CYPRUS-TAX REFORM 2026

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CYPRUS TAX REFORM-AN OVERVIEW

Overview of the latest tax reform measures introduced in Cyprus, outlining the key legislative changes for both companies and individuals. The reform aims to modernise the tax framework, enhance transparency, and strengthen Cyprus's alignment with international tax standards.

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Client Newsletter

On 22 December 2025, the Cyprus Parliament approved a comprehensive tax reform package aimed at aligning the Cyprus tax system with evolving global economic and social developments, strengthening Cyprus' position as an international business centre, and enhancing tax compliance. The relevant amending laws were published in the Official Government Gazette on 31 December 2025. Unless otherwise stated, **most provisions are effective from 1 January 2026**.

The tax reform includes amendments to the following laws:

1. The Income Tax Law of 2002 (118(I)/2002)-the 'ITL';
2. The Special Contribution for the Defence Law of 2002 (117(I)/2002)-the 'SDCL';
3. The Capital Gains Tax Law of 1980 (52/1980)-the 'CGTL';
4. The Assessment and Collection of Taxes Law of 1978 (4/1978)-the 'ACTL';
5. The Collection of Taxes Law of 1962-the 'CTL';
6. The Stamp Duty Law of 1963-the 'SDL'.

In brief, the main changes of the package approved for companies and individuals are summarised below.

INCOME TAX LAW– ITL

- Increase of the corporate income tax rate from 12,5% to 15%.

- The tax loss carry forward period has been extended to seven (7) years, replacing the previously applicable five (5) year limitation for tax years up to and including 2025.

- For group relief purposes, a company must first utilise its own carried-forward tax losses against taxable profits before utilising any losses of other group companies through the group relief provisions.

- The definition of corporate tax residency has been expanded to include companies incorporated under the Cyprus Companies Law, unless a double tax treaty provides otherwise. Companies that have transferred their registered office or legal seat to Cyprus are also deemed to be Cyprus-incorporated.

- The requirement for an individual not to be tax resident in another jurisdiction in order to qualify under the 60 days tax residency scheme (provided all other conditions are met), has been removed.

- A deduction of up to EUR€300.000 is introduced for expenditure incurred in connection with the listing of shares on a recognised stock exchange, subject to prescribed conditions.

- A special tax regime for crypto assets has been introduced, covering gains of both revenue and capital nature, as follows:

    - Flat tax rate of 8%;
    - Tax losses arising from crypto assets can only be offset against profits from crypto assets of the same tax year whilst unused tax losses cannot be carried to next years or offset through group relief.

- The R&D Super Deduction, in the form of an additional 20% deduction, has been extended for tax years 2025 to 2030 (inclusive). The additional deduction may be claimed (fully or partially) at the taxpayer's election.

- Specific provisions have been introduced in relation to capital allowances on intellectual property acquired in exchange of new shares in share capital of a company. Capital allowances cannot exceed the fair value of the assets at the time of acquisition. Further, the new tax changes clarify the limit of amortising intangibles, in cases where the intangibles have an indefinite life, which is set at 20 years.

- Increase of Transfer Pricing Local File thresholds as follows:

    - Financing Transactions: Transactions with connected persons either exceed (or should have exceeded based on the arm's length principle) the amount of EUR€10.000.000.
    - Goods: Transactions with connected persons either exceed (or should have exceeded based on the arm's length principle) the amount of EUR€5.000.000.
    - All other Transactions: with connected persons either exceed (or should have exceeded based on the arm's length principle) the amount of EUR€2.500.000.

- The exemption of foreign permanent establishment profits does not apply in cases where the foreign permanent establishment is situated in a jurisdiction which is included in the EU Blacklist.

- Increased capital allowances of 20% are granted for expenditure incurred on machinery and installations used for agricultural or livestock production after deducting any subsidies received.

- A deduction equal to 200% of the cost-of-living adjustment payment made by an employer to its employees is granted, subject to specific conditions.

- Interest income earned or accruing to companies is no longer subject to the provisions of SDCL (irrespective of classification as active or passive income) and is taxable solely under the provisions of the ITL.

- Deduction of up to EUR€50.000 per tax year is introduced for donations and contributions to certain cultural institutions.

- Increase of the threshold for allowable entertainment expenses from EUR€17.086 to EUR€30.000 (subject to restriction to 1% of the gross income of the business).

