



Cyprus Tax Reform: Deeper Overview

Following our tax alerts issued in March 2025 and January 2026, we take a deeper look at the recently enacted tax legislation as a result of the approved tax reform package. There are many areas of taxation that have been affected by the tax reform and should be carefully evaluated. Our focus is to provide a better understanding on the most significant changes and their effect on the taxpayers.

The tax reform can be seen as a positive development in many areas, since it modernises many of the provisions of the tax legislation. It also provides clarity on certain grey tax areas and introduces new modes of taxation.

Income tax amendments

Specific Provision	Previous (Applicable until 31/12/2025)	New (Effective from 01/01/2026)
Tax residence 1. Corporations 2. Individuals	1. Based on company's management and control, and incorporation 2. Based on 183 days and 60 days rules	1. Based on company's management and control, and incorporation 2. Based on 183 days and 60 days rules
WTS Cyprus comments & observations	<p>1. The change in the definition is intended to refine the incorporation test introduced in 2022. Specifically, companies that have been incorporated in Cyprus under the Cyprus Companies Law are not considered to be Cyprus tax residents in case a double tax treaty states otherwise. Moreover, a company that has transferred its registered office or legal seat to Cyprus, is considered as a company registered in Cyprus to assess its tax residence.</p> <p>2. The 183 days rule remains the same. Under the 60 days rule, individuals who are considered as tax residents by another state can still qualify as tax residents in Cyprus. In such cases of dual tax residence, the double tax treaty is followed.</p>	

Specific Provision	Previous (Applicable until 31/12/2025)	New (Effective from 01/01/2026)
Corporate Income Tax ("CIT") Rate	12.5%	15%
WTS Cyprus comments & observations	<p>This amendment aligns the local rate with the OECD's global minimum tax rates. Despite the increase, Cyprus still maintains one of the lowest CIT rates in Europe.</p> <p>Key tax incentives including Intellectual Property ("IP") regime and Notional Interest Deduction ("NID") have not been affected and remain available to the taxpayers.</p>	

Specific Provision	Previous (Applicable until 31/12/2025)	New (Effective from 01/01/2026)
Interest income	"Active" interest income subject to income tax / "Passive" interest income subject to Special Defence Contribution ("SDC")	Interest income earned by companies subject to income tax / Interest income earned by individuals subject to SDC
WTS Cyprus comments & observations	<p>The application of badges of trade has been abolished, and certainty has been introduced. Interest income earned by individuals who qualify as non-doms is clearly exempt.</p>	

Specific Provision	Previous <i>(Applicable until 31/12/2025)</i>	New <i>(Effective from 01/01/2026)</i>
Tax Losses	Allowed for 5 years (applies to all business losses)	Extended to 7 years
WTS Cyprus comments & observations	<p>It has been clarified by the Authorities that the 7-year carry forward period applies for the tax losses incurred from 2019 onwards. This practically means that losses incurred in 2019 can be utilised in 2026. One important consideration is that the 2019 losses cannot be utilised in 2025. Consequently, the tax losses incurred up to and including 2018 can only be utilised for 5 years, i.e. up to and including 2024.</p> <p>For the purposes of group loss relief, taxpayers are expected to first utilise their own tax losses and then claim any group relief.</p>	

Specific Provision	Previous <i>(Applicable until 31/12/2025)</i>	New <i>(Effective from 01/01/2026)</i>
Cryptocurrencies ("Cryptos")	-	Taxation at 8%
WTS Cyprus comments & observations	<p>This is a new special mode of taxation for gains arising from cryptos, including sale of cryptos, gift of cryptos, exchange of cryptos with other cryptos, use of cryptos as means of payment. Sale of cryptos obtained from mining are not covered by this preferential mode of taxation.</p> <p>Losses from such activities can only be utilised to offset losses against gains from other cryptos by the same taxpayer, during the same year. These losses cannot be carried forward or surrendered to another group company through group relief.</p> <p>The flat 8% is welcome and provides clarity in this previously grey area. However, the fact that NID cannot be claimed and losses cannot be surrendered and cannot be carried forward can be seen as unjust.</p>	

Specific Provision	Previous <i>(Applicable until 31/12/2025)</i>	New <i>(Effective from 01/01/2026)</i>
Research & Development ("R&D") Super Deduction - Additional 20%	Applies for years 2022-2024	Extended to years 2025 - 2030
WTS Cyprus comments & observations	<p>Such extension is reasonable to continue to provide an incentive for innovative businesses incurring such R&D expenses. This super deduction cannot be claimed on expenses associated with qualifying assets that benefit from the IP regime provisions.</p>	

Specific Provision	Previous (Applicable until 31/12/2025)	New (Effective from 01/01/2026)
Personal Income Tax ("PIT") – Tax Rates	35% on income above €60,000	35% on income above €72,000 (i.e. the existing bands are expanded)
PIT – Tax Free Threshold	€19,500	€22,000
PIT – Other Deductions	-	(a) Families with children/students (income-based criteria) (b) Interest on housing loans or rent for primary residence (c) Expenses incurred for electric vehicles and energy efficiency of primary residence
WTS Cyprus comments & observations	The PIT thresholds have been extended and revised upwards, resulting to a decreased PIT. The revision of the thresholds takes into consideration the current state of the economy and cost of living, attempting to provide relief to individuals. Their effect is even greater when combined with the other introduced personal deductions.	

