

# CYPRUS TAX REFORM 2026



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Design  
grafica&grafica Simos Simonis

# INCOME TAX LAW

## A - Main Amendments

Title	Legislative Amendments	Comments																		
<b>Corporate Tax Rate</b>	Increase in the statutory rate of Corporate Tax from 12,5% to 15%	In line with earlier declarations of the Cyprus Government																		
<b>Corporate Tax Residence</b>	<p>Extended to include companies which have been incorporated under the Cyprus Companies Law, irrespective of whether another country also considers them as tax resident in that country (except for companies deemed as tax residents of another country by reference to an applicable double tax treaty).</p> <p>Companies that have transferred their registered office to Cyprus will be considered as being incorporated in Cyprus.</p>	Management and control test now extended.																		
<b>Intellectual Property Capital Allowances</b>	Intangible assets acquired in exchange of new shares in the share capital of a company, any capital allowances will be calculated on a capital expenditure which cannot exceed the fair market value of the asset at the time of its acquisition.	This clarifies the mechanics of calculation with respect to capital allowances on acquisition of intellectual property assets in exchange for shares.																		
<b>Tax Losses Carry Forward</b>	The timeframe for carry forward of tax losses has been extended from 5 to 7 years.	Extension to be loss carry forward period.																		
<b>Individual Tax Rates</b>	<p>The individual tax bands have been revised as follows:</p> <table border="1"> <thead> <tr> <th>Chargeable income (EUR)</th> <th>%</th> <th>Accumulated Tax</th> </tr> </thead> <tbody> <tr> <td>0-22.000</td> <td>0</td> <td>0</td> </tr> <tr> <td>22.001-32.000</td> <td>20</td> <td>2.000</td> </tr> <tr> <td>32.001-42.000</td> <td>25</td> <td>4.500</td> </tr> <tr> <td>42.001-72.000</td> <td>30</td> <td>13.500</td> </tr> <tr> <td>Over 72.000</td> <td>35</td> <td></td> </tr> </tbody> </table>	Chargeable income (EUR)	%	Accumulated Tax	0-22.000	0	0	22.001-32.000	20	2.000	32.001-42.000	25	4.500	42.001-72.000	30	13.500	Over 72.000	35		This amendment revises upwards the personal income tax thresholds.
Chargeable income (EUR)	%	Accumulated Tax																		
0-22.000	0	0																		
22.001-32.000	20	2.000																		
32.001-42.000	25	4.500																		
42.001-72.000	30	13.500																		
Over 72.000	35																			

Title	Legislative Amendments	Comments
<b>Employment Income</b>	<p>The taxing provisions in article 5 (1) (b) and (2) (b) of the ITL have been extended to also include:</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• Ex gratia payments in relation to retirement (including early retirement) or termination of employment or office (including early termination). Any amounts exceeding €200k are taxed at a 20% rate (not deductible for employer)</li> <li>• Benefits granted through an Early Retirement Scheme: any amounts exceeding €200k are taxed at a 20% rate (not deductible for employer)</li> <li>• Compensation for termination of employment or office when such compensation is not specifically provided for in the terms of employment of the individual: any amounts exceeding €200k are taxed at a 20% rate (not deductible for employer)</li> <li>• Any amounts adjudicated by a court with respect to income taxable under the aforesaid articles</li> </ul>	<p>Stricter approach has been adopted with regards to taxing certain incomes which arise upon taking up or terminating employment, payments on termination of employment maintain a favourable tax treatment in terms of amount and rate.</p>
<b>Deemed benefit on receivables from shareholders and/or directors</b>	<p>Extension of the 9% deemed benefit to indirect shareholders</p>	<p>Companies and individuals will need to carefully assess financing (or financing-like) arrangements</p>
<b>Deductions for children, students, housing, green transition</b>	<p>Tax deductions are introduced based on family income and number of children ranging from €1k deduction per child per parent to €2k per child per parent with family gross income ranging between €100k to €200k.</p> <p>Deductions are also provided in cases of single parent families, families where one of the parents has custody of the children or families with joint custody of children</p>	<p>Changes align with the social and environmental intended aspects of the reform.</p>

