



**TAX REFORM**

**1. Key changes**

<b>Tax Category</b>	<b>Up to 31<sup>st</sup> December 2025</b>	<b>As from 1<sup>st</sup> January 2026 onwards</b>
<b>Individuals – tax – free threshold</b>	€19.500	€22.000
<b>Personal income tax bands</b>	€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%	€42.001 – 72:000: 30%
	Over €60.000: 35%	Over €72.000: 35%
<b>Personal allowances available for (subject to income caps):</b>		
- <b>Dependent children /students</b>	N/A	€1.000 - €1.500 per depended
- <b>Housing costs (primary residence)</b>	N/A	Up to €2.000 per year for mortgage interest or rent
- <b>Green &amp; sustainability incentives</b>	N/A	Up to €1.000 for energy upgrades /EVs
- <b>Home insurance against natural disasters (not subject to income caps)</b>	N/A	Up to €500
<b>Ex Gratia /Severance payments</b>	Exempt or taxed at personal income bands	Up to €200.000 tax-free /excess taxed at 20%
<b>Corporate income tax (CIT)</b>	12.5%	15%



(continued)

<b>Tax Category</b>	<b>Up to 31<sup>st</sup> December 2025</b>	<b>As from 1<sup>st</sup> January 2026 onwards</b>
<b>Tax deductions</b>		
- <b>IPO expenses</b>	- Disallowed	- Deductible up to €300.000
- <b>R&amp;D expenditure</b>	- 120% super – deduction (up to 2025)	- 120% super-deduction (extended up to 2030)
- <b>Automatic cost of living adjustment (ATA)</b>	- Tax deductible	- Double tax deduction (2x amount)
- <b>Entertainment expenses</b>	- Deductible up to €17.086	- Deductible up to €30.000
<b>Transfer Pricing – Local file thresholds</b>	Financial transactions > €5m	Financial transactions > €10 m
	All other transactions > €1m	Sale of goods transactions > €5 m
		All other transactions > €2.5 m
<b>Tax loses carried forward</b>	5 years	7 years
<b>Gains from disposal /trading cryptos</b>	12.5%	8%
<b>Stock option schemes</b>	12.5%	8% (under conditions)
<b>Payments to low-tax and /or black listed jurisdictions</b>	No general defensive withholding or deduction – denial rules (beyond existing specific anti-avoidance provisions)	Defensive tax measures introduced, including withholding tax and /or denial of deductibility on certain payments (subject to conditions and exemptions)
<b>Tax on interest income</b>	<p>“Active” interest income: Subject to income tax</p> <p>“Passive” interest income: Subject to special defense contribution (SDC)</p> <p>Applicable for both companies and individuals</p>	<p>Individuals: 17% SDC (3% Cyprus /EU Government bonds or certain corporate listed debt securities)</p> <p>Companies: 15% income</p>



(continued)

<b>Tax Category</b>	<b>Up to 31<sup>st</sup> December 2025</b>	<b>As from 1<sup>st</sup> January 2026 onwards</b>
<b>Deemed dividend distribution</b>	Applicable	Abolished (transitional rules for 2024 & 2025)
<b>SDC on actual dividends (residents)</b>	17%	5%
<b>SDC on rental income</b>	2.25% (effective)	Abolished
<b>SDC on “Disguised dividend”</b>	N/A	10%
<i>*Disguised dividend applies in case a direct /indirect individual shareholder utilizes a company asset for private use, or acquires a company asset for a value lower than its fair market value</i>		
<b>Non-domiciled tax residency status</b>	Applicable for 17 years	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
<b>Stamp duty</b>	Applicable	Abolished
<b>Capital gains tax on disposals of shares that directly /indirectly own immovable property in Cyprus</b>	Taxable if at least 50% of the shares’ market value emanates from Cyprus immovable property	Taxable if at least 20% of the shares’ market value emanates from Cyprus immovable property
<b>Capital gains tax allowances</b>	Life time exemption: €17.086  Agricultural land: €25.629  Main residence: €85.430	Life-time exemption €30.000  Agricultural land: €50.000  Main residence: €150.000
<b>Tax return filing</b>	Mandatory filing if income exceeded the tax-free band	Mandatory filing for resident individuals aged 25-70. Resident individuals outside this age range are required to submit a tax return only where they derive taxable income
<b>Tax compliance and enforcement</b>	Limited	Enhanced powers of the tax department (with safeguards), higher penalties for non-compliance