- Revision of individual's income tax bands, as follows:

Taxable income	Tax rate	Tax	Cumulative amount of tax
€	**%**	**€**	**€**
0 – 22.000	-	-	-
22.001 – 32.000	20	2.000	2.000
32.001 – 42.000	25	2.500	4.500
42.001 – 72.000	30	9.000	13.500
Over 72.000	35		

- Granting of family-based personal allowances to individuals related to the family size and income as follows:

  - Child allowance.
  - Housing allowance- for rent or interest paid for performing housing loan, for primary residence.
  - Green transition allowance-for expenditure incurred in relation to energy upgrades of a primary residence or the purchase of a new electric vehicle.

  The personal allowances are granted based on the family income thresholds as follows:

  - Up to EUR€100.000 where there are no (0), one (1) or two (2) children.
  - Up to EUR€150.000 where there are three (3) or four (4) children.
  - Up to EUR€200.000 where there are five (5) or more children.
  - For single individuals, the relevant annual income threshold is up to EUR€40.000

Child allowance

A child allowance per spouse or cohabitee or single-family person is granted as follows:

- €1.000 deduction for the first dependent child.
- €1.250 for the second dependent child.
- €1.500 deduction for the third and each additional dependent child.

For single parent families, the child allowances are doubled (income criteria for eligibility to the allowances remain the same)

Housing allowance

A housing allowance of up to €2.000 per spouse or cohabitee or single-family person is granted in respect of either:

- interest paid on a performing loan used for the acquisition of a primary residence, or
- rent paid for a primary residence.

Green transition allowance

A green transition allowance of up to EUR€1.000 per spouse or cohabitee or single person is granted for qualifying expenditure incurred in the year in relation to energy upgrades of a primary residence or the purchase of a new electric vehicle. In case the remaining of the actual expenditure exceeds the total allowances granted to each spouse, cohabitee or single person, the allowance may be carried forward and claimed for up to additional four (4) years with maximum annual allowance of EUR€1.000 and subject to the family income criteria of each tax year.

Note: In cases where the green transition allowance is not permitted in the year in which the expenditure is actually incurred due to the family income criteria not being met, the allowance cannot be claimed in any subsequent year, even if the family income criteria are met in those later years.

Important assumptions for granting the new personal allowances:

- The spouses or cohabitees with Civil Cohabitation or cohabitees without Civil Cohabitation who have common children, must provide consent for the mutual disclosure of their tax information, in order for the family income to be confirmed based on the applicable income criteria. Such consent will be granted by ticking a relevant special field in each individual's personal income tax return.
- The income tax returns of the spouses or cohabitees with Civil Cohabitation or cohabitees without Civil Cohabitation who have common children or the single individuals, must be filed within the required tax deadlines.

- An additional allowance of up to EUR€500 per individual is granted in respect of insurance policies covering natural disaster risks per year for all eligible properties. The allowance covers not only primary residences but also country houses as well as residences rented to third parties.

  No family income criteria apply for the home insurance allowance.

- Taxation of certain employment related income within the provisions of Article 5(1) (b) and 2 (b) of the ITL, including (among others) the following:

  - Ex-gratia payments, exceeding the amount of EUR€200.000, in relation to retirement (including early retirement) or termination of employment or office (including early termination). Such payments are taxed at 20% whereas the expense is not deductible for the employer.

- Benefits granted through an Early Retirement Scheme, in excess of EUR€200.000, are taxed at 20% whereas the expense is not deductible for the employer.
- Compensation for termination of employment or office, exceeding the amount of EUR€200.000, when such compensation is not specifically provided in the terms of employment of the individual. Such payments are taxed at 20% whereas the expense is not deductible for the employer.
- Benefits given as an incentive for an individual to accept employment or the taking up of office which are granted prior to the individual commencing employment or taking up office.
- Any amounts adjudicated by a court with respect to income taxable under the aforesaid articles.

• Taxation of benefits derived from approved share-based schemes offered to employees and/or directors of companies in the form of share option rights or rights for acquisition of shares. Such benefits are subject to tax at 8%. The tax rate of 8% is only applied to the part of the benefit which does not exceed an amount which is equal to two times the remuneration from employment earned by the employee/director in the year of vesting, excluding the benefit. Any excess amount of benefit is subject to taxation at the general income tax rates applicable to all other types of income.

  The rights must:
  a. Have a minimum vesting period of 3 years with the vesting period starting as from the date that the relevant scheme is approved by the Commissioner of Taxation; and
  b. Be non-transferable; and
  c. Relate to shares of the company/ employer or a company holding directly or indirectly shares to the aforesaid company and must carry the same rights as the ordinary shares of the issuer (with the exception of voting rights); and
  d. Have a minimum strike price not lower than 50% of the value of the shares of the relevant company at the time that the relevant scheme is approved by the Commissioner of Taxation.

