Issue N-6-2025, 27 February 2025

Cyprus tax reform project update to stakeholders

In brief

An event was held yesterday at the Presidential Palace, Nicosia, on the state-of-play of the Cyprus Tax Reform project. The President of the Republic, the Minister of Finance and members of the University of Cyprus Economics Research Centre, which is assisting the Government in the project, each presented at the event.

Below is a summary of the main points presented. The presented items are the current thinking on the way forward. Before any amendments become law a legislative process will need to be followed that will include as one of its steps the Cyprus Parliament's positive vote. Accordingly, it is important to note that the matters set out below may not actually be included in any final tax reform or may undergo revision before being enacted into law.

In detail

Corporate income tax (CIT)	PwC observation
Increase in the statutory rate of CIT from the current 12,5% to 15%.	We expect that this will not be the subject of much debate going forward and as such we expect the proposed change to be enacted.
Introduction of incentives for green transition and digital transformation may take the form of: • enhanced deductions/tax depreciation, • accelerated tax deprecation, • deductions for upskilling/reskilling staff, • carry forward of related losses without time restriction.	The exact nature of these incentives was not fully analysed.

A study is being performed on whether tax losses will be able to be carried forward for 10 years, under conditions/ceilings.	The current period of carry forward for tax losses is 5 years.
Maintaining the current group relief rules.	Currently, under 75% relationship conditions, current year tax losses may be group relieved. We understand that this is to be maintained.
Consideration is being given to closer aligning the tax depreciation rules on second-hand buildings to the corresponding rules of other types of tangible assets.	This would be a welcome development.
Improvement to the tax-qualifying reorganisation provisions to facilitate family business splits.	This would be a welcome development.
Retention of the current tax rules that relate to: • notional interest deduction (NID), • the Intellectual Property regime (IP Box), • the Tonnage Tax regime for eligible shipping income.	The NID and IP Box are tax regimes that, under conditions, provide for a deduction against taxable income. Both have been reviewed and cleared in the recent past by the EU Code of Conduct for Business Taxation. The Cyprus Tonnage Tax regime has EU State aid approval. The retention of these provisions would be welcome.
Abolition of the 1,5% insurance premium tax (IPT).	IPT effectively functions as a minimum corporate income tax in relation to life insurance. Its abolition would be a welcome development.
Personal income tax (PIT)	**PwC observation**
The PIT bands are proposed to be: - First €20.500 at 0% - From €20.501 - to €30.000 at 20% - From €30.001 - to €40.000 at 25% - From €40.001- to €80.000 at 30% - Over €80.000 at 35%	The current PIT rates are maintained, with a welcome increase in the bands as the level of the current bands has not been updated for a number of years despite inflation.
For the personal tax residency test: • Retention of the current “183 days in Cyprus rule”. • Strengthening of the current “60 days in Cyprus rule”. • Introduction of an additional tax residency test based on the “centre of business interests”, that will not be based on physical presence in Cyprus. In case of dual tax resident individuals their tax residency will be determined based on a double tax treaty.	Currently an individual is tax resident in Cyprus in case the individual is physically present in Cyprus for: • More than 183 days in any one calendar year, or • At least 60 days in any one calendar year, in case of additional defined Cyprus ties. As regards the strengthening of the current 60 days in Cyprus rule and the introduction of a business interest test, the presentation did not fully analyse them.

