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Cyprus Tax Amendments

Dear Clients, Associates, and Friends

Just before the end of 2025 the Cyprus House of Representatives (Parliament) approved a package of legislative amendments to the Cypriot tax system, described publicly as a major tax reform ('**Tax Reform**'), relating to the below mentioned legislation:

- Amendments to the Income Tax Law of 2002 (118(I)/2002), ('**ITL**');
- Amendments to the Special Defence Contribution Law of 2002 (117(I)/2002), ('**SDC**');
- Amendments to the Capital Gains Tax Law of 1980 (52/1980), ('**CGT**');
- Amendments to the Assessment and Collection of Taxes Law of 1978 (4/1978), ('**ACT**');
- Amendments to the Collection of Taxes Law of 1962, ('**CT**'), and
- Abolition of the Stamp Duty provisions.

The Tax Reform **entered into** force on 1st January, 2026.

Summary Note:
The **Tax Reform aimed at (a) preserving the competitive features/characteristics of the Cyprus Tax System** while (b) creating a more level playing field between businesses, and (c) reducing the tax burden on lower income classes. Key features are (a) an **increase of the corporate tax rate** from 12.5% **to 15%**, (b) coupled with a **reduction of the tax on dividend to 5% (from 17%)**, (c) **abolition of stamp duty**, (d) abolition of notional dividend distribution, (d) strengthening of the powers to assess and collect taxes, and (e) various **reductions of the tax burden for physical persons**. At the same time, it broadens the personal tax base to encompassing items such as 'ex gratia payments' and/or 'compensations. Finally, the Tax Reforms **reduces the dividend taxation to 5% for Cypriot tax residents and domicile (for SDC purposes) and wipes out the deemed dividend operating provisions for 2026 profits** onwards while at the same time introduces specific anti avoidance provisions that monitor 'disguised deemed dividend' and/or interposition of upper corporate layer that is devoid of genuine business & commercial rationale. Brief analysis of the main changes is set out below.

A. Income Tax Law (ITL)

A.1 Corporate Tax

A.1.1 Corporate Tax Rate Increase:

- The corporate tax rate is raised to 15%.
- Despite the increase of the corporate tax rate, Cyprus continues to have one of the lowest corporate tax rates.
- Equally, the Tax Reform preserves or expands its narrow tax base, incentives and tax breaks.

A.1.2 Corporate tax base:

- **Super Deduction for expenditure:** An Uplifted deduction equal to 120% of the R&D for expenditure incurred between 2025 until 2030. Taxpayers may claim the enhanced deduction of 120% **for both** capital expenditure and revenue expenditure. Mainly, the Super tax deduction applies to R&D with respect to intangible assets that fall outside the scope Cypriot IP box.

- **Carry forward of tax losses:** taxpayers may carry forward their tax losses for a time span of 7 years (up from 5 years).

- **Special tax basis (flat rate) for crypto assets**: profits/gains derived from dealing/selling crypto assets are subject to a flat tax rate of 8%. Crypto assets are defined in EU Regulation 2023/1114.

- **Interest income**: interest income earned by **corporate taxpayers** will be subject exclusively to Income Tax (not SDC) **irrespective** of the character/nature. In this regard, the trading or investment character of the interest income will NO longer be relevant to determine its tax treatment and applicable rate.

- **Increasing the Transfer pricing threshold**s: In brief, the reporting thresholds are increased to €5m for sales of goods, EUR 10m for financial transactions and €2,5m for all other transactions.

- **Foreign Permanent Establishments (PEs) in non-Cooperative Jurisdictions:** The Tax Law generally excludes profit of foreign PEs from the tax base of a Cyprus entity. This exclusion has now been removed for foreign PEs that are located in EU non-Cooperative Jurisdictions.

