

TAX Reform 2026

► Overview

The specifics of the long-awaited tax reform were published in the Cyprus Official Gazette on 31 December 2025, introducing a wide range of amendments designed to support economic activity and enhance tax compliance, with most measures applicable as from 1 January 2026.

► Key Legislative Changes

1 Income Tax Law

Personal Income Tax – Revised Bands

The individual income tax framework has been revised with an increase in the tax-free threshold and the expansion of the tax brackets as follows:

Tax rate	Previous bands (€)	New bands (€)
0%	0 – 19.500	0 – 22.000
20%	19.501 – 28.000	22.001 – 32.000
25%	28.001 – 36.300	32.001 – 42.000
30%	36.301 – 60.000	42.001 – 72.000
35%	60.001 +	72.001 +

Family-based Tax Reliefs

Targeted tax allowances have been introduced for households according to specified income thresholds (between €100.000 - €200.000 depending on family composition, or €40.000 for single individuals).

Each spouse or cohabitee may claim deductions for:

- Dependent children:

- €1.000 for the first child
- €1.250 for the second
- €1.500 for the third and each subsequent child

[Note: Students up to the age of 24 qualify as dependents]

- Interest on performing loans for the acquisition or rental of a primary residence (up to €2.000)

- Energy efficiency upgrades of a primary residence or the purchase of a new electric vehicle (up to €1.000)

Other Income (and corporate) Tax Amendments

- **Corporate income tax rate increases from 12,5% to 15%.**
- Amendment of tax residency definition for individuals (prerequisite for absence of tax residency in another country is now excluded).
- Amendment of tax residency definition for companies (reference to existence of a double tax treaty and tie breaker rules).

- Interest income earned by companies will be solely taxed under income tax.
- As from 1st January 2031, the profit arising from redemption of units in an open-ended or closed-ended collective investment scheme will constitute a dividend (under conditions).
- A tax deduction of up to €50.000 in respect of donations or contributions made to cultural institutions approved by the Deputy Ministry of Culture, subject to terms or conditions.
- In the case of a company, a tax deduction in respect of expenditure relating to the costs of the initial listing of its shares on a recognised stock exchange, up to an amount of €300.000, subject to conditions.
- The tax deduction for interest expense relating to acquisition of 100% shares does not apply to investees which are tax resident in a non-cooperative jurisdiction.
- Employers may benefit from a super tax deduction (up to 200%) on increased Cost of Living Allowance expenditure under ATA Agreement, subject to conditions.
- New condition on exemption of profits earned by a permanent establishment of a Cyprus company by reference to their jurisdiction being assessed by EU member states as non-cooperative for tax purposes.
- Profits from the disposal of crypto-assets are subject to a flat 8% tax, with same-year loss offset permitted.

Tax losses carry forward period extended from 5 to 7 years.

- Assets introduced into a company as capital contributions may qualify for capital allowances, provided their fair value is adequately supported and accepted by the tax authorities. In addition, the legislation expressly confirms that intangible assets with an indefinite economic life may be amortised for tax purposes over a 20-year period.
- The **120% R&D super-deduction** for intangible assets is extended until 2030
- Maximum Deductible entertainment expenses increase to **€30.000** (from €17.086).
- A preferential **8% tax regime for approved employee share option schemes** is introduced, subject to caps.
- Lump-sum ex gratia payments upon termination of employment are taxed at **20%**, after a €200.000 exemption.
- Tax deductions are extended to include insurance premiums for permanent or partial incapacity.
- Enhanced **25% capital allowances** are granted for agricultural and livestock machinery unless otherwise stated in a regulation or EU Directive.
- The special pension regime for overseas services is adjusted, with the 5% rate applying on amounts exceeding **€5.000**.

