

## TAX LAW REFORM 2026



### I. Amendments to the Income Tax Law

#### 1. Revised personal income tax brackets

The personal income tax bands are expanded, with the tax-free threshold increased from €19,500 to €22,000.

##### **New tax brackets:**

- **€0–€22,000: 0%**
- **€22,001–€32,000: 20%**
- **€32,001–€42,000: 25%**
- **€42,001–€72,000: 30%**
- **€72,001 and above: 35%**

(Replacing the previous brackets with a lower tax-free threshold and narrower bands.)

#### 2. Family-related tax allowances

1. Where annual family income does not exceed specified thresholds (€100,000–€200,000 depending on number of children, or €40,000 for single persons), each spouse or cohabitee is entitled to the following deductions:
  - €1,000 for the first dependent child, €1,250 for the second, and €1,500 for the third and each additional child.
  - Dependent children include students up to age 24.
  - A deduction of up to €2,000 for rent or interest on a performing loan used to purchase or rent a primary residence.
  - A deduction of up to €1,000 for energy-efficiency upgrades to a primary residence or for the purchase of a new electric vehicle.

#### 3. Corporate tax rate increase

The corporate income tax rate rises from 12.5% to 15%.

## TAX LAW REFORM 2026



### 4. **Crypto-asset taxation**

Profits from the disposal of crypto-assets are taxed at a flat rate of 8%, with same-year losses allowed to offset gains.

### 5. **Loss carry-forward**

The period for carrying forward tax losses is extended from five to seven years.

### 6. **R&D super-deduction**

The 120% enhanced deduction for research and development expenditure on intangible assets is extended until 2030.

### 7. **Entertainment expenses**

The maximum deductible amount for entertainment expenses increases from €17,086 to €30,000.

### 8. **Employee stock options**

A preferential tax rate of 8% applies to stock option rights (up to twice an employee's remuneration) under approved share schemes, subject to a lifetime cap of €1 million over ten years.

### 9. **Ex gratia payments**

Lump-sum ex gratia payments paid at the start or termination of employment are taxed at 20%, after a tax-free allowance of €200,000 in termination cases.

### 10. **Insurance premium deductions**

Tax deductions for individuals are expanded to include premiums for permanent or partial incapacity insurance, in addition to life insurance.

## TAX LAW REFORM 2026



### 11. Agricultural capital allowances

Enhanced capital allowances of 20% are granted for machinery and installations used in agricultural or livestock production, net of any subsidies received.

### 12. Foreign service pension regime

Under the special pension regime for overseas services, the threshold taxed at 5% increases from €3,420 to €5,000.

## **II. Amendments to the Special Defence Contribution (SDC) Law**

1. Deemed dividend distribution on profits earned after 1 January 2026 is abolished.
2. The SDC rate on actual dividend distributions is reduced from 17% to 5% for post-2026 profits.
3. SDC on rental income is abolished; rental income remains subject to income tax only.
4. A 5% withholding tax applies to dividends paid to companies resident in low-tax jurisdictions.
5. The SDC withholding rate on interest from EU government bonds and Health Insurance Fund deposits is reduced to 3%.
6. A new optional taxation regime is introduced for non-domiciled individuals after 17 years of residence, allowing payment of a €250,000 lump sum per five-year period (renewable once).
7. Payment of SDC on foreign dividends and interest is simplified and will be made once, upon filing the income tax return.

## TAX LAW REFORM 2026



### **III. Amendments to the Capital Gains Tax Law**

1. The exemption for property exchanges is extended to include exchanges involving consideration in kind consisting of immovable property.
2. Lifetime capital gains tax exemptions are increased as follows:
  - General exemption: €30,000 (from €17,086)
  - Agricultural land: €50,000 (from €25,629)
  - Primary residence: €150,000 (from €85,430)
3. The definition of immovable property is revised to:
  - Lower the taxable percentage, and
  - Include disposals of shares in companies where at least 20% (previously 50%) of their value is indirectly derived from immovable property in Cyprus.
4. For disposals of shares in property-rich companies, proceeds are based on the parties' declared value, adjusted for other assets and liabilities.
5. The Tax Commissioner may withhold approval for property transfers if either party is non-compliant with tax obligations (excluding foreclosures).

### **IV. Repeal of the Stamp Duties Law**

The Stamp Duties Law is repealed in its entirety.

## TAX LAW REFORM 2026



### **V. Amendments to the Assessment and Collection Law**

1. The amendments aim to streamline tax compliance, combat tax evasion and avoidance, and strengthen tax collection powers. From 1 January 2026:
2. The income threshold requiring audited accounts for individuals increases from €70,000 to €120,000.
3. Corporate tax returns and tax payments are due by 31 January of the second year following the relevant tax year.
4. All Cyprus tax residents aged 25 and over must submit an income tax return, regardless of taxable income.
5. Partnerships are required to submit income tax returns.
6. The objection period to the Tax Commissioner is extended to 60 days.
7. Administrative penalties are revised to encourage voluntary compliance.
8. Rent payments for immovable property in Cyprus must be made exclusively via traceable payment methods (bank transfer, card, electronic payment, or bank cheque).
9. The Tax Commissioner may temporarily suspend business operations and seal premises for up to 10 days where serious tax non-compliance occurs, subject to prior notification requirements.