D.S. Th. Services Ltd	**D. S. Th Services Ltd** Certified Chartered Accountants

Cyprus Tax Reform – Key Changes

On the 26th of February 2025 the Economics Research Centre of the University of Cyprus presented a blueprint with the key changes related to the tax reform marking a significant shift in the fiscal landscape.

The proposal will undergo discussions for 3 weeks with the final date being the 19th of March 2025 before to be submitted to the Council of Ministers for approval. Once approved the final proposal will be filed with the House of Representatives and placed to a final vote after passing by the Finance Committee. Thus, it is expected that the new reforms are affected in 2025 with full implementation by 2026.

The most important tax reforms are following below.

Corporation Tax

The corporate income tax rate shall be increased from 12,5% to 15% applicable to all corporations operating in Cyprus.

Special Defence Contribution

The proposed changes to the Special Defence Contribution shall be the following:

- Abolition of deemed dividends distribution,
- Reduction of Special Defence Contribution rate on dividends from 17% to 5% for individuals who are both tax residents and domiciled in Cyprus,
- Removal of Special Defence Contribution on rental income.

Personal Income Tax

Personal income tax restructured to benefit lower-income earners but also adjusting the tax burden on higher-income earners. The following are the key changes:

- The tax-free threshold increased by a thousand from 19.500 euro to 20.500 euro, and
- The highest tax band now applies to incomes above 80.000 euro.

The updated table should be as follows:

Taxable Income	Tax Rate
0 – 20.500	0%
20.501 – 30.000	20%
30.001 – 40.000	25%
40.001 – 80.000	30%
80.001 and above	35%

Stamp Duty

Stamp duty shall apply only to agreements related to immovable property, banking and insurance transactions thus commercial transactions shall be simplified.

Tax deductions for individuals

- Parents with children or students will receive tax relief based on certain income criteria,
- Mortgage interest and rent payments for primary residences will be deductible, and
- Households investing in green upgrades will benefit from tax incentives.

Tax deductions from businesses

- The ex-gratia payments will be taxed fully under employees while employers will be able to claim deductions,
- The 60-day rule tax residency shall be extended in order to cover individuals whose center its business interest in Cyprus, irrespective of their physical presence,
- The tax loss carried forward will be extended from 5 to 10 years subject to restrictions,
- The government is considering a reduced tax rate for stock options and the time of exercise, subject to specific conditions,
- Companies investing in sustainability and technologies shall be eligible for
  - Deductions for employee training,
  - Accelerated depreciation on related assets,
  - Super deductions on qualifying expenses, and
  - No restrictions on carried-forward losses from such investments,
- Culture-related contributions and donations will become tax deductible, and
- The current insurance premium tax provisions will be annulled.

Way forward

Business and individuals should be alerted to monitor the changes undergoing since these are still under discussion in order to be prepared for any legislative amendments.

Our team is available and ready to help businesses and individuals navigate through these changes, ensuring the best possible tax strategies and compliance.