## **2. Assessment and collection of taxes law**

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- The deadline of submission of tax returns by companies and individuals who prepare audited accounts has been set on 31/1 of the year that follows the subsequent year to the tax year (i.e. 13 months from the tax year end). The deadline for the payment of the tax is aligned with the tax return submission deadline (i.e on 31/1);
- New provisions have been introduced regarding the information an employer has to submit for its employees on TD7;
- Partnerships will have an obligation to submit tax returns;
- The deadline to submit an objection is extended to 60 days;
- 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;
- The threshold for annual income for individuals to have an obligation to prepare audited accounts is increased from €70.000 to €120.000;
- Powers have been given to the Commissioner of Taxation to suspend the operations of a business where the tax payer 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;
- 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;
- The TD7 deadline has been set on 31/3 which follows the tax year;
- Rent can only be paid through bank transfer, credit card or any other mean of electronic payment but not with cash;
- Penalties and fines have increased;
- 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;



### **3. What remains unchanged**

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Despite the breadth of the tax reform, several cornerstone provisions of the Cyprus tax framework remain fully intact. These provisions continue to form the basis of Cyprus' competitiveness as a jurisdiction for international businesses and individuals:

- **Non-Domiciled (Non-Dom) Tax Residency Regime**  
The Non-Dom regime remains unchanged, continuing to provide full exemption from tax on dividends and interest for qualifying individuals, subject to the applicable statutory conditions and duration.
- **50% Employment Income Exemption**  
The 50% exemption on employment income for qualifying individuals relocating to Cyprus remains in force, supporting the attraction of senior executives and skilled professionals.
- **Notional Interest Deduction (NID)**  
The NID regime continues to apply to new equity introduced into Cyprus companies, allowing a notional deduction and supporting capitalisation, investment and group financing structures.
- **IP Box Regime**  
The IP Box regime remains fully applicable, providing an 80% deemed deduction on qualifying profits from intellectual property, in line with OECD and EU standards.
- **Participation Exemption**  
The Cyprus participation exemption for dividends and profits from the disposal of qualifying securities remains unchanged, subject to existing conditions.
- **No Withholding Tax on Outbound Payments**  
Cyprus continues to impose no withholding tax on outbound dividends, interest and royalties paid to non-residents (subject to the new defensive measures for low-tax or non-cooperative jurisdictions).
- **Absence of Capital Gains Tax on Securities**  
Gains from the disposal of shares and other qualifying securities remain exempt from capital gains tax (unless companies directly/indirectly own Cyprus immovable property).



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#### 4. What this means for you

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The Cyprus tax reform represents a balanced modernisation of the tax system. While certain measures introduce slightly higher rates or enhanced compliance, the reform largely preserves the core incentives and planning opportunities that have historically made Cyprus an attractive jurisdiction for individuals, families and international businesses.

For many clients, the changes will create new opportunities — through expanded personal allowances, extended loss utilisation, favourable flat-rate regimes and continued access to key incentives such as the Non-Dom tax residency regime, the 50% employment income exemption, NID and the IP Box. At the same time, the introduction of defensive measures and revised compliance requirements makes proactive review and forward-looking tax planning essential.

Should you require any further clarification or any tailored advice, do please contact our firm at [ashiotis@ashiotis.com.cy](mailto:ashiotis@ashiotis.com.cy).

Yours faithfully,  
**Anthony Ashiotis & Co**

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