

TAX GUIDES 2026 · GUIDE 05

Cyprus Companies Tax Guide

Corporate income tax, incentives, groups and reorganisations, transfer pricing, withholding taxes, distributions and the compliance calendar for directors and finance teams

ATZ FinHub Ltd · Your Business Hub from A to Z
Information reviewed to 24 September 2026
Cyprus rules unless another jurisdiction is identified

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About this guide

This publication forms part of the **ATZ FinHub Tax Guides 2026** series, prepared for business owners, finance teams, private clients and their advisers who work with, or are considering, Cyprus. The series is organised so that each guide can be read on its own, while the cross-references point to the companion guides for deeper treatment.

Guide	Title	Focus
01	Cyprus General Tax Guide	The complete framework: reforms, rates, individuals, companies, VAT, payroll, property, compliance
02	Cyprus and EU VAT Guide	Domestic VAT, cross-border goods and services, OSS/IOSS, SME scheme, property, ViDA
03	Cyprus IP Box Guide	Qualifying assets, modified nexus, worked calculations, records and filing
04	Individuals, Self-Employed and Immigration	Personal tax, residence and non-dom, reliefs, social insurance, residence and work permits
05	Cyprus Companies Tax Guide	Corporate tax computation, incentives, groups, transfer pricing, withholding, compliance calendar
06	Global Tax Rates Guide	Headline corporate, personal and consumption taxes for 80+ jurisdictions with comparison notes

Information date

The information in this guide reflects legislation, regulations and published administrative practice reviewed to **24 September 2026**. Tax law changes frequently; proposals announced but not enacted are identified as such. Rates and thresholds should be re-checked for the actual transaction or filing date.

How to read the tables

Rates are stated as headline statutory rates unless otherwise indicated. A rate is not an eligibility decision: conditions, caps, anti-avoidance rules and documentation requirements are summarised alongside each item and must be confirmed for the specific facts. Worked examples state their assumptions and are illustrative only.

IMPORTANT NOTICE

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01

The corporate tax framework in 2026

Tax year 2026 is the first year of the reformed Cyprus corporate tax system. The corporation tax rate is 15%, interest income of companies is fully within corporation tax, the deemed distribution regime is abolished for new profits and stamp duty has gone. This chapter sets out who is taxed, on what, at which rates and through which returns.

15%

Corporation tax on taxable profit from 1 January 2026 (12.5% up to 2025)

7 years

Loss carry-forward period for losses relieved from 2026 (previously 5 years)

0%

Withholding tax on dividends and interest paid to non-residents, outside the defensive measures

3.5%

Official interest rate on overdue tax for 2026 (5.5% for 2025)

• Who is taxed and on what

A company that is tax resident in Cyprus is chargeable to corporation tax on its income accruing or arising from all sources in Cyprus and abroad. A company that is not tax resident is chargeable only on income from a business carried on through a permanent establishment in Cyprus and on certain other Cyprus-source income, such as rental income from Cyprus property and the categories subject to withholding tax described in Chapter 09. Residence is examined in Chapter 02.

Corporation tax is charged on chargeable income, which is accounting profit adjusted under the Income Tax Law 118(I)/2002. The tax year is the calendar year. A company with a different accounting reference date apportions its results to calendar years for tax purposes. Partnerships are transparent: their income is assessed on the partners, and a trust that is an entity is resident where its trustees are resident, subject to the reporting rules under the Common Reporting Standard.

The taxes and contributions a Cyprus company may encounter in 2026

Charge	Rate	Applies to	Chapter
Corporation tax	15%	Worldwide chargeable income of resident companies; Cyprus PE profits and Cyprus-source income of non-resident companies	01, 03
Corporation tax on crypto-asset gains	8%	Gains from the sale, gift, exchange or use as payment of crypto-assets, other than assets acquired through mining; losses relievable only against crypto gains of the same year	04

Charge	Rate	Applies to	Chapter
Special Defence Contribution (SDC)	17% / 3% / 5%	Companies: only interest income of bodies exempt from income tax (17%, 3% for listed bonds) and foreign dividends failing the participation test (5%). Company interest income is otherwise within corporation tax from 2026	07
SDC withheld on distributions	5% / 17%	Dividends paid to Cyprus resident and domiciled individuals: 5% on profits of 2026 onwards; 17% on profits earned up to 2025 and paid by 31 December 2031	08
Deemed distribution	17%	Abolished for profits of 2026 onwards; last applications on 31 December 2026 (2024 profits) and 31 December 2027 (2025 profits)	07
Capital gains tax	20%	Gains on Cyprus immovable property and on shares deriving at least 20% of value from such property (50% threshold up to 2025)	11
Levy on property disposals	0.4%	Seller's levy on disposals of Cyprus immovable property and of shares in property-holding companies	11
Value added tax	19% / 9% / 5% / 3% / 0%	Supplies of goods and services, intra-EU acquisitions and imports; see Guide 02, Cyprus and EU VAT Guide	11
Employer contributions	8.8% + 2.9% + 3.7%	Social insurance (8.8% on emoluments up to €68,904), GHS (2.9% up to €180,000), social cohesion 2%, redundancy 1.2%, training 0.5%, holiday fund 8% unless exempt	11
Withholding tax on outbound payments	0% / 5% / 10% / 17%	Nil on dividends, interest and royalties to non-residents, except royalties for rights used in Cyprus (10%, films 5%), technical services and entertainers (10%), and defensive rates on payments to EU-listed and low-tax jurisdictions	09
Stamp duty	Abolished	No stamp duty on documents executed from 1 January 2026; pre-2026 documents remain within the old scale	11
Capital duty	€105 / €20	Registrar fee on authorised capital at incorporation and €20 per allotment; no duty on subsequent increases of authorised capital	11
Pillar Two top-up tax	to 15% ETR	Groups with consolidated revenue of €750 million or more in two of the previous four years; income inclusion rule from 2024, domestic minimum top-up tax and UTPR from 2025	10

Rates are headline statutory rates for tax year 2026 under the Income Tax Law 118(I)/2002, the Special Contribution for the Defence of the Republic Law 117(I)/2002, the Capital Gains Tax Law 52/1980 and the VAT Law 95(I)/2000, each as amended by the 2026 reform legislation.

● What changed on 1 January 2026

The reform package enacted for tax year 2026 touches almost every part of a company tax computation. The table below lists the measures that a finance team must reflect in forecasts, deferred tax and the 2026 provisional tax return. Items that are transitional, rather than permanent, are marked so that reserves and profit vintages can be tracked.

Principal 2026 changes affecting companies

Measure	Up to 2025	From 1 January 2026
Corporation tax rate	12.5%	15% on all chargeable income
Company residence	Management and control; incorporation test from 31 December 2022 unless resident elsewhere	Cyprus-incorporated companies (and companies that have redomiciled to Cyprus) are resident by default unless a double tax treaty provides otherwise
Interest income of companies	Active interest within corporation tax; passive interest subject to 17% SDC	All company interest income within corporation tax at 15%; no SDC (except bodies exempt from income tax)
Rental income	Corporation tax plus SDC at 3% on 75% of gross rent	Corporation tax only; SDC on rents abolished
Deemed distribution	70% of adjusted accounting profit deemed distributed after two years, 17% SDC	Abolished for profits of 2026 onwards; 2024 and 2025 profits still tested on 31 December 2026 and 2027
SDC on dividends to domiciled individuals	17%	5%, but 17% on dividends paid by 31 December 2031 out of profits earned up to 2025
Loss carry-forward	5 years	7 years, applying also to losses carried forward from 2019 onwards (2019 losses available against 2026 profits)
Entertainment expenses	Lower of €17,086 and 1% of gross income	Lower of €30,000 and 1% of gross income
Donations to approved cultural institutions	Not specifically provided	Deductible up to €50,000 per year
First stock exchange listing costs	Capital, not deductible	Deductible up to €300,000
Interest and royalties to low-tax jurisdictions	Deductible subject to general rules	Non-deductible where accrued to an associated company or PE in a jurisdiction whose nominal rate is below 7.5%
Dividend WHT to low-tax jurisdictions	None	5% on dividends of non-quoted companies to associated companies in low-tax jurisdictions
Foreign dividend SDC test	Effective foreign rate below 6.25% and more than 50% investment income: 17% SDC	Effective foreign rate below 7.5% and more than 50% investment income: 5% SDC
Disguised dividends	Not codified	10% SDC on private use of company assets by domiciled individual shareholders and on undervalue transfers
Crypto-asset gains	General rules	Flat 8% on qualifying gains; same-year loss ring-fence
Transfer pricing Local File thresholds	€5 million financing; €1 million other categories	€10 million financing; €5 million goods; €2.5 million services, IP and other
CGT on indirect property holdings	Shares deriving at least 50% of value from Cyprus property	Threshold reduced to 20%; only shares listed on a regulated market excluded
Stamp duty	Ad valorem up to €20,000 per document	Abolished for documents executed from 2026
Life insurers' minimum tax	1.5% of gross premiums	Abolished
Official interest rate	5.5%	3.5%

● How the tax computation is organised

A company tax file separates three different numbers: the accounting profit reported under IFRS as adopted by the EU, the taxable profit on which corporation tax is charged, and the distributable profit that company law and the shareholders' agreement allow to be paid out. The three rarely coincide. A notional interest deduction reduces taxable profit without touching the accounts; a general provision reduces accounting profit but is added back for tax; a revaluation gain increases equity but is not distributable.

The computation starts from the profit before tax in the audited or, where eligible, reviewed financial statements, removes exempt income and the expenses that relate to it, adds back disallowed expenditure, deducts capital allowances and the special deductions, relieves own losses brought forward and then current-year group losses, applies the notional interest deduction within its 80% cap, and finally charges 15% and deducts foreign tax credits limited to the Cyprus tax on the same income. Chapter 13 sets a full computation out line by line.

● The compliance cycle in outline

Every resident company files an annual corporation tax return (form TD4) through the Tax For All (TFA) portal and pays provisional tax on 31 July and 31 December of the tax year. The final self-assessment follows a different timetable for the two years in transition: the balance for tax year 2025 is paid on 1 August 2026 and the 2025 return is due by 31 March 2027 unless extended by decree; for tax year 2026 onwards both the return and the final payment are due on 31 January of the second year following the tax year, so 31 January 2028 for 2026. Chapter 12 contains the full calendar and the penalty regime.

KEY DATES

31 July 2026	Provisional tax return for 2026 and first instalment
1 August 2026	Final self-assessed corporation tax for tax year 2025
30 November 2026	Corporation tax return (TD4) and summary information table for tax year 2024 (statutory date 31 March 2026, extended by decree)
31 December 2026	Second provisional instalment for 2026, revised estimate if required; last deemed distribution date for 2024 profits
31 March 2027	Corporation tax return (TD4) for tax year 2025, unless extended by decree
31 January 2028	Corporation tax return (TD4) and final self-assessed corporation tax for tax year 2026

PLANNING POINT

Model 2026 early. The move from 12.5% to 15% increases the tax on every euro of profit by 20%, and the 10% additional tax on under-estimated provisional tax is calculated on the difference between the final and provisional liabilities. A provisional estimate that reflects the new rate, the loss of the SDC exemption on interest and any NID claim avoids both the surcharge and an unexpected balancing payment in January 2028.

02

Residence, substance and permanent establishments

Tax residence determines whether a company is taxed on worldwide income, whether it can claim treaty benefits and whether it is exposed to SDC and the anti-avoidance rules. From 2026 incorporation in Cyprus creates residence by default, but management and control remains the test that foreign tax authorities and treaty partners apply.

• The residence tests

A company is tax resident in Cyprus if its management and control is exercised in Cyprus, irrespective of where it is incorporated. This has been the test since 2003 and remains the primary test. Since 31 December 2022 a Cyprus-incorporated company whose management and control is exercised abroad has also been treated as resident unless it is tax resident in another jurisdiction. From 1 January 2026 the incorporation rule is strengthened: a company incorporated in Cyprus, or one that has transferred its registered office or legal seat to Cyprus, is resident by default unless a double tax treaty provides otherwise.