A.2 Personal Tax

A.2.1 Revision of the Progressive personal tax scale

- The **personal income tax bands** have been revised by increasing the non-taxable amount from €19,500 to €22,000. They now stand as follows:

Chargeable income	Tax rate	Accumulated tax
€	€	€
Up to 22.000	Nil	Nil
22,001- 32,000	20	2,000
32,001- 42,000	25	4,500
42,001-72,000	30	13,500
exceeding 72,001	35	

A.2.2 Personal tax base

- **60 days tax residency test:** Prior to the Tax Reform the taxpayer should have satisfied cumulatively two prerequisites, (a) not reside in any other country for a time span exceeding 183 days and (b) not be tax resident in any other country. The latter prerequisite has now been **removed**.

- **Employment related income: Termination payments** pursuant to an employment contract and/or **ex gratia payment** and/or **compensation** pursuant to a Court order are **included** in the personal tax base.

- **9% deemed financial benefit for shareholders:** The scope of 9% 'deemed financial benefit' provision (article 5(1)(ζ) and 5(2)(ζ)), has been expanded to also include '**indirect shareholders**.

- **Interest income**: interest income earned by **physical persons** will be subject exclusively to SDC and excluded from personal income tax **irrespective** of their character/nature.

- **Redemption of units in investment Funds:** As from January 1st, 2031 profit/gain derived when redeeming a unit will constitute dividend income and be taxed accordingly.

- **Personal Allowance:** a taxpayer may claim relief for insurance premium for permanent and/or partial incapacity.

- **Tax relief for dependent children, rental expense for main residence, interest expense for acquiring and/or erecting main residence:** Monetary thresholds have been introduced monitoring the eligibility to the corresponding tax deductions. Tax deduction up to €1,000 will be allowed for one child. The tax deduction increases with the number of the children. Further a tax deduction of up to €2,000 will be granted for rental and/or interest expense in relation to the use and/or acquisition of the main residence.

- **Share based payments:** Benefits connected to share options schemes are subject to a flat tax rate of 8%. The new provision introduces a cap constraining the application of 8% to an amount of benefit equal to two times the remuneration earned by the employee/director in the year of vesting. Option schemes require approval by the Tax Commissioner and satisfy a number of conditions.

- **General anti avoidance rule ('GAAR'):** The scope of GAAR has been expanded to include arrangements/transactions undertaken by physical persons.

B. Special Defence Contribution Law (SDC)

B.1 Rental income:

- SDC on Gross rental income has now been abolished.

B.2 Dividend Income

- **Dividend tax rate:** The SDC rate on dividends is reduced to 5% in respect of dividends distributed out of profits generated from January 1st, 2026 onwards.

- **Pre 2026 profits:** Dividends distributed out of pre 2026 profits will continue to be **subject to the 17% tax rate** for a transitional period until December 31, 2031. SDC at the rate of 17% will also apply when dividend is received by a Cypriot tax resident company from a Cypriot tax resident company in 2026 or 2027, on profit generated in 2024 or 2025. SDC is not applied to dividend received by a company owned by a non-Cypriot tax resident or a Cypriot non-domiciled tax resident ('**Non-Dom**').

- **Specific anti avoidance rule tackling the interposition of companies:** When a company is interposed ('the interposed company') between the company paying the dividend and the physical shareholder (that owns more than 50% of the ownership and/or the profit rights and/or voting rights) the Commissioner may ignore the interposed company and attribute the dividend payment to the shareholder when a cumulative two part test is met, being (i) the interposed company does not serve any business/commercial purpose and (ii) the main purpose is to obtaining a tax benefit (e.g. avoiding the dividend taxation).

- **Disguised dividend distribution**: Dividend tax rate of 10% will apply on disguised dividend distribution with respect to (i) the market value of an asset (belonged to the company) that is used by a physical shareholder (or connected person) and (ii) difference between the market value and the transfer value of an asset (belonged to the company) that is conveyed to the shareholder (or connected person).

- **Deemed Dividend Distribution provisions ('DDD'):** DDD cease to apply for Year 2026 profit onwards. For profit prior to 2025 the DDD provisions will continue to apply.

B.3 Non-Dom

- **Special mode of taxation:** A qualifying person under the non-dom rules may elect to be subject to a special mode of taxation when the non-dom 17-year time line expires. The Special mode of taxation provides that a qualifying person may elect to pay a lump sum of Eur 250k in leu of taxation under SDC for five years (with the right to renew the operation of the Special mode of taxation for another 5 years).

