

Tax Newsletter – January 2026

Cyprus Enacts Major Tax Reform Effective from 1 January 2026

Executive Summary

On **31 December 2025**, the Republic of Cyprus enacted the most extensive tax reform of the last two decades. The new legislation, effective mainly from **1 January 2026**, introduces wide-ranging amendments affecting **corporate taxation, personal income tax, withholding taxes, defence contribution, capital gains tax, transfer pricing, and tax administration.**

The reform aims to:

- Strengthen tax compliance and enforcement
- Promote economic growth and sustainability
- Enhance social fairness through revised personal taxation
- Align Cyprus with evolving international tax standards

Businesses and individuals should **carefully assess the impact** of these changes and take timely action to ensure compliance.

Key Corporate Tax Changes

- **Corporate Income Tax (CIT)** increased from **12.5% to 15%** as from the 2026 tax year.
- **Tax residency definition expanded** to include the *incorporation test*, unless overridden by a Double Tax Treaty.
- **Tax losses carry-forward extended** from five to **seven years**.
- **Exit taxation rules amended**, allowing fair-value step-up for assets transferred from non-EU jurisdictions upon becoming Cyprus tax resident.
- **Exemption for foreign permanent establishments restricted** where the PE is located in an EU-listed non-cooperative jurisdiction.
- **Enhanced capital allowances** for green investments (energy efficiency, renewable energy, EVs) extended until **2030**.
- **Clarification on capital allowances** for contributed assets and intangible assets with indefinite useful life (amortised over 20 years).
- **Additional tax incentives** introduced, including:
 - Cultural donations (up to €50,000)
 - Stock exchange listing costs (up to €300,000)
 - Extended R&D super-deduction
 - Increased entertainment expense deduction (up to €30,000)

Personal Income Tax & Employment-Related Changes

- **Tax-free band increased** from €19,500 to **€22,000**.
- **Revised personal tax brackets**, resulting in lower tax burden for most individuals.
- **60-day tax residency rule amended** by removing the requirement that the individual is not tax resident elsewhere.
- **Expanded scope of taxable employment income**, including termination payments and ex-gratia payments.
- **Ex-gratia payments exceeding €200,000** taxed at a **flat 20%**, and **no longer deductible** for employers.
- Introduction of **family-based tax allowances**.

Cryptocurrencies & Stock Options

- **Cryptocurrency profits** (including capital gains) taxed at a **flat 8%**.
- Crypto losses are **ring-fenced** and may only be offset against crypto profits.
- **Approved employee stock option schemes** taxed at **8%**, subject to conditions and a lifetime cap of €1 million.
- Existing schemes must apply for approval by **30 June 2026**.

Withholding Taxes & Defence Contribution

- **Dividend withholding tax** on Cyprus tax-resident and domiciled individuals reduced from **17% to 5%**.
- **Constructive dividends** subject to **10% withholding tax**.
- **Deemed distribution rules abolished** for profits generated after 31 December 2025.
- **Defence Contribution on interest and rental income abolished**; such income now taxed only under Income Tax Law.
- **Dividend income from non-resident companies** subject to 5% defence contribution where exemption conditions are not met.

Capital Gains Tax (CGT) Changes

- **Indirect disposal threshold reduced** from 50% to **20%**, broadening CGT exposure.
- Revised definition of **regulated stock exchanges** with grandfathering provisions.
- **Lifetime CGT exemptions increased**, including:
 - General exemption: €30,000
 - Agricultural land: €50,000
 - Primary residence: €150,000
- Special exemption for sale of primary residence under loan restructuring increased to **€450,000** (until 2030).

Stamp Duty & Transfer Pricing

- **Stamp Duty Law abolished** for contracts executed on or after **1 January 2026**.
- **Transfer pricing documentation thresholds increased**, reducing compliance burden for smaller transactions.

Tax Administration & Compliance

- **Income tax return deadline shortened** to **13 months** after year-end.
- **Final tax payment aligned** with return submission deadline.
- **Statute of limitations revised** to six years from return submission.
- **Enhanced audit powers and increased penalties** introduced to combat tax evasion.

Our View & Next Steps

This reform fundamentally reshapes the Cyprus tax landscape. **Early planning is essential** to:

- Reassess group structures and tax residency
- Update dividend and profit distribution strategies
- Review employment arrangements and incentive schemes
- Ensure compliance with new filing deadlines and documentation requirements

How Verifya Audit Limited Can Assist

Our team can support you with:

- Impact assessments and tax planning
- Corporate restructuring and residency analysis
- Employment tax and incentive scheme reviews
- Compliance, filings, and implementation support

This newsletter is for general information purposes only and does not constitute tax or professional advice. Specific advice should be obtained based on individual circumstances.