Company residence in 2026

Situation	Cyprus position	Practical consequence
Incorporated in Cyprus, managed and controlled in Cyprus	Resident under both tests	Worldwide taxation; tax residence certificate available on application
Incorporated in Cyprus, managed and controlled abroad, no treaty with the other state	Resident by default from 2026	Risk of dual residence and double taxation; the other state may also tax worldwide income
Incorporated in Cyprus, managed and controlled in a treaty state	Resident unless the treaty tie-breaker allocates residence to the other state	Most treaties use place of effective management or a competent-authority procedure; relief cannot be assumed until residence is settled
Incorporated abroad, managed and controlled in Cyprus	Resident under the management and control test	Registers with the Tax Department within 60 days of becoming resident; foreign law may also treat it as resident
Incorporated abroad, managed and controlled abroad, Cyprus branch	Non-resident with a Cyprus PE	Taxed at 15% on PE profits only; no SDC; NID available on PE equity

Situation	Cyprus position	Practical consequence
Redomiciled into Cyprus under the Companies Law	Treated as Cyprus-incorporated for the incorporation test	Same position as a Cyprus-incorporated company from the date of continuation

Income Tax Law 118(I)/2002, article 2 (definition of "resident in the Republic") as amended with effect from tax year 2026.

What management and control means in practice

The Tax Department looks at where the strategic decisions of the company are actually taken, not where they are recorded. Its published practice for tax residence certificates examines the composition of the board, where board meetings are held and whether substantive decisions are taken at them, where the financial statements are discussed and approved, whether the directors control the bank account and where the company seal and statutory records are kept. A registered office, nominee directors who sign on instruction and a Cyprus bank account operated from abroad do not by themselves establish management and control.

- ✓ A majority of directors resident in Cyprus, with the qualifications and authority to take the decisions minuted.
- ✓ Board meetings physically held in Cyprus at least quarterly, with agendas, board packs and minutes that record deliberation, not just resolutions.
- ✓ Key contracts, financing decisions, budgets and dividends approved by the board in Cyprus, and signed there.
- ✓ Bank mandates controlled by Cyprus-resident directors; accounting records and statutory books maintained in Cyprus.
- ✓ Staff, premises and operating expenditure proportionate to the activity; outsourced functions documented under service agreements.
- ✓ General powers of attorney to persons abroad avoided, or restricted to administrative acts.

CAUTION

The default incorporation rule protects Cyprus's right to tax; it does not protect the company from a claim by another state. A Cyprus-incorporated company whose sole director lives and works in Germany will be treated as resident in Germany under German law and, under the Cyprus–Germany treaty, the tie-breaker will point to Germany as the place of effective management. The company would then lose the Cyprus dividend exemptions, NID and treaty network, and exit tax could arise on the migration of residence (Chapter 10).

● Substance and the anti-avoidance environment

Residence is the starting point; economic substance is what sustains it. The general anti-abuse rule ignores non-genuine arrangements put in place mainly to obtain a tax advantage, the controlled foreign company rule attributes income of low-taxed subsidiaries to a Cyprus parent where the significant people functions are performed in Cyprus, and the principal purpose test in treaties modified by the OECD Multilateral Instrument denies treaty benefits where obtaining them was one of the principal purposes of an arrangement. Foreign tax authorities, and EU directives on withholding tax relief, apply beneficial ownership and anti-conduit tests to Cyprus recipients.

A holding or financing company should be able to show board minutes taken in Cyprus for each acquisition, financing or disposal, its own or documented shared office space, at least one qualified person with authority over the assets, bank accounts operated from Cyprus, equity adequate for the risks assumed and

freedom to decide how income is used. An operating company should hold employment contracts and payroll records for Cyprus staff, premises and IT in its own name, customer and supplier contracts concluded by Cyprus personnel and, for IP companies, evidence that development and decision-making are located in Cyprus (see Guide 03, Cyprus IP Box Guide).

● Permanent establishments

A non-resident company is taxed in Cyprus on the profits of a business carried on through a permanent establishment in Cyprus. The domestic definition follows the OECD Model: a fixed place of business through which the business is wholly or partly carried on, including a place of management, branch, office, factory, workshop, mine or quarry, a building site or construction or installation project lasting more than three months, and a dependent agent who habitually concludes contracts in the company's name. The applicable treaty may narrow the definition, for example by extending the construction period to twelve months, or widen it under the MLI provisions on commissionaire arrangements and the anti-fragmentation of preparatory activities.

Common permanent establishment situations

Fact pattern	Cyprus analysis
Foreign company employs a sales director working from a home office in Limassol who negotiates and effectively concludes contracts	Dependent agent PE likely; the home office may also be a fixed place PE. Profits attributable to the Cyprus functions are taxable at 15% and a Cyprus tax registration, payroll and TD4 filing are required
Foreign fund is managed from Cyprus by a CySEC-authorized manager	Domestic law provides that no Cyprus PE arises for the fund or its non-resident investors from management in Cyprus, or from investment in a Cyprus tax-transparent fund
Cyprus company's employees spend extended periods at a client site abroad	Possible foreign PE under the other state's law; profits of an exempt foreign PE are excluded from Cyprus tax, subject to the conditions in Chapter 04
Non-resident company owns and lets Cyprus commercial property	Rental income is Cyprus-source income taxable at 15% whether or not a PE exists; capital gains tax and the 0.4% levy apply on disposal

Attribution of profits

Profits are attributed to a PE on the basis of the functions performed, assets used and risks assumed in Cyprus, as if the PE were a separate and independent enterprise. Head office expenses that relate to the PE are deductible on a reasonable allocation. The PE prepares its own accounts, claims capital allowances on the assets it uses and may claim the NID on equity that the head office has allocated to it. It is entitled to the same exemptions as a resident company for dividends and securities gains attributable to it. Losses of a Cyprus PE may be carried forward for seven years; whether they can be surrendered to, or claimed from, a Cyprus resident group company depends on the residence of the head office and the group conditions in Chapter 05, and should be confirmed before a structure relies on it.

● Tax residence certificates and treaty access

A tax residence certificate is issued by the Tax Department on application through the TFA portal for a specified year and treaty partner, on the basis of a questionnaire signed by a director confirming the facts of management and control. It confirms residence under Cyprus law; it does not decide beneficial ownership, the principal purpose test or the treatment in the other state. Confirm residence for the year before applying, identify the treaty article and its holding-period conditions (Chapter 09), assemble beneficial ownership evidence and keep the analysis on file.

03

From accounting profit to taxable profit

Corporation tax is charged on accounting profit as adjusted by the Income Tax Law. The general rule is that expenses incurred wholly and exclusively in producing taxable income, and supported by documentary evidence, are deductible. Around that rule sit specific allowances, caps, prohibitions and the capital allowance schedule set out in this chapter.

€30,000

Entertainment cap from 2026 (or 1% of gross income if lower)

€3m

Exceeding borrowing costs always deductible under the interest limitation rule

30%

Tax-EBITDA limit on exceeding borrowing costs above €3 million

7.5%

Nominal rate below which a jurisdiction is "low-tax" for the 2026 deduction denial

• Deductible and non-deductible expenditure

The statutory list of deductions in article 9 of the Income Tax Law and the list of prohibited deductions in article 11 together determine most adjustments. The tables below consolidate them for 2026. Where a limit is expressed as a percentage of income, the percentage applies to the gross income of the business for the tax year.

Deductible expenditure and statutory limits, tax year 2026

Expenditure	Deduction and limit
Employment costs	
Wages and salaries, and employer contributions to social insurance, GHS, redundancy, training and social cohesion funds	Whole amount, provided the contributions were paid within the year they fell due (see the caution below)
Employer contributions to approved provident or pension funds	Up to 10% of the employee's remuneration
Employer contributions to approved medical funds	Whole amount
Cost-of-living allowance paid under the automatic COLA agreement	Additional deduction equal to twice the COLA amount paid in the immediately preceding year, subject to conditions

Expenditure	Deduction and limit
Benefits in kind taxed in the hands of employees or their family members	Whole amount
Financing	
Interest on loans used to acquire assets used in the business	Whole amount, subject to the interest limitation rule and transfer pricing
Interest on loans used to acquire, directly or indirectly, 100% of a subsidiary (acquisitions from 1 January 2012)	Whole amount if the subsidiary owns only assets used in the business; restricted pro rata to non-business assets; not available where the subsidiary is in an EU-listed non-cooperative jurisdiction
Notional interest deduction on new equity	Reference rate multiplied by new equity, capped at 80% of the taxable profit from the assets financed (Chapter 06)
Deemed expense on related-party balances	Where the Commissioner imposes deemed income on one party under article 33, the counterparty may claim a corresponding deemed expense, subject to the interest limitation rule
Research, intangibles and capital	
Revenue expenditure on scientific research and R&D	Whole amount plus an additional 20% for expenditure incurred in 2022–2030 (Chapter 06)
Capital expenditure on R&D and on the acquisition or development of intangible assets	Amortised over the useful life, maximum 20 years; unclaimed amortisation may be carried forward
IP Box deduction	80% of qualifying profit from qualifying intangible assets under the modified nexus fraction (Guide 03)
Repairs of premises, plant, machinery and vehicles	Whole amount; improvements, alterations and additions are capital and attract allowances instead
Bad debts of the business	Whole amount for specific debts shown to be irrecoverable; general provisions are not deductible
Other statutory deductions	
Donations to approved charities, with receipts	Whole amount; a loss created by the donation cannot be carried forward
Donations or contributions to approved cultural institutions (from 2026)	Up to €50,000 per year; no carry-forward of the excess
Business entertainment, including hospitality of any kind	Lower of €30,000 and 1% of gross income (lower of €17,086 and 1% up to 2025)
Expenses of the first listing of shares on a recognised stock exchange (from 2026)	Up to €300,000; unused amounts may be carried forward subject to limits
Maintenance of a building under a preservation order	Up to €1,200 per m ² (up to 120 m ²), €1,100 per m ² (121–1,000 m ²) or €700 per m ² (over 1,000 m ²)

Expenditure	Deduction and limit
Investment in approved innovative SMEs by a corporate investor (14 February 2022 to 31 December 2026)	30% of the qualifying equity investment (financed from own funds), limited to 50% of taxable income before this deduction and €150,000 per year, subject to article 9A; unused relief carried forward five years (Chapter 06)
Infrastructure and technological equipment in the audiovisual industry	20% for small enterprises, 10% for medium enterprises
Energy-saving study by a specialised expert	Whole amount
Irrecoverable input VAT	Deductible where it forms part of otherwise deductible expenditure or the cost of a qualifying asset

Income Tax Law 118(I)/2002, article 9, as amended for tax year 2026. Deductions are subject to the arm's-length principle in article 33 and the ATAD provisions in article 11.

Expenditure not deductible

Item	Treatment
Private or domestic expenses, including travel between home and work	Disallowed in full
Expenses of private (saloon) motor vehicles, including running costs and capital allowances	Disallowed in full, whether or not the car is used in the business
Interest on the cost of acquiring a private motor vehicle or any other asset not used in the business	Disallowed for seven years from the date of acquisition of the asset
Interest and royalties accrued to an associated company or PE in a low-tax jurisdiction (nominal rate below 7.5%), and amounts routed indirectly to such persons (from 2026)	Disallowed whether paid or accrued, unless the interest relates to securities listed on a recognised stock exchange or the payment is within the Cyprus withholding tax rules
Salaries for which social insurance, GHS, provident, pension or medical fund contributions were not paid in the year they fell due	Disallowed; allowed in the year of payment if the contributions, with penalties and interest, are settled within two years of the due date or under an approved repayment scheme
Rent of immovable property in Cyprus not paid through a bank transfer, card or other recognised electronic method	Disallowed
Remuneration or interest on capital paid to the person carrying on the business; sums employed as capital; improvements and additions to immovable property	Disallowed (capital allowances may apply)
Taxes, fines, penalties and voluntary payments	Disallowed
Expenses not incurred wholly and exclusively for taxable income, including costs attributable to exempt dividends and securities gains	Disallowed; the Tax Department expects a reasonable allocation of overheads to exempt income
Sums recoverable under insurance or an indemnity; general provisions; unrealised non-trading exchange losses	Disallowed (exchange differences are tax neutral except for currency trading)
Exceeding borrowing costs above the interest limitation threshold	Disallowed in the year, carried forward for five years

CAUTION

The unpaid-contributions rule is the most frequent avoidable adjustment; the test is whether the contributions were paid within the year in which they fell due: contributions due during the year and unpaid at the year end make the related salaries non-deductible for that year and deductible only in the year of payment, within two years; contributions on the December payroll fall due after the year end and their treatment is subject to confirmation of current Tax Department practice. Reconcile the year-end social insurance creditor and settle arrears before the accounts are finalised.

