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ΓΝΩΣΗ

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Reshaping the Cyprus Tax System: The Tax Reform Explained

Introduction

On 22 December 2025, the Cyprus Parliament approved the long-awaited tax reform package, marking a significant milestone in the modernization of the country's tax framework. The relevant legislation was subsequently published in the Government Gazette on 31 December 2025, thereby formalising its adoption.

Set out below is a summary of the key amendments introduced by the reform. Unless explicitly stated otherwise, the new provisions came into effect as from 1 January 2026.

The tax reform's main aim is to improve efficiency and support both society and business, contributing to the overall economic resilience of the country.

Taxpayers are advised to carefully review the provisions of the Tax Reform to assess whether, and to what extent, the amendments impact their operations, and to plan any necessary actions to ensure full and timely compliance with the new rules while maintaining an efficient tax structure.

1. Stamp Duty Law

The stamp duty law has been fully abolished.

2. Collection of Taxes Law

The amendment provides powers to the Commissioner of Taxation to pledge shares owned by a taxpayer who owes taxes exceeding €100.000 (subject to conditions).

3. Assessment and Collection of Taxes Law

(a) A director will continue to be liable for actions or omissions that have taken place during his/her term despite that at the time proceedings will commence he/she has already resigned;

(b) All tax resident individuals from the age of 25 to the age of 71 have an obligation to file a personal income tax return irrespective of whether they have income or not while all Cyprus tax resident individuals who have income will have an obligation to file a return irrespective of their age;

(c) The deadline for submission of tax returns by 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 tax is aligned with the tax return submission deadline (i.e. on 31/1);

(d) New provisions have been introduced regarding the information an employer has to submit for its employees on TD7. Also, the deadline for the submission of the annual TD7 has been set to 31st of March of the year following the year of assessment;

(e) Partnerships will have an obligation to submit tax returns;

(f) The deadline to submit an objection is extended to 60 days;

(g) The statute of limitation remains 6 years but those count from the date of tax return submission as opposed from the end of the tax year. Same applies for the period a taxpayer has to retain its books and records;

(h) The threshold for annual turnover for individuals to have an obligation to prepare audited accounts is increased from €70.000 to €120.000;

(i) Powers have been given to the Commissioner of Taxation to suspend the operations of a business where the taxpayer has not submitted its tax returns for pre-determined periods, failed to pay taxes due of a pre-determined amount, has not issued/issued incorrect invoices/receipts;

(j) Interest on refunds will be paid four months after the returns submission deadline/the date the Commissioner has determined the refund is due as opposed from the date the overpaid tax was due;

(k) Rent can only be paid through bank transfer, credit card or any other mean of electronic payment but not with cash;

(l) Penalties for late submission and fines have been materially increased ranging from €150 to €2.000;

4. Income Tax Legislation

(a) The corporation tax rate is increased from 12,5% to 15%;

(b) The carry forward of tax losses is extended from 5 to 7 years;

(c) Gains arising from:

- the sale of a crypto asset;
- gift of a crypto asset;
- exchange of a crypto asset with another crypto asset; and
- the use of a crypto asset as means for making payments are subject to income tax at a flat rate of 8% for both companies and individuals. This special mode of taxation does not apply for gains on crypto assets that were acquired through mining.

  Losses arising from crypto assets can only be offset against gains from other crypto assets of the same person of the same year. Such losses cannot be carried forward or offset through group relief.

(d) Amendment of transfer pricing thresholders.

The thresholds for Local File obligations have been adjusted as follows:

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

(e) Share option schemes:

Benefits derived from employees and/or directors of a company in the form of share option rights or rights for acquisition of shares ("Rights") are subject to a flat tax rate of 8%.

The 8% rate is only applied on the part of the benefit which does not exceed an amount which is equal to two times the remuneration from employment earned by the relevant employee/director in the year of vesting, excluding the benefit. Any excess amount of benefit is subject to the general rates applicable to all other types of income.

The Rights must:

- 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
- Be non-transferable; and

- 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
- 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 €1.000.000 in a 10-year period of employment.

Moreover, the benefit of the 8% flat 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 law.

(f) Redemptions of units in funds: The net amount derived from the redemption of units in a fund will be considered a dividend as opposed to profit on disposal of titles and be taxed accordingly;

(g) 60 days tax residency: the condition for an individual not to be tax resident in another state for him/her to be Cyprus tax resident, is removed;

(h) Corporate tax residency by incorporation: the condition for a company not to be tax resident in another state for it to be treated as a Cyprus tax resident, has been removed (unless a double tax treaty prevails and provides otherwise);

(i) Employment Income:

The taxing provisions in article 5 (1) (b) and (2) (b) of the law have been extended to also include (among others):

- 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;

- Ex gratia payments in relation to retirement (including early retirement) or termination of employment or office (including early termination). Any amounts exceeding €200.000 are taxed at a 20% rate (not deductible for employer);

- Benefits granted through an Early Retirement Scheme - any amounts exceeding €200.000 are taxed at a 20% rate (not deductible for employer);

- Compensation for termination of employment or office when such compensation is not specifically provided for in the terms of employment of the individual (whether these are included in an agreement, regulations or other) - any amounts exceeding €200.000 are taxed at a 20% rate (not deductible for employer);

- Any amounts adjudicated by a court with respect to income taxable under the aforesaid articles.

(j) Additional R&D Deduction: Businesses will get a 20% “super tax deduction” for scientific research and R&D expenses incurred from 2025 through 2030; The law clarifies that the said additional deduction is claimed (fully or partially) at the election of the taxpayer;

(k) Intangible Asset Amortization: The limit of amortizing intangibles, if the Intangible has indefinite life, will be for 20 years;

(l) Entertainment expenses: The amount of entertainment expenses allowed as tax deductible, increases to €30.000 (with the benchmark being maintained to 1% of the gross income of the business);

(m) Tax deductibility of interest expense: The restriction of interest expense for the acquisition of non-business assets (except private motor vehicles) continues beyond the 7 years as it was up to now;

(n) A deduction equaling to 200% of the Cost-of-Living Adjustment payment made by an employer to its employees is granted provided certain conditions are met;

(o) Personal income tax bands:

The personal income tax bands have been updated to:

Chargeable Income (€)	Tax Rate	Accumulated Tax (€)
0- 22,000	0%	-
22,000-32,000	20%	2,000
32,000-42,000	25%	4,500
42,000-72,000	30%	13,000
Over 72,000	35%	

(p) New income tax deductions for individuals: Subject to Income level ranging from €100.000 to €200.000, for individuals who incur costs in relation to:

- Dependent children / university students;
- Interest on loans used for acquisition of main residence or rent for main residence;
- Insurance payment against natural disasters on residence
- Expenses for energy efficiency;
- Acquisition of electric car.
- Up to €50.000 deduction for gifts or contributions to certain cultural institutions.

(q) The updated GAAR provisions cover transactions or arrangements which give rise to income tax, irrespective of whether such income tax arises in the hands of a company or a natural person;

(r) Interest income. Interest accruing to individuals will be subject to tax in accordance with the provisions of the special contribution for defence law and be exempt from income tax law while interest earned by or accruing to companies will be subject to the provisions of the income tax law only;

(s) The law now allows for expenses up to €300.000 to be deductible with respect to the floating of shares in a recognised stock exchange (subject to conditions);

(t) For the purposes of group relief a company must first (a) offset any taxable income against its own losses being carried forward before (b) can utilise any losses of other companies belonging to the safe group for group relief purposes through the group relief provisions;

5. Special Contribution for Defence (SDC)

(a) Reduction of SDC rate applicable on dividends earned by Cyprus tax residents and domiciled individuals from 17% to 5%; It is noted that dividends paid to Cyprus tax residents Cyprus domiciled individuals paid out of corporate profits earned up to 31 December 2025 will be taxed with an SDC rate of 17%;

(b) Payment of SDC on rental income is abolished;

(c) The Deemed Dividend Distribution (DDD) provisions on corporate profits earned after 1 January 2026 are abolished;

(d) Taxation of deemed dividends on capital reduction represented by the difference between market value of distributed properties and the amount originally paid in for the capital extended to companies;

(e) The rules for dividends paid to related to companies in Blacklisted Jurisdictions (BLJ) were updated in April 2025 and the rules for Low Tax Jurisdictions (LTJ) were introduced at that time with effect from 1 January 2026;

The rate of SDC on in-scope dividends paid to related companies in:

- BLJs remains at 17% tax on the gross dividend.
- LTJs is reduced from 17% tax on the gross dividend to 5%.

(f) Definition of a dividend

The concept of dividend received is widened and will incorporate the below in addition to 'normal' dividends:

- Company assets distributed to the shareholder, upon any of the following:
  - Capital reduction;
  - Dissolution;
  - Liquidation;
  - Redemption of shares in open-ended or closed-ended collective investment companies (unlike the other types this 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;
  - CGT (if any) paid on such assets; and

- Disguised dividend (if any) already recognised for such asset.

- Increasing a company's issued capital by capitalisation of distributable reserves. In such a case the dividend is amount of the increase in issued capital.

These apply to Cyprus tax resident individuals and Cyprus tax resident companies (or Cyprus permanent establishments of foreign companies) receiving dividends from:

- Cyprus tax resident companies, and
- Non-Cyprus tax resident companies only in cases where a 'normal' dividend received would have been subject to SDC.

(g) Introduction of the "Disguised" Dividend Concept

The concept of disguised dividends is introduced for direct and indirect shareholders who are natural persons. A tax rate of 10% applies to the disguised dividend (double the normal 5% SDC rate on dividends).

It applies to the following cases:

- Private use of a company asset by the shareholder (or an individual related to the shareholder). The amount of the disguised dividend is determined as follows:

  - 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 taking into account the increased percentage of personal use.
  - reductions in the percentage of personal use do not result in any refund of SDC.

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

The amount of the disguised dividend is determined as follows:

- 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 private use shareholder (or from individual persons related to the individual shareholder);
b. where the benefit in kind provisions apply; or
c. when the distribution is in the context of a:

   - Capital reduction;
   - Dissolution; or
   - Liquidation

No refunds of the SDC charged under the disguised dividend provisions are possible.

(h) 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.

(i) When a company transfers or distributes non-monetary assets, it is responsible for the payment of the SDC. The company may then recover this amount by charging it to the respective beneficiaries. This approach ensures compliance with tax obligations while delineating responsibility between the company and its beneficiaries.

(j) Redemption of units in funds will be treated as a capital reduction and not as sale of titles, effective from 1 January 2031;

(k) In case of bonus issue of shares, the amount capitalized will be treated as dividend;

(l) Provisions have been introduced for the taxation of deemed dividends at the rate of 10%. The deemed dividend is calculated by adding:

- The market value of an assets owned by a company used by a shareholder for private use;
- The difference between the market value of an asset transferred by a company to its shareholder and the consideration amount paid for the said transfer;

(m) 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 €250.000 per period for additional two periods of 5 years each;

(n) Interest income

- Companies

Such interest income is no longer subject to SDC. It will be in all cases only subject to CIT except for the following: Interest received 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 CIT, 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%).

- Individuals

Such interest income is no longer subject to income tax. It will only be subject 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 SDC is 3%).

(o) 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

(p) Penalties and fines have been materially increased in cases of non-compliance. The SDCL amends also the administrative fines for non-compliance with reporting, declaration, information provision, and payment obligations which are either fixed ranging between EUR 200 to EUR 4k ((in case that 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.

6. <u>Capital Gains Tax</u>

(a) The definition of 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;

(b) The tax-exempt amounts for disposal of immovable property, agricultural land and main residence have been increased as follows:

- General exemption for a natural person has increased to €30.000 from €17.086;
- Agricultural land exemption has increased to €50.000 from €25.629;
- Primary residence exemption has increased to €150.000 from €85.430.

(c) The exemption on disposal of shares listed on Cyprus Stock Exchange Emerging Companies Market (Nea Agora) has been abolished (allowing the exception only to those companies already listed) and replaced to apply to shares listed on a regulated marked of a recognized Stock Exchange;

(d) An exemption has been introduced for profits to be derived on disposal of shares not listed on a regulated market (i.e. listed on Cyprus Stock Exchange Emerging Companies Market (Nea Agora)) provided those do not exceed €50.000 per annum;

(e) Building/plots in exchange for land has been included in the exemptions from capital gains tax (subject to conditions);

(f) Penalties & fines have been significantly increased.

As always, the Taxation Department of Costas Tsielepis & Co Ltd is at your disposal should you require any further information or clarifications on this or any other tax matter.

NOTE

The tax information contained in this publication is accurate as at the date of its publication. The information in this publication is designed to increase the reader's general awareness of the Cyprus Tax System and in no case this publication can substitute proper professional advice and specialized solutions that may be specifically applicable to your own needs.

For any such professional consultation, please contact the Taxation Department of Costas Tsielepis & Co Ltd.

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