C. Capital Gains Tax Law (CGT)

- **Adjustments to the lifetime exemptions:** Upward adjusting the lifetime exemptions. In brief the general exemption is increased to Eur 30k, the agricultural land is increased to Eur 50k and the primary residence exemption is increased to Eur 150k.

- **Property Rich Companies:** The threshold is reduced to 20%. In brief, when a person sells shares in a company that owns another Company which (amongst other) owns Cypriot immovable property, the said disposal transaction should be subject to capital gains tax if the 'subject shares' derive over 20% of their value from the real estate down the chain.

- **Disposal of shares of a company that substantially derives their value from immovable property located in Cyprus:** The prior rule has been updated to allow, for the purposes of determining the Capital Gains Tax on a sale of a company that owns real estate in Cyprus, the use of the share sale price contained in the relevant agreement (adjusted for any other assets) as the starting reference point for the calculation of CGT

D. The Assessment and Collection and Collection of Taxes Law (ACT)

- **Filing of tax returns:** All physical persons (aged between 25 until the age 71) that have gross income (as defined by article 5 of ITL) are obliged to submit tax returns (irrespective of the amount).

- Tax returns for physical persons should be submitted by July 31st, of the year **following the relevant year of assessment** (e.g., for tax year 2025- July 2026), **unless** the taxpayer has the obligation to maintain accounting books and audited accounts. If so, then the submission deadline is shifted to **January 31st,** of the year following the following year of the relevant year of assessment (e.g., 2026 tax return- January 31st 2028).

- **Obligation to keep records- retention period:** The obligation for the taxpayer to maintain records remains 6 years but the period commencement date is the latest of :
  - Statutory date of submission of the tax return;
  - Submission of the revised tax return;

- Actual submission date of the tax return;

- **Employer's tax return** should be prepared and submitted by March 31 of the year following the relevant year of assessment (e.g., the employer's tax return for 2026 should be submitted by March 31, 2027).

- A taxpayer may file an objection against tax assessment (as issued by the Tax Administration) within 60 days from the date of the issue of the relevant tax assessment.

- **Statute of limitation:** The Statute of limitation remains 6 years but the period commencement date is the latest of:
    - Actual submission date of the tax return;
    - Submission of the revised tax return;

- **Provisional tax:** When a Cypriot company is incorporated in Cyprus after June 30th of the relevant year, then it may file its provisional tax for the relevant year by the end of December 31.

- **Tax Assessment Powers - Suspension of Business Operations and Sealing of premises:** The Tax Reform extends the powers of the Commissioner to allow the suspension of Business Operations and Sealing of Premises (may last up to 10 days which may be renewed) in certain situations. These include:
    (i) Non-compliance with the statutory reporting obligations (fails to submit 2 tax returns by or after January 1st, 2027);
    (ii) Failure to pay tax liabilities that exceed the cumulative amount of €20,000;
    (iii) not issuing the requisite invoices/receipts;
    (iv) obstructing a tax audit.

  Abuse Safeguards: The Commissioner is obliged to send three separate notifications stipulating clearly the violation and requiring from the taxpayer to take immediate action to redress the situation, as prerequisite to taking necessary steps for suspending Business Operations. The suspension decision is served personally on the taxpayer or published in the official Gazette.

- The date of final settlement of the outstanding tax for the relevant year has shifted to (i) 31st January following the year that follows the year of assessment for taxpayers that have to prepare audited financial statements and (ii) 31st July for other cases.

E. Collection of Taxes Law (CT)

- When a corporate taxpayer refuses or delays or neglects to pay outstanding tax liability (that exceeds €100,000) for a time span exceeding 30 days, the Commissioner may take steps to register a memo (charge) over the taxpayer's shares as security for the debt (up to double the outstanding tax liability).

Concluding Remark

The Tax Reform contains more amendments to the legislation that may impact corporate taxpayers or individuals. Our team of lawyers, advisors and consultants is available to assist you in assessing the impact of these new rules and planning any necessary action to ensure adherence and compliance with the amended provisions.