

1 February 2019

**Subject: Commencement of payment of contributions to the General Health System**

I have been instructed to inform you that, due to the implementation of the General Health System (the "GHS") on 1st June 2019, there is an obligation for payment of contributions to the GHS **starting from 1st March 2019**, in accordance with the General Health System Law (the "Law"), as stated below:

**A. Obligation to pay contributions to the GHS**

The following persons are obliged to pay contributions to the GHS:

1. "Employee": has the meaning given by the Social Insurance Law
2. "Employer": includes the government of the Republic of Cyprus
3. "Self-employed": has the meaning given by the Social Insurance Law
4. "Pensioner": is defined according to the term "pension" which means the pension of every natural person deriving from the sources designated in article 5 of the Income Tax Law
5. "Official": means a person holding or exercising state or municipal or other office, as well as any commissioner or regulator appointed in accordance with a law
6. The Republic or any natural or legal person liable for the payment of the salary to an official, provided for by his appointment or election
7. "Income earner": means any natural person who receives "income" as defined in B.3 below
8. The State Fund

The obligation for payment of contributions to the GHS is only for natural persons except in cases 2, 6 and 8 above. It is possible for a natural person to fall under more than one categories of contributors. It is noted that, natural persons having the obligation to pay contributions to the GHS do not automatically qualify as beneficiaries of the GHS. The beneficiaries of the GHS are determined according to article 16 of the Law.

**B. Earnings, pension and income subject to contribution to the GHS**

The following earnings, pensions and incomes are subject to contribution to the GHS:

1. "Earnings":
  - (a) in relation to an employee it has the meaning given by the Social Insurance Law (SIL)
  - (b) in relation to a self-employed person it means:
    - (i) the insurable earnings according to the SIL and the regulations issued according to it;
    - (ii) the amount deriving, every year, from the sources defined in paragraph (a) of subsection (1) and in paragraph (a) of subsection (2) of article 5 of the Income Tax Law (ITL) and is over and above the amount stated in (i) above.

(c) in relation to an official, it means the amount deriving, every year, from sources designated in paragraph (b) of subsection (1) and paragraph (b) of subsection (2) of article 5 of the ITL and does not fall under (a) above.

2. “Pension”:

means the pension of every natural person deriving from the sources defined in article 5 of the ITL and the term ‘pensioner’ is defined accordingly.

3. “Income”:

means the income of every natural person deriving from the sources defined in article 5 of the ITL, excluding earnings or pension and includes dividends, as defined in the Special Contribution for the Defense of the Republic Law (SCDRL).

The reference of the Law in article 5 of the ITL means that the exceptions and exemptions of income granted for income tax purposes, in accordance with the rest of the ITL articles, do not apply in the context of the GHS.

In case that income e.g. dividends, is exempted from article 5 of the ITL in accordance with other Laws, then there is no obligation for payment of contribution to the GHS.

The dividends are determined according to the SCDRL and thus a contribution is paid to the GHS on the deemed dividends corresponding to the shareholders who are natural persons residing in the Republic. The company must withhold the contribution on these amounts. The shareholders have an obligation to pay contribution on these dividends on the date they are deemed.

The contribution to the GHS on lump sums/gratuities paid to public and private sector employees, as well as on benefits paid by Provident Funds, which fall under article 5 of the ITL, is calculated on the amount earned for service after the 1<sup>st</sup> of March 2019.

**C. Contribution percentages and maximum amount on which contributions to the GHS are paid**

The contribution percentages to the GHS are as follows:

	<b>From 1/3/2019 until 28/2/2020</b>	<b>From 1/3/2020</b>
Employee	1,70%	2,65%
Employer	1,85%	2,90%
Self-employed	2,55%	4,00%
Pensioner	1,70%	2,65%
Official	1,70%	2,65%
The Republic or a natural or legal person responsible for the payment of salary to an official	1,85%	2,90%
Income earner (e.g. rents, interests, dividends etc.)	1,70%	2,65%
State Fund	1,65%	4,70%

In case where the total sum of earnings, pensions and income received by the contributor within a calendar year is over €180,000, a contribution to the GHS is paid only on the €180,000. The order for calculating the €180,000 is, first the earnings, in reference order: employee earnings, self-employed earnings and official earnings, followed by pensions and last income. In case that for a calendar year a contribution on an amount over the €180,000 is paid, then the contributor may claim the refund of the amount of the contribution paid on the amount over €180,000, by submitting a relevant claim to the Health Insurance Organisation.