● Capital allowances

Depreciation charged in the accounts is added back and replaced by wear and tear allowances calculated on a straight-line basis on the cost of acquisition. Allowances start when the asset is brought into use in the business and are apportioned for part years only where the law provides. Land does not qualify. The rates for buildings are for new buildings; second-hand buildings are allowed over the remaining useful life agreed with the Tax Department.

Annual wear and tear allowances (straight line, percentage of cost)

Asset class	Rate	Asset class	Rate
Plant, machinery and equipment			
Plant and machinery (general)	10%	Furniture and fittings	10%
Industrial carpets	10%	Boreholes	10%
Livestock, machinery and tools used in agriculture	15%	Agricultural and livestock machinery and facilities (accelerated, excluding irrigation)	25%
Air-conditioning; printing and binding machines	10%	Tools in general	33⅓%
Buildings			
Commercial buildings	3%	Flats	3%
Industrial, agricultural and hotel buildings	4%	Metallic greenhouse structures	10%
Wooden greenhouse structures	33⅓%	Land	Nil
Vehicles and means of transport			
Commercial motor vehicles (vans, lorries, buses)	20%	Private saloon cars	Nil
Motor cycles	20%	Armoured motor vehicles	20%
Excavators, tractors, bulldozers, self-propelled loaders, petrol company drums	25%	Specialised railway machinery	20%
New aeroplanes and helicopters	8%	Sailing vessels	4.5%
Motor yachts; steamers, tugs and fishing boats	6%	Ship motor launches	12.5%
New cargo vessels	8%	New passenger vessels	6%
Used cargo and passenger vessels	Useful life		
Technology and other			
Computer hardware and operating systems	20%	Application software	33⅓%
Application software costing less than €1,709	100%	Televisions and videos	10%

Asset class	Rate	Asset class	Rate
Wind power generators	10%	Photovoltaic systems	10%
Videotapes owned by video clubs	50%		
Environment-friendly expenditure incurred in 2023–2030 (accelerated)			
Capital expenditure improving the energy efficiency of buildings (e.g. thermal insulation)	7%	Technical energy-efficiency systems, renewable energy systems and electricity storage batteries	20%
New electric vehicles of various types	33⅓%	Electric vehicle charging stations of certain types	33⅓%

Increased rates applied to plant and machinery (20%), furniture and fittings (20%) and industrial and hotel buildings (7%) acquired during 2012–2018; assets still within those periods continue at the increased rates. Assets acquired from related companies may be subject to an arm's-length adjustment under article 33.

Balancing statements

On the disposal of a tangible asset on which allowances were claimed, a balancing statement compares the proceeds with the tax written-down value. Proceeds below the written-down value give a balancing deduction; proceeds above it give a balancing addition taxable as income, limited to the allowances previously claimed. Any excess of proceeds over original cost is a capital gain outside corporation tax unless the asset is Cyprus immovable property, where capital gains tax applies. Since 2020 no balancing statement is required for intangible assets, which follow the IP amortisation rules instead.

● Interest deductibility

Interest is deductible where the borrowing finances assets used in the business or is otherwise incurred wholly and exclusively for taxable income. Four further layers apply. First, interest attributable to assets not used in the business, or to the acquisition of a private car, is disallowed for seven years from acquisition. Second, interest on related-party loans must be at arm's length; the Tax Department's simplification measures (Chapter 10) accept a borrowing cost of up to the Cyprus 10-year government bond yield plus 1.5% for loans used in the business. Third, from 2026 interest accrued to associated companies in low-tax jurisdictions is denied. Fourth, the ATAD interest limitation rule below restricts exceeding borrowing costs.

The interest limitation rule

Exceeding borrowing costs are the amount by which deductible borrowing costs exceed taxable interest income and economically equivalent revenue. They are deductible only up to the higher of €3,000,000 and 30% of tax-adjusted EBITDA, calculated after all other adjustments and excluding exempt income. The rule applies at the level of the Cyprus group, defined by a 75% relationship, so the €3,000,000 threshold is shared. Exceeding borrowing costs disallowed in a year, and unused interest capacity, are each carried forward for five years; the NID is not a borrowing cost (Circular 6/2023). Loans concluded before 17 June 2016 are grandfathered, long-term public infrastructure loans are excluded, stand-alone entities and financial undertakings are exempt, and an equity-escape clause is available where the company's equity ratio is not more than two percentage points below the consolidated group ratio.

Interest limitation: three illustrations (single-entity Cyprus group)

Case	Tax EBITDA	30% of EBITDA	Exceeding borrowing costs	Deductible	Disallowed and carried forward
A	€9,000,000	€2,700,000	€4,500,000	€3,000,000	€1,500,000
B	€12,000,000	€3,600,000	€4,500,000	€3,600,000	€900,000
C	€6,000,000	€1,800,000	€2,800,000	€2,800,000	€0

Case C is within the €3,000,000 safe harbour even though 30% of EBITDA is lower; amounts disallowed in A and B are carried forward five years (article 11(16)).

04

Exempt income and special regimes

Much of the attraction of a Cyprus company lies in what is not taxed: dividends, gains on securities and the profits of foreign branches are outside corporation tax subject to conditions. Shipping, funds, insurance and crypto-asset activity have their own rules. This chapter sets out each exemption and the anti-avoidance conditions attached to it.

● Exempt income at a glance

Income exempt from corporation tax, tax year 2026

Income	Exemption	Conditions and interaction with SDC
Dividends received	Whole amount	Not exempt if the dividend is deductible for the paying company (anti-hybrid rule since 2016); foreign dividends may instead be subject to SDC at 5% if the participation test fails (Chapter 07)
Profits from the disposal of securities	Whole amount	Shares, bonds, debentures, founders' shares, options, units in collective investment schemes and similar instruments; capital gains tax applies to the extent the company's value derives from Cyprus immovable property
Interest income	None from 2026	All company interest income is within corporation tax at 15%; the SDC charge on passive interest of companies is abolished. Collective investment schemes' interest was already treated as trading income
Profits of a foreign permanent establishment	Whole amount	Not exempt if the PE derives more than 50% of its income from investment activities and its foreign tax burden is significantly lower than in Cyprus, or if the PE is in an EU-listed non-cooperative jurisdiction; an election to tax with credit is available
Foreign exchange gains	Whole amount	Realised and unrealised gains are neutral, except gains from trading in currencies and currency derivatives, which are taxable (losses correspondingly non-deductible or deductible)

Income	Exemption	Conditions and interaction with SDC
Profits from the production of films, series and audiovisual programmes	Lower of 35% of eligible expenditure and 50% of taxable income	Under the approved audiovisual scheme; restricted amounts carried forward five years; not available where a cash rebate is claimed
Shipping profits under tonnage tax	Whole amount	Qualifying owners, charterers and managers of qualifying ships pay tonnage tax instead (below)

Income Tax Law 118(I)/2002, article 8. The corresponding expenses attributable to exempt income are not deductible.

● Dividends received

Dividends received by a Cyprus company from any company, resident or non-resident, are exempt from corporation tax. The exemption does not apply to dividends that the paying company may deduct in computing its own taxable profit, which is the Cyprus transposition of the Parent-Subsidiary Directive's anti-hybrid provision. A hybrid instrument that is debt in the paying state and equity in Cyprus therefore produces taxable income at 15% in Cyprus, and is not treated as a dividend for SDC purposes.

The second layer is SDC. Dividends from Cyprus companies are exempt from SDC in the hands of a corporate recipient, with a transitional exception for 2026 and 2027 explained in Chapter 07. Dividends from non-resident companies are exempt from SDC unless both limbs of the participation test fail: more than 50% of the paying company's activities lead directly or indirectly to investment income, and the foreign tax burden on the profit distributed is significantly lower than the Cyprus burden, interpreted from 2026 as an effective rate below 7.5% (6.25% up to 2025). Where the exemption is lost, SDC is charged at 5% on the gross dividend (17% up to 2025), with credit for foreign withholding tax and, under most treaties, underlying tax.

WORKED EXAMPLE

A Cyprus holding company receives €2,000,000 of dividends in 2026 from a Polish trading subsidiary taxed at 19% and €300,000 from a Dubai free-zone company that earns only interest and royalties and pays no corporate tax. The Polish dividend is exempt from both corporation tax and SDC. The Dubai company fails both limbs of the test, so SDC of $5\% \times €300,000 = \text{€15,000}$ is payable by self-assessment with the tax return for 2026. No corporation tax arises on either dividend. If the Dubai company had been an active trading company, the 50% investment income limb would have been passed and the dividend would have been fully exempt regardless of the foreign rate.

● Securities

Profits from the sale of securities are exempt from corporation tax whether the company is an investor or a dealer. "Securities" means shares, bonds, debentures, founders' shares and other securities of companies or legal persons incorporated in Cyprus or abroad, and options on them. Tax Department circulars confirm that the term includes short positions, futures, forwards and swaps on securities, depositary receipts, rights of claim on bonds and debentures (but not rights to their interest), index participations that result in securities, repos and units in open-ended and closed-ended collective investment schemes, and set out which foreign entity interests qualify. Promissory notes, bills of exchange, loans and interests in partnerships without legal personality are outside the definition, as are crypto-assets.

A gain on shares in a company holding Cyprus immovable property, directly or indirectly, is subject to capital gains tax at 20% to the extent the shares derive at least 20% of their value from that property (50% up to 2025), unless the shares are listed on a regulated market. From 1 January 2031 the gain (proceeds less acquisition cost) realised by an individual on the redemption of units or shares in a collective investment scheme is treated as a dividend-type receipt, subject to the statutory exceptions; the capital returned is not taxed and CGT on Cyprus property is dealt with separately (Chapter 07).

CAUTION

Losses on securities are equally outside the tax computation. A company that trades listed shares cannot deduct trading losses, impairment or costs directly related to the portfolio, and a proportion of general overheads will be allocated to the exempt activity by the Tax Department in the absence of a reasoned allocation by the company. Interest on borrowings used to acquire securities is likewise attributable to exempt income and disallowed.

● Foreign permanent establishments

Profits of a foreign PE of a Cyprus company are exempt, and its losses are deductible against Cyprus profits with a recapture of the same amount when the PE returns to profit. The exemption is denied where the PE fails the same investment-income and low-tax test that applies to foreign dividends, or where it is situated in an EU-listed non-cooperative jurisdiction. Since 1 July 2016 a company may elect irrevocably to be taxed on foreign PE profits with a credit for foreign tax; the election is useful where the foreign PE is loss-making for a period and the exemption's loss recapture would otherwise apply, or where foreign tax exceeds Cyprus tax and treaty relief is unavailable. Transitional rules limit the credit where a previously exempt PE becomes taxable.

● Crypto-assets

From 1 January 2026 gains from the sale, gift or exchange of crypto-assets, or their use as payment, are taxed at a flat 8% for companies and individuals; losses are set only against crypto gains of the same year and cannot be carried forward or surrendered. Assets acquired through mining remain within the general rules at 15%, as do staking rewards, fees earned by a business and remuneration paid in tokens.

● Shipping and the tonnage tax system

The Merchant Shipping (Fees and Taxing Provisions) Law, approved by the European Commission as compatible with the State aid guidelines until 31 December 2029, exempts qualifying shipowners, charterers and ship managers from corporation tax and SDC on qualifying shipping activities and charges tonnage tax instead. The system covers ships flying a Cyprus, EU or EEA flag and, subject to conditions, foreign-flag ships where at least 60% of the fleet is Community-flagged. It is compulsory for owners of Cyprus-flag ships and optional for others, and an election binds the company for ten years. An "all or nothing" rule requires every qualifying company in a group to make the same election.