  The total benefit subject to the 8% rate cannot exceed the amount of EUR€1.000.000 in a ten (10) year period of employment. Moreover, the benefit of the 8% rate does not apply in cases where the rights are granted to a person which is considered as a related party for the purposes of Article 33 of the ITL.

• Increase of the threshold under the special pension regime for services rendered abroad, whereby amounts exceeding EUR€5.000 (instead of EUR €3.420) are taxed at 5%.

• The deduction from taxable income of individuals is extended to include insurance premiums for permanent or partial incapacity, in addition to life insurance.

SPECIAL CONTRIBUTION FOR THE DEFENCE LAW– SDCL

- Reduction of the SDC rate on dividends paid to Cyprus tax resident and domiciled individuals from 17% to 5%. However, dividends distributed to Cyprus tax resident and domiciled individuals out of profits earned up to 31 December 2025 will remain subject to SDC at 17%.

- Payment of SDC on rental income is abolished.

- The provisions of deemed dividend distribution are abolished for profits earned from 2026 onwards.

- Witholding tax on dividends paid to related companies in low tax jurisdictions is reduced from 17% to 5% whereas for dividends paid to EU blacklisted jurisdictions, the withholding tax rate remains at 17%.

- The definition of 'dividend' is expanded to include in addition to 'normal dividends' the below:

    a. Company assets distributed to the shareholder, upon:
        - Capital reduction.
        - Dissolution liquidation.
        - Redemption of shares in open-ended or closed-ended collective investment companies (this specific concept applies from 1 January 2031 onwards).

    In such cases, the amount of the dividend is the Market Value of the asset reduced by the amount of:
        - Capital actually paid to the company by the shareholder (and not previously reduced).
        - Capital gains tax paid on such assets, if any.
        - Disguised dividend already recognised for such asset (if any).

    b. Increasing a company's issued share capital by capitalisation of distributable reserves. In such case, the dividend is considered to be equal to the increase in share capital.

- The definition of disguised dividends is introduced, targeting situations were value is extracted from companies, by shareholders who are natural persons, without formal dividend declarations. A tax rate of 10% applies on disguised dividends to the following cases:

    a. Private use of company's assets by a shareholder (or a related individual to the shareholder).

    In such case the amount of the disguised dividend equals:
        - The initial market value of the asset used for personal use, multiplied by the percentage of personal use (in case the asset is not connected to the company's business the percentage of personal use is 100%).

- The market value of the asset at the time of any increase in the percentage of personal use considering the increased percentage of personal use.

b. Assets disposed by a company to an individual shareholder (or a related individual to the shareholder) at a consideration which is below fair market value.

   In such case the amount of the disguised dividend equals:

   - The market value of the asset on the date of disposal less the amount of consideration.
   - The dividend is reduced by any amount of disguised dividend already captured under the above private use provisions.

The disguised dividend provisions do not apply:

a. to assets donated to the company from the individual shareholder (or a related individual to the shareholder),
b. where the benefit in kind provisions apply, or
c. when the distribution is in the context of
   i. Capital reduction,
   ii. Dissolution, or
   iii. Liquidation.

- Interest income earned by companies is no longer subject to SDC. It will be in all cases only subject to IT except for interest received or receivable by eligible religious, charitable or educational institutions of a public nature or any eligible company established for the promotion of art, science or sports, whose interest income is exempt from the provisions of ITL. The interest income in these cases is subject to SDC at the rate of 17% on the gross interest received/credited (unless it is earned on certain Cyprus/EU government/local authority securities or certain listed securities in which case the rate of SDC is 3%).

  Interest income earned by individuals, is subject only to SDC at the rate of 17% on the gross amount of the interest received/credited (unless it is earned on certain Cyprus/EU government/local authority securities or certain listed securities in which case the rate of SCD is 3%).

- The exemption from SDC for Cyprus tax resident non-domiciled individuals may be extended beyond the 17 years with the payment of a lump sum of EUR€250.000 per period, for additional two periods of five (5) years each.

- Companies distributing dividends, including disguised dividend distributions, are required to issue a certificate to each shareholder. This certificate must specify the dividend amount paid, any disguised dividend distribution, the SDC withheld by the company on these amounts, and the fiscal year in which the dividends' underlying profits were earned.