#### **D. Procedures for the collection of contributions of the GHS**

The responsible Departments/Services for the collection and/or withholding and payment of contributions to the GHS Fund are the Social Insurance Services (SIS), the Tax Department (TD) and the Treasury of the Republic (TR) depending on the case, as follows:

<b>Contributor and relevant article of the Law</b>	<b>Subcategory</b>	<b>Earnings / pensions / incomes on which a contribution is paid</b>	<b>Αρμόδιο Τμήμα/Υπηρεσία</b>
<b>Employee - 19(1)(α)</b>	Employee working for the Republic	Earnings as defined in B.1.(a) above	TR
	Employee other than those working for the Republic		SIS
<b>Employer - 19(1)(β)</b>	Employee working for the Republic	On the earnings of the employees as defined in B.1.(a) above	TR
	Employee other than those working for the Republic		SIS
<b>Self-employed - 19(1)(γ)</b>	For insurable earnings as defined in the SIL	Earnings as defined in B.1.(b)(i) above	SIS
	For earnings over and above the insurable earnings as defined in the SIL	Earnings as defined in B.1.(b)(ii) above	TD – through Temporary Tax (0213) and Tax Self-Assessment (313)
<b>Pensioner - 19(1)(δ)</b>	Pensioner receiving pension from the Social Insurance Fund or social pension from the State Fund	Pension as defined in B.2 above	SIS
	Pensioner receiving pension from the State Fund other than social pension		TR
	Pensioner receiving pension from a natural or legal person or fund in Cyprus		TD – through PAYE (0701)

<b>Contributor and relevant article of the Law</b>	<b>Subcategory</b>	<b>Earnings / pensions / incomes on which a contribution is paid</b>	<b>Αρμόδιο Τμήμα/Υπηρεσία</b>
	Pensioner receiving pension from abroad, including persons for whom Regulation EC 883/2004 and Regulation EC 987/2009 apply		TD – through Temporary Tax (0213) and Tax Self-Assessment (0313)
<b>Official - 19(1)(ε)</b>	Official for whom the Republic is obliged to pay his earnings	Earnings as defined in B.1.(c) above	TR
	Official other than the official for whom the Republic is obliged to pay his earnings		TD – through PAYE (0701)
<b>The Republic or a natural or legal person obliged to pay the earnings of an official - 19(1)(στ)</b>	Official for whom the Republic is obliged to pay his earnings	On the earnings of an official as defined in B.1.(c) above	TR
	Official other than the official for whom the Republic is obliged to pay his earnings		TD – through PAYE (0701)
<b>Income earner - 19(1)(ζ)</b>	Benefits from employment in Cyprus that do not fall under the term earnings as defined in the SIL	Income from the sources designated in articles 5(1)(β), 5(1)(ζ), 5(2)(β) και 5(2)(ζ) of the ITL, which does not fall under the term earnings as defined in the SIL	TD – through PAYE (0701)
	Income of a Cyprus tax resident, from employment abroad in a non-Cyprus resident employer	Income from the sources defined in articles 5(1)(β) and 5(1)(ζ) of the ITL	TD – through Temporary Tax (0213) and Tax Self-Assessment (0313)
	Income from goodwill	Income from the sources designated in articles 5(1)(στ) and 5(2)(ε) of the ITL	TD – through Temporary Tax (0213) and Tax Self-Assessment (0313)

Contributor and relevant article of the Law	Subcategory	Earnings / pensions / incomes on which a contribution is paid	Αρμόδιο Τμήμα/Υπηρεσία
	Income of a non-tax resident of the Republic, from services falling under the withholding of income tax at source, according to article 24 of the ITL	Income from the sources designated in article 5(2)(στ) of the ITL	TD – Withheld at source – (0710)
	Interest on a tax-resident of the Republic, paid by a person, company or the Republic	Income from the sources designated in article 5(1)(γ) of the ITL	TD – Withheld at source on payment (0702)
	Other interest on a tax-resident of the Republic, including interest from abroad		TD – through Tax Self-Assessment on 30/6 and 31/12 of the year (0712)
	Dividends on a tax-resident of the Republic, paid by a person, company or the Republic	Income from the sources designated in article 5(1)(γ) of the ITL	TD – Withheld at source on payment (0703)
	Deemed dividends, on a tax-resident of the Republic, which are deemed paid by a company or the Republic		TD – through Tax Self-Assessment on 1/2 that follows the date the deemed dividend (0723)
	Other dividends to a tax-resident of the Republic, including dividends from abroad		TD – through Tax Self-Assessment on 30/6 and 31/12 of the year (0713)
	Rent for immovable property in and outside of the Republic, paid to a tax-resident of the Republic by a Cypriot company, partnership, local authority or the Republic	Income from the sources designated in article 5(1)(ε) of the ITL	TD – Withheld at source on payment (0714)
	Rent for immovable property in the Republic, paid to a non tax-resident of the Republic by a Cypriot company, partnership, local authority or the Republic	Income from the sources designated in article 5(2)(δ) of the ITL	TD – Withheld at source on payment (0714)

Contributor and relevant article of the Law	Subcategory	Earnings / pensions / incomes on which a contribution is paid	Αρμόδιο Τμήμα/Υπηρεσία
	Rent for immovable property in the Republic, paid to a tax-resident and a non tax-resident of the Republic without withholding the GHS contribution	Income from the sources designated in articles 5(1)(ε) and 5(2)(δ) of the ITL	TD – through Tax Self-Assessment on 30/6 and 31/12 of the year (0704)
	Rent for immovable property outside the Republic, paid to a tax-resident of the Republic without withholding the GHS contribution	Income from the sources designated in article 5(1)(ε) of the ITL	TD – through Tax Self-Assessment on 30/6 and 31/12 of the year (0704)

In light of the commencement of payment of contributions to the GHS as from 1st March 2019, all involved persons are requested to proceed with the necessary actions, in due time, so as to comply with the obligations imposed on them regarding the withholding and payment of contributions, in accordance with the procedures of the Tax Department and the Social Insurance Services, as the case may be, as explained below.