Scope of the tonnage tax exemption

Qualifying person	Exempt income	Main conditions
Shipowners	Profits from the use or chartering out of qualifying ships; interest on working capital; gains on the disposal of ships and of shipowning companies; dividends paid out of these profits at every level	Cyprus-flag ships compulsory; bareboat charter-out to third parties limited to three years, temporary overcapacity and at least 50% of the fleet still operated by the owner; ancillary revenue within 50% of core maritime revenue
Charterers	Profits from the operation of chartered-in ships; working capital interest; dividends out of these profits	At least 25% (10% under conditions) of net tonnage owned or bareboat chartered in; election for all vessels
Ship managers	Profits from crew and technical management; working capital interest; dividends out of these profits	Fully-fledged office in Cyprus; at least 51% of onshore staff EU or EEA citizens; at least two-thirds of managed tonnage managed within the EU/EEA (the excess is taxed at 15%)

Tonnage tax rates

Net tonnage band	Owners and charterers, per 100 NT	Ship managers, per 400 NT
0 – 1,000	€36.50	€36.50
1,001 – 10,000	€31.03	€31.03
10,001 – 25,000	€20.08	€20.08
25,001 – 40,000	€12.78	€12.78
Over 40,000	€7.30	€7.30

Residual tonnage below 100 units is charged proportionally. Rates are reduced by up to 30% for Cyprus and Community-flag vessels using environmentally friendly equipment under criteria announced by the Shipping Deputy Ministry. A ship of 25,000 net tonnes owned by a shipowner pays $(10 \times €36.50) + (90 \times €31.03) + (150 \times €20.08) = €6,169.70$ per year before any environmental reduction.

Declaration and payment dates differ by category of qualifying person: the published calendars give 28 February for the previous year's tax for charterers, managers and foreign-flag owners, and payment for the current year on entry and annual renewal for Cyprus-flag owners; confirm the operative dates with the Shipping Deputy Ministry (Chapter 12). Late payment attracts a 10% surcharge per year of delay. Mixed activities are permitted under ring-fencing rules, so a company with both tonnage-tax and ordinary income keeps two computations.

● Investment funds

Alternative investment funds under the AIF Law 124(I)/2018 (AIFs, registered AIFs and AIFs with a limited number of persons) and UCITS under Law 78(I)/2012 are taxed according to their legal form. A fund constituted as a variable or fixed capital investment company is a company: it is resident if managed and controlled in Cyprus, pays corporation tax at 15% on its taxable income, and benefits from the dividend and securities exemptions, the NID and the treaty network. Common funds and limited partnerships are generally transparent. Each compartment of an umbrella fund is assessed separately.

Interest received by a fund is treated as trading income taxed at 15% only; gains on the disposal or redemption of units are exempt from income tax and outside capital gains tax unless the fund holds Cyprus immovable property (and even then not if the fund is listed); no withholding tax applies to distributions to non-resident investors or Cyprus companies, while distributions to Cyprus resident and domiciled

individuals bear SDC at the dividend rate; management services to funds are exempt from VAT; and non-resident investors in a transparent Cyprus fund, and non-Cyprus funds managed from Cyprus, do not acquire a Cyprus PE. The 8% regime for fund executives' carried interest is described in Guide 04.

● Insurance companies and other special cases

Insurance companies are taxed like other companies; the minimum tax of 1.5% of gross premiums for life business is abolished from 1 January 2026. Approved charitable, religious and educational institutions and bodies established for art, science or sport are exempt from corporation tax but pay SDC at 17% on interest (3% on qualifying bonds); government entities pay 3%.

05

Losses, groups and reorganisations

Tax losses are relieved against other income of the same year, carried forward for seven years or surrendered to a 75% group member in the year they arise. Reorganisations within the statutory definitions are tax neutral. Each relief has ownership, timing and anti-abuse conditions that determine whether it survives an acquisition or restructuring.

7 years

Carry-forward of losses from 2026, including losses of 2019 and later years still unrelieved

75%

Voting share relationship required for group relief and for the ATAD group tests

Current year

Only current-year losses can be surrendered; brought-forward losses stay with the company

3 years

Maximum holding period the Commissioner may impose on shares issued in a reorganisation

• Loss relief in the same year and by carry-forward

A loss from one source of income is set against income from other sources in the same year, including income from a business carried on outside Cyprus. A loss that remains is carried forward and set against profits of the next seven years. The seven-year period applies from tax year 2026 and extends to losses carried forward from earlier years: a 2019 loss that could not be relieved by 2024 under the old five-year rule becomes available again against 2026 profits. Losses cannot be carried back.

In practice a 2019 loss is usable until 2026, a 2020 loss until 2027 and so on, with a 2026 loss usable until 2033. Losses of 2018 and earlier that expired under the five-year rule are not revived.

Restrictions on carried-forward losses

Losses cannot be carried forward past a change in ownership of the shares of a company where, within any three-year period, there is also a substantial change in the nature of its business, or where the change in ownership occurs after the scale of activities has diminished or become negligible and before any substantial reactivation. The test is aimed at loss-buying. A purchaser acquiring a company with tax losses should therefore document the continuity of the trade, staff and customers for at least three years after completion.

- Losses of the special IP Box regime are restricted to 20% for carry-forward and group relief, mirroring the 80% deduction.
- Crypto-asset losses are ring-fenced to crypto gains of the same year and cannot be carried forward.
- A loss created by a charitable donation cannot be carried forward.

- Losses of a sole trader or partnership converting its business into a company may be carried forward into the company.
- Losses of an exempt foreign PE are deductible against Cyprus profits, and future profits of that PE are taxable up to the amount relieved.

● Group relief

The current-year loss of one Cyprus resident company may be set against the profit of another Cyprus resident company of the same group. Two companies are members of a group if one holds, directly or indirectly, at least 75% of the voting shares of the other, or both are at least 75% held by a third company. Both companies must be group members for the whole tax year, except that a company incorporated by its parent during the year is treated as a member for the whole year. The claimant must first use its own losses brought forward, and only the residual profit can absorb surrendered losses. Since 2015 the interposition of non-resident companies does not break the group provided they are resident in the EU or in a state with which Cyprus has a tax treaty or an exchange of information agreement.

Group relief conditions

Condition	Detail
Relationship	At least 75% of the voting shares held directly or indirectly by the other company, or both companies at least 75% held by a third company
Residence	Both surrendering and claimant companies resident in Cyprus; an EU-resident surrendering company qualifies if it has first exhausted all possibilities of using the loss in its own state or in the state of an intermediary holding company, with the loss computed under Cyprus rules
Period	Membership for the whole tax year; losses of the same year of assessment only
Ordering	Claimant uses its own brought-forward losses first; the surrendering company may carry forward what it does not surrender
Claim	Made in the corporation tax returns of both companies for the same tax year; no consolidated return exists
Excluded losses	Crypto losses; the restricted 80% portion of IP Box losses; losses of tonnage-tax activities

WORKED EXAMPLE

Alpha Ltd has a 2026 taxable profit of €250,000 after using its own losses brought forward. Its wholly-owned subsidiary Beta Ltd, incorporated in 2021, has a current-year tax loss of €180,000. Beta surrenders the whole loss to Alpha. Alpha's taxable profit falls to €70,000 and its tax to €10,500, compared with €37,500 without the claim, a cash saving of **€27,000** in the year. Had Beta's loss been a 2025 loss brought forward, it could not have been surrendered; it would have remained with Beta for use against Beta's own profits up to 2032. Both companies show the claim and surrender in their TD4 returns for 2026.

CAUTION

Cyprus has no fiscal consolidation. Each company files its own return, and group relief must be claimed in the returns of both companies for the same year. Where the group includes a 75% subsidiary held through a company in a non-treaty, non-EU jurisdiction, the chain is broken and the two Cyprus companies are not in the same group even though they share an ultimate parent.

● Reorganisations

Transfers of assets and liabilities, including provisions and reserves, between companies in the course of a reorganisation are effected without tax consequences: no corporation tax, capital gains tax, SDC, 0.4% levy, transfer fees, mortgage fees or (for pre-2026 documents) stamp duty arise, and the tax losses of the transferring company pass to the receiving company. The receiving company takes over the tax written-down values of the assets. The reliefs apply to domestic and cross-border transactions within the definitions transposing the EU Merger Directive.

The statutory forms follow the EU Merger Directive: a merger (transfer of all assets and liabilities to an existing or new company for shares, or absorption of a wholly-owned subsidiary), a division (transfer of all assets and liabilities to two or more companies for a pro rata issue of shares to the shareholders), a partial division (transfer of one or more branches of activity while retaining at least one), a transfer of assets (transfer of all or one or more branches of activity for shares without dissolution), an exchange of shares (acquisition of a voting majority for the acquirer's own shares) and the transfer of the registered office of an SE or SCE.

Anti-abuse conditions

Since 1 January 2016 the Commissioner may refuse the reliefs where the reorganisation lacks valid commercial and economic reasons, and may grant them conditionally. The conditions permitted are a requirement as to the number of shares to be issued and a requirement that the shares issued be retained by the recipient for a period of up to three years. An advance ruling application, setting out the business purpose, is the practical route where the structure is significant. The reorganisation exemption also removes the dissolution charge to SDC on accumulated profits described in Chapter 07, which makes the distinction between a qualifying merger and a liquidation important for groups winding up Cyprus entities with pre-2026 reserves.

PLANNING POINT

Relief from income tax under the reorganisation provisions does not settle every tax. Confirm separately that the transfer is a transfer of a going concern for VAT, that the foreign state grants corresponding neutrality, that the 0.4% levy exemption is claimed on the Land Registry form and that employees transfer under the Transfer of Undertakings regulations. Where Cyprus property moves, obtain the Tax Department's confirmation before the Land Registry transfer, as the transfer fee exemption is applied at the point of registration.

● Acquisitions, disposals and tax due diligence

A share purchase inherits the target's tax history: open years, loss schedules and the three-year change-of-business test, 2024 and 2025 profits still exposed to deemed distribution and 17% SDC, unpaid-contribution salary adjustments, transfer pricing documentation, DAC6 filings and VAT positions including the option to tax. An asset purchase gives a market-value base for allowances but crystallises balancing adjustments, capital gains tax and the 0.4% levy on Cyprus property for the seller, who otherwise benefits from the securities exemption unless the 20% immovable property threshold is exceeded. Identified exposures are best dealt with by a tax indemnity and price adjustment rather than warranties alone.

06

Incentives: NID, R&D, IP Box and sector schemes

Four incentives can reduce the effective corporate rate well below 15%: the notional interest deduction on new equity, the 120% deduction for research and development, the IP Box and the audiovisual scheme. Each has a cap, an anti-avoidance rule and a documentation requirement, and some cannot be combined on the same income.

80%

Cap on the NID as a proportion of taxable profit from the assets financed by new equity

+5%

Premium added to the 10-year government bond yield to give the NID reference rate

120%

Deduction for eligible R&D expenditure incurred in 2022–2030

3%

Minimum effective rate on qualifying IP profit under the IP Box at full nexus

• Notional interest deduction on new equity

A company, or the Cyprus PE of a foreign company, may deduct a notional interest expense on new equity introduced into the business on or after 1 January 2015 and used in its activities. New equity means fully paid-up share capital and share premium, in cash or in kind (valued at not more than market value, documented to the Commissioner's satisfaction), but not amounts capitalised from revaluation reserves. The NID equals the new equity multiplied by the reference interest rate: the yield on the 10-year government bond of the country in which the equity is invested, as at 31 December of the preceding tax year, plus 5%. Where that country has issued no such bond, the Cyprus 10-year yield plus 5% is used.

