

CYPRUS TAX

INTRODUCTION

The main principles in the tax legislation of Cyprus are:

- The taxation of companies is based on tax residency. As of 01 January 2026, a company that is incorporated or registered in Cyprus is deemed a Cyprus tax resident by default under the incorporation test;
- Dividends received by a Cyprus resident company from another Cyprus company or qualifying foreign participation are generally exempt, subject to conditions (e.g., less than 50% passive income of the investee).
- Dividend income received by Cyprus tax resident and domiciled individuals may be subject to Special Defence Contribution (SDC) at 5%. Non-domiciled individuals are exempt from SDC. The Deemed Dividend Distribution (DDD) system has been abolished for post-2026 profits
- No withholding tax on dividends and interest payable to non-residents. Interest and royalties received in the ordinary course of business are taxable at corporate rate. Royalties paid to non-residents may be subject to withholding tax where the intellectual property is used within Cyprus, subject to applicable double taxation treaties and EU directives.
- The corporate rate is 15% as of 01 January 2026;
- The term “resident” has been added to the vocabulary of relevant terms under the new taxation system. An individual is considered a Cyprus tax resident if they satisfy the either of the following tests:
 - A) The 183-Day Rule - Individual is physically present in Cyprus for 183 days or more in a tax year
 - B) The 60-Day Rule - To qualify under this rule, all the following conditions must be met:
 - The individual must be present in Cyprus for at least 60 days in the year;
 - The individual must not reside in another country for more than 183 days;
 - The individual is not considered tax resident in another country;
 - The individual either owns or rents a permanent residence in Cyprus for that year;

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- The individual carried out business in Cyprus, is employed in Cyprus or is a director of a Cyprus company.

PERSONAL INCOME TAX

The income on which an individual will be taxed in Cyprus, is according to whether an individual is classified as a tax resident in the Republic of Cyprus or not. A Cyprus tax resident is taxed on all their chargeable income arising from all sources inside and outside of the Republic. While a non-Cyprus tax resident is taxed only on the income arising from inside the Republic.

Residents

Cyprus residents are taxed on their worldwide income including:

- Employment income
- Business or professional income
- Rental income from property worldwide
- Dividends, interest and royalties
- Pensions

The forms of income below are exempt from personal income tax:

- Dividend income – **100% exempt** (may be subject to SDC);
- Interest income that did not arise from the ordinary course of business activities of an individual – **100% exempt** (may be subject to SDC);

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- Remuneration on salaried services performed outside the Republic of Cyprus to a non-resident employer or a permanent establishment outside the Republic of a resident employer, for a period of more than 90 days – **100% exempt**;
- Remuneration for first employments exercised in Cyprus commencing after 26 July 2022, by individuals who immediately prior to the commencement of their employment in Cyprus, were not residents of Cyprus for a period of at least 3 consecutive tax years and were employed outside of Cyprus by a non-resident employer. For each individual the exemption will apply for a period of 7 years, starting from the tax year following the tax year of commencement of employment. Individuals granted the below 50% exemption will not be eligible for this exemption - **20% of the remuneration with a maximum amount of €8,550 annually**;
- Remuneration for “first employment” exercised in Cyprus commencing as from 01 January 2022 with annual remuneration exceeding €55,000 during the first and second year of employment by individuals who were not residents of Cyprus for a period of 15 consecutive tax years immediately prior to the year of commencement of the employment in Cyprus.

For each individual the exemption will apply once in their lifetime for a period of 17 years. Subject to certain conditions, individuals whose employment commenced prior to 1 January 2022, may also be eligible to claim this exemption. The old 50% exemption may still be applicable for the remaining years up to the maximum allowable years, if the taxpayers are not eligible for the new 50% exemption. The old 50% exemption applied for 10 years commencing from the year of employment;

- Profits from sale of securities – 100% exempt;
- Capital sums paid to individuals, out of life insurance policies, provident funds and pension funds – 100% exempt;
- Profits of a foreign permanent establishment, under certain conditions – 100% exempt

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Non-residents

Non-residents are taxed on income including:

- rental income from immovable property in Cyprus;
- profit of a business carried out through a permanent establishment in Cyprus;
- remuneration from employment exercised in Cyprus;

The following rates apply to individuals as from 01 January 2026:

Taxable Income	Taxable Rate	Accumulated Tax
€	€	€
0 – 22.000	0%	0
22.001 – 32.000	20%	2,000
32.001– 42.000	25%	4,500
42.001– 72.000	30%	13,500
72.001– and above	35%	

Contributions to social insurance, approved provident funds, approved medical funds or pension schemes and life insurance premiums are deductible with some restrictions.

CORPORATE TAX

Corporate Tax Rate is 15% on the Net Profit.

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Non-resident companies will be liable to corporate tax on their profits which have accrued or arose in Cyprus from a permanent establishment (PE) in Cyprus.

