



Cyprus Tax Reform: Key Changes

Following our [tax alert](#) issued in May 2025, the Cyprus House of Representatives approved the long-anticipated tax reform package on 22 December 2025, marking the first comprehensive reform of the Cyprus tax system since the country's accession to the European Union. The majority of the amendments to the Cyprus tax legislation are effective as from 1 January 2026.

The reform introduces changes across several areas of the tax framework and is relevant to both individuals and corporate taxpayers. As expected, the existing incentives for individuals relocating to Cyprus remain unchanged, including the non-dom regime and the 50% exemption on employment income. From a corporate perspective, while the corporate income tax rate has increased, the Notional Interest Deduction provisions and the Cyprus Intellectual Property Box regime remain unaffected.

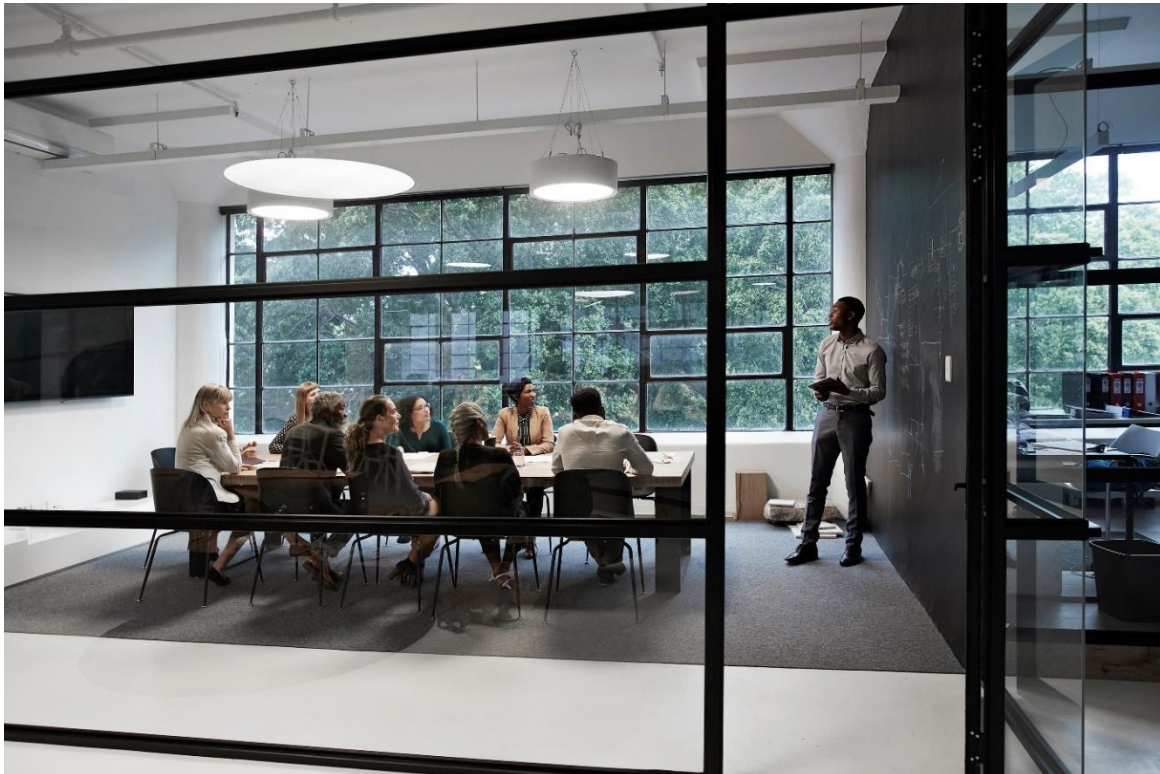
Overall, the reform reflects an effort to modernise the Cyprus tax system while preserving key competitiveness features that have historically supported inbound investment and business structuring. The principal amendments introduced by the reform are outlined below.

Specific Provision	Previous <i>(Applicable until 31/12/2025)</i>	New <i>(Effective from 01/01/2026)</i>
Income Tax		
Corporate Income Tax Rate	12.5%	15%
Tax Losses	Allowed for 5 years (applies to all business losses)	Extended to 7 years. In addition, it is clarified that for the purposes of group loss relief, the taxpayer should first offset such tax losses from its own taxable income, before surrendering to other group entities
Cryptocurrencies	-	Taxation at 8%
R&D Super Deduction - Additional 20%	Applies for years 2022-2024	Extended to years 2025 - 2030
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
Share Option Schemes	-	Taxation at 8%
Ex-Gratia Payments	-	20% on amount exceeding €200,000
Transfer Pricing	Threshold for maintaining a Local File set at €5mIn for financial transactions and €1mIn for other categories	Threshold increases to €10mIn for financial transactions, €5mIn for goods and €2.5mIn for other categories. Further, the law clarifies the conditions that a director is considered as connected party to the company
Special Defence Contribution		
Dividends Tax Rate	17% SDC on dividend distributions for Cyprus tax-resident and domiciled individuals	5% for Cyprus tax-resident and domiciled individuals
Deemed Dividend Distribution	17% SDC applied on 70% of adjusted accounting profits if not distributed within 2 years from the end of the tax year	Abolished
(Passive) Rental Income	3% SDC on 75% of gross rental income	Abolished
Other		
Stamp Duty	Applies broadly	Abolished
Insurance Premium Tax	Premium tax for life insurance companies (minimum tax of 1.5% of gross premium income)	Abolished

NEXT STEPS

The above provides a summary of the principal amendments introduced by the new legislation. Further tax alerts will follow, addressing specific aspects of the reform in greater detail.

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.



Publisher

WTS Cyprus
wtscyprus.com



Contact Partner/Editorial

Nicolas Kypreos | nicolas.kypreos@wtscyprus.com
Constantinos Leontiou | constantinos.leontiou@wtscyprus.com
Pambos Chrysanthou | pambos.chrysanthou@wtscyprus.com
Nicos Tapolos | nicos.tapolos@wtscyprus.com

Information on our Global contacts can be found [here](#)

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