NID rules in summary

Element	Rule
Qualifying equity	Paid-up share capital and share premium introduced from 1 January 2015, including by capitalisation of a genuine loan; assets in kind at market value; not revaluation reserves. Article 9B reduces the NID where the new equity derives from loans generating deductible interest in another enterprise, so a debt-to-equity conversion is assessed on the paid-up equity, its use and timing and the anti-duplication rules rather than excluded outright
Reference rate	10-year government bond yield of the country where the funds are employed at 31 December of the prior year plus 5%; Cyprus yield plus 5% if none
Cap	80% of the taxable profit derived from the assets financed by the new equity, computed before the NID; applied separately to each asset financed by new equity
Losses	The NID cannot create or increase a tax loss; unused NID is not carried forward
Election	The company may claim all, part or none of the NID in any year

Element	Rule
Interest limitation	Not a borrowing cost for the ATAD 30% EBITDA / €3 million rule (Circular 6/2023); neither added to exceeding borrowing costs nor restricted by the rule
Anti-avoidance	The Commissioner may deny the NID where arrangements lack valid economic or commercial reason, where old equity is recycled as new equity through related parties, or where equity is funded by loans within the group; in a reorganisation without taxable profit the NID is computed as if no restructuring had occurred

Income Tax Law 118(I)/2002, article 9B. The Tax Department publishes the reference rates for each country annually; the rates for 2026 are based on yields at 31 December 2025.

WORKED EXAMPLE

Gamma Ltd issues €2,000,000 of new shares in January 2026 and lends the proceeds to a group company on arm's-length terms. Assume, for illustration only, that the applicable reference rate is 8.2% (a 3.2% bond yield plus 5%). The NID available is €164,000.

Scenario	Taxable profit from the financed assets before NID	80% cap	NID claimed	Taxable profit	Tax at 15%	Tax without NID
Low margin	€120,000	€96,000	€96,000	€24,000	€3,600	€18,000
High margin	€500,000	€400,000	€164,000	€336,000	€50,400	€75,000

In the low-margin case the cap bites and the effective rate on the qualifying profit is 3% (20% of 15%). In the high-margin case the full NID is deducted and the saving is €24,600. The reference rate used here is an assumption for arithmetic; the published rate for the relevant country must be used in the actual computation.

CAUTION

The 80% cap is applied to the profit generated by the specific assets financed with the new equity, not to the company's total profit. A company that raises equity to fund a loss-making activity obtains no NID even if other activities are profitable. Trace the use of funds from the share issue to the asset in the accounting records and keep the bank evidence, board resolutions and the Registrar's allotment filings in the NID file.

● Research and development

Expenditure on scientific research and on research and development, of a revenue nature, is deductible in full, and for expenditure incurred in the years 2022 to 2030 an additional 20% is deducted, giving a 120% deduction. Capital expenditure on R&D is amortised over the useful life of the resulting asset (maximum 20 years) and the additional 20% is spread over the same period. The deduction is available only to the economic owner of the intangible asset arising, or potentially arising, from the expenditure; a fee-earning developer without economic ownership does not qualify merely by performing the work. It is not available for expenditure on property, plant and equipment, including employee accommodation, for which capital allowances are claimed, and it cannot be combined with the IP Box deduction under article 9(1)(k) on the same taxpayer's qualifying assets.

● The IP Box in company planning

The IP Box under article 9(1)(k) allows a deduction of 80% of the qualifying profit from qualifying intangible assets: patents and patent equivalents, copyrighted software, utility models, plant and genetic material protections, orphan drug designations and other non-obvious, useful and novel assets certified by a designated authority for taxpayers with annual IP revenue up to €7.5 million and group revenue up to €50 million. Marketing intangibles such as trademarks are excluded. Qualifying profit is overall IP income multiplied by the nexus fraction: (qualifying expenditure + uplift) ÷ overall expenditure, where the uplift is the lower of 30% of qualifying expenditure and the actual acquisition and related-party outsourcing costs. R&D outsourced to related parties is not qualifying expenditure. The full calculation, the treatment of losses (restricted to 20%), embedded income and the records required are in Guide 03, Cyprus IP Box Guide.

Chapter 13, Example 4, applies the calculation to a software company with a 97.5% nexus fraction; Guide 03 contains the full method.

Choosing between the R&D super-deduction and the IP Box

Factor	R&D 120% deduction	IP Box 80% deduction
Timing of benefit	Year the expenditure is incurred (or over the asset life for capital items)	Years in which the IP produces income
Value of benefit	15% × 20% of R&D spend = 3% of spend	Up to 12% of qualifying profit (80% × 15%)
Best suited to	Development-stage companies that own the resulting IP and have profits from other activities; assets with low nexus	Companies with own-developed, income-producing patents or software
Combination	Not available on the same taxpayer's assets; the choice is made in the return and should be modelled over the asset's life	

● Audiovisual scheme and innovative SMEs

Under the audiovisual scheme, profits from the production of films, series and other audiovisual programmes are exempt up to the lower of 35% of eligible expenditure and 50% of taxable income, with restricted amounts carried forward five years; the exemption is an alternative to the scheme's cash rebate. Small and medium enterprises may also deduct 20% and 10% respectively of expenditure on eligible audiovisual infrastructure and equipment. Separately, a company that subscribes for new shares in an approved innovative SME between 14 February 2022 and 31 December 2026 as an independent investor within article 9A may deduct 30% of the qualifying equity investment, limited to 50% of taxable income before the deduction and €150,000 per year, with unused relief carried forward five years. The relief attaches to the equity subscribed; the corporate route is described as available where the subscription is financed from own funds rather than borrowings, and only individual investors may deduct the full amount invested (Guide 04).

PLANNING POINT

The NID and the IP Box combine in a fixed order: under the Intangible Assets Regulations the NID attributable to the qualifying asset is a direct expense in arriving at overall income, deducted before the nexus fraction and the 80% deduction and not again afterwards, and the article 9B cap is computed separately (Chapter 13, Example 4). The R&D super-deduction is excluded for taxpayers claiming the IP Box on the same assets and belongs only to the economic owner of the resulting IP, so it cannot be obtained by placing development work in a separate fee-earning company; any group structure must also satisfy the nexus, transfer pricing and no-parallel-relief conditions in Guide 03.

07

Special Defence Contribution for companies

For companies the Special Defence Contribution has shrunk to a narrow set of charges from 2026: interest is now within corporation tax, rents are outside SDC and the deemed distribution rules apply for the last time to 2025 profits. What remains is the withholding role of the company when it pays dividends and interest, the transitional charges on pre-2026 profits and the widened definition of what counts as a dividend.

• SDC rates for companies in 2026 and 2025

SDC on income received by a Cyprus resident company

Income	2026	2025	Notes
Dividends from Cyprus resident companies	Nil / 17%	Nil	17% applies only to dividends received in 2026 out of 2024 or 2025 profits, and in 2027 out of 2025 profits, and not where the recipient is owned directly or indirectly by non-residents or non-domiciled individuals; the "four-year rule" for indirectly distributed old profits continues (below)
Dividends from non-resident companies	Nil / 5%	Nil / 17%	Charge applies only where more than 50% of the payer's activities produce investment income and its effective foreign tax rate is below 7.5% (6.25% up to 2025)
Interest from ordinary or closely related activities ("active")	Nil	Nil	Within corporation tax
Other interest ("passive")	Nil	17%	From 2026 all company interest is within corporation tax at 15%
Interest of bodies exempt from income tax (charities, religious and educational institutions, sports and arts bodies)	17% (3%)	17% (3%)	3% on Cyprus and, from 2026, other EU government bonds, listed corporate bonds and listed state-organisation or local authority bonds; 3% for government entities, pension, provident, social insurance and health insurance funds
Rental income (75% of gross)	Nil	3%	Rents remain within corporation tax at 15%
Deemed distribution of profits	17%	17%	Last applications to 2024 profits (31 December 2026) and 2025 profits (31 December 2027)

Special Contribution for the Defence of the Republic Law 117(I)/2002, article 3, as amended for tax year 2026. A company is subject to SDC only if it is tax resident in Cyprus.

● Dividends between Cyprus companies: the transitional 17% charge

Dividends paid by one Cyprus resident company to another are normally exempt from SDC. The reform introduces a targeted exception designed to prevent domiciled individuals from extracting pre-2026 profits at 5% by routing them through a holding company. Dividends received by a Cyprus company in 2026 out of profits of the years ended 31 December 2024 or 2025, and dividends received in 2027 out of 2025 profits, are subject to SDC at 17%. The charge does not apply to the extent that the recipient company is owned, directly or indirectly, by non-residents or by Cyprus resident non-domiciled individuals. The pre-existing rule also continues: dividends paid indirectly to a Cyprus company more than four years after the end of the year in which the profits arose are subject to 17% SDC, and the Commissioner may look through a company interposed without commercial reason to charge the individuals who control it.

WORKED EXAMPLE

Epsilon Trading Ltd, wholly owned by Epsilon Holdings Ltd, which is in turn owned 60% by a Cyprus domiciled individual and 40% by a UK resident, pays a dividend of €500,000 in March 2026 out of its 2025 profits. SDC at 17% applies to the 60% attributable to the domiciled individual: $17\% \times €300,000 = \text{€}51,000$, withheld by Epsilon Trading and paid by the end of April 2026. The 40% attributable to the UK resident is exempt. Had the dividend been paid out of 2026 profits in 2027, no SDC would have arisen at the holding company level; SDC at 5% would arise only when Epsilon Holdings distributes to the individual.

● Deemed distribution: the final two years

A Cyprus resident company is deemed to distribute 70% of its accounting profit, adjusted for SDC purposes and net of corporation tax, SDC, capital gains tax and unrelieved foreign tax, two years after the end of the tax year in which the profit arose. Actual dividends paid out of the same profits during the year and the two following years reduce the deemed amount, and 17% SDC is charged on the balance to the extent that the ultimate shareholders are Cyprus resident and domiciled individuals. The rules are abolished for profits of 2026 onwards, so the last deemed distribution dates are 31 December 2026 for 2024 profits and 31 December 2027 for 2025 profits, with the corresponding declarations (form TD623) due by 31 January 2027 and 31 January 2028. Profits arising on the write-off of loans that were non-performing at 31 December 2015 are excluded.

WORKED EXAMPLE

Zeta Ltd's adjusted accounting profit for 2025 after tax is €400,000. It paid dividends of €100,000 out of 2025 profits during 2026. On 31 December 2027 the deemed distribution is $70\% \times €400,000 - €100,000 = €180,000$. If 60% of the shares are held by domiciled resident individuals, SDC is $17\% \times €180,000 \times 60\% = \text{€}18,360$, declared and paid by 31 January 2028. Any later actual dividend out of 2025 profits bears 17% only on the amount exceeding the €180,000 already deemed distributed. If Zeta had instead paid an actual dividend of €280,000 by 31 December 2027, no deemed distribution would arise, but the same 17% SDC would have applied to the domiciled shareholders' share of the actual dividend.

PLANNING POINT

The end of deemed distribution removes the pressure to distribute within two years, but it does not reduce the rate on old profits: 2024 and 2025 profits paid to domiciled individuals bear 17% whether distributed now or in 2031, and only profits of 2026 onwards enjoy 5%. Companies should therefore identify the vintage of every reserve in the notes to the financial statements and, where cash permits, consider whether retaining pre-2026 profits and distributing 2026 profits first is consistent with company law, which generally treats distributions as coming from the earliest available profits unless the resolution specifies otherwise. Take company law advice on the ordering.

● The widened dividend definition from 2026

The reform codifies several situations in which value passing to shareholders is treated as a dividend for SDC purposes. Each is relevant to a company contemplating a capital reduction, a share buy-back, a liquidation or a transaction with its shareholders.