<table>
<tr><td>Deductions against taxable income to be granted, under conditions, in relation to:
Servicing a loan or rental payment for primary residency,
Having children/students, per child/ student,
Green upgrades to homes.</td><td>The conditions exclude higher income earners.</td></tr>
<tr><td>Retaining of the current 50% exemption from taxation for employment income for first employment in Cyprus, which is available under conditions.</td><td>This exemption relates to individuals that satisfy the criteria for the exemption; these include, inter alia, a condition that the individual earns more than €55.000 per annum from a first employment in Cyprus and was previously not a tax resident of Cyprus for a certain period.</td></tr>
<tr><td>Consideration is being given to lowering the taxation of stock options for employees.</td><td>The presentation did not fully analyse this possible proposal.</td></tr>
<tr><td>Taxation of ex-gratia payments (above a certain amount) and golden-hello payments in relation to employment income (with full deduction for the employer).</td><td>The exempt amount of ex-gratia payments is yet to be determined.</td></tr>
<tr><td>Special Defence Contribution (SDC)</td><td>PwC observation</td></tr>
<tr><td>Abolition of the Deemed Dividend Distribution (DDD) provisions.</td><td>This abolition would modernise the Cyprus tax system.</td></tr>
<tr><td>Reduction in the SDC rate on actual dividend income from the current 17% to 5%, together with an anti-abuse measure to provide for an SDC rate higher than 5% in cases of “concealed dividends”.</td><td>Dividends are currently subject to SDC when they are the income of:
Cyprus tax resident individuals who are also domiciled in Cyprus,
Cyprus tax resident companies in case the exemption conditions are not met,
Companies located in jurisdictions that are included in the EU list of non-cooperative jurisdictions for tax purposes (the so-called EU Blacklist). The reduction in the SDC rate to 5% may not be applicable to these cases, given the anti-aggressive-tax-planning role of this rule.</td></tr>
<tr><td>Abolition of SDC on rental income.</td><td>Rental income is currently the only type of income taxable to both income tax (personal or corporate) and SDC. The abolition of SDC on rental income would leave it subject only to income tax (personal or corporate).</td></tr>
<tr><td>Retention of the exclusion from taxation under SDC of individuals who are not domiciled in Cyprus (non-doms).

The period of eligibility will increase subject to payment of an annual fee.</td><td>The non-domicile regime effectively means that eligible individuals are exempt from taxation in Cyprus on their local and foreign (i.e. worldwide) dividend income and passive interest income. The current maximum period of eligibility is 17 years.

The presentation did not discuss the length of the proposed extension period (over the current maximum of 17 years) nor the amount of the proposed annual fee in the extension period.</td></tr>
</table>

Stamp Duty	PwC observation
The scope of stamp duty will be limited to documents relating to transactions: • involving immovable property, • of the Financial Sector, and • of the Insurance Sector.	This scope limitation would modernise the Cyprus tax system given that currently a much wider set of transactions fall within the scope of stamp duty.
Capital Gains Tax (CGT)	**PwC observation**
Retain the current scope, i.e. applicable only to transactions related directly or indirectly to immovable property located in Cyprus, but with modernisation of the law.	Retaining the current scope of CGT maintains the long-standing Cyprus approach to the taxation of capital gains, i.e. its application only on immovable property in Cyprus. Details of the proposed modernisation of the law were not fully analysed.

The takeaway

The presentation noted that there is more work to be done on the project before it is finalised. The presented expected timeline to finalise the project is late 2025. Should the provisions be enacted, they make take effect from as early as 2025, but more likely as from 2026. As we have noted, once the project is finalised, a legislative process will need to be followed that will include as one of its steps the Cyprus Parliament's positive vote. We reiterate that it is important to note that the matters set out above may not actually be included in any final tax reform or may undergo revision before being enacted into law.

Lets talk

For a deeper discussion of how this issue might affect you or your business, please contact:

Zacharias Clerides
Partner
Tax & Legal Leader
zacharias.clerides@pwc.com

Christos S Charalambides
Partner
Head of Direct Tax
christos.charalambides@pwc.com

Eftychios G Eftychiou
Partner
Head of Tax Technical Committee
eftychios.eftychiou@pwc.com

Or your usual PwC contact

PwC Cyprus
PwC Central
43 Demostheni Severi Avenue
CY-1080 Nicosia, Cyprus
P O Box 21612, CY-1591
www.pwc.com.cy