



The Economics Research Centre at the University of Cyprus has presented a comprehensive tax reform proposal to the public. This proposal is the first of its kind since 2002 that engages in a series of changes that aims the support of the core of the economy being the middle class and the international business sector.

The proposal will be reviewed by the Ministry of Finance before being submitted to the Council of Ministers for approval. Once endorsed, the draft legislation will be introduced to the Parliament, where the Finance Committee will evaluate it prior to its presentation to members for voting. The proposed changes are expected to take effect from the 2025 tax year, with full implementation anticipated in 2026.

Key Aspects of the Reform Proposal

Corporate Income Tax

- The corporate income tax rate will be increased from 12.5% to 15% for limited liability companies.

Special Defence Contribution (SDC)

- The deemed distribution rules currently in place will be abolished.
- The SDC levied on rental income will be eliminated.
- The SDC rate on dividends for natural persons who are both tax residents and domiciled in Cyprus will be reduced from 17% to 5%.
- The non-domicile status period will remain unchanged; however, an option to extend the period will be introduced, subject to an annual fee.

Stamp Duty

- Stamp duty will only apply to agreements related to immovable property, as well as banking and insurance transactions.

Personal Income Tax

- The tax-free threshold will be increased from €19,500 to €20,500 per annum.

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- The highest tax bracket of 35% will now apply to earnings exceeding €80,000 (up from the current €60,000 threshold).
- Intermediate income brackets will be taxed as follows:

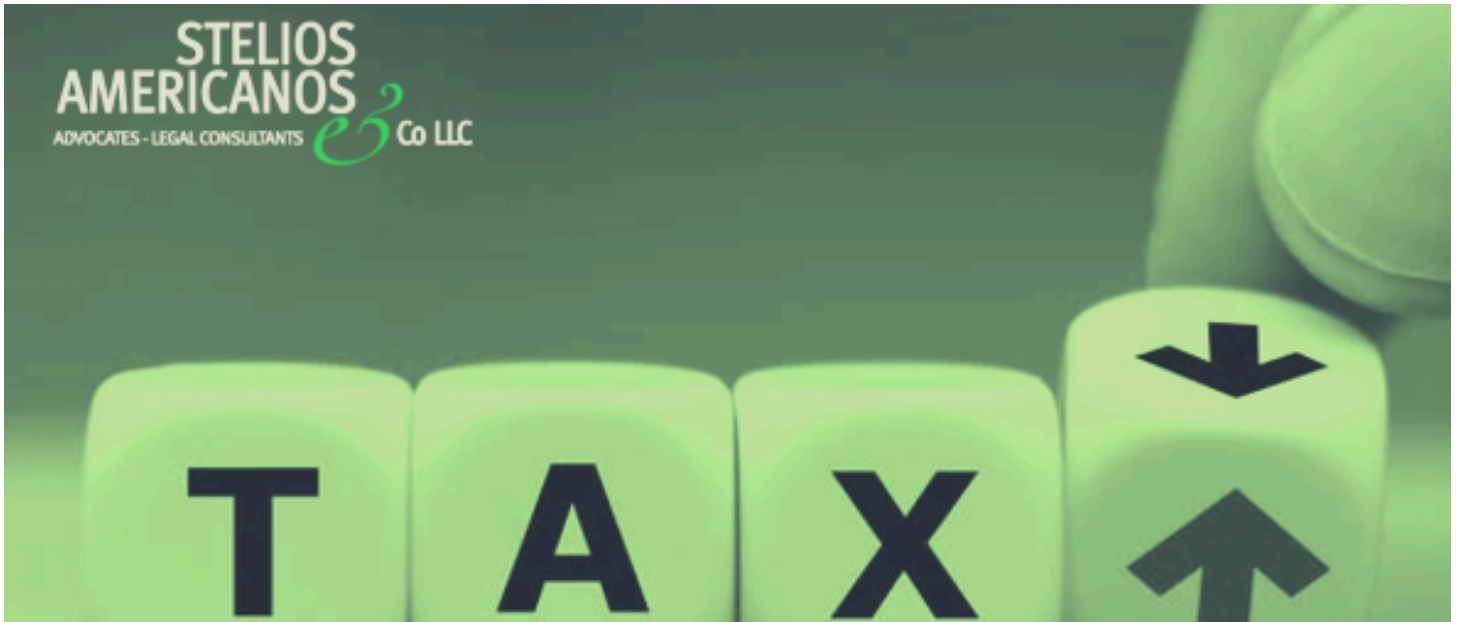
Taxable Income (€)	Tax Rate (%)
Up to 20,500	0
20,501 – 30,000	20
30,001 – 40,000	25
40,001 – 80,000	30
Above 80,000	35

- Additional deductions will be available for:
 - Parents with dependent children or students, based on income criteria.
 - Individuals making mortgage or rent payments for their primary residence.
 - Families implementing environmentally friendly home improvements.

Additional Recommendations

- **Ex-Gratia Payments:** Employees will be taxed on such payments up to a specified cap, while employers may claim the full amount as a tax-deductible expense.
- **Golden Handshakes:** Entirely taxable for employees, while remaining deductible for employers.
- **Cultural Donations & Contributions:** Eligible for tax deductions in accordance with recommendations from the Deputy Ministry of Culture.
- **Tax Residency (60-Day Rule):** The definition will be broadened to include individuals whose primary business interests are in Cyprus, irrespective of their physical presence.
- **Stock Options:** Potential taxation at a lower rate upon exercise, subject to specific conditions.
- **Green & Digital Transformation Expenditures:**
 - Super deductions or capital allowances.
 - Accelerated depreciation.
 - Training expense deductions.

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- No restrictions on carrying forward losses incurred from such investments.
- **Loss Carry forward Extension:** The allowable period for carrying forward tax losses will be extended from five to ten years, subject to conditions.
- **Insurance Premium Tax:** Existing provisions will be repealed.

Further details regarding green tax reforms will be announced in due course, as discussions on environmental mitigation measures are still ongoing.

It is noted that the proposal does not affect negatively existing favorable tax provisions such as:

- Notional Interest Deduction,
- Intellectual Property Box Regime,
- Group Loss Relief,
- Shipping Regime,
- 50% deduction for first employment in Cyprus, and the
- Non-Domiciled tax status for individuals.

For further information please contact us at info@americanoslaw.com