Transactions treated as dividends

Event	Amount treated as dividend	Rate and timing
Company dissolution or liquidation	Cumulative profits of the five years before dissolution, to the extent earned in tax years up to 2025 and not already distributed or deemed distributed	17%; a declaration and payment are due within one month of the resolution to dissolve or liquidate; not applicable to dissolution under a qualifying reorganisation
Distribution of assets on capital reduction, dissolution or liquidation	Market value of the assets distributed, less capital actually paid in by the shareholder and not previously returned, capital gains tax paid on the assets and any disguised dividend already recognised on them	Dividend rate applicable to the shareholder (5% or 17% by vintage for domiciled individuals; nil for non-residents and non-domiciled individuals)
Capital reduction paid in cash	Amount returned in excess of the share capital contributed by the shareholder	Dividend rate; the redemption of units in a collective investment scheme is not a capital reduction
Capitalisation of distributable reserves (bonus issue)	The increase in issued share capital	Dividend rate at the date of capitalisation
Disguised dividend: private use of a company asset by a domiciled individual shareholder or a related individual	Market value of the use, in proportion to the private use	10% SDC; not applicable where the benefit-in-kind rules of the Income Tax Law apply or the asset was donated to the company by that shareholder
Disguised dividend: asset transferred to an individual shareholder or relative below market value	Difference between market value and consideration	10% SDC; not applicable in a capital reduction, dissolution or liquidation, or where the asset was originally donated to the company
Redemption of units or shares in open- or closed-ended collective investment schemes by an individual	The gain on redemption: proceeds less the acquisition cost of the units, and net of any CGT on Cyprus property; the capital returned is not treated as a dividend	Dividend rate from 1 January 2031, subject to the statutory exceptions

CAUTION

A company that lets a shareholder use a yacht, a flat or a car without charging the benefit through payroll now faces a 10% SDC charge on the market value of the use, with the company responsible for withholding and payment. Where the shareholder is also an employee or director, taxing the benefit in kind under the Income Tax Law rules takes the arrangement outside the disguised dividend charge and also makes the related expense deductible for the company. Review all shareholder-related balances and asset use before the 2026 year end.

● Withholding, payment and credit mechanics

SDC on Cyprus-source dividends and interest is withheld at source by the paying company and paid by the end of the month following the month of payment, together with the GHS contribution withheld from dividends and interest paid to individuals. The company files the related declaration (form TD603 for dividends, TD602 for interest paid by financial institutions) through the TFA portal. SDC on foreign dividends received by a company that fail the participation test is paid by self-assessment: up to 2025 in two six-monthly instalments by 30 June and 31 December, and from 2026 by the deadline for the tax return of the relevant year. Foreign tax paid on the income may be credited against the SDC due, whether or not a treaty exists.

PENALTY

SDC withheld and paid late attracts interest at 3.5% per year from the end of the month following the month of payment, plus a flat 5% penalty on the amount due and a further 5% if it remains unpaid two months after the due date. The company, not the shareholder, is liable for the withheld amount, and directors can be pursued for unpaid withholdings in a liquidation.

08

Dividends and shareholder taxation

The tax cost of extracting profit from a Cyprus company depends on who the shareholder is, where the profit was earned and in which year. A domiciled resident individual pays 5% SDC and GHS on 2026 profits; a non-domiciled resident pays GHS only; a non-resident pays nothing in Cyprus. This chapter works through the combinations and compares salary with dividends.

• Before declaring a dividend

A dividend may be paid only out of realised profits available for distribution under the Companies Law, Cap. 113, and the articles of association. Directors confirm that the company will remain solvent, that the reserves are distributable (revaluation surpluses and unrealised fair value gains are not), that the dividend is approved by the correct body (interim dividends by the board, final dividends by the members), and that any shareholders' agreement or banking covenant is respected. The tax analysis then follows four questions: which year's profits are distributed, whether the shareholder is resident, whether a resident individual is domiciled, and whether the shareholder is within the GHS.

Cyprus taxation of dividends paid by a Cyprus company, by recipient

Recipient	Profits earned in 2026 onwards	Profits earned up to 2025, distributed by 31 December 2031	GHS and other points
Cyprus resident and domiciled individual	5% SDC	17% SDC (until 31 December 2031; 5% for distributions after 2031)	GHS 2.65% on the dividend within the €180,000 cap on total income; both withheld by the company
Cyprus resident, non-domiciled individual	Nil	Nil	GHS 2.65% within the cap; the non-dom status lasts 17 years and may be extended twice by five years for a €250,000 lump sum per period (Guide 04)
Non-resident individual	Nil	Nil	No GHS; home-country tax applies; the Cyprus company issues a dividend voucher for foreign credit claims

Recipient	Profits earned in 2026 onwards	Profits earned up to 2025, distributed by 31 December 2031	GHS and other points
Cyprus resident company	Nil	17% on dividends received in 2026 out of 2024–2025 profits or in 2027 out of 2025 profits, except to the extent owned by non-residents or non-doms	Exempt from corporation tax; four-year rule for indirect distributions of old profits (Chapter 07)
Non-resident company, EU or treaty state	Nil	Nil	No Cyprus WHT; the recipient's state applies its participation exemption or credit
Non-resident company in an EU-listed non-cooperative jurisdiction (50% association)	17% WHT	17% WHT	Not applicable to listed securities where the payer cannot reasonably know of the onward payment
Non-resident company in a low-tax jurisdiction (nominal rate below 7.5%, 50% association), non-quoted payer	5% WHT	5% WHT	From 1 January 2026; where a jurisdiction is on both lists, 17% applies

Special Contribution for the Defence of the Republic Law 117(I)/2002, article 3(2); General Healthcare System Law 89(I)/2001, as amended. A domiciled individual is one with a Cyprus domicile of origin or 17 years of Cyprus residence in the preceding 20.

● Cash extraction: worked comparison

The table below follows €200,000 of accounting and taxable profit through to the shareholder's bank account, assuming the whole after-tax profit is distributed, no other adjustments, and that the dividend falls within the shareholder's remaining GHS base. The first three columns take profit earned in 2026 and distributed in 2027; the fourth takes profit earned in 2025, taxed at 12.5%, and distributed in 2026 to a domiciled resident, so that the transitional 17% SDC applies.

€200,000 of profit distributed in full: 2026 profit, and 2025 profit distributed in 2026

Step	Domiciled resident, 2026 profit	Non-domiciled resident, 2026 profit	Non-resident, 2026 profit	Domiciled resident, 2025 profit distributed in 2026
Profit before tax	€200,000	€200,000	€200,000	€200,000
Corporation tax	(€30,000) at 15%	(€30,000) at 15%	(€30,000) at 15%	(€25,000) at 12.5%
Dividend declared	€170,000	€170,000	€170,000	€175,000
SDC withheld	(€8,500) at 5%	Nil	Nil	(€29,750) at 17%
GHS withheld at 2.65%	(€4,505)	(€4,505)	Nil	(€4,637.50)

Step	Domiciled resident, 2026 profit	Non-domiciled resident, 2026 profit	Non-resident, 2026 profit	Domiciled resident, 2025 profit distributed in 2026
Net cash to shareholder	€156,995	€165,495	€170,000	€140,612.50
Total Cyprus tax and contributions	€43,005 (21.5%)	€34,505 (17.3%)	€30,000 (15.0%)	€59,387.50 (29.7%)

The non-resident column excludes tax in the shareholder's state of residence. GHS on dividends is capped by the €180,000 annual ceiling on total income: a shareholder whose salary and other income already reach the ceiling pays no GHS on the dividend. Foreign tax credits, NID and IP Box deductions would change the corporation tax line.

PLANNING POINT

The combined rate is not the sum of 15% and 5%. Because SDC is charged on the after-tax dividend, the combined burden on 2026 profit for a domiciled shareholder is $15\% + (85\% \times 5\%) = 19.25\%$ before GHS, and 21.5% with GHS at 2.65%. For pre-2026 profits distributed before 2032 the combined burden is $12.5\% + (87.5\% \times 17\%) = 27.4\%$ before GHS. The gap of eight percentage points is the reason to track profit vintages carefully.

● Salary or dividend

An owner-manager who is resident and domiciled can take remuneration as salary, as dividend or as a mixture. Salary is deductible for the company but attracts employer contributions of up to 15.4% (social insurance 8.8% up to the ceiling, GHS 2.9%, cohesion fund 2%, redundancy 1.2% and training 0.5%, plus the 8% holiday fund unless exempt) and personal tax at up to 35%. Dividends bear 15% corporation tax, 5% SDC and 2.65% GHS. Salary builds social insurance entitlements and may qualify for the 50% or 20% first-employment exemption where the individual has recently relocated (Guide 04). The example below compares the routes for a company with €112,135 available before remuneration, the amount needed to fund a €100,000 gross salary.

€112,135 of pre-remuneration profit: three routes for a domiciled resident owner (2026)

Line	All salary (€100,000 gross)	All dividend	Mixed: €40,000 salary plus dividend
Company			
Gross salary	€100,000	—	€40,000
Employer social insurance 8.8% (ceiling €68,904)	€6,063.55	—	€3,520
Employer GHS 2.9%, cohesion 2%, redundancy 1.2%, training 0.5%	€6,071.37	—	€2,640
Profit remaining before corporation tax	€0	€112,135	€65,975
Corporation tax at 15%	€0	€16,820	€9,896
Dividend	—	€95,315	€56,079
Shareholder			

Line	All salary (€100,000 gross)	All dividend	Mixed: €40,000 salary plus dividend
Employee social insurance 8.8% and GHS 2.65% on salary	€8,713.55	—	€4,580
Income tax on salary (2026 bands)	€20,250	—	€2,855
SDC 5% on dividend	—	€4,766	€2,804
GHS 2.65% on dividend	—	€2,526	€1,486
Net cash received	€71,036	€88,023	€84,354
Total tax and contributions (of €112,135)	€41,099 (36.7%)	€24,112 (21.5%)	€27,781 (24.8%)

Assumptions: holiday fund exemption granted; no other income; contributions within the one-fifth deduction limit; no first-employment exemption; dividend paid out of 2026 profits. Income tax on €100,000 is computed on taxable income of €91,286 after deducting employee contributions. Amounts rounded to the nearest euro. A non-domiciled owner would receive €92,789 under the all-dividend route.

CAUTION

The dividend route produces more net cash but no social insurance record, no pension accrual and no employment income for mortgage or immigration purposes, and a director who works for the company without remuneration may face a challenge that a market salary should have been paid. Directors' fees are subject to GHS at 2.65% and PAYE. For a director who is not domiciled, the case for dividends is stronger still, because SDC does not apply; for one who qualifies for the 50% first-employment exemption on a salary above €55,000, salary may be competitive. Run the comparison on the actual facts each year.

● Interest, loans and other payments to shareholders

Interest paid to a resident domiciled individual shareholder bears 17% SDC and 2.65% GHS withheld by the company and is deductible subject to the arm's-length rule and the interest limitation. A loan by the company to an individual director or shareholder, or their spouse or relatives up to the second degree, creates a taxable benefit of 9% per year on the monthly balance for the individual. Private use of assets and undervalue transfers fall within the disguised dividend rules in Chapter 07.

● Dividends to foreign shareholders

Outside the defensive measures Cyprus imposes no withholding tax on dividends to non-residents, so the relevant questions arise in the recipient's state: whether a participation exemption applies to dividends from a Cyprus company, whether the NID or IP Box is examined under foreign switch-over or CFC rules, and whether an individual shareholder is taxed on receipt. Every dividend should be minuted with the profit year specified, supported by shareholder residence and domicile declarations, withheld correctly with form TD603 filed by the end of the following month, and evidenced by dividend vouchers retained for six years.

09

Withholding taxes, treaties and cross-border payments

Cyprus levies no withholding tax on dividends, interest or royalties paid to non-residents, with three exceptions: royalties for rights used in Cyprus, certain services performed in Cyprus, and the defensive rates on payments to associated companies in EU-listed and low-tax jurisdictions. Inbound, the treaty network of more than 65 agreements limits foreign withholding, and unilateral credit relief applies where no treaty exists.