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- Changes in definition of “related parties” and thresholds for obligation for preparation of Cyprus Local File (€10.000.000 for financing transactions, €5.000.000 for goods and €2.500.000 for the remaining types of transactions).
- Where a company becomes tax resident in Cyprus from a non-EU jurisdiction, the assets transferred are now recognised for tax purposes at their fair market value. Previously, this valuation treatment was available only in cases of transfers from EU Member States.
- Capital gains from the disposal of shares listed on a non-regulated stock exchange are exempt up to €50.000 per tax year, with any excess subject to capital gains tax.
- The capital gains tax exemption threshold for the disposal of a primary residence as part of a loan restructuring process is increased to €450.000 and will apply until 31 December 2030.
- The capital gains tax exemption is narrowed to disposals of shares listed on a regulated stock exchange, while grandfathering relief applies to shares acquired before 1 January 2026 that were listed on a recognised exchange.

2 Amendments to the Special Defense Contribution (SDC) Law

- Deemed dividend distribution is abolished for profits earned after 1 January 2026.
- SDC on actual dividends is reduced from 17% to 5% (for post-2026 profits).
- Transitional provisions for taxation of dividends distributed from a Cyprus company to another Cyprus company apply (dividends distributed in 2026 and 2027 out of profits earned in 2024 and 2025).
- SDC on rental income is fully abolished (income tax continues to apply).
- SDC on interest income will apply exclusively to individuals.
- A 5% withholding tax is imposed on dividends paid to companies resident in low-tax jurisdictions.
- SDC on interest from EU government bonds and Health Insurance Fund deposits is reduced to 3%.
- A new alternative SDC regime for long-term non-domiciled individuals is introduced, based on a lump-sum payment of €250,000 per five-year period.
- Payment of SDC on foreign dividends and interest is streamlined into a single payment upon submission of the tax return.
- Introduction of disguised dividend distribution (in Greek “συγκεκριαλυμμένη διανομή μερίσματος”) in relation to:
 - The use of a company asset(s) by the shareholder individual(s) or related individual(s).
 - Difference between the market value of an asset transferred by a company to its shareholder individual or its related individual and the consideration paid.

3 Amendments to the Capital Gains Tax Law

- Lifetime CGT exemptions are increased:
 - General exemption: €30.000 (from €17.086)
 - Agricultural land: €50.000 (from €25.629)
 - Primary residence: €150.000 (from €85.430)
- The scope of “immovable property” is broadened to capture share disposals where **20% or more** of value derives from Cyprus real estate (previously 50%).
- The definition of non-taxable “exchange of property” for CGT purposes has been broadened to include transactions carried out under arrangements with a land developer (in Greek “αντιπαροχή”), subject to specified conditions.

4 Abolishment of the Stamp Duty Law

The Stamp Duty Law has been abolished, eliminating stamp duty obligations on qualifying instruments.

5 Amendments to the Assessment and Collection of Taxes Law

- Mandatory audited accounts threshold for individuals increases to **€120.000**.
- Corporate tax returns and tax payments move to **31 January of the second year following the tax year** (e.g. the corporate tax return for tax year 2026 needs to be submitted by 31 January 2028 and any corporate tax will be paid by this date).
- Mandatory income tax return submission for all Cyprus tax residents aged 25 and above who earn income subject to grandfathering provisions.
- Objection deadline extended to **60 days**.
- Revised administrative penalties to encourage voluntary compliance.
- The tax authorities are granted expanded audit, collection, and administrative penalty powers to enhance compliance and counter tax avoidance.
- The Statute of Limitations is set at 6 years from the date of filing or refiling the tax return, with the same period applying to the retention of books and records.
- Any final corporate tax due must be settled upon submission of the tax return, replacing the previously post-year-end payment timetable (previously, corporate tax had to be settled via self-assessment by 1 August of the year following the tax year).

6 Amendments to the Collection of Taxes Law

The law has been amended to introduce enforcement measures for the recovery of significant tax liability.

In cases where tax exceeding €100.000 remains unpaid for more than 30 days, the Tax Commissioner may impose a freeze on shares owned by the taxpayer, subject to procedural safeguards and appeal rights.

How we can help you

We can support you in exploring and understanding the recent tax reform, from assessing their impact on your business or personal tax position to implementing the changes in practice. Our team can also assist in liaising with the tax authorities to clarify the application of the new provisions and ensure ongoing compliance.