Any future changes that may occur in the contributions collection procedures, will be notified to all involved persons through relevant circulars published by the Tax Department and the Social Insurance Services, as the case may be.

For the withholding and collection of contributions from the relevant departments, the provisions of the SIL, the SCDRL and the Assessment and Collection of Taxes Law will apply including the imposition of interest, fines and other charges.

#### **D1. Procedures for the collection of contributions from the Tax Department**

The procedures followed for the collection of contributions by the TD, will be the same as the ones followed currently for the purposes of Income Tax and the special contribution for the defense, however a need has arisen, that forms submitted to date in hardcopy to be submitted in electronic form.

All forms/statements for withholdings at source will be submitted through TAXISnet direct taxation. For every withholding, an analysis of withholdings must be submitted when this is made. In other words, the forms for withholdings from salaries and income of non-residents that fall under article 24 of the ITL (Ε.Πρ.138, Τ.Φ.11ετ και Τ.Φ.7), rents (Τ.Φ.614), interest (new form) and dividends (Τ.Φ. 61ΑΜ), will be submitted with the payment by the end of the month for which the withholding was made.

All timely collections will be made through JCC smart. Collections that bear charges will be made at the TD cash desks until further notice.

##### **D1.1 Withholding at source**

*D1.1.1 Collection through PAYE (code 0701):*

According to article 6(1) of the Withholding Tax from Income Regulations of 1964, as amended, a person obliged to withhold amounts for earnings and pensions (“the employer”), must withhold the GHS contribution. Further, the following are designated:

- i. The last date of payment of the GHS contribution withheld and the contribution of the employer, is the last day of the month following the month for which the withholding was made.
- ii. The statement of withholdings provided for in the regulations will be included in form T.Φ.7.

*D1.1.2 Collection of withholdings at source from a resident abroad - article 24 of the ITL (code 0710):*

The withholding and payment of the GHS contribution to the TD on income subject to withholding of income tax according to article 24 of the ITL, will follow the same procedure as with the withholding of tax.

*D1.1.3 Collection of withholdings from interest (0702), dividends (0703 and 0723) and rents (0714):*

The collection is the same as for the special contribution for the defense, by the end of the month following the withholding.

## **D1.2 Tax Self-Assessment**

*D.1.2.1. Collection through tax self-assessment for interest (0712), dividends (0713) and rents (0704):*

The collection through tax self-assessment for interest, dividends and rents is the same as with the special contribution for the defense, by the last date of the six months of income, namely 30/6 and 31/12.

*D.1.2.2. Collection through Temporary Tax (0213) and Tax-Self Assessment (0313):*

The collection through temporary tax and tax-self assessment is made according to the Assessment and Collection of Taxes Law on the basis of the same rules for calculating, submitting and collecting tax.

## **D2. Procedures for the collection of contributions from the Social Insurance Services**

The procedures followed for the collection of contributions from the Social Insurance Services (SIS) will be the same as the current ones. The form Statement of Earnings and Contributions (YKA2-002) and the System for payment of contributions over the internet have been amended accordingly.

In relation to pensioners of the Social Insurance Fund and of the Social Pension, the withholding of contributions carried by the Social Insurance Services is on the pension amount of each pensioner.

Kind regards,

Angelos Tropis  
On behalf of the Acting Director General

## **List of recipients**

1. Director General of the Ministry of Health
2. Director General of the Ministry of Finance
3. Director General of the Ministry of Labour, Welfare and Social Insurance
4. The Republic's Accountant General
5. The Republic's Auditor General
6. The Tax Commissioner
7. The Director of the Tax Tribunal
8. The Institute of Certified Public Accountants of Cyprus (ΣΕΛΚ)
9. The Institute of Certified Public Accountants of America (CPA)
10. The Association of Graduate Certified Public Accountants of Cyprus
11. The Association of Independent Accountants
12. The Institute of Financial Accountants
13. The Institute of Internal Auditors of Cyprus
14. Cyprus Fiduciary Association
15. Cyprus Bar Association
16. Cyprus International Business Association
17. Cyprus Employers and Industrialists Federation
18. Cyprus Chamber of Commerce and Industry
19. Cyprus Shipping Chamber
20. Cyprus Workers Confederation (ΣΕΚ)
21. Pancyprian Federation of Labour (ΠΕΟ)
22. Democratic Labour Federation of Cyprus (ΔΕΟΚ)
23. Pancyprian Public Servants' Trade Union (ΠΑΣΥΔΥ)
24. Panagrotikos Association of Cyprus (Παναγροτικός)
25. Union of Cypriot Farmers (ΕΚΑ)
26. Pancyprian Farmers Union (ΠΕΚ)
27. Cyprus Confederation of Professional Craftsmen and Shopkeepers (ΠΟΒΕΚ)
28. New Farmers' Movement (ΝΕΑΚ)