- In the case of transfers or distribution of non-monetary assets, the company is responsible for the payment of the SDC. The company may then recover this amount by charging it to the respective beneficiaries. This mechanism ensures timely payment of SDC while delineating responsibility between the company and the shareholders.

- Failure to pay the SDC constitutes a criminal offence subject to penalties and possible imprisonment for repeated offenses. Entities and their responsible officers may also be held jointly liable for violations, underscoring the importance of corporate compliance. The authorities retain the right to pursue outstanding amounts through civil litigation if necessary.

- The SDCL amends also the administrative fines for non-compliance with reporting, declaration, provision of information and payment obligations which are either fixed ranging between EUR€200 to EUR€4.000 (in case taxpayers fail to meet some of their obligations) or on the basis of percentages for failing to pay outstanding taxes (5% initially plus an additional 5% if payment is delayed by more than two months). The Commissioner of Taxation reserves the right to increase penalties for noncompliance if this persists after a written notice is issued to the taxpayer.

STAMP DUTY LAW– SDL

- The SDL is abolished for contracts executed on or after 1 January 2026.

CAPITAL GAINS TAX LAW– CGTL

- The definition of 'property', which includes shares that directly or indirectly own immovable property has been amended to include shares which derive 20% (as opposed to 50% previously required) of their value from immovable property situated in Cyprus.

- The lifetime exemptions for CGT have been amended as follows:
  - General exemption for a natural person has increased from EUR€17.086 to EUR€30.000.
  - Agricultural land exemption has increased from EUR€25.629 to EUR€50.000.
  - Primary residence exemption has increased from EUR€85.430 to EUR€150.000.

- No CGT is charged on capital gains from the sale of shares listed on a regulated market of a recognized stock exchange.

- No CGT is charged on capital gains from the sale of shares listed on an unregulated market of a recognized stock exchange, provided that the total value of all such disposals does not exceed EUR€50.000 per annum.

- Land for apartment/land for development exchange has been included in the exemptions from capital gains tax (subject to conditions).

- Penalties and fines in relation to failure in meeting CGT obligations are increased.

ASSESSMENT AND COLLECTION OF TAXES LAW– ACTL

- Directors will continue to be liable for actions or omissions that have taken place during their term even if they have already resigned, when proceedings will commence.

- All tax resident individuals have an obligation to file a personal income tax return if:
    - They have gross income as defined by Article 5(1) of the ITL during that year; and/or
    - They are aged between 25 and 70 years old on 31 December of the tax year, regardless of whether they earned taxable income during the year.

- The threshold for annual turnover for individuals to have an obligation to prepare audited accounts is increased from EUR€70.000 to EUR€120.000.

- Rent payments relating to immovable property situated in Cyprus must be effected exclusively through electronic means. Hence rent recipients are prohibited from accepting rent payments by any other means.

- The submission deadline for tax returns of companies and individuals who prepare audited accounts has been set at 31st of January of the year that follows the subsequent year to the tax year (i.e. 13 months from the tax year's end). The deadline for the payment of the final tax is aligned with the tax return submission deadline (i.e. on 31/1).
  Note: no change in deadline for submission of tax return and payment of the personal income tax through self-assessment for individuals who do not have an obligation to prepare audited accounts.

- The submission deadline of the annual Employer's Return (T.D.7) has been moved to 31 March of the year following the year of assessment.

- For partnerships, all partners registered for tax purposes must submit income tax returns disclosing their share and partnership income.

- The deadline for submitting tax objection is extended to sixty (60) days (instead of 30) from the day of issue of the relevant tax assessment.

- The Commissioner has the right to issue an assessment within six (6) years from the date of the submission of the tax return or the date of the submission of the amended tax return, for the relevant tax year, whichever of the two dates is the later. Same applies for the period a taxpayer has to retain books and records for each tax year. In the event of a tax audit by the Tax Department, the document retention period is extended until the completion of the audit or until one (1) year from the date the audit begins, whichever occurs earlier.

- Powers have been given to the Commissioner of Taxation to suspend the business operations where the taxpayer has not submitted its tax returns (income tax, vat, withholding tax) for specified periods on or after 1 January 2027 or failed to pay taxes due (income tax, vat etc) exceeding EUR€20.000 or has not issued required tax invoices/receipts or issued inaccurate tax invoices/receipts or obstruct tax audits.

- Penalties for late submission and fines have been materially increased ranging from EUR€150 to EUR€2.000;

DISCLAIMER

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