• Withholding tax on outbound payments

Cyprus withholding taxes on payments to non-residents, 2026

Payment	Rate	Scope and exceptions
Dividends	Nil	No WHT regardless of the recipient's residence, except the defensive rates below
Interest	Nil	No WHT, except the defensive rate below; SDC of 17% is withheld only from Cyprus resident domiciled individuals
Royalties for rights used outside Cyprus	Nil	Applies to the typical Cyprus IP holding company sub-licensing abroad
Royalties, premiums and similar income for rights used within Cyprus	10%	Reduced or eliminated by treaty or by the Interest and Royalties Directive (25% direct holding between EU associated companies); the payer withholds and pays by the end of the following month
Film rentals for cinematographic films shown in Cyprus	5%	Same reliefs as royalties
Technical services and technical assistance performed in Cyprus by non-residents	10%	Not applicable where the services are performed through a Cyprus PE of the non-resident or between associated companies as defined in the Interest and Royalties Directive; subject to treaty
Professional or vocational income of non-resident individuals from activities in Cyprus; remuneration of public entertainers, including theatrical, musical and athletic groups and football clubs	10%	On gross income or receipts; subject to treaty (the entertainers article in most treaties preserves the charge)

Payment	Rate	Scope and exceptions
Services in Cyprus connected with the exploration, extraction or exploitation of the continental shelf, seabed or subsoil, and pipelines and installations on the seabed or sea surface	5%	Non-residents without a Cyprus PE; the Cyprus resident payer withholds
Defensive measures for associated companies (50% direct or indirect association)		
Dividends of non-quoted companies to a company in an EU-listed non-cooperative jurisdiction (Annex I), or incorporated there and not resident in a non-listed jurisdiction	17%	Recipient must be on the list at the last publication in the current year and the previous year; not applicable to payments to individuals
Interest to a company in an EU-listed jurisdiction	17%	Excludes interest on securities listed on a recognised stock exchange where the payer cannot reasonably know of onward payment; not applicable to payments by individuals
Royalties to a company in an EU-listed jurisdiction	10%	Whether or not the rights are used in Cyprus; not applicable to payments by individuals
Dividends of non-quoted companies to a company in a low-tax jurisdiction (nominal corporate rate below 7.5%, i.e. less than half the Cyprus rate)	5%	From 1 January 2026; where the jurisdiction is both listed and low-tax, the 17% rate and the listed-jurisdiction rules prevail
Interest and royalties to a company in a low-tax jurisdiction	Nil WHT	No withholding, but the expense is non-deductible for the payer (Chapter 03); indirect routing is caught by an anti-conduit rule

Income Tax Law 118(I)/2002, articles 21–24 and the defensive-measure provisions introduced in 2022 and 2026; Special Contribution for the Defence of the Republic Law 117(I)/2002. The defensive rules extend to payments to permanent establishments in listed or low-tax jurisdictions and contain their own anti-abuse rule for interposed entities. Tax withheld is paid by the end of the month following the payment; late payment attracts a 5% penalty and interest.

CAUTION

The EU list is revised twice a year, in February and October. A payment made in 2026 to an associated company in a jurisdiction that was on the list at the last publication in 2025 and at the last publication in 2026 is within the charge, even if the jurisdiction is removed later. Check the list at each payment date and document the check. Where a recipient is in a jurisdiction that is neither listed nor low-tax but is interposed in front of one that is, the GAAR within the defensive rules can apply the withholding as if the payment had been made directly.

● Relief for foreign tax suffered

Foreign tax paid on income that is also taxable in Cyprus is credited against the Cyprus corporation tax on that income, whether or not a treaty exists. The credit is limited to the Cyprus tax attributable to the same income, computed source by source; pooling of credits is not allowed and unused credit is neither carried forward nor refunded. Foreign tax on income that is exempt in Cyprus (dividends, securities gains) cannot be credited against tax on other income, although foreign tax on a dividend that becomes subject to SDC may be credited against that SDC. Withholding certificates or foreign assessments must be held to support the claim.

WORKED EXAMPLE

Theta Ltd licenses software to a customer in a country that withholds tax on royalties. Gross royalties are €200,000 and Theta's attributable expenses are €50,000, so the Cyprus tax on the income is 15% × €150,000 = €22,500. If the treaty rate is 10%, foreign tax of €20,000 is credited in full and Cyprus tax of €2,500 remains payable. If no treaty applies and the domestic foreign rate is 20%, foreign tax of €40,000 is credited only up to €22,500; no Cyprus tax is payable and **€17,500** of foreign tax is a permanent cost. In the second case, the IP Box (if the software qualifies) would reduce the Cyprus tax to €4,500 and the creditable amount to that figure, so the treaty rate matters more than the Cyprus rate for a company with substantial foreign royalty income.

● Using the treaty network

Cyprus has double tax treaties in force with the jurisdictions listed in the table below, including new treaties with Croatia and the Netherlands (effective 2024), Oman (effective 2026) and Curaçao (effective 2027). The Yugoslavia treaty continues to apply with Serbia, Montenegro and Bosnia and Herzegovina, the Czechoslovakia treaty with the Slovak Republic, and the USSR treaty with Azerbaijan, Kyrgyzstan and Uzbekistan. Russia suspended the main articles of its treaty with Cyprus by decree in August 2023; Cyprus continues to honour the treaty, but relief in Russia should not be assumed. Most Cyprus treaties are covered by the Multilateral Instrument, which adds a principal purpose test.

Relief is claimed by confirming Cyprus residence and beneficial ownership, checking the holding conditions (reduced dividend rates commonly require a 10% or 25% holding, sometimes for 12 or 24 months or with a minimum investment), checking the type of income, applying the lower of the treaty and the payer state's domestic rate, and claiming the credit in Cyprus source by source.

Cyprus treaty network: outbound royalty WHT for rights used in Cyprus, and maximum WHT the treaty partner may apply on payments to Cyprus (%)

Treaty partner	Outbound royalties, rights used in Cyprus	Inbound dividends	Inbound interest	Inbound royalties
Andorra	Nil	Nil	Nil	Nil
Armenia	5	0/5	0/5	5
Austria	Nil	10	Nil	Nil
Bahrain	Nil	Nil	Nil	Nil
Barbados	Nil	Nil	Nil	Nil
Belarus	5	5/10/15	5	5
Belgium	Nil	10/15	0/10	Nil
Bosnia and Herzegovina	5/10 (a)	10	10	10
Bulgaria	5/10 (a)	5/10	0/7	10
Canada	0/5/10 (a)(b)	15	0/15	0/10
China	5/10 (a)	10	10	10
Croatia	5	5	0/5	5
Curaçao (from 2027)	Nil	Nil	Nil	Nil
Czech Republic	0/10 (c)	0/5	Nil	0/10

Treaty partner	Outbound royalties, rights used in Cyprus	Inbound dividends	Inbound interest	Inbound royalties
Denmark	Nil	0/15	Nil	Nil
Egypt	5/10 (a)	5/10	10	10
Estonia	Nil	Nil	Nil	Nil
Ethiopia	5	5	0/5	5
Finland	Nil	5/15	Nil	Nil
France	0/5 (a)	10/15	0/10	0/5
Georgia	Nil	Nil	Nil	Nil
Germany	Nil	5/15	Nil	Nil
Greece	0/5 (a)	25	10	0/5
Guernsey	Nil	Nil	Nil	Nil
Hungary	Nil	5/15	0/10	Nil
Iceland	5	5/10	Nil	5
India	5/10 (a)	10	0/10	10
Iran	5/6 (a)	5/10	0/5	6
Ireland	0/5 (a)	Nil	Nil	0/5
Italy	Nil	15	10	Nil
Jersey	Nil	Nil	Nil	Nil
Jordan	5/7 (d)	5/10	0/5	7
Kazakhstan	5/10 (a)	5/15	0/10	10
Kuwait	5	Nil	Nil	5
Latvia	0/5 (e)	0/10	0/10	0/5
Lebanon	Nil	5	0/5	Nil
Lithuania	5	0/5	Nil	5
Luxembourg	Nil	0/5	Nil	Nil
Malta	5/10 (a)	Nil	0/10	10
Mauritius	Nil	Nil	Nil	Nil
Moldova	5	5/10	5	5
Montenegro	5/10 (a)	10	10	10
Netherlands	Nil	0/15	Nil	Nil
Norway	Nil	0/15	Nil	Nil
Oman (from 2026)	5/8 (a)	Nil	Nil	8
Poland	5	0/5	0/5	5
Portugal	5/10 (a)	10	10	10
Qatar	5	Nil	Nil	5

Treaty partner	Outbound royalties, rights used in Cyprus	Inbound dividends	Inbound interest	Inbound royalties
Romania	0/5 (f)	10	0/10	0/5
Russia	Nil	5/15	0/5/15	Nil
San Marino	Nil	Nil	Nil	Nil
Saudi Arabia	5/8 (g)	0/5	Nil	5/8
Serbia	5/10 (a)	10	10	10
Seychelles	5	Nil	Nil	5
Singapore	5/10 (a)	Nil	0/7/10	10
Slovak Republic	0/5 (f)	10	0/10	0/5
Slovenia	5	5	0/5	5
South Africa	Nil	5/10	Nil	Nil
Spain	Nil	0/5	Nil	Nil
Sweden	Nil	5/15	0/10	Nil
Switzerland	Nil	0/15	Nil	Nil
Syria	5/10 (a)	0/15	0/10	10/15
Thailand	5/10 (h)	10	0/10/15	5/10/15
Ukraine	5/10 (i)	5/10	0/5	5/10
United Arab Emirates	Nil	Nil	Nil	Nil
United Kingdom	Nil	0/15	Nil	Nil
United States	Nil	5/15	0/10	Nil

Outbound dividends and interest from Cyprus are not subject to withholding tax under any treaty (defensive measures aside); outbound royalties for rights used outside Cyprus are also nil. Where two rates are shown, the lower rate generally applies to companies holding a minimum percentage of capital (dividends), to governments, banks and credit sales (interest) or to specific categories of royalty (films, copyright, equipment). Outbound royalty notes: (a) 5% for cinematographic films; (b) Canada: nil on literary, dramatic, musical or artistic work other than films and television; (c) Czech Republic: 10% on patents, trademarks, designs, software and equipment, otherwise nil; (d) Jordan: 7% on royalties and technical fees, 5% on films; (e) Latvia: nil where the beneficial owner is a Latvian company other than a partnership; (f) Romania and Slovak Republic: 5% on patents, trademarks, designs, secret formulas, equipment and know-how, otherwise nil; (g) Saudi Arabia: 5% on equipment and films, 8% otherwise; (h) Thailand: 5% on copyright of literary, dramatic, musical, artistic or scientific work, 10% otherwise; (i) Ukraine: 5% on scientific copyright, patents, trademarks, secret formulas and know-how, 10% otherwise. Inbound rates are the treaty maxima; the payer's domestic law may provide a lower rate or exemption. The text of the treaty, its protocol and any MLI modification govern in every case.

10

Transfer pricing and international compliance

Every related-party transaction of a Cyprus company must be at arm's length, documented in proportion to its size and disclosed in the summary information table filed with the tax return. Around the transfer pricing rules sit the ATAD anti-avoidance measures, country-by-country reporting, the DAC6 disclosure regime and, for the largest groups, the Pillar Two minimum tax.

€10m

Local File threshold for financing transactions from 2026 (€5 million goods; €2.5 million other categories)

60 days

Time to produce the Local or Master File after a Tax Department request

€750m

Consolidated group revenue threshold for CbC reporting, the Master File and Pillar Two

30 days

DAC6 reporting deadline from the trigger event

• The arm's-length rule and the 2026 documentation thresholds

Article 33 of the Income Tax Law empowers the Commissioner to adjust the profits of a Cyprus resident person where the conditions of a transaction with a related party differ from those that independent parties would have agreed, and since 2022 grants the counterparty a corresponding deemed expense. The documentation rules apply to Cyprus tax resident persons and Cyprus PEs of non-residents engaged in domestic or cross-border controlled transactions with related parties, defined by a 25% relationship for the general arm's-length rule and the documentation regime. Documentation follows the OECD three-tier model: Master File, Local File and, for all taxpayers, the summary information table.

