ESOPS are becoming the next favourite thing

In an era where Artificial Intelligence (AI) is taking over businesses and automates processes, the need to attract and retain employees who can really make a positive difference is even more increasing.

At the same time maintaining work-life balance is of equal importance as recent studies show that work-life balance has now surpassed pay as the top motivator for employees.

It is in this era that by embracing employee share option schemes (ESOPS), companies can look to give themselves an edge in the current environment and provide benefits and incentives to employees while at the same time assisting and retaining talent, keeping it away from their competitors.

An ESOP is an employee benefit plan offered by companies to selected employees, providing them with an ownership interest in the company, through granting them the right to acquire shares in the company at a predetermined price. This plan does not immediately offer direct ownership, as the right becomes exercisable after a certain period known as the vesting

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period and subject to performance conditions. In this way the plan alligns the interest of the employees with those of the employer as they will both share the same culture for business growth and long term success.

In Cyprus, establishing an ESOP requires careful consideration and planning as it must be reviewed both from a corporate and from a tax perspective since its effectiveness depends entirely on its structure.

Drafting of the ESOP requires a thorough analysis and compliance with the Cyprus Companies Act, CAP 113 and with the Cyprus tax framework.

A game-change development for the use of ESOPS came through the tax reform of December 2025, whereby it established a flat rate of 8% personal income tax to the financial benefit (being the spread between the market value at exercise and the exercise price) arising from approved employee share option schemes, effective from 1st January 2026. Under this reform, income derived from the exercise of share options or share purchase rights granted under a qualifying employee incentive scheme is taxed at a special flat rate of 8% instead of the increasing income tax rates of up to 35%.

Though some conditions apply to qualify, Cyprus can be said to offer the lowest headline rate on employee share option income in the European Union. With the rise of companies relocating to Cyprus in the sectors of fintech, forex, Igaming, technology, the 8% taxation provides a genuine competitive advantage for compensation planning. Yes there are caps, but these are generous enough to give Cyprus a competitive advantage.

It is important to note that to qualify, as per the legislation, the plan must meet the qualifying criteria and to obtain a pre-approval by the Cyprus tax authorities. Our legal team can assist with drafting and implementing ESOP documentation and ensure that the documentation, the vesting schedules, the exercise mechanisms and all other requirements (including the needed pre-approval) are in line with the statutory criteria while at the same time ensuring legal and tax compliance.

Totalserve group (www.totalserve.eu) has succeeded throughout its over 50 years of operations to be an award-winning professional services provider. Headquartered in Limassol, Cyprus, the group maintains 2 more offices - in Athens, London. Totalserve specialises in the fields of corporate, trusts, fiduciary services and tax. Further, there is a specialised Intellectual Property department, assisting with all IP related aspects. Legal and audit services are offered through other group affiliated companies.

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