



## Cyprus Tax Reform: Proposed Key Changes

The Cyprus government is poised to implement its **most comprehensive tax reform** since 2002, aiming to modernize the tax system while balancing economic competitiveness with social priorities.

As a first step, the Cyprus government commissioned the University of Cyprus Economics Research Centre to come up with a comprehensive tax reform proposal. The key preliminary proposals were presented on the **26 of February 2025** to all the relevant stakeholders. The proposals are expected to be finalised during 2025, and once the reform package is reviewed by the Ministry of Finance, it will be forwarded to the Cyprus Parliament for ratification. Further changes and clarifications will be announced in the coming months

### KEY CHANGES AT A GLANCE

The reform is expected to impact both; businesses and individuals. Based on the preliminary proposals, companies will be subject to a corporate tax rate of 15%, but they will benefit from new deductions and simplified rules, while individuals will see adjustments to income tax brackets and new tax breaks for dependents and housing costs.

Below is a **summary of some of the key proposed changes:**

Tax Area	Current	Proposal
<b>Corporate Income Tax ("CIT")</b>	12.5%	15%
<b>Special Defence Contribution ("SDC") – Dividends</b>	17% SDC on dividend distributions for Cyprus tax-resident and domiciled individuals	5% for Cyprus tax-resident and domiciled individuals
<b>SDC – Deemed Dividend Distribution<sup>1</sup></b>	17% SDC applied on 70% of adjusted accounting profits if not distributed within 2 years from the end of the tax year	To be abolished
<b>SDC – (Passive) Rental Income</b>	3% SDC on 75% of gross rental income	To be abolished
<b>Personal Income Tax ("PIT") – Tax Rates</b>	35% on income above €60,000	35% on income above €80,000 (i.e. the existing bands are expanded)
<b>PIT – Tax Free Threshold</b>	€19,500	€20,500
<b>PIT – Tax Residency</b>	Requires either 183 or 60 days of physical presence. Certain other conditions apply for 60 days	Expanded to include individuals whose economic interests are in Cyprus, even without 60 days of presence in-country
<b>PIT – Other Deductions</b>	-	(a) Families with children/students (income-based criteria), (b) Interest on housing loans or rent for primary residence, (c) "Green" home upgrades
<b>Stamp Duty</b>	Applies broadly	Limited to real estate, banking, and insurance agreements
<b>Insurance Premium Tax</b>	Premium tax for life insurance companies (minimum tax of 1.5% of gross premium income)	To be abolished
<b>Loss Carry-Forward</b>	5 years (applies to all business losses)	Extended to 10 years, but subject to certain limitations
<b>Green &amp; Digital Incentives</b>	Standard deductions	Super deductions, accelerated depreciation, and unlimited period of loss carry-forward

<sup>1</sup> Applies to companies held by individuals who are tax resident and domiciled in Cyprus.

## KEY TAX PROVISIONS RETAINED

Despite the upcoming reform, Cyprus **maintains its main tax policies in key areas**, such as:

- ▶ **Intellectual Property ("IP") Taxation:** The current provisions based on the nexus framework, allowing businesses to claim up to 80% of their taxable IP profits as a notional deductible expense remains;
- ▶ **Notional Interest Deduction ("NID"):** Businesses can still benefit from NID on new equity injections, reducing their effective tax rate (subject to a cap of 80% of taxable profits);
- ▶ **Group Loss Relief:** Companies within the same corporate group can continue to offset profits and losses, reducing the overall tax burden;
- ▶ **Shipping Tax Regime:** The tonnage tax system remains unchanged;
- ▶ **Non-Domiciled Status:** The SDC exemption for 'non-doms' remains in place;
- ▶ **50% Tax Exemption for First Employment in Cyprus:** The existing incentive for new highly paid employees relocating to Cyprus continues, reducing their taxable income by 50%;
- ▶ **Profits from the Sale of Securities:** Gains from the sale of shares, bonds, debentures, and other securities remain fully exempt from taxation.

## LOOKING AHEAD

The proposed tax reforms **are still under review**, with certain provisions subject to further refinements. Once there is a draft legislation in place, it is expected to be further revised before being enacted into the law.



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