



## Cyprus Tax Reform 2026 – Key Developments

Effective 1 January 2026, the Cyprus Parliament approved a series of important tax changes, representing the most substantial updates to the Cyprus tax system in over two decades.

This Tax Alert provides a high-level overview of key amendments introduced under the **Income Tax Law (ITL)**, **Special Contribution for the Defence Law (SDCL)**, **Capital Gains Tax Law (CGTL)**, **Assessment and Collection of Taxes Law (ACTL)**, and **Stamp Duty Law (SDL)**, based on the provisions of Cyprus tax legislation as enacted.

### Income Tax Law (ITL)

#### Individuals

##### Tax Residency for Individuals

- The 60-day tax residency rule remains in force.
- The prior requirement that an individual must not be tax resident in any other jurisdiction has been abolished.

##### Personal Income Tax Bands

The annual tax-free threshold is increased from €19,500 to €22,000.

Taxable income exceeding this threshold is subject to progressive tax rates as follows:

Taxable Income (€)	Rate (%)	Tax Amount (€)
Up to €22.000	Nil	Nil
€22.001 - €32.000	20%	2,000
€32.001 - €42.000	25%	2,500
€42.001 - €72.000	30%	9,000
Over €72.001	35%	

##### Personal/Family Tax Deductions

New deductions are introduced based on family income and number of dependent children, ranging from €1,000 to €2,000 per child per parent, subject to eligibility criteria under the ITL.

Additional deductions apply to:

- Single-parent households and custodial parents .
- Costs relating to the primary residence, including mortgage interest and rent.
- Investments in energy efficiency and sustainability, including renewable energy systems.

Deductions are subject to supporting documentation & eligibility criteria as defined under ITL regulations.



### Special Tax Regime for Foreign Pensions

Eligible individuals receiving foreign pension income may elect annually between:

- Taxation under progressive income tax rates, or
- A flat rate of 5% on pension income exceeding €5,000, in accordance with ITL provisions.

## Income Tax Law (ITL)

### Companies

#### Tax Residency for Companies

- The management and control test remains the primary basis for determining tax residency.
- The definition of a Cyprus tax resident company is expanded to include companies incorporated in
- Cyprus, irrespective of tax residency status in another jurisdiction (unless otherwise provided in a double tax treaty).
- Companies transferring their place of incorporation (legal seat) to Cyprus are deemed incorporated in Cyprus for tax purposes.

#### Corporate Tax Rate

The corporate tax rate increases from 12.5% to 15%, effective from 1 January 2026.

#### Tax Losses

- Tax loss carry-forward period is extended from 5 years to 7 years.
- Group relief provisions apply such that losses are first offset against the company's own profits and subsequently against group company profits, subject to conditions.

#### Super Deduction on Research & Development (R&D)

- An additional 20% tax deduction on qualifying R&D expenditure is available for tax years 2025 – 2030, either fully or partially at the taxpayer's election, subject to conditions.
- Qualifying expenditure must meet definition of eligible R&D activities under Cyprus tax guidance.

#### Income Tax Deductions

- Entertainment expenses deduction limit increased to €30,000.
- Employee retirement payments exceeding €200,000 are subject to 20% tax and are non-deductible for the employer.
- Capital allowances extended to 2030 for investments in energy efficiency and electric vehicles.



## Transfer Pricing

The thresholds triggering the obligation to prepare Transfer Pricing documentation are revised as follows:

Transaction Category	Pre-2026 Threshold (€)	New Threshold (€)	Comments
Financing Transactions	5,000,000	10,000,000	Applies to intra-group loans and financing arrangements
Sale / Purchase of Goods	1,000,000	5,000,000	Covers trading transactions between related parties
Other Transactions (Services, IP, Royalties etc.)	1,000,000	2,500,000	Includes management services, licensing, and other intercompany arrangements

## Other Income Tax Updates

### Share Option Schemes

- Benefits from approved share option plans are taxed at 8% flat rate
- Applies up to 2x the individual's annual remuneration (excluding the benefit)
- Excess taxed at progressive income tax rates
- Cap:
  - €1,000,000 per rolling 10-year period eligible for 8% rate.
  - Any excess taxed at normal rates.

### Cryptocurrency Transactions

Profits from disposal of crypto-assets are taxed at a flat rate of 8%, applicable to both individuals and companies.

- Taxable events include:
  - Sale
  - Gift or donation
  - Exchange between crypto-assets
  - Use as a means of payment
- Exclusions:
  - Crypto-assets acquired through mining are not subject to this regime.



- Loss Treatment:
  - Losses may only offset crypto gains within the same tax year.
  - No carry-forward or offset against other income.
  - No group transfer of losses.

## Special Contribution for the Defence Law (SDCL)

### Rental Income

- SDC on rental income is abolished for both individuals and companies
- Rental income will be subject only to Income Tax, in accordance with ITL provisions

### Interest Income

- 17% SDC applies to Cyprus tax resident and domiciled individuals
- Reduced rate of 3% applies in the following cases:
  - Individuals with annual income below €12,000
  - Pension funds, provident funds, Social Insurance Fund, Health Insurance Fund
  - Government bodies and public authorities
  - Interest from qualifying financial instruments (e.g. government bonds, listed corporate bonds, EU savings products)

### Dividend Income

- Dividends received by Cyprus tax resident and domiciled individuals are subject to reduced SDC rate of 5% (previously 17%).

### Optional extension of the Non-Domiciled status

- The extension mechanism allows individuals to maintain exemption from SDC from the 18th year onwards, subject to the payment of €50,000 per annum for a period of 5 years (€250,000 in total) in order to retain Non-Domicile status.
- Individuals may elect to extend the regime for up to two consecutive periods (i.e. a maximum of 10 additional years in total).
- Once an extension cycle is elected, it is irrevocable and binding for the full 5-year period, and cannot be reversed or terminated early.
- The extension constitutes a separate elective regime and does not affect the individual's liability to income tax under the ITL.



## Capital Gains Tax Law (CGTL)

Lifetime Capital Gains Tax exemptions which are applicable to individuals are revised as follows:

Category	Previous Exemption (€)	Revised Exemption (€)
General Lifetime Exemption	17,086	30,000
Agricultural Land	25,629	50,000
Primary Residence	85,430	150,000

### Capital Gains Tax on Share Disposals

- Gains from disposal of listed shares on a regulated market are exempt.
- Gains from unregulated markets are exempt up to €50,000, subject to conditions.

## Assessment and Collection of Taxes Law (ACTL)

- Cyprus tax resident individuals aged 25–70 with gross income are required to:
  - Register and obtain a Tax Identification Code (TIC)
  - File an annual tax return
- Filing obligations are enforced in line with administrative penalty provisions under ACTL for late submission or non-compliance.

## Stamp Duty Law (SDL)

- Stamp duty is abolished as from 1 January 2026.
- Transitional provisions:
  - Documents executed from 01/01/2026 onwards: not subject to stamp duty.
  - Documents executed up to 31/12/2025: remain subject to prior rules, even if signed by only one party.

## How can SPL assist?

The Cyprus Tax Reform 2026 introduces wide-ranging changes affecting both individuals and businesses. Taxpayers are advised to assess the impact of these changes on their tax position and seek professional advice to ensure compliance with the updated Cyprus tax legislation.

SPL Audit Cyprus is ready to provide practical guidance to help you remain fully compliant and optimise your tax position under the new framework.

Address: 13 Kypranoros Str, Ground Floor, 1061, Nicosia, Cyprus

Phone: + 357 22 510 057

Fax: + 357 22 511 157

Email: [spl.tax@splcy.com](mailto:spl.tax@splcy.com)

Website: [www.splcy.com](http://www.splcy.com)