Transfer pricing documentation obligations

Document	Who must prepare it	Timing
Summary information table (SIT)	Every taxpayer with controlled transactions, without threshold: names and tax identification codes of counterparties and values per category (goods, services, financing, IP and royalties, other)	Filed electronically with the corporation tax return (TD4) for the year
Cyprus Local File	Taxpayers whose controlled transactions, per category, exceed or should at arm's length have exceeded: €10,000,000 for financing; €5,000,000 for sale and purchase of goods; €2,500,000 for services, IP and royalties, and other categories (2026 onwards). For 2022–2025 the thresholds were €5,000,000 for financing and €1,000,000 for each other category	Prepared, and quality-reviewed by an ICPAC practising certificate holder, by the TD4 deadline; updated annually; submitted within 60 days of a request

Document	Who must prepare it	Timing
Master File	Cyprus resident ultimate parent or surrogate parent entities of MNE groups within the CbC reporting scope (consolidated revenue above €750,000,000)	Prepared by the TD4 deadline; submitted within 60 days of a request
Minimum TP documentation	Taxpayers below the Local File thresholds: brief functional analysis, characterisation of the entity, reasoning for the method chosen and determination of the arm's-length price with benchmarking or other economic analysis	Maintained annually; submitted within 60 days of a request
Advance pricing agreement	Optional; unilateral, bilateral or multilateral; valid for up to four years; Tax Department aims to conclude within 10 to 24 months	Application before or during the period covered

Income Tax Law 118(I)/2002, article 33 and the Transfer Pricing Regulations of 2022; Assessment and Collection of Taxes Law 4/1978, article 5C. The Local File and Master File may be prepared in English; the Tax Department may request a Greek translation.

CAUTION

The thresholds are tested per category against the arm's-length value, not the booked value, and being below a threshold removes the Local File obligation, not the arm's-length obligation.

• Simplification measures and safe harbours

For taxpayers not required to prepare a Local File, the Tax Department's Circular 6/2023 offers optional simplification measures, applying retrospectively from 2022. They are not available where controlled financing transactions exceed €5,000,000 in aggregate or services transactions exceed €1,000,000, or where reliable internal comparables exist. Electing taxpayers keep documentation of eligibility and application but need not prepare the method selection and benchmarking elements of the minimum documentation. Use of a unilateral safe harbour is a DAC6 hallmark (category E) and may need to be reported.

Safe harbour rates under Circular 6/2023

Transaction	Safe harbour
Loans or cash advances to related parties funded by borrowings (back-to-back financing)	Minimum pre-tax return of 2.5% after allowable expenses
Loans or cash advances to related parties funded by equity	Minimum pre-tax return equal to the 10-year government bond yield of the borrower's country at 31 December of the prior year plus 3.5%
Loans payable to related parties, to the extent used in the business	Borrowing cost not exceeding the Cyprus 10-year government bond yield at 31 December of the prior year plus 1.5%
Low value-adding services received or provided	5% mark-up on the relevant costs

Late or non-submission of the summary information table attracts a €500 penalty; a Local or Master File produced between 61 and 90 days after a request attracts €5,000, between 91 and 120 days €10,000, and later or not at all €20,000.

● ATAD measures

Cyprus transposed the EU Anti-Tax Avoidance Directives through amendments effective from 2019 (interest limitation, CFC rule, GAAR), 2020 (exit taxation, hybrid mismatches) and 2022 (reverse hybrids). The interest limitation rule is described in Chapter 03. The remaining measures are summarised here.

General anti-abuse rule. Non-genuine arrangements whose main purpose, or one of whose main purposes, is a tax advantage defeating the object of the law are ignored. **Controlled foreign companies.** The non-distributed income of a CFC or foreign PE arising from non-genuine arrangements is attributed to the Cyprus controlling company to the extent that the significant people functions generating it are performed in Cyprus; foreign tax is credited. **Exit taxation.** Where a Cyprus company transfers assets to a foreign PE or migrates its residence, or a Cyprus PE transfers assets or its business abroad, and Cyprus loses the right to tax, tax is charged on market value less tax value; assets transferred into Cyprus take the exit value set by the other member state where it reflects market value. Because securities gains are exempt, migration of a pure holding company generally triggers no exit tax, whereas self-developed IP does. **Hybrid mismatches.** Deductions are denied or income included to neutralise double deductions and deductions without inclusion from hybrid instruments, entities, transfers, PEs, imported mismatches and dual residence; reverse hybrid rules apply from 2022.

● Country-by-country reporting

MNE groups with consolidated revenue above €750,000,000 in the preceding fiscal year file a CbC report within 12 months of the year end through a Cyprus resident ultimate or surrogate parent or under the secondary filing mechanism, and every Cyprus constituent entity files a notification by the last day of the reporting fiscal year through the Ariadne portal. Penalties are up to €10,000 for failing to file a report, €5,000 for failing to notify and €20,000 for continuing infractions. Public CbC reporting applies to groups above €750,000,000 in two consecutive years for financial years beginning on or after 22 June 2024, with publication within 12 months of the year end.

● DAC6 mandatory disclosure

Law 41(I)/2021 transposed DAC6 with effect from 1 January 2021 and retrospective coverage of arrangements implemented from 25 June 2018. A cross-border arrangement involving more than one member state, or a member state and a third country, is reportable if it bears at least one of the hallmarks in the Directive; hallmarks in categories A, B and part of C also require the main benefit test to be satisfied. Intermediaries with an EU nexus report first; the obligation shifts to the relevant taxpayer where the intermediary is covered by legal professional privilege or there is no EU intermediary. Reports are filed on the Ariadne portal within 30 days of the arrangement being made available or ready for implementation or the first step being taken, whichever is earliest.

The hallmarks most often met by Cyprus companies are the generic and specific hallmarks of categories A and B (confidentiality or success fees, standardised documentation, loss-company acquisitions, conversion of income into capital, circular transactions), the cross-border payment hallmarks of category C (deductible payments to associated enterprises that are resident nowhere, in zero-rate or non-cooperative jurisdictions, or where the payment is exempt or preferentially taxed), category D (undermining CRS reporting or obscuring beneficial ownership) and category E (unilateral safe harbours, hard-to-value intangibles and intra-group transfers reducing projected EBIT by more than 50%). The main benefit test applies to categories A and B and to part of category C only.

PENALTY

DAC6 penalties per arrangement and per entity are €10,000 – €20,000 for failure to report, €1,000 – €5,000 for a delay of up to 90 days and €5,000 – €20,000 beyond 90 days, €1,000 – €10,000 for inaccurate or incomplete reports and €1,000 – €10,000 for failing to provide information within 14 days of a written notice, subject to an annual cap of €120,000 per person and a possible 50% reduction. Penalties may be imposed for six years after the year to which the arrangement relates, or twelve in cases of wilful default or fraud.

● DAC7 and DAC8

Digital platform operators established in Cyprus report sellers' income annually under DAC7, and from 1 January 2026 reporting crypto-asset service providers report their EU users' transactions under DAC8. A Cyprus company operating a platform or providing crypto-asset services should confirm its reporting status; companies that merely hold or trade crypto-assets are not reporting entities but will find their transactions reported by their providers.

● Pillar Two: the global minimum tax

The Pillar Two Law, in force from 31 December 2023, transposes Directive (EU) 2022/2523 and incorporates the OECD administrative guidance. It applies to multinational and large-scale domestic groups with consolidated revenue of €750,000,000 or more in at least two of the four preceding fiscal years and requires a minimum effective tax rate of 15% in each jurisdiction. Governmental entities, international organisations, non-profit organisations, pension funds and investment funds or real estate vehicles that are the ultimate parent are excluded entities, but their revenue counts towards the threshold.

Three collection mechanisms apply: the income inclusion rule for fiscal years beginning on or after 31 December 2023, under which a Cyprus parent pays top-up tax on its own and its subsidiaries' low-taxed income; the domestic minimum top-up tax for fiscal years beginning on or after 31 December 2024, which collects top-up tax on Cyprus entities in Cyprus before any foreign IIR, allows push-down of foreign CFC taxes and respects the safe harbours; and the undertaxed profits rule, also from 31 December 2024, as a backstop allocated by employees and tangible assets. A de minimis exclusion applies where jurisdictional average revenue is below €10,000,000 and average qualifying income below €1,000,000, and Cyprus has adopted the transitional CbCR and UTPR safe harbours.

Compliance is layered. Every Cyprus constituent entity of an in-scope group notifies the Tax Department within 15 months of the fiscal year end (18 months for the first year), files the GloBE information return within the same period unless the ultimate parent or a designated entity files it in a jurisdiction with an exchange agreement, and files a top-up tax return and pays any DMTT, IIR or UTPR liability within 30 days of the GIR deadline. For the first year (fiscal year 2024 for calendar-year groups) the top-up tax return and payment were due by 30 July 2026. The GloBE information return, the Cyprus notifications (forms TD331 to TD334), the top-up tax information return, the IIR return (form TD335) and the top-up tax payment are distinct obligations, each with its own statutory date.

NOTE

By announcement of 15 June 2026 the Tax Department granted first-period relief: no penalties, interest or surcharges are imposed where first-period notifications (TD331 to TD334), top-up tax information returns, IIR returns (TD335) and top-up tax payments that fell due before 30 September 2026 are submitted or paid by 30 September 2026. The relief covers fiscal years commencing between 31 December 2023 and 31 December 2024, is subject to its stated conditions and leaves the statutory dates unchanged.

PLANNING POINT

Pillar Two does not affect groups below €750,000,000, which is the overwhelming majority of Cyprus companies; for them the 15% rate, NID and IP Box operate without a minimum tax overlay. For in-scope groups, the Cyprus rate increase to 15% narrows but does not close the gap, because GloBE income and covered taxes are computed on a different base. Model the Cyprus effective rate under GloBE rules before relying on the NID or IP Box, and consider whether a qualified refundable tax credit or the substance-based income exclusion changes the outcome.

11

VAT, payroll and property obligations of a company

Corporation tax is rarely the largest cash flow a company manages. VAT is collected and paid quarterly, payroll contributions monthly, and property transactions carry capital gains tax, the 0.4% levy and transfer fees. This chapter summarises those obligations from the company's perspective, with cross-references to Guide 02 for VAT and Guide 04 for the individual side of payroll.

● VAT in outline

A company established in Cyprus must register for VAT when its taxable turnover exceeds €15,600 in the preceding 12 months or is expected to exceed that amount in the next 30 days. Registration is also required for intra-EU acquisitions of goods above €10,251.61 in a calendar year, for the receipt of services from abroad under the reverse charge above the €15,600 threshold, and, without any threshold, for the supply of intra-EU services to business customers. Non-established businesses making taxable supplies in Cyprus register without a threshold. Voluntary registration is available below the thresholds, which is usually advantageous for a start-up incurring input VAT.

The rates are 19% (standard), 9%, 5% and 3% (reduced) and 0%, with exemptions for residential letting, most financial and insurance services, medical care, education, fund management and land and used buildings. Returns are quarterly, filed through TFA with payment by the 10th day of the second month after the period; VIES statements are monthly by the 15th and Intrastat, where the thresholds are exceeded, by the 10th of the following month. Excess input VAT is carried forward, with immediate refunds in defined cases; refund claims are limited to six years and are suspended while income tax returns are outstanding.

VAT Law 95(I)/2000, as amended. Rates and lists of reduced-rate items change frequently; see Guide 02, Cyprus and EU VAT Guide, for the current lists, the One Stop Shop, the EU SME scheme and the ViDA reforms.

VAT points that recur in company tax reviews

A pure holding company has no economic activity and cannot recover input VAT, whereas one providing management services can register and recover in proportion to its taxable activity. Commercial leases to taxable persons are standard-rated unless the lessor opts out irrevocably; residential lettings are exempt. New buildings and building land are standard-rated, used buildings exempt. Services received from abroad are reverse-charged, which creates a registration obligation and a real cost for partly exempt companies. Irrecoverable input VAT is deductible for corporation tax as part of the underlying expense, and a transfer of a going concern is outside the scope.

● Payroll obligations

A company that employs staff in Cyprus registers as an employer with the Social Insurance Services and the Tax Department, operates PAYE on emoluments and benefits in kind, deducts employee social insurance and GHS contributions, and pays its own contributions. Monthly payroll returns (form TD7) are filed electronically through TFA and PAYE, GHS and social insurance contributions are paid by the end of the following month; an annual employer's return of the year's total payroll is filed by the date announced by the Tax Department (Chapter 12). Employees complete the allowances claim form (TD59) at the start of each year or on joