

Cyprus Tax Reform 2026

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Introduction

On 22 December 2025, the Cyprus Parliament voted into law, six amending tax laws. The relevant laws were published in the Official Gazette of the Republic of Cyprus on 31 December 2025. Most of the changes are effective as from 1 January 2026.

The Cyprus tax reform includes amendments to the following six tax laws:

- A) The Income Tax Law
- B) The Special Contribution for the Defence Fund Law
- C) The Capital Gains Tax Law
- D) The Assessment and Collection of Taxes Law
- E) The Collection of Taxes Law
- F) The Stamp Duty Law

We summarise below the main amendments of the tax reform package:

A) The Income Tax Law

- 1) Corporate income tax rate: As of 2026 tax year, the corporate tax rate has increased from 12,5% to 15%.
- 2) Individual tax rates: The individual tax bands have been revised as follows:

Tax bands up to 2025	Tax bands from 2026 onwards
Up to €19.500: 0%	Up to €22.000: 0%
€19.501 - €28.000: 20%	€22.001 - €32.000: 20%
€28.001 - €36.000: 25%	€32.001 - €42.000: 25%
€36.001 - €60.000: 30%	€42.001 - €72.000: 30%
€60.001 and over: 35%	€72.001 and over: 35%

- 3) New income tax deductions for individuals: Depending on the income level of the household (for points a-d below), ranging from €100.000 to €200.000, new personal tax deductions are introduced for:
 - a. Dependent children/university students;
 - b. Interest on a performing loan for the acquisition of a primary residence or rent for a primary residence;
 - c. Expenses for energy efficiency;

- d. Purchase of a new electric vehicle;
 - e. Insurance payment against natural disaster on residence;
 - f. Gifts or contributions to certain cultural institutions (up to €50.000).
- 4) Employment income and tax treatment or ex-gratia payments: The taxing provisions of employment income in articles 5(1)(b) and (2)(b) of the income tax law have been extended to also include:
- a. 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;
 - b. Ex-gratia payments in relation to retirement (including early retirement) or termination of employment or office (including early termination). Any amounts exceeding €200.000 are taxed at a 20% rate (not deductible for employer);
 - c. Benefits granted through an Early Retirement Scheme – Any amounts exceeding €200.000 are taxed at a 20% rate (not deductible for employer);
 - d. Compensation for termination of employment or office when such compensation is not specifically provided for in the terms of employment of the individual (whether these are included in an agreement, regulations or other) – Any amounts exceeding €200.000 are taxed at a 20% rate (not deductible for employer);
 - e. Any amounts adjudicated by a court with respect to income taxable under the aforesaid articles.
- 5) Insurance premium tax: The insurance premium tax (1,5% on gross premium income) for life insurance companies, which was a form of minimum tax, is abolished.
- 6) 60 days tax residency for individuals: The condition for an individual not to be tax resident in another state for him/her to be Cyprus tax resident, is removed.
- 7) Corporate tax residency: The definition of a Cyprus tax resident company has been extended to also include companies which have been incorporated under the Cyprus Companies Law (except for companies deemed as tax residents of another country by reference to an applicable tax treaty). In addition, the law clarifies that companies which have transferred their registered office or legal seat to Cyprus will be considered as being incorporated in Cyprus.
- 8) Tax losses: The carry forward of tax losses is extended from 5 to 7 years.
- 9) Entertainment expenses: The amount that may be claimed as a tax deduction for entertainment expenses is increased from €17.086 to €30.000 (with benchmark being maintained to 1% of the gross income of the business).
- 10) Interest expense tax deduction: The restriction of interest expense for the acquisition of non-business assets (except private motor vehicles) continues beyond the 7 years as it was up to now.
- 11) Transfer pricing thresholds: The thresholds for local file have been adjusted as follows:
- a. Transactions of goods with connected persons exceeding the amount of €5.000.000;
 - b. Financing transactions with connected persons exceeding the amount of €10.000.000;
 - c. All other transactions with connected persons exceeding the amount of €2.500.000;
- 12) Crypto taxation: Gain arising from:
- The sale of a crypto asset;
 - Gift of a crypto asset;
 - Exchange of a crypto asset with another crypto asset and
 - The use of a crypto asset as means of making payments
- are subject to income tax at a flat rate of 8% for both companies and individuals. The provisions of this special mode of taxation do not apply for gains on crypto assets which were acquired through mining.

In addition, losses arising from crypto assets 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.

- 13) Share option schemes: Benefits derived from employees and/or directors of a company, who are tax residents of Cyprus, in the form of share option rights or rights for acquisition of shares, are subject to a flat tax rate of 8%.
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 by the relevant employee/director in the year of vesting, excluding the benefit. Any excess amount of benefit is subject to the general rates applicable to all other types of income.
The rights, as described above, must:
- Have a minimum vesting period of 3 years with the vesting period starting as from the date that the relevant scheme is approved by the Commissioner of Taxation; and
 - Be non-transferable; and
 - Relate to shares of the company/employer or a company holding directly or indirectly shares to the said company and must carry the same rights as the ordinary shares of the issuer (with the exception of voting rights); and
 - Have a minimum strike price not lower than 50% of the value of the shares of the relevant company at the time that the relevant scheme is approved by the Commissioner of Taxation.
- It is noted that, the total benefit, which is subject to a flat rate of 8%, cannot exceed the amount of €1.000.000 in a 10-year period of employment.
In addition, 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 for the purposes of article 33 of the tax law. Finally, the benefit of the 8% flat rate is not added to any other income.
- 14) Floating of shares: In case of a company, expenses up to €300.000 in relation to the floating of shares in a recognized stock exchange, can be treated as tax deductible expenses (subject to conditions).
- 15) Cost of living adjustment: A deduction equalling to 200% of the cost-of-living adjustment payment made by an employer to its employees is granted (subject to conditions).
- 16) Group relief: A company must first offset any taxable income against its own tax losses being carried forward before can utilize any losses of other companies belonging to the same group for group relief purposes.
- 17) Redemption of units in funds: As from 1/1/2031 gains from the redemption of units and/or shares in open/closed collective investment schemes, reduced with any capital gains tax due by virtue of the said redemption, will be considered to represent dividends as opposed to profit on disposal of titles and be taxed accordingly.
- 18) Research & Development expenses:
- A super tax deduction of 20% applies for businesses on scientific research and R&D expenses for tax years 2025-2030 (included). The law clarifies that the said additional deduction is claimed, fully or partially, at the election of the taxpayer;
 - A super tax deduction cannot be claimed on expenses relating to an asset benefiting from the provision of the IP regime.
- 19) Intangible asset amortization: The limit of amortizing intangibles, if the intangible has indefinite life, will be 20 years.
- 20) Interest income: Interest accruing to individuals will be subject to tax in accordance with the provisions of the special defence contribution law and be exempt from income tax law. Interest earned by or accruing to companies will be subject to the provisions of the income tax law only.

B) The Special Contribution for the Defence Fund Law (SDC)

- 1) SDC rate on dividends received by individuals: Reduction of SDC rate applicable on dividends earned by Cyprus tax residents and domiciled individuals from 17% to 5%.
However, dividends paid to Cyprus tax residents and domiciled individuals out of corporate profits earned up to 31 December 2025 will be taxed with an SDC rate of 17% if the dividends are paid on or before 31 December 2031.
- 2) SDC on dividends received by Cyprus tax resident companies from Cyprus tax resident companies: Such dividends remain generally exempt from taxation. However, dividends will be taxed at SDC rate of 17% for:
 - Dividends received:
 - In 2026 and paid out of profits from the years ended 31/12/2024 or 31/12/2025
 - In 2027 and paid out of profits from the year ended 31/12/2025.
 - Dividends received indirectly more than 4 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 31/12/2031 and derives from profits earned until 31/12/2025.

These apply to Cyprus tax resident companies receiving dividends from participation on other Cyprus tax resident companies unless the dividend receiving company is directly or indirectly owned by non-Cyprus tax resident individuals or Cyprus tax resident non-domiciled individuals.
- 3) SDC on dividends received by Cyprus tax resident companies (or Cyprus permanent establishments of foreign companies) from non-Cyprus tax resident companies: As previously, such dividends remain exempt from taxation unless exemption does not apply. When the exemption does not apply the SDC rate is reduced from 17% to 5%.
Foreign dividends are not exempt when:
 - More than 50% of the paying company's activities result directly or indirectly in investment income and
 - The foreign tax is less than 50% of the Cyprus tax burden.
- 4) SDC on dividends received by related companies in so called 'blacklist' jurisdictions (BLJs) and low tax jurisdictions (LTJs): The rules for dividends paid to related companies in BLJs were updated in April 2025 and the rules for LTJs were introduced at that time with effect from 1 January 2026.
The rate of SDC on dividends paid to related companies in:
 - BLJs remains at 17%;
 - LTJs is reduced from 17% to 5%.
- 5) The concept of dividend: The concept of dividend received is widened and will incorporate the below in addition to 'normal' dividends:
 - Company assets distributed to the shareholder, upon any of the following:
 - Capital reduction;
 - Dissolution;
 - Liquidation;
 - Redemption of shares in open-ended or close-ended collective investment companies (unlike the other types this applies from 1 January 2031 onwards). In other words, the redemption of units in funds will be treated as a capital reduction and not as sale of titles.
 - In such cases the amount of the dividend is the market value of the asset reduced by the amount of:
 - Capital actually paid to the company by the shareholder and not previously reduced;
 - CGT (if any) paid on such assets; and
 - Disguised dividend (if any) already recognized for such asset.

- Increasing a company's issued capital by capitalisation of distributable reserves (bonus issue of shares). In such case, the dividend is amount of the increase in issued capital.

Note: All the above apply to Cyprus tax resident individuals and Cyprus tax resident companies (or Cyprus permanent establishments of foreign companies) receiving dividends from:

- a) Cyprus tax resident companies, and
- b) Non-Cyprus tax resident companies only in cases where a 'normal' dividend received would have been subject to SDC.

This widened concept of dividends does not apply from Cyprus tax resident companies that fall within the BLJ and LTJ provisions.

- 6) Disguised dividends received by individuals: The concept of disguised dividends is introduced for direct and indirect shareholders who are natural persons. An SDC rate of 10% applies on the disguised dividends (double the normal 5% SDC rate on dividends). It applies in the following cases:

- Private use of a company asset by the shareholder individual (or an individual related to the individual shareholder).

The amount of the disguised dividend is determined as follows:

- The initial market value of the asset used for personal use, multiplied by the percentage of personal use (in case the asset is not connected to the company's business the percentage of personal use is 100%).
- The market value of the asset at the time of any increase in the percentage of personal use taking into account the increased percentage of personal use.
- Reductions in the percentage of personal use do not result in any refund of SDC.

- Assets disposed by the company to an individual shareholder (or an individual related to the individual shareholder) at a consideration which is below fair market value.

The amount of the disguised dividend is determined as follows:

- The market value of the asset on the date of disposal less the amount of consideration.
- The dividend is reduced by any amount of disguised dividend already captured under the above private use provisions.

Notes:

- a) These apply to Cyprus tax resident shareholders receiving disguised dividends from Cyprus tax resident companies unless the shareholder benefits from non-domiciled regime (see point 9 below).

- b) The disguised dividend provisions do not apply:

- To assets donated to the company from the private use shareholder (or from individual persons related to the individual shareholder);
- Where the income tax law benefit in kind provisions apply; or
- When the distribution is in the context of a capital reduction, dissolution or liquidation.

- c) No refunds of the SDC charged under the disguised dividend provisions are possible.

- d) An individual related to the individual shareholder is as per article 33 of the income tax law.

- e) Assets used by a shareholder (direct or indirect) in relation to which such shareholder has incurred SDC pursuant to the disguised dividend provisions are excluded from the application of article 33 of the income tax law.

- 7) Interest income received by individuals: Such interest income is no longer subject to income tax. It will only be subject to SDC at the rate of 17% on the gross amount of the interest received or credited (unless it is earned on certain Cyprus/EU government/local authority securities or certain listed securities in which case the rate of SDC is 3%).

These rates apply to Cyprus tax resident individuals receiving or being credited with interest unless the individual obtains benefit from the non-domiciled regime, in which case the interest is not taxable (see point 9 below).

- 8) Interest income received by Cyprus tax resident companies: Such interest income is no longer subject to SDC. It will only be subject to income tax except for the interest received by:
- eligible religious,
 - charitable or educational institutions of a public nature,
 - any eligible company established for the promotion of art, science or sports,
- whose interest income is exempt from income tax, is subject to SDC at the rate of 17% (unless it is earned on certain Cyprus/EU government/local authority securities or certain listed securities in which case the rate of SDC is 3%).
- 9) Special mode of taxation for taxpayers who are deemed to be domiciled in Cyprus: The exemption from SDC for Cyprus tax resident non-domiciled individuals may be extended, beyond the 17 years, for up to additional two 5-year periods upon an upfront payment of a fee of €250.000 per 5-year period.
- 10) Rental income: Rental income is no longer subject to SDC. It will only be subject to income tax.
- 11) Abolition of the deemed dividend distribution (DDD) rules: The DDD rules are abolished for profits earned by Cyprus tax resident companies as from 1 January 2026 onwards.
- 12) DDD transitional provisions: The DDD transitional provisions are introduced and apply to profits earned by Cyprus tax resident companies.
- Profits are deemed distributed and subject to SDC at the rate of 17% on the gross amount of the deemed dividend as follows:
- For profits earned in tax years 2024 and 2025, two years after the end of the tax year for 70% of the amount of the profit. For profits earned in 2024 and 2025, the relevant dates are 31 December 2026 and 31 December 2027 respectively.
 - Upon dissolution of the company, profits of the last 5 years prior to the dissolution, are deemed distributed but only to the extent of profits earned prior to 31 December 2025.
- Notes:
- a) The DDD transitional provisions apply only in cases where the profits earned are directly or indirectly attributable to a Cyprus tax resident and domiciled shareholders.
 - b) The profits that are taken into account for DDD purposes, are net of SDC, corporate income tax, capital gains tax and any foreign tax not credited against SDC or corporate income tax.
 - c) Any offsetting of losses and any additional depreciation arisen from the revaluation of movable and immovable assets, do not reduce the profits earned.
 - d) The amount of deemed dividend is reduced by any actual dividend distribution out of the relevant profits.
 - e) These provisions do not apply in cases of dissolution of a company where the company's assets are not sufficient to pay its creditors.
- 13) Penalties and fines have been increased in case of non-compliance.

C) The Capital Gains Tax Law

- 1) The tax-exempt amounts for disposal of immovable property, agricultural land and main residence for individuals have been increased as follows:
 - General exemption for a natural person has increased from €17.086 to €30.000;
 - Agricultural land exemption has increased from €25.629 to €50.000;
 - Primary residence exemption has increased from €85.430 to €150.000.
- 2) The definition of shares that directly or indirectly own immovable property has been amended in order to include shares which derive 20% (as opposed to 50% previously required) of their value from immovable property situated in Cyprus.
- 3) The exemption for the sale of shares listed on a 'recognized' stock exchange is replaced with an exception for sale of shares listed on a 'regulated' stock exchange.
- 4) An exemption has been introduced for profits to be derived on disposal of shares listed on non-regulated stock exchange provided those do not exceed €50.000 per annum.
- 5) It is clarified that the term 'exchange of property', which is not considered a disposal of property for capital gains tax purposes, also includes the exchange of property with a land developer, under certain conditions:
 - The exchange must be made with a 'land developer' as defined in the Streets and Buildings Regulation Law;
 - The relevant development must be completed within 5 years as from the date that the relevant agreement is entered into by the contracting parties.
- 6) The exception for sale of primary residence when such property is sold as part of loan restructuring procedure is increased from €350.000 to €450.000. This exception shall apply until 31 December 2030.
- 7) Penalties and fines have been significantly increased.

D) The Assessment and Collection of Taxes Law

- 1) The below persons (legal and/or natural) have an obligation to submit a tax return:
 - Cyprus tax resident individuals if:
 - they have gross income as defined by the income tax law during the year, or/and
 - they are aged between 25 and 70 years old on 31 December of the tax year, regardless of whether they earned taxable income during the year.
 - Non-Cyprus tax resident individuals with income subject to tax in Cyprus;
 - Cyprus tax resident companies;
 - Non-Cyprus tax resident companies with income subject to tax in Cyprus unless their gross incomes, in their entirety, have been subject to withholding taxes in Cyprus pursuant to article 24 of the income tax law.

Decrees may regulate exceptions from the obligation of filing returns and/or regulate deadlines for submission of returns and payment of tax liabilities.
- 2) The deadline for the submission of the tax returns for legal persons and/or individuals, who have an obligation to prepare audited accounts, has been set on 31 January of the year following the subsequent year to the tax year (i.e. 13 months from the tax year end, for 2026 the relevant deadline would be 31/1/2028). The deadline for the payment of the tax is aligned with the tax return submission deadline (i.e. on 31/1).
- 3) The threshold for annual income for individuals to have an obligation to prepare audited accounts is increased from €70.000 to €120.000.
- 4) The statute of limitation (the right of the Commissioner of Taxation to issue an assessment) 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 must retain its books and records.
- 5) The deadline to submit an objection is extended to 60 days from the day of issue of an assessment. In the case an assessment is issued within December, the objection can be filed no later than the end of February of the following year (remains the same as prior to amendment).
- 6) Partnerships will have an obligation to submit tax returns.
- 7) New provisions have been introduced regarding the information an employer has to submit for its employees on TD7. In addition, the deadline for the submission of the annual TD7 has been set on 31st of March of the year following the year of assessment.
- 8) Powers have been given to the Commissioner of Taxation to suspend the operations of a business where the taxpayer 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.
- 9) Rent payments for immovable property located in Cyprus must be made exclusively through one of the following methods:
 - Bank transfer;
 - Debit of credit card payment;
 - Any other recognized electronic payment method.
- 10) 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.
- 11) In order to ensure that directors cannot evade responsibility within the meaning of tax laws and regulations by stepping down or being removed from office, a company director remains fully liable for any acts or omissions committed during their term in office, even if they had been removed from the Register of Directors and Secretaries by the time any administrative or judicial actions commenced.
- 12) Penalties and fines have increased.

E) The Collection of Taxes Law

The amendment law provides powers to the Commissioner of Taxation to pledge shares owned by a taxpayer who owes taxes exceeding €100.000.

F) The Stamp Duty Law

The Stamp Duty Law was abolished with effect from 1 January 2026.

As always, our tax team is at your disposal for any information, clarifications, or assistance you may require.

This publication is intended as a general guide only and its application to specific situations will depend on the particular circumstances involved. Accordingly, we recommend that readers seek appropriate professional advice regarding any particular problems that they encounter. This information should not be relied upon as a substitute for such advice.

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