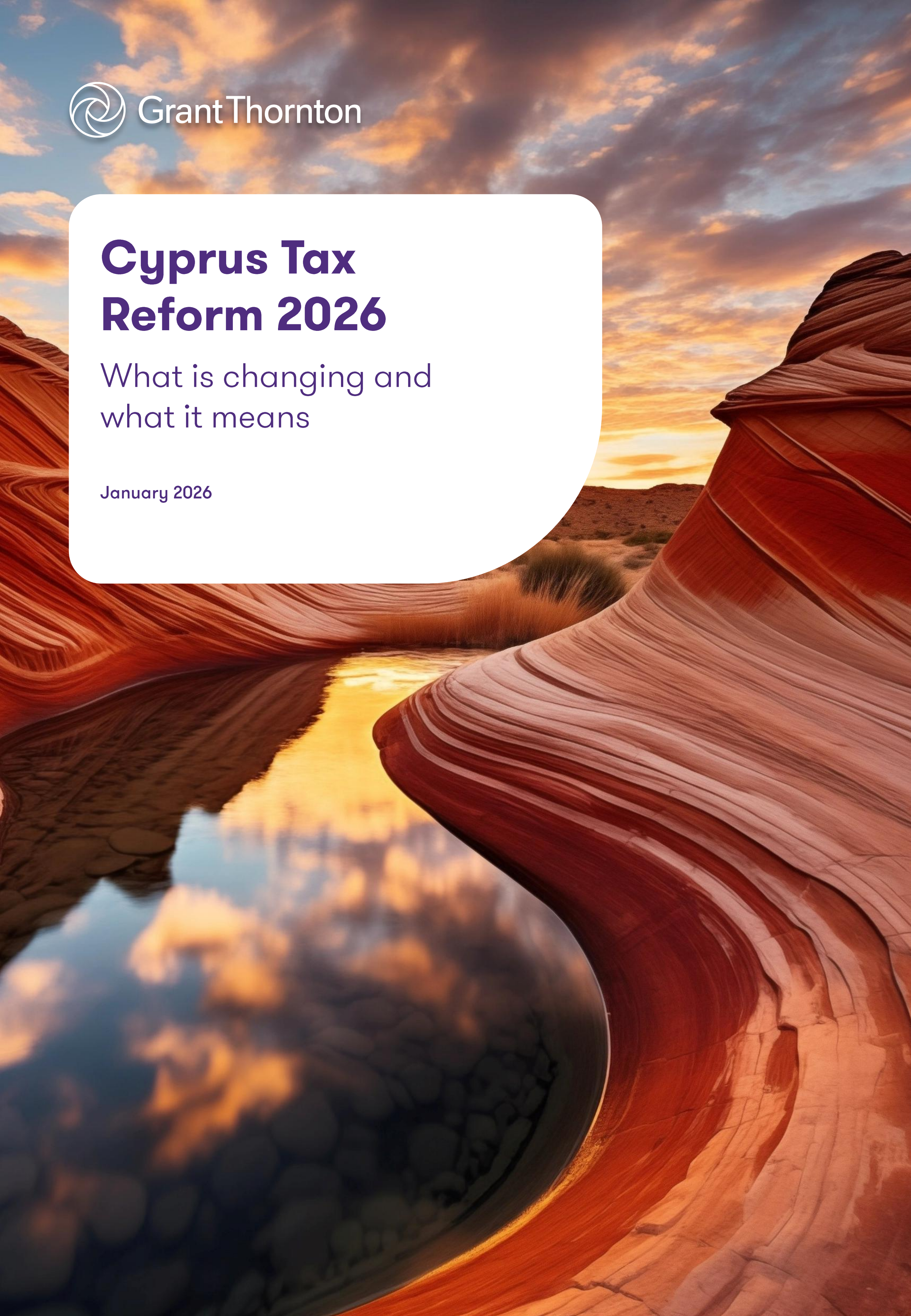

Grant Thornton

Cyprus Tax Reform 2026

What is changing and what it means

January 2026

Contents

Introduction

This Tax Reform Package provides a high-level summary of the main legislative amendments introduced under Cyprus' tax reform, effective from 1 January 2026.

The reform brings material changes across multiple tax laws, including the Income Tax Law, the Special Contribution for the Defence Law, the Capital Gains Tax Law, tax administration and enforcement provisions, as well as the abolition of stamp duty for documents signed after 1 January 2026.

These amendments impact both individuals and businesses, covering, among others, corporate taxation, personal income tax, tax residency rules, dividends and interest, crypto transactions, share option schemes, deductions and reliefs, compliance obligations and enforcement powers.

This document is intended to support organisations and individuals in understanding the new tax framework and identifying areas that may require early assessment and planning. It should not be treated as a substitute for professional advice.

For tailored guidance on how the reform may affect your specific circumstances, please contact Grant Thornton Cyprus' Tax team.

Legislative Amendments

The Income Tax Law of 2002

The Income Tax Law of 2002 (118(I)/2002)

Appendix 2 - Increase of Corporation Tax Rate	From 12,5% to 15%

New Personal Tax bands

Annual Taxable income	Tax rate
Up to €22.000	0%
€22.000 - €32.000	20%
€32.000 - €42.000	25%
€42.000 - €72.000	30%
€72.000 and over	35%

Article 2 - Company tax residence

In addition to the "management and control" provision, a company is also considered to be a tax resident when incorporated in the Republic of Cyprus under the Companies Law (excluding cases which a Double Tax Treaty provides otherwise).

Also, any company that relocates its Registered Office or Legal Seat in the Republic of Cyprus is assumed to have been incorporated in Cyprus.

Article 2 – Individual tax residence with 60 days

The provision for not being in any other country for more than 183 days remains, but the provision "of not being considered a tax resident in any other country" has been removed.

The remaining conditions apply as before:

- Being in Cyprus for at least 60 days
- Exercising a trading activity and/or being employed and/or holding an office in a Cyprus tax resident company
- Owning or renting a residence

Article 5 (1) (b) & (2) (b) – Additional employment income provisions have been extended to include:

- Benefits given to accept employment/ taking up office, including those given prior to employment/ taking up office;
- Ex-gratia payments in relation to retirement/ early retirement or termination of employment or office;
- Benefits granted through an early retirement scheme;
- Compensation for termination of employment or office that is not provided in any contractual agreement.

Amounts paid pursuant to a court decision are also taxable.

Based on the New Article 20 (f), any amount exceeding €200.000 is taxed at a flat rate of 20%.

Article 5 (1) (z) & (2) (z) - Deemed benefit on debit balances of Directors or Shareholders	The 9% deemed interest benefit on debit balances (other than from a trading activity) is extended to also capture indirect shareholders (individuals).
Article 8 (19) New amendment in taxation of interest	• Interest received by an individual is exempt from IT but is subject to SDC. • Interest received by a company is exempt from SDC but is subject to IT. Note: In the case of eligible charitable, educational institutions or any other bodies exempt from IT, interest will be subject to SDC either at 17% or 3%.
Article 8 (20) - Gain on redemption of units/shares in closed/open collective investment schemes	• As of 1/1/2031, any gain arising from redemption of units/shares in closed/open ended collective investment schemes formed as a company will be treated as a dividend. Any CGT arising on the sale will reduce the dividend amount.
Article 9 – Allowable deductions	• Extension of 20% additional deduction on R&D expenses (including capital nature expenses receiving capital allowances) incurred from 2025 to 2030. (It cannot be claimed for a qualifying IP under the special regime) • Main residence insurance covering natural disasters including fire/ theft etc., for individuals up to €500 for each spouse • Intellectual Property (IP) amortisation on capital expenditure for assets with indefinite economic useful life is 20 years • IPs registered in a company in exchange for a new share issue cannot exceed the MV and no amortisation can be claimed unless the Tax Commissioner is satisfied for the value • Donations up to €50.000 to approved “cultural institutions” (no loss can be created from donation to c/f) • Initial Public Offering (IPO) expenses up to €300.000 for listing in a recognised stock exchange (conditions exist) • Cost of living allowance (ATA) granted by an employer (subject to conditions) gives additional deduction equal to 2 times the cost of the previous year
Article 10 – Wear & Tear allowances	The increased allowances for energy efficiency of buildings (7%) and electric motor vehicles (33⅓%) are extended to 2030.
Article 11 – Not deductible expenses	• Entertaining expenses deductible up to 1% of Turnover with a cap of €30.000 • Interest expense for acquisition of a 100% subsidiary (directly or indirectly) that is a tax resident in a “black-listed” jurisdiction, cannot be deducted • Ex-gratia payments to employees and directors

Article 13 - Tax losses utilisation period

- From 5 to 7 years
- A company may claim a group loss relief only after first utilising its own losses

Article 14 – Personal deductions for Life Insurance policies / Provident funds & other Funds

Life Insurance deductible premiums (up to 7% max of the insured amount on death or incapacity) <u>will also cover amounts paid for permanent or temporary total or partial incapacity.</u> In the case of a partial redemption or cancellation of a life insurance policy (subject to conditions), a percentage of premiums claimed may be taxed.

The 1/5 restriction applies.

NEW Additional Tax Deductions for individuals

(included above in Articles 9 & 14)

Tax deductions irrespective of Family composition and Income

- Article 9 - Up to €500 for home insurance coverage against risks and natural disasters including fire/theft etc. (it reduces the taxable income on which the 1/5 restriction is calculated)
- Article 14 - Insurance premiums covering permanent or partial incapacity (it is included within the 1/5 restriction)

Article 14 (B) New Tax Deductions for individuals based on Family Composition

<u>NEW tax deductions based on Family Composition and Income (not restricted within the 1/5) introduced for:</u>

a) children
(the number of children is relevant for the income criterion, but eligibility for the child deduction is based on the number of dependent children.)
b) main residence interest on loan OR on rent payment

c) capital expenditure for improving the energy efficiency of the main residence OR for the acquisition of an electric vehicle

d) Deduction **<u>per parent</u>** for each dependent child:

1st dependent child: €1.000
2nd dependent child: €1.250
3rd and each additional dependent child: €1.500

Family with:	**Gross Family Income:**	**Tax relief per parent:**
No child	up to €100.000	€nil
1 child	up to €100.000	€ 1.000
2 children	up to €100.000	€ 2.250
3 children	up to €150.000	€ 3.750
4 children	up to €150.000	€ 5.250
5 or more children	up to €200.000	€6.750 and more based on the number of children

The tax deductions based on family composition are subject to applicable conditions and definitions of dependent children under the tax law. Up to €2.000 per person (i) interest expense on serviced loan for acquisition or upgrading of main residence OR (ii) rent payment of a main residence, provided the provisions of Article 48A apply (i.e. bank transfer/ payment with debit or credit card or using any other electronic means. Cash and cheques are not acceptable).

	Capital expenditure for a main residence or for the acquisition of electric vehicles up to €1.000 per person (any subsidies reduce the capital cost). Any unused relief can be carried forward (c/f) up to 4 years. None of the above deductions are given unless the tax returns are submitted within the deadline. It should be noted that spouses or civil partners who do not have children together or who do not live under the same roof with any of the children of one and/or the other, are still eligible to claim the above allowances. Finally, in the case of a single person, the allowances are granted provided that their income does not exceed €40.000.
Article 17 – Insurance business	Life insurance premium tax abolished
Article 20 – Foreign pension	Exemption €5.000 and then flat rate 5%
Article 20 (D) NEW – Share Option Scheme	Benefits derived by an employee or a director of a company from receiving 'stock options' or 'rights for acquisition of shares' are subject to tax at a flat rate of 8%, subject to conditions.
Article 20 (E) NEW – Crypto taxation	Flat rate 8% on profit (individuals & companies) Loss relief in same year only for crypto transactions The profit is calculated for the following transactions: • on the sale • gift • exchange • payment via crypto. (crypto arising from the mining process is exempt)
Article 20 (f) - NEW – Ex-gratia payments to Directors and Employees	Any amount exceeding €200k is taxable at 20% but is not deductible for the employer.
Article 33 - Connected persons - Transfer Pricing	New thresholds for preparation of local file: (a) For the sale of Goods €5m (before €1m) (b) Financing transactions €10m (€5m) (c) All other transactions €2.5m (€1m) ***Note**: minimum documentation requirements in place so effective reduction of work is limited as a "mini TP study" needs to be prepared anyway. An individual is also considered a connected person with a company where they, either personally or together with other connected persons, hold or are able to exercise at least 50% of the company's voting rights.
Article 33 (B)	The transfer of assets (IP) to Cyprus or the transfer of company's tax residency or the transfer of the business carried on through a permanent establishment, from a 3rd country (other than an EU country), the value for tax purposes is the Fair Market Value (FMV).
Article 36 – Unilateral tax credit (double tax relief)	The tax relief is not granted where more than 50% of the profits of the permanent establishment (PE) arise from passive activities, or where the effective tax rate of the PE is lower than 50% of the Cyprus income tax rate (i.e. 7,5%), and/or where the PE is situated in a "black-listed" jurisdiction.

Legislative Amendments

The Special Contribution for the Defence Law of 2002

The Special Contribution for the Defence Law of 2002 (117(I)/2002)

Special Defence Contribution on Rental Income	Abolished for rental income received from both companies and individuals from 1 January 2026 onwards.
Individual with a Non-Domicile status	After the expiration of the 17-year period, the individual can apply to extend their non-domiciled status for a fixed term of 5 years by paying €250k tax in advance (5 yrs x €50k). The extension can be further extended for another 5-year term with the same fixed tax payment i.e. €250k.
Dividend income received by individuals	Individuals are subject to SDC at 5% for profits from the year 2026 onwards. Any profits up to 31/12/2025 that are distributed within the next 6 years i.e. up to year 2031 are subject to 17%.
Deemed Dividend Distribution	Abolished for profits earned by Cyprus tax resident companies as from 1/1/2026. The DDD provisions apply for all profits earned up to 31/12/2025.
Dividend income received by a Cyprus company from another Cyprus company	<u>Tax at 17%</u> <u>Dividends received</u> ✓ Received in year 2026 from profits of year 2024 (SDC due on 31/12/2028) ✓ Received in year 2026 & 2027 from profits of year 2025 (SDC due on 31/12/2029) ✓ SDC at 17% also applies for Dividends received indirectly after 4 years from the end of the tax year in which they were earned. It captures all profits earned up to 31/12/2025 and distributed until 31 December 2031. The above tax is reduced by any SDC actually paid on the same profit or in cases where the individual shareholder is not a Cyprus tax resident OR a Cyprus tax resident but non-domiciled.
Dividend income received by companies from abroad	5% if both the below two existing conditions apply: a) the paying company's distributed profits are emanating more than 50% from investment activities; AND b) the tax rate suffered abroad is lower than the 50% of the Cyprus rate i.e. 7,5%. **In all other cases, the dividend income is tax-free.**

Dividend distribution from Cyprus to "low tax" jurisdictions	5% withholding tax when the recipient is a related company (50%+ direct or indirect investment, voting rights or profit sharing) tax resident in a "low tax" jurisdiction.
Dividend distribution from Cyprus to "black-listed" jurisdictions	17% withholding tax when the recipient is a related company (same as above) tax resident in a "black-listed" jurisdiction.
What else is considered to be a "dividend" for a Cyprus tax resident individual and Cyprus tax resident company?	Asset distribution to a shareholder because of: • Capital reduction, • Dissolution, • Liquidation, is considered to be a dividend. The amount is the difference between the Market Value of the asset and the capital paid in by the shareholder, less any Capital Gains Tax paid on the asset. The amount is also reduced by any disguised dividend already accounted for in respect of such assets. Capitalisation of distributable reserves is also considered a dividend distribution.
Disguised Dividends received by individuals	This new concept imposes SDC at 10% and applies to individuals tax residents in Cyprus in the following instances: • Private use of a company's asset by a shareholder or a person related to the shareholder (in case the asset is not part of the company's trading activities, then the personal usage is deemed to be 100%. Also, in the case where an asset was donated by the shareholder to the company the above provision does not apply) • Asset disposal to the company's shareholder or to a related person with the shareholder, at below MV (in case the asset was donated by the shareholder to the company the provision does not apply. Also, any amount paid via the above usage provision is deducted from the calculation)
Interest income received by individuals	Always subject to SDC at 17% unless the gross income is below €12k in which case is subject to 3%.
Interest income received by companies	Always exempt from SDC and subject to Corporation Tax (CT) except bodies that are exempted from CT under articles 8 (13) & 8 (17), which are subject to 17%. Also, the SDC rate of 3% applies to government bonds (CY and EU countries) and listed corporate bonds.

Legislative Amendments

The Capital Gains Tax Law of 1980

The Capital Gains Tax Law of 1980 (52/1980)

Property rich companies	Include shares of companies holding directly or indirectly immovable property in Cyprus having market value of at least 20%.
Lifetime exemptions for individuals	General - €30.000 Agricultural land - €50.000 Main residence - €150.000
Shares of listed companies (recognised stock exchange) on regulated markets holding directly/indirectly, immovable property in Cyprus	No CGT
Shares of listed companies (recognised stock exchange) on unregulated markets holding directly/indirectly, immovable property in Cyprus	No CGT, provided the accumulated disposals are below €50.000 in a calendar year (shares held prior to 31/12/2025 are exempt from taxation).
Exemption for Disposal of main residence via debt for asset swap	€450.000
Disposal of shares in a company where the value is represented by immovable property (property rich) owned by the company	The disposal consideration for CGT purposes will be the consideration declared by the parties, adjusted with possible other assets held by the company.
Exemption from tax for land exchanges/development, with a "land developer"	The transaction must be completed within 5 years, otherwise it will be considered a disposal.
Administrative Penalties	Non-compliance with the provisions of the legislation for submission of declarations or giving additional information within the given deadline will trigger penalties from €250 to €500 for individuals, and €1.000 to €2.000 for companies. In addition, a 5% penalty would be imposed on taxes due plus another 5% after 2 months of delay.

Legislative Amendments

The Assessment and Collection of Taxes Law of 1978

The Assessment and Collection of Taxes Law of 1978 (4/1978)

Collection and processing of personal data	For the purposes of monitoring, prevention of tax evasion and fraud, the Tax Commissioner has the right to collect and process data from various sources.
Obligation of individuals to file annual tax return	• Individuals tax residents between 25 – 70 years old irrespective of income • Irrespective of age, individuals having gross income (before taking out any deductions) included in Article 5
Obligation of companies to file annual tax return	Companies formed or resident in Cyprus. Companies not formed or resident in Cyprus but with gross income included in article 5 (2) of income tax law (no submission in case where whole income was subject to WHT).
Submission of Company's Tax Return (TD4) and Personal Tax Return (TD1) with audited a/cs	The tax returns should be submitted by 31st January following the year of assessment (i.e. max 13 months) and the tax is payable on that same date.
Documents retention period	Any documents supporting the tax returns should be kept for 6 years from the submission deadline. In case of a tax examination, the period is extended until completion of the examination, but this period cannot exceed 1 year.
Registration by the Tax Commissioner	Registration of any person can be made at the discretion of the Tax Commissioner.
Revised tax return	Although the Commissioner is generally not in favour of accepting revised tax returns (particularly during an examination), they retain the discretion to accept revisions.
Submission of annual TD 7	By 31st of March following the year end.
Interest income declaration return by the payer (bank)	A company providing banking services is obliged to provide information to the Tax Commissioner for all persons credited with interest irrespective of any law for confidentiality and secrecy. The deadline for the first 6 months of the year is by 31/7 of the same year and for the second 6 months period is by 31/1 of the following year.
Partnership Profit	Each partner on their own declaration, must declare information for the other partners (name/address/share of profit).
Self-Employed & audited a/cs	New threshold €120.000 (previously €70.000).
Objections	Should be filed within 60 days from the date of issuance of the assessment.
Examination period of initial or revised tax returns	6 years from the submission date of the initial or revised return – whichever is the latest.
Provisional Declarations	In case of starting to have income after the 30th of June the declaration should be submitted by 31/12 of the relevant year.
Tax Commissioner’s right to request information	Information can be requested even in cases whereby the Tax Commissioner examines another taxpayer.

Business operations suspension and sealing of premises	The Tax Commissioner has the authority to suspend the business operations and seal the premises for up to 10 days when certain omissions take place: • at least 2 tax returns; • at least 12 monthly PAYE returns; • at least 3 quarterly VAT returns as from 1/1/2027 **OR** • there are taxes due arising from self-assessment, assessment issued by the TC, including VAT amounts of at least €20.000 including any interest and charges • issuing no invoices/receipts or issuing inaccurate invoices/receipts • obstructing the tax examination In case of no compliance, the period can be extended for another 20 days. There are certain steps/notifications and timelines that should be followed before suspension is imposed. Violation of suspension order constitutes a criminal offence with up to 2 years' imprisonment and/or a fine up to €30.000.
Double Tax Relief (payment abroad)	In cases where the claim is submitted after a 6-year period from the end of the relevant tax year, but within 6 months from the date the tax payment has been confirmed, in the other jurisdiction, then the tax assessment can be issued not later than 1 year from the submission of the claim.
Order of tax settlement and set-off	Payments are settled in the following order against any amounts due: 1. interest due; 2. additional charges/penalties for late payment; 3. monetary charges and administrative penalties; 4. monetary charge for tax return late submission penalty; 5. tax liability assessed plus any additional tax imposed. Any tax refunds will not be released to a taxpayer unless they are first used for settlement of any outstanding on the above order.
Taxpayer's contact details updating	A registered person (company or individual) has the obligation to update any changes to contact details.
Rent payment for immovable property in Cyprus	As from 1/07/2026 payments must be done via: a) bank transfer b) debit or credit card c) using any other recognised electronic method

Late submission penalties	Late submission of information with specific deadline provision in the law	• Individuals €150 • Legal Person (Turnover or Assets, over €1m) €500 • Other legal person €250
	Late submission of information (with specific deadline provision in the law), after a formal request by the Tax Commissioner with at least 60 days period	• Individuals €300 • Legal Person (Turnover or Assets, over €1m) €1.000 • Other legal person €500
	Late submission of information (without specific deadline provision in the law), after a formal request by the Tax Commissioner with at least 60 days period Late submission of information (without specific deadline provision in the law), for facilitating the examination of another taxpayer, after a formal request by the Tax Commissioner with at least 60 days period	• Individuals €200 • Legal Person (Turnover or Assets, over €1m) €1.000 • Other legal person €500
Director's liability during their term of office	A director continues to be liable for any acts or omissions committed during their period of service, regardless of company law provisions and irrespective of the subsequent termination of their appointment by deletion from the register, either by stepping down or being removed from office. In case of a late submission of changes notification in company officers, the below applies: (a) The appointment ends on the filing date, provided the filing is made within 12 months of the change (b) if the filing is done after 12 months, then the termination is deemed to occur 12 months prior to the date of the filing of the notification.	

Legislative Amendments

The Collection of Taxes Law of 1962

The Collection of Taxes Law of 1962

Pledge of company shares against tax liability

For overdue tax liabilities (more than 30 calendar days) exceeding €100.000, the Commissioner may, under certain conditions and following specific steps, proceed with the pledge of company shares up to double the value of the liability plus interest and other penalties.

Before taking any action, the Commissioner must issue a notice of intended actions, granting a 30-day period to the taxpayer to respond, in which case he will decide whether to proceed or not.

Legislative Amendments

The Stamp Duty Law of 1963 – Abolition

The Stamp Duty Law of 1963 – Abolition

The Stamp Duty Law of 1963 – Abolition	The legislation is valid until 31/12/2025. According to the official announcement of the Tax Department dated 7/1/2026 (N. 239(I)/2025), the following are clarified: • New Documents: Any document drafted and signed after 01/01/2026 is no longer subject to stamp duty • Pending Documents: Documents signed (even by one contracting party) by 31/12/2025 are normally subject to stamp duty, as defined in the Stamp Duty Laws of 1963 to 2025, and must be stamped based on the applicable procedures.

Contacts:

George Karavis
Partner, Tax Services Leader
George.Karavis@cy.gt.com

Anna Petsa
Senior Manager, Tax Services
Anna.Petsa@cy.gt.com

Cleri Evagorou
Senior Manager, Tax Services
Cleri.Evagorou@cy.gt.com

Sophoclis Neocleous
Senior Manager, Tax Services
Sophoclis.Neocleous@cy.gt.com

Christodoulos Kourtellaris
Manager, Tax Services
Christodoulos.Kourtellaris@cy.gt.com

Michaella Skordou
Manager, Tax Services
Michaella.Skordou@cy.gt.com

Michalis Chrysostomou
Manager, Tax Services
Michalis.Chrysostomou@cy.gt.com

Connect with us

main@cy.gt.com | Grant Thornton Cyprus | Grant Thornton Cyprus | @grantthorntoncy

Grant Thornton

grantthornton.com.cy