Specific Provision	Previous (Applicable until 31/12/2025)	New (Effective from 01/01/2026)
Share based payments	-	Taxation at 8%
WTS Cyprus comments & observations	This is another special mode of taxation regarding the benefits that employees or directors obtain from share option rights and rights for acquisition of shares. There are however several specific conditions that need to be fulfilled so as to benefit from this preferential flat tax rate of 8%. It was another grey area which now has some clarity.	

Specific Provision	Previous (Applicable until 31/12/2025)	New (Effective from 01/01/2026)
Ex-Gratia Payments	-	20% on amount exceeding €200,000
WTS Cyprus comments & observations	This new article introduced another special mode of taxation on ex-gratia payments that clarifies another grey area. It provides for a tax-free amount up to €200,000 and any amount in excess of €200,000 is taxed at a relatively lower rate compared to the standard PIT rates.	

Specific Provision	Previous <i>(Applicable until 31/12/2025)</i>	New <i>(Effective from 01/01/2026)</i>
Transfer Pricing ("TP")	Threshold for maintaining a Local File set at €5mln for financial transactions and €1mln for other categories	Threshold increases to €10mln for financial transactions, €5mln for goods and €2.5mln for other categories
WTS Cyprus comments & observations	<p>Goods have now their own separate category. The increased thresholds provide a lighter TP obligations for the taxpayers; however, they should still take into consideration the requirements for minimum documentation.</p> <p>Furthermore, under certain conditions a director is considered as connected party to a company.</p>	

Stamp Duty

Specific Provision	Previous <i>(Applicable until 31/12/2025)</i>	New <i>(Effective from 01/01/2026)</i>
Stamp Duty	Applies broadly	Abolished
WTS Cyprus comments & observations	<p>Another arguably peculiar area of taxation has been abolished. It has been clarified that for documents concluded up to 31 December 2025, they are still subject to Stamp Duty as per the relevant legislation.</p>	

Special Defence Contribution ("SDC") amendments

Specific Provision	Previous <i>(Applicable until 31/12/2025)</i>	New <i>(Effective from 01/01/2026)</i>
Non-domicile ("Non-dom") regime	Domicile of choice and origin Status valid for 17 years	Domicile of choice and origin Status valid for 17 years with an extension option
WTS Cyprus comments & observations	<p>The two main tests remain in force, with the introduction of certain refined provisions.</p> <p>An extension has been introduced, providing the option to extend the non-dom status to a maximum of two further 5-year periods (i.e. 10 years in total). Upon expiry of non-dom status, taxpayers may make an irrevocable election for each extension period to continue benefiting from the regime.</p> <p>To exercise the option to extend, an official application should be submitted and approved by the Commissioner, together with a one-off payment of €250,000 per 5-year period.</p> <p>This amendment is welcome, as it provides high-income individuals, who would otherwise be subject to SDC, with the opportunity to continue benefitting from the non-dom regime for another 10 years.</p>	

Specific Provision	Previous (Applicable until 31/12/2025)	New (Effective from 01/01/2026)
Dividends Tax Rate	17% SDC on dividend distributions for Cyprus tax-resident and domiciled individuals	5% for Cyprus tax-resident and domiciled individuals
WTS Cyprus comments & observations	Consideration should be given that anti abuse and transitional provisions have been introduced or were enhanced compared to the old legislation. Also, the concept of disguised dividends has been introduced to make matters more complicated. Thus, the tax treatment of dividends received is not as straight forward and the new 5% is not always the case.	

Specific Provision	Previous (Applicable until 31/12/2025)	New (Effective from 01/01/2026)
Deemed Dividend Distribution ("DDD")	17% SDC applied on 70% of adjusted accounting profits if not distributed within 2 years from the end of the tax year	Abolished
WTS Cyprus comments & observations	DDD has been arguably a peculiar subject matter with a considerable amount of administration, making its abolition another welcome change. It was clarified that for profits up to and including 2025, the old provisions will still be applicable. In this respect, tax profits for 2024 and 2025 should be assessed from a DDD perspective by 31 December 2026 and 2027 respectively.	

Specific Provision	Previous (Applicable until 31/12/2025)	New (Effective from 01/01/2026)
(Passive) Rental Income	3% SDC on 75% of gross rental income	Abolished
WTS Cyprus comments & observations	For companies, rental income is now only subject to income tax. The previously double taxation of rental income could be seen as punishing for the taxpayers, making this another welcome change.	

NEXT STEPS

The above provides a deeper look on the principal amendments introduced by the new legislation that affect the taxpayers. Nevertheless, there are numerous other amendments that should also be taken into consideration.

For any in-depth analysis or assistance in assessing the implications of the new rules on particular structures or transactions, our team remains at your disposal.



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