Income exempt from taxation

Subject to certain conditions the following are exempt from taxation:

- Dividend income (may be subject to SDC);
- Any interest income that does not arise from the ordinary business activity of the company (may be subject to SDC);
- Profits arising from the disposal of shares and securities;
- Profits of a permanent establishment held outside the Republic of Cyprus (Subject to conditions) and with an election to tax;

DIVIDENDS

Dividends received by a Cyprus resident company from another Cyprus resident company are fully exempt from corporate income tax. No withholding tax applies on the distribution of these dividends.

Dividends received by a Cyprus tax resident company (or a permanent establishment of a non-resident company in Cyprus) from a foreign entity are generally exempt from Cyprus corporate tax.

This gives Cyprus a real advantage over other European holding company regimes which generally impose a withholding tax, even when reduced by a double taxation treaties.

The exemption does not apply where the foreign entity:

- (a) Receives more than 50% of its income from passive/investment activities, and
- (b) The effective foreign tax burden of the company paying the dividend is substantially lower than that of the Cyprus resident company.

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The Cyprus Tax Authorities have acknowledged that foreign tax burden does not cover only the tax paid by the company paying the dividend but includes also the tax paid by lower level subsidiaries. In practice, therefore, dividends received from subsidiaries or associates are rarely taxed.

If the exemption conditions are not satisfied, dividend income received by Cyprus tax resident and domiciled individuals may be subject to SDC at 5%.

A tax credit will be afforded according to the Double Taxation Agreements concluded by Cyprus. In the absence of such an agreement, Cyprus unilaterally affords a credit for the foreign tax paid on such income. The underlying tax credit is also available for dividends received from EU member states.

INTEREST INCOME

Interest will be subject to corporate tax at the rate of 15% in cases where the interest income is derived in the ordinary course of business or it is closely related with that business. As a general principle, interest earned by banks, financial companies, hire purchase companies or leasing companies is considered to arise from the ordinary course of business.

- 1) Interest earned as detailed below is considered to be closely related to that business and is also subject to corporation tax:
 - businesses such as car dealers, property developers that sell their products on extended payment terms and charge interest on their trade debtors;
 - interest on current account balances at banks;
 - interest earned by companies which act as a vehicle through which a group finances the operations of companies within it.
- 2) In all other cases, where the interest is considered to arise outside the ordinary course of business then is subject to defence tax at the rate of 17%. Interest on deposit accounts and interest earned on loans granted to third parties are treated in this way.

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A credit is provided against the defence tax payable for any taxes withheld at source, irrespective of whether a double treaty exists or not.

ROYALTIES

Cyprus-sourced royalties paid to non-tax resident companies are generally subject to a 10% or 5% withholding tax (WHT), unless reduced by double taxation treaties or EU directives. However, if intangible property is granted to a Cyprus company for use outside of Cyprus, there is no WHT. Corporate tax applies only to the net profit margin retained in the Cyprus entity.

CAPITAL GAINS TAX

Gains from the disposal of immovable property situated in Cyprus and of shares of unlisted companies owning immovable property in Cyprus are taxable at a rate of 20%, subject to certain exemptions and reliefs. All other gains are exempt.

MERGERS AND RE-ORGANISATIONS

The provisions of the Merger Directive will be “extended” to any merger or re- organisation involving a Cypriot taxpayer with favorable tax treatment to facilitate transfer of assets and tax losses exception from capital gains tax and transfer fees.

Losses incurred prior to the merger will be allowed to be carried forward by the new company.

OVERSEAS PENSIONS

The pension of any individual for services rendered outside Cyprus is exempt up to €3,420 and any excess is taxable at a flat rate of 5%. For this to apply the person must be resident in Cyprus.

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Two Companies are deemed to be members of a group if one is the 75% subsidiary of the other or both are 75% subsidiaries of a third company.

CONCLUSION

Cyprus continues to be an attractive jurisdiction for international investment and holding structures due to the following factors:

- a tax rate which is still attractively low;
- a dividend receivable exemption system rather than the credit system which made Cyprus a prime location for holding companies;
- corporate groups satisfying a 75% holding are able to benefit from group relief allowing the transfer of losses between members of the group, subject to certain conditions;
- no taxation on profits generated from the disposal of securities for individuals and companies' resident in Cyprus; (Please see below the circular by the Inland Revenue for the definition of "securities");
- exemption from capital gains tax on capital gains realized on immovable property held outside Cyprus;
- exemption (subject to certain conditions) from corporate tax for profits earned from a permanent establishment abroad;
- access to double taxation treaties;
- access to the EU Directives and exemption from taxation for any reorganisations, mergers, acquisitions and amalgamations of companies;
- The deemed dividend distribution (DDD) provisions have been abolished for profits generated from 1 January 2026;

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The provisions governing tax residence, group relief, profits from permanent establishments abroad and dividends receivable need to be considered in order to effectively carry out the requisite tax planning which will optimise the returns of the business in question.

The above is intended to provide a brief guide only. It is essential that appropriate professional advice is obtained.