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Navigating the Cyprus Tax Reform Package 2026, an overview for individuals and companies

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Following a 20 year period in which a predictable and reliable taxation framework has allowed Cyprus to develop into a business hub for the EMEA region and attract both companies and talent, in order to keep up pace with the ever evolving geo-economic landscape, Cyprus has introduced a new comprehensive tax system in order to enhance its attractiveness as an international business hub, to align itself with international best practices to promote fairness between various classes of tax payers, while at the same time enhancing tax transparency and more efficient tax collection. The reform was passed by parliament following an extensive public consultation in which the views of various stakeholders were taken into consideration.

This information release summarises the principal reforms introduced by this significant legislation with most provisions entering into force on 1 January 2026. The reforms are all encompassing affecting specifically income taxation, capital gains tax, tax assessment and collection procedure and enforcement and finally special defence contribution, dividend taxation, and transactional cost.

The changes combine rate adjustments, base-broadening measures, targeted reliefs, procedural modernisation and enhanced enforcement tools. While policy objectives include competitiveness and social support, the package also materially expands compliance obligations and administrative powers.

We have tried below to summarise the changes into descriptive sub-categories, offering an introduction to the new tax regime, in so far it affects different classes of tax.



Taxation of Natural Persons

Income Tax (Amending) (No. 4) Law of 2025

Tax residency and scope

The individual tax residency framework remains unchanged. The 183-day rule and the 60-day rule continue to apply, however the provision that “*an individual is not tax resident in any other country for the same year*” has now been removed, preserving existing planning logic and long-standing administrative practice.

Moreover, personal income tax bands are revised from tax year 2026, with a zero rate up to €22.000 and progressive rates rising to 35% above €72.001. It is expected that all individual taxpayers will benefit from such adjustments.

Up to 31-12-2025		From 01-01-2026	
Taxable Income - €	Tax rate - %	Taxable Income - €	Tax rate - %
Up to 19.500	0	Up to 22.000	0
19.501 - 28.000	20	22.001 - 32.000	20
28.001 - 36.300	25	32.001 - 42.000	25
36.301 - 60.000	30	42.000 - 72.000	30
More than 60.000	35	More than 72.001	35

Chargeable income – employment and residual income

The concept of employment income is significantly broadened. The law now expressly includes benefits in kind, housing and subsistence benefits, allowances, signing and recruitment incentives (including pre-employment payments), retirement and early-retirement gratuities, voluntary termination payments, non-contractual compensation and court-ordered employment-related awards.



A new residual category of “any other income” is introduced, capturing income not otherwise classified, while **expressly** excluding capital income (unless taxed under specific provisions) and qualifying family gifts between close relatives.

Social benefits paid by the Social Insurance Fund, the Deputy Ministry of Social Welfare and the Grants and Benefits Service are explicitly excluded from taxable income.

The reform also clarifies the long-uncertain treatment of ex gratia termination payments, confirming a €200.000 tax-free threshold for genuine termination payments, with any excess taxed at a flat rate of 20%.

Additional taxes introduced

The law introduces a reference to Regulation (EU) 2023/1114 (MiCA), embedding crypto-asset regulation directly into the income tax framework. Under this new regime, any gains arising from transactions involving any disposal of iCrypto-Assets are subject to a flat capital gain tax rate of 8%. This is expected to add transparency to gains made as a result of such trading, which will now not be doubted as being part of a trader’s income. Please note that this applies to both individuals and companies who both will need to include such trading in their filing. Any losses realised in a year can be set off against profits from the disposal of crypto assets arising in the same tax year. The term “disposal of crypto assets” means the sale of crypto assets, the gift/donation of crypto assets, the exchange of one crypto assets with another crypto assets and the use of crypto assets as a means of payments and does not include the disposal of crypto assets which have been obtained through mining.

Moreover, a special mode of taxation has been introduced regarding any benefit accruing to an employee or a company director, through grant of stock options or shares under the terms of an incentive plan approved by the Tax Commissioner. Under this provision, the tax rate is 8% up to an amount of benefit that equal to twice the income of the employee, while in the meantime and a double deduction is introduced for statutory cost-of-living wage increases (ATA/COLA), that means that an additional deduction will be available to



employers (Companies) that pay a Cost-of-Living Allowance (COLA) as per the relevant trade unions agreements. The allowance will equal to two times the expense incurred in paying COLA in the preceding tax year.

Further taxation imposed on dividends received by individuals domiciled in Cyprus has been decreased to 5%, as explained below.

Exempt income and capital treatment

Retirement gratuities are removed from the list of exclusions within exempt income, while lump-sum pension commutations are expressly characterised as capital.

Specific revisions are made to the treatment of interest income earned by funds and by public and general government bodies. An Individual earning interest will pay a rate of 17% Special Defence on the amount of such interest (unless it is earned on certain Cyprus/EU government/local authority securities or certain listed securities in which case the rate of SD is 3%) but will not otherwise have to add that income to their taxable income.

Looking forward, from 1 January 2031, gains of individuals arising on the redemption of units or shares in collective investment schemes that are corporate in form will be treated as dividends (net of capital gains tax where applicable), signalling a future alignment between fund exit taxation and dividend policy.

Insurance, pensions and personal allowances

A new consolidated framework applies to deductions for life insurance, pension contributions, health insurance and GHS contributions, subject to revised caps and an overall limit of 20% of taxable income. Insurance covering permanent or partial incapacity is expressly included, and claw-back rules apply on early surrender or extraction.

New Article 14B introduces income-tested household allowances, structured as deductions rather than unspecified “credits”. These include child allowances, housing



allowances (interest or rent for a primary residence), green transition allowances (energy upgrades or electric vehicles), and home insurance allowances. Eligibility depends on strict household income thresholds and status at 31 December of the relevant tax year, with compliance and data-sharing conditions attached. In practice these allowances help mostly lower income individuals and have not been expanded so as to cover a larger portion of tax payers.

Taxation of Legal Persons

Expansion of assumption of corporate residence

One of the changes brought about by the new legislation is the simplification and expansion of the corporate residence. A company is now deemed resident in Cyprus not only if management and control is exercised in Cyprus but quite simply when the company is merely incorporated or registered in Cyprus. This marks a decisive shift from a pure management-and-control test and brings incorporation test formally within the residence definition as a matter of default. As you can see, it is now much easier to show that a Cypriot registered company is indeed taxable in Cyprus.

Rates

The corporate income tax rate has now been increased from 12,5% to 15%, effective 1 January 2026 in order to align with modern trends that tend to consider rates lower than 15% as predatory taxation practices, frowned upon in international financial circles.

Significant modifications as to the scope of taxable income

The so-called super deduction on Research and Development expenses in the form of an additional 20% deduction has been extended from 2025 to 2030. For example if a company has R&D expenses of Euro 100.000, it may deduct Euro 120.000 from its taxable income.



The deduction is available irrespective of the accounting treatment of the expenses; hence the deduction can be claimed on capitalised expenses on which capital allowances are granted.

The deduction cannot be claimed on expenses related to a qualifying asset for which the provisions of the IP box regime has been applied in a tax year.

Furthermore, deductions for donations to approved cultural institutions (up to €50.000, with corresponding losses not carried forward) are now available.

IPO-related expenses have become deductible for an amount up to €300.000 (with corresponding losses not carried forward) over a rolling 3-year period, subject to EU de minimis rules.

Capital allowances, interest and losses carried forward

Capital expenditure rules are adjusted to require intangible assets with indefinite useful life to be amortised over 20 years, and to cap the tax value of assets introduced in exchange for shares at market value. For 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 and the Law now determines that the useful economic life, for tax amortisation purposes, of intangible assets with indefinite life is 20 years. Accelerated capital allowances are extended until 2030, including a new 20% allowance for machinery used in agricultural and livestock production.

Thresholds in relation to corporate hospitality (allowable entertainment expenses) are increased from €17.086 to €30.000, subject to a time limitation up to tax year 2027, with the benchmark being maintained to 1% of the gross income of the business. Deductions are denied for interest incurred on the acquisition of shares in entities resident in non-cooperative jurisdictions, and transfer pricing rules are expressly cross-referenced for related-party financing.



The loss carry-forward period is extended from five to seven years, benefiting businesses with longer investment horizons.

Capital Gains Tax (Amending) Law (No. 3) of 2025

The Capital Gains Tax framework is broadened and modernised. Definitions are aligned with immovable property and securities legislation, and the threshold for companies regarded as property-rich is reduced from 50% to 20%, significantly expanding the scope of CGT on share disposals.

That means that when a person is disposing of shares in a Company with assets in real estate encompassing more than 20% in real estate, the same company shall be treated as property rich and the value of such property shall be taxed at 20%.

Lifetime CGT exemptions are materially increased, with higher thresholds for general disposals, agricultural land and primary residences.

A new exemption applies to disposals of shares listed on non-regulated markets, provided total disposals in the same calendar year do not exceed €50.000, with grandfathering for holdings existing on 31 December 2025.

Exchange transactions are clarified to include “antiparochí” arrangements (meaning agreements where land is exchanged for other pieces of land or buildings), subject to a five-year completion window.

Capital Gains Tax exemption applies to disposal of main residence within the context of non-performing loan restructuring or court-approved arrangements subject to disposals to be completed by 31 December 2030.



From 1 January 2027, the Commissioner gains the power to refuse a tax clearance certificate for transactions exceeding €100,000 where CGT compliance is not satisfied. The CGT rate remains 20%, and core structural exemptions are retained.

Cyprus IP Box Regime

This regime, fully aligned with the OECD's and EU stated desire to encourage EU derived research, development and exploitation of intellectual property (IP), which is developed and exploited by a taxable person in Cyprus, continues to apply and is summarized below:

Under this regime, 80% of qualifying profits from eligible IP are exempt from corporate tax. As a result, only 20% of those profits are subject to the standard 15% corporate tax rate, reducing the effective tax rate to 2,5% on such qualifying income.

A Qualifying Asset is one which was acquired, developed or exploited by a person in the course of its business, which relates to intellectual property, being a result of research and development expenditure and which, including the person who is the economic owner, excludes any intellectual property relating to marketing. The scheme applies to qualifying assets such as patents, copyrighted software and other R&D driven IP, but trademarks and brands do not qualify.

Qualifying Expenditure, includes R&D, wages, materials, direct expenses and indirect expenses that can be attributed to the R&D functions. Does not include acquisition cost of the IP by another party and outsource expenditure to related parties. For new tax regime outsourcing of R&D activities - Net positive IP profit attributable to outsourcing R&D activities to other group companies ('nexus approach') - is not eligible for the IP 80% deduction. For outsourcing to non-related parties, no restriction exists. Also, any acquisition cost (purchase cost) is not included in the qualifying cost (a specific formula is applied).



Eligible Companies are all persons (corporate or individuals' taxpayers) that maintain a tax residency in Cyprus, must demonstrate economic substance in Cyprus, must maintain proper accounting, separate and document IP qualifying income and directly related R&D expenditures.

Tax Assessment and Collection – Procedural Reform

The amendments to the assessment and collection framework modernise filing, enforcement and data-processing powers. A unified definition of the Commissioner of Taxation is introduced, alongside a new legal basis for extensive personal data processing, automated systems and profiling, within the GDPR framework.

Tax return obligations are expanded, deadlines are standardised (all individuals between 25 and 70 years, irrespective of their income, must submit their income tax returns by 31 July of the year following the tax year, and electronic filing becomes central. Employers must submit enhanced annual employee statements by 31 March each year, with detailed personal and remuneration data.

Assessment time limits are linked to the actual filing date, and objection procedures are streamlined with electronic submission and a 60-day deadline.

Enforcement powers are significantly strengthened. These include expanded information-production rights, revised penalties, business suspension and sealing powers for non-compliance, mandatory electronic rent payments, and statutory rules on payment allocation and director liability. For example, Tax authorities now have the power to obtain by written notice bank information for tax audit purposes up to 7 years preceding the request.

Tax objections can now be submitted electronically and the objection time frame has been extended to 60 days from 30 days.



Most provisions apply from 1 January 2026, with specific timing rules for tax year 2026 onwards.

Taxes Collection Law – Share Freezing Mechanism

A new enforcement tool allows the Commissioner, subject to procedural safeguards, to freeze shares owned by a taxpayer where unpaid tax exceeds €100.000 and remains outstanding. The measure includes notice, representation rights, limited judicial review and regulated release mechanisms, and applies from 1 January 2026.

For example, if a person owes tax exceeding EUR100k and fails to pay within 30 days of the due date (excluding cases with ongoing disputes, instalment agreements, or waivers), the Commissioner of Taxation can register a memo over the person's shares as security for the debt, up to double the owed amount including interest and charges. Before registering the memo, the Commissioner of Taxation must notify the debtor in writing and allow 30 days for him/her to respond, after which time the Commissioner of Taxation may confirm, cancel, modify, or replace the decision after considering any representations from the debtor; • The memo is officially registered with the Registrar of Companies and prevents transfer of the shares while in effect; • The debtor can apply to court to cancel the memo if the tax is paid or if an alternative enforcement action would cause less hardship. The Court cannot question the legality or amount of the tax during cancellation proceedings. All tax obligations related to the shares remain.

The Commissioner of Taxation is authorized to collect and process personal data in exercising his powers under the law, including accessing data from various sources using automated systems and profiling techniques.

As from 1 January 2026, documentation supporting tax returns and books & records shall be kept for a period of 6 years from the submission deadline of the tax return or the submission deadline of the amended tax return, or the submission date of the tax return or the submission date of the amended tax return, whichever date is later.



The Commissioner of Taxation has the right to issue an assessment within the tax year or within 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 later.

The Commissioner of Taxation has the authority to suspend business operations and seal the premises of an enterprise if certain serious tax-related violations occur.

Also, the Commissioner has now the authority to suspend the operations of a business and seal its premises under certain conditions and mechanism.

Special Defence Contribution (SDC) Reform

One of the most important reforms that have come into play is the reduction of SDC on actual dividends distributed out of post-2026 profits distributed to Cyprus tax resident and domiciled individuals is reduced from 17% to 5%, requiring clear distinction between pre- and post-2026 profit pools. This change squares the playing field between Cypriot domiciles and non-domiciled since the former, shrinking the difference between the two categories of tax payers.

Deemed dividend distribution is abolished for post-2026 profits and replaced with a targeted anti-avoidance rule imposing a 10% SDC on disguised distributions. The impact of this is to allow Cypriot firms more space to re-invest their profits as they see fit and spur growth.

Another positive change is the abolition of SDC on rental income which is now taxable only under income tax rules.



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Stamp Duty Repeal

The Stamp Duty Law is repealed in full, eliminating stamp duty on contracts, financing arrangements, share transfers and related corporate documentation. This removal materially reduces transactional friction and execution costs.

Concluding observations

Taken together, the 2026 tax reforms represent a structural recalibration of the Cyprus tax system based on international best practices. The package combines competitiveness measures, such as reduced dividend taxation and stamp duty repeal, with base-broadening, enhanced compliance and significantly strengthened enforcement powers.

Taxpayers, businesses and advisers will need to reassess structures, compliance systems and planning assumptions in light of the expanded tax base, revised definitions of residence, new household-based reliefs and the modernised procedural framework now taking shape.

Should you require more information or specific advice, please contact:

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