Cyprus Tax Reform: Key Changes for Businesses and Individuals from 1 January 2026

During 2025, the Cyprus Government undertook a comprehensive review of the country's tax framework, with reforms approved on 22 December 2025 and effective from 1 January 2026.

By **Katrien de Poorter**, 29th January 2026

Introduction

During 2025, the Cyprus Government undertook a comprehensive review of the country's tax framework, with reforms approved on 22 December 2025 and effective from 1 January 2026. The changes aim to align Cyprus with international tax standards while preserving its long-standing competitiveness.

This article summarises the key elements of the reform most relevant to companies, investors, and individuals with Cyprus tax exposure. While the legislation includes additional measures, we have focused on those most likely to impact our client base.

Corporate Income Tax Rate

As expected, the Cyprus corporate income tax rate will increase from 12.5% to 15%. This change aligns Cyprus with the OECD's Pillar Two minimum tax framework and reflects broader international developments, while still maintaining a competitive headline rate for businesses operating in Cyprus. Importantly, the reform does not affect the long-standing 0% tax treatment on dividend income, capital gains arising from the disposal of shares, or most interest income, which remains unchanged and continues to support Cyprus' attractiveness as a holding and investment jurisdiction.

Dividend Taxation and Special Defence Contribution

A significant and welcome development is the abolition of deemed dividend distribution on profits generated from 1 January 2026 onwards. This long-standing requirement has often created administrative complexity for Cyprus companies.

In parallel, the Special Defence Contribution (SDC) on actual dividend distributions to ordinary tax residents will be reduced from 17% to 5%, and SDC on rental income will be removed entirely. These changes improve cash flow flexibility and simplify tax planning for both companies and shareholders.

Other Corporate Measures and Incentives

Several additional measures have been introduced to support business activity. The loss carry-forward period will be extended from five to seven years, providing greater flexibility in managing taxable profits. Allowable entertainment expenses will increase to €30,000, and the 120% super-deduction for qualifying research and development expenditure on intangible assets will be extended until 2030.

Certain types of income will also receive specific tax treatment. Cryptocurrency profits included in taxable income will be taxed at a flat 8% rate, while stock options granted under approved employer schemes will also be taxed at 8%. One-off gratuity payments will be taxed at 20%, and a tax-free amount of €200,000 will be allowed in cases where the gratuity payments were made upon termination of employment.

Changes Affecting Individuals

While the reform includes a wide range of measures, several changes will have a direct and tangible impact on individuals and households.

The tax-free income threshold will increase from €19,500 to €22,000, providing immediate relief for lower and middle-income earners. In addition, the personal income tax brackets are being adjusted to create a more progressive structure:

- Income from €22,001 to €32,000 will be taxed at 20%
- Income from €32,001 to €42,000 at 25%
- Income from €42,001 to €72,000 at 30%
- Income above €72,001 at 35%

Families with children will also benefit from enhanced tax relief (subject to annual family income thresholds).

The reform further introduces new deductions aimed at easing everyday living costs.

Strengthened Compliance and Anti-Evasion Measures

The reform introduces enhanced compliance obligations and expanded enforcement powers for the Cyprus Tax Department. From 2026, all individuals aged 25 and over will be required to submit an annual tax return, even if no taxable income is earned.

In addition, rental payments exceeding €500 must be made via bank transfer or electronic payment, effective on 1 July 2026. This measure is designed to improve transparency and reduce undeclared rental income.

Tax authorities will also be granted broader powers to request banking information, as well as asset and liability statements covering a six-year period. Taxpayers will be required to retain supporting documentation for the same duration. In cases of repeated non-compliance, inspectors may temporarily seal businesses or freeze company shares where tax debts exceed €100,000, subject to the taxpayer's right to challenge such actions through the courts.

What This Means Going Forward

Overall, the reform simplifies several long-standing areas of concern for businesses. The removal of deemed dividend distribution, lower withholding tax on dividends, abolition of stamp duty, expanded capital gains tax exemptions, and more favourable treatment of share-based remuneration all contribute to a more streamlined and transparent tax environment.

While the increase in the corporate tax rate reflects international trends, Cyprus remains an attractive jurisdiction when viewed alongside its extensive double tax treaty network and stable regulatory framework.

Conclusion and Next Steps

The Cyprus tax reform represents a balanced shift towards greater transparency, enhanced compliance, and improved clarity for both companies and individuals. Early review and planning will be essential to ensure existing structures remain efficient and compliant under the new rules.

At Dixcart Cyprus, we support clients in navigating legislative changes, reviewing structures, and implementing practical solutions tailored to their specific circumstances. If you would like to discuss how the 2026 tax reforms may affect you or your business, our team would be pleased to assist: advice.cyprus@dixcart.com.