Title	Legislative Amendments	Comments
<p><b>Share Based Payments</b></p>	<p>Benefits derived by employees and/or directors of a company in the form of share option rights or rights for acquisition of shares (the "Rights") are subject to a flat tax rate of 8%.</p> <p>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. Any excess amount of benefit is subject to the general rates applicable to all other types of income.</p> <p>The Rights must:</p> <ol style="list-style-type: none"> <li>a. have minimum period of 3 years with the period starting as from the date that the scheme is approved by the Commissioner of Taxation and</li> <li>b. be non-transferable</li> <li>c. relate to shares of the company/employer or a company holding directly or indirectly shares of the aforesaid company and must carry the same rights as the ordinary shares of the issuer (with the exception of voting rights) and</li> <li>d. have a minimum strike price not lower than 50% of the value of the shares of the relevant company</li> </ol> <p>The total benefit subject to the 8% rate cannot exceed the amount of €1m 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</p>	<p>Targeted towards new enterprises, which aims to boost the attraction of quality employees to Cyprus.</p>
<p><b>R&amp;D Expenses</b></p>	<ul style="list-style-type: none"> <li>• A Super Deduction on R&amp;D expenses, in the form of an additional 20% deduction, applies in respect of expenses of tax years 2025-2030 (including capitalized expenses on which capital allowances are granted). The law clarifies that the said additional deduction is claimed (fully or partially) at the election of the taxpayer</li> <li>• Expenses with respect to the acquisition of property, plant and equipment (including expenses for the acquisition of residence for employees) on which capital allowances can be claimed cannot benefit from the specific provisions of the ITL with respect to R&amp;D expenses</li> <li>• A Super Deduction cannot be claimed on expenses relating to an asset benefiting from the provisions of the IP nexus regime</li> </ul>	<p>The extension of the Super Deduction is a welcome development.</p>

Title	Legislative Amendments	Comments
<b>Crypto Assets (as defined in Regulation (EU) 2023/1114) - Taxation of certain gains</b>	<p>Gains arising from:</p> <ol style="list-style-type: none"> <li>the sale of a crypto asset</li> <li>gift of a crypto asset</li> <li>exchange of a crypto asset with another crypto asset and</li> <li>the use of a crypto asset as means for making payments are subject to income tax at a flat rate of 8%. This special mode of taxation does not apply for gains on crypto assets that were acquired through mining.</li> </ol> <p>Regarding losses arising on crypto assets, they 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.</p>	<p>Gains of capital nature, which would have otherwise not been taxable, together with gains of trading nature which would have been taxable at the rates of 15%-35%, are both taxed at the relatively low rate of 8%.</p>
<b>Transfer Pricing Thresholds</b>	<p>The thresholds for local file have been adjusted as follows:</p> <ol style="list-style-type: none"> <li>Sale of Goods Transactions: Transactions with connected persons either exceed (or should have exceeded based on the arm's-length principle) the amount of €5m</li> <li>Financing Transactions: Transactions with connected persons either exceed (or should have exceeded based on the arm's-length principle) the amount of €10m</li> <li>All other Transactions: Transactions with connected persons either exceed (or should have exceeded based on the arm's-length principle) the amount of €2.5m</li> </ol>	<p>Increase of the relevant thresholds is a positive development</p>
<b>GAAR</b>	<p>The GAAR has been amended to explicitly cover any 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</p>	<p>The GAAR was initially introduced as part of transposing of the EU Anti-Tax Avoidance Directive. The amendment strengthens the position of Cyprus against abusive practices</p>
<b>Interest Income for Companies and Individuals</b>	<p>Interest accruing to individuals will be subject to the provisions of the SDCL and be exempt from income tax, while interest earned by or accruing to companies will be subject to the provisions of the ITL and be exempt from SDCL.</p>	<p>Brings clarity and certainty of tax treatment of the interest income of companies and individuals alike</p>

## B Other Amendments

### - Corporate Income Tax

- The law now allows for expenses up to €300k to be deductible with respect to the floating of shares in a recognized stock exchange (subject to conditions)
- Income derived (a) with respect to contributions made to an approved provident fund established in Cyprus or the EU or (b) pursuant to an approved insurance contract aiming to provide bulk or periodic pension payments to its beneficiary, is considered as exempt income for the purposes of the ITL
- Similarly to intangible assets, any capital allowance with respect to assets acquired in exchange for new shares in the share capital of a company will be calculated based on the fair market value of the asset at the time of acquisition
- The Law now clarifies that before any group relief a company must first offset any taxable income against its own brought forward losses
- The Law further clarifies the conditions in accordance with which a director of a company is a related party to the company for the purposes of Section 33 of the Law
- The Law now determines the value of assets entering the tax system of the Republic (through an outright transfer of such assets, through the transfer of tax residence of a company to Cyprus or through the creation of a permanent establishment in Cyprus)
- The Insurance Premium Tax for Life Insurance companies has now been abolished relevant amendments have also been made in ACTL
- Increase of the ceiling of allowable entertainment expenses from €17.086 to €30k (with the benchmark being maintained to 1% of the gross income of the business)
- The Law now determines that the useful economic life, for tax amortisation purposes, of intangible assets with indefinite life is 20 years
- Rent payments which do not adhere to the requirements of article 48A of the ACTL will not be considered as tax deductible
- Extension to 2030 of the provisions of the ITL with respect to capital allowances relating to the increase of the energy efficiency of buildings and electric vehicles
- Accelerated depreciation with respect to investments in machinery and facilities with respect to agriculture and livestock farming (except for machinery and facilities relating to irrigation)
- The exemption of foreign permanent establishment profits does not apply in case where the foreign permanent establishment is situated in a blacklisted

## C Other Amendments

### - Personal Income Tax

- Under the revised 60-day rule for individuals, the previous criterion requiring that the individual “not be a tax resident in any other state” has been removed
- Income from breach or cancellation or early termination of a contract in cases where the income of such contract would have been taxable
- Practically, as from 1/1/2031 gains of individuals from the redemption of units and/or shares in closed/open collective investment schemes in the legal form of a company (reduced with any capital gains tax due on immovable property by virtue of the said redemption) will be considered to represent dividends and be taxed accordingly under the ITL and the SDC
- Tax deductions are introduced for interest expense, or rental expense, for the purpose of primary residence
- Tax deductions are now extended to include insurance premiums for permanent or partial incapacity
- Tax deductions are also provided with respect to capital expenses incurred for the increase of the energy efficiency of a primary residence and in relation to electric vehicles
- The ITL amends certain provisions with respect to the deductibility of contributions to provident funds and life insurance contracts and the tax treatment of the redemption of insurance policies
- Additional deductions are introduced such as an up to €500 deduction for insurance of residence against natural disasters and an up to €50k deduction for gifts or contributions to certain cultural institutions
- A deduction equal to 200% of the payment for the Cost-of-Living Adjustment made by an employer to its employees is granted provided certain conditions are met

# SPECIAL DEFENCE CONTRIBUTION (SDC)

## Main Amendments

Title	Legislative Amendments	Comments
<p><b>SDC rate on dividends received by individuals</b></p>	<ul style="list-style-type: none"> <li>• Reduction of the SDC rate to 5% from 17% on gross dividends received.</li> <li>• Dividends received from Cyprus tax resident companies out of profits earned up to 31 December 2025 remain taxed at 17%</li> </ul> <p><b>Notes:</b></p> <ol style="list-style-type: none"> <li>1. Apply to Cyprus tax resident individuals receiving dividends from (i) Cyprus tax resident companies, and (ii) non-Cyprus tax resident companies unless the individual benefits from the Non-domiciled (Non-dom) regime, in which case the dividends are not taxable</li> <li>2. The amount of the dividend received that is subject to taxation is reduced by amounts already subjected to SDC dividend taxation</li> </ol>	<p>Reduction of the SDC tax rate on dividend income for individuals is a welcome development.</p> <p>However, complexity is added as certain dividends remain subject to 17% SDC for another 6 years and the DDD regime</p>
<p><b>Abolition of the DDD rules</b></p>	<p>The DDD rules are abolished for profits earned as from 1 January 2026 onwards by Cyprus tax resident companies.</p> <p>For shareholdings held on or before 31 December 2025 and with respect to which there is an actual dividend payment corresponding to profits which were taxed under DDD and the dividend is paid to:</p> <ul style="list-style-type: none"> <li>• A non-Cyprus tax resident, or</li> <li>• A Cyprus tax resident non-dom individual, the recipient is entitled to a refund of tax paid under DDD rules</li> </ul>	<p>A welcome development, however, again complexity is added as profits earned prior to 1 January 2026 are subject to transitional DDD provisions</p>

Title	Legislative Amendments	Comments
<b>SDC on dividends received by Cyprus tax resident companies from Cyprus tax resident companies</b>	<p>As previously, such dividends remain generally exempt from taxation. The exceptions by reference to which dividends will be taxed at 17% are:</p> <ul style="list-style-type: none"> <li>• Dividends received: <ul style="list-style-type: none"> <li>- in 2026 if paid out of profits from the years ended 31 December 2024 or 2025</li> <li>- in 2027 if paid out of profits from the year ended 2025</li> </ul> </li> <li>• Dividends received indirectly more than four years from the end of the tax year in which the profits from which the dividend derives were earned. This applies in cases where the dividend is received until 31 December 2031 and derives from profits earned until 31 December 2025</li> </ul>	<p>Retain the general non taxation of dividends received by Cyprus tax resident companies from other Cyprus tax resident companies. The exceptions where such dividends are subject to SDC at 17% are time limited and expire by 31 December 2031</p>
<b>SDC on dividends received by related companies in so called 'blacklist' jurisdictions (BLJs) and low tax jurisdictions (LTJs)</b>	<p>The rules for dividends paid to related to companies in BLJs were updated in April 2025 and the rules for LTJs were introduced at that time with effect from 1 January 2026.</p> <p>The rate of SDC on in-scope dividends paid to related companies in:</p> <ul style="list-style-type: none"> <li>• BLJs remains at 17% tax on the gross dividend</li> <li>• LTJs is reduced from 17% tax on the gross dividend to 5%</li> </ul>	<p>Dividends paid by Cyprus tax resident companies to non Cyprus tax resident companies remain not subject to any Cyprus withholding tax (WHT) unless they fall within the BLJ or LTJ provisions</p>
<b>SDC on dividends received by Cyprus tax resident companies (or Cyprus permanent establishments of foreign companies) from non Cyprus tax resident companies</b>	<p>As previously, such dividends remain exempt from taxation unless the exemption does not apply. When the exemption does not apply the SDC rate is reduced from the previous 17% tax on the gross dividend to 5% tax. Foreign dividends are not exempt when:</p> <ul style="list-style-type: none"> <li>• more than 50% of the paying company's activities result directly or indirectly in investment income and</li> <li>• the foreign tax is less than 50% of the Cyprus tax burden Cyprus</li> </ul>	<p>Welcome to retain the exemption rules for foreign dividend income received by Cyprus tax resident companies</p>

Title	Legislative Amendments	Comments
<p><b>The concept of 'dividend'</b></p>	<p>The concept of dividend received is widened and will incorporate the below in addition to 'normal' dividends:</p> <ul style="list-style-type: none"> <li>• Company assets distributed to the shareholder, upon any of the following: <ul style="list-style-type: none"> <li>- Capital reduction</li> <li>- Dissolution</li> <li>- Liquidation</li> <li>- Redemption of shares in open-ended or closed-ended collective investment companies</li> </ul> </li> <li>• In such cases the amount of the dividend is the Market Value of the asset reduced by the amount of: <ul style="list-style-type: none"> <li>- Capital actually paid to the company by the shareholder and not previously reduced</li> <li>- CGT (if any) paid on such assets and</li> <li>- Disguised dividend (if any) already recognised for such asset.</li> </ul> </li> <li>• Increasing a company's issued capital by capitalization of distributable reserves. In such a case the dividend is amount of the increase in issued capital.</li> </ul>	<p>Widened concept of dividends does not apply to dividends paid from Cyprus tax resident companies that fall within the BLJ or LTJ provisions</p>



**oneworld**  
GLOBAL BUSINESS SERVICES

 [www.oneworldweb.net](http://www.oneworldweb.net)

 [info@oneworldweb.net](mailto:info@oneworldweb.net)

 +357 22496000