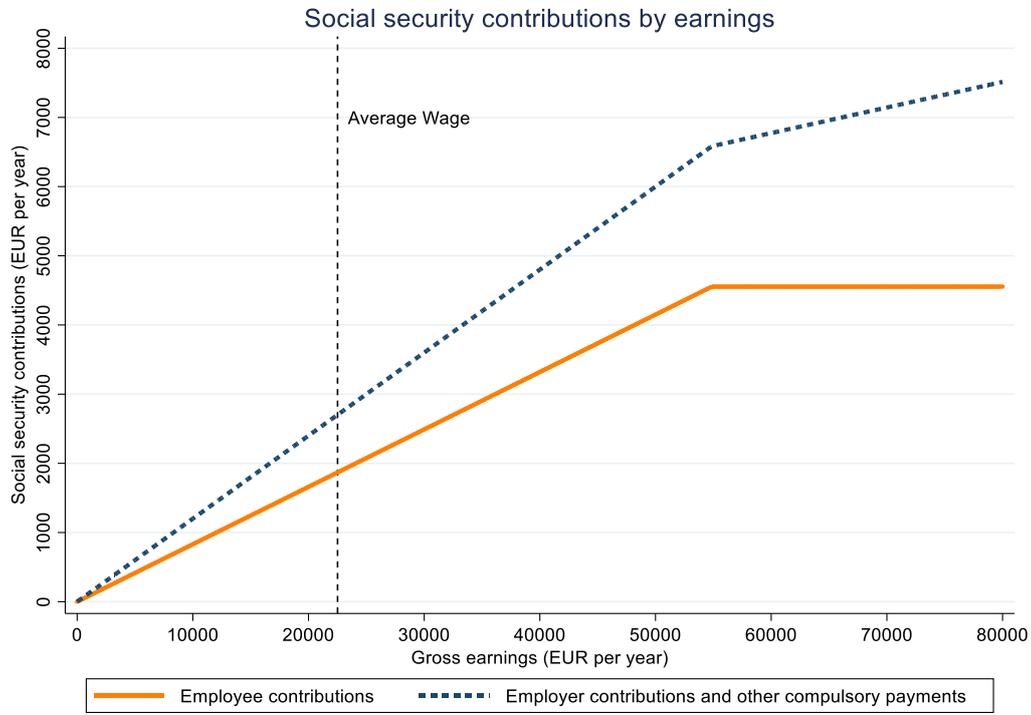
- Social Cohesion Fund: According to the law, employers are obliged to contribute 2% on the employee's earnings.
- Industrial Training Fund: The employer contributes 0.5% on the employee's earnings.

⁶ Insurable earnings: gross earnings up to a ceiling of EUR 4 572 per month or EUR 54 864 per year for 2020.

⁷ In the Public Sector organizations (central government, semi-government organizations and local administration), the employer contributes 12.4% on the employee's insurable earnings in relation to 4.2% contributed by the employee for employees covered by occupational pension schemes. This is not simulated in the model.

Figure 7. Social security contributions

40-year old single person without children



Note: Social security contributions do not depend on family structure. Employer contributions include also compulsory payments to Redundancy Fund, Social Cohesion Fund and Industrial Training Fund.
Source: OECD Tax-Benefit Model.

8. 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.

8.1. *Personal income tax* (Φόρος εισοδήματος)

Variable name: `[IT_p; IT_s]`

8.1.1. *Tax allowances*

There are no tax allowances in Cyprus, but there is a zero income tax bracket (see Section 8.1.3.).

8.1.2. *Tax base*

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

8.1.3. *Income tax schedule*

The income tax schedule for the year 2020 is presented below:

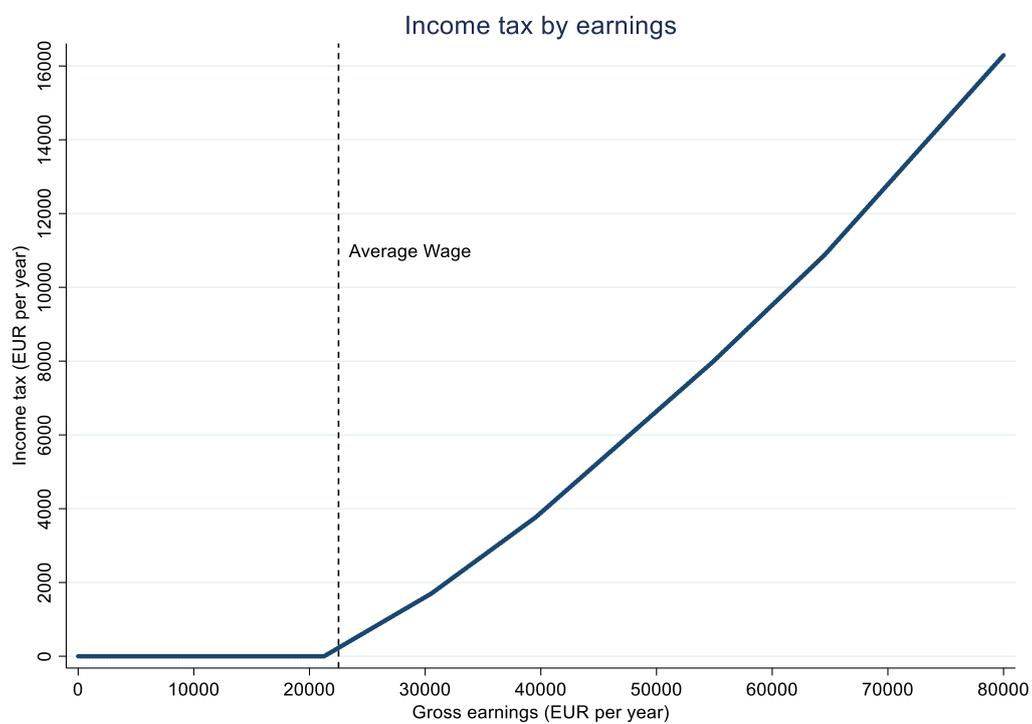
Taxable Income (EUR per year)	Income tax (%)
0 to 19 500	0
19 500 to 28 000	20
28 000 to 36 300	25
36 300 to 60 000	30
Over 60 000	35

8.1.4. *Tax credits*

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

Figure 8. Income tax

40-year old single person without children



Note: A person has no other sources of income but earnings from work.

Source: OECD Tax-Benefit Model.

9. Selected output from the OECD tax-benefit model (TaxBEN)

This section shows selected output of the TaxBEN model for Cyprus 2020. TaxBEN by default produces the following output: net household incomes (**black line**) and its subcomponents (**coloured stacked areas**) for selected family and individual circumstances.

The model and the related web calculator is accessible from the [project website](#). The figure shows outputs for four scenarios:

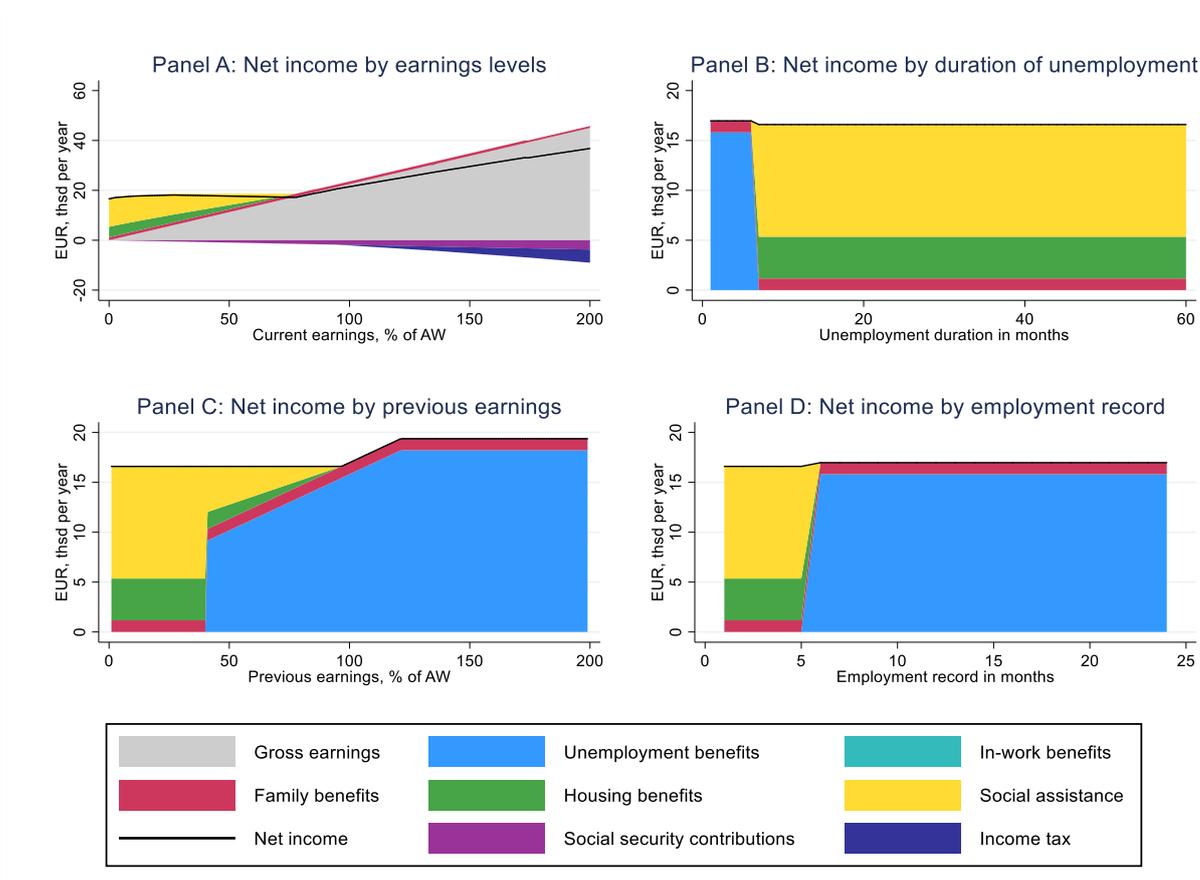
- By percentage of the average wage (**Panel A**);
- By unemployment duration (in months) for a jobseeker claiming unemployment benefits (**Panel B**);
- By previous gross earnings levels for a jobseeker claiming unemployment benefits (**Panel C**);
- By previous employment record, for a jobseeker claiming unemployment benefits (**Panel D**).

The stacked areas shows the following household income components: **GROSS** = gross earnings; **SSC** = social security contributions; **IT** = income tax; **FB** = family benefits; **HB** = housing benefits; **SA** = social assistance; **IW** = in-work benefits. Note that each component may contain more than one benefit or tax.

Results refer to a two-adult family with two children. Adults are both 40 years old whereas children are 4 and 6 years old respectively. Social assistance and housing benefit supplements are assumed to be available in all the four scenarios provided that the necessary income and eligibility requirements are met. Where receipt of social assistance or other benefits is subject to activity tests (such as active job-search or being available for work), these requirements are assumed to be met.

Figure 9. Selected output from the OECD tax-benefit model

40-year-old couple with two children



Notes: In Panel A, the first adult is employed full-time and full-year. The second adult is out of work and not eligible for unemployment benefits, e.g. because they have expired (the same is assumed for the first adult when earnings are zero). In Panels B to D, the first adult is out of work and claiming unemployment benefits, whereas the second adult is out of work and not eligible to unemployment benefits. Previous earnings of the first adult equal to the Average Wage. In Panels B and C, the first adult is assumed to have a ‘long’ employment record of 264 consecutive months before the job loss. Panels C and D refer to the 2nd month of unemployment benefit receipt.

Source: OECD Tax-Benefit Model.

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 Έκτακτων 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 EUR 400 per month per family unit. For extraordinary and justified cases a higher amount can be covered, for instance, when additional care attendants are required.

For persons with disabilities the amounts granted are EUR 100-400 according to their needs. For persons aged 80 years old and above the amount for home care is EUR 200-400.

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 EUR 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 EUR 625 to EUR 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 (EUR per year)	Annual Student Grant (EUR per year)	Additional Grant for institutions with fees (EUR per year)	Additional Grant for families with 3 or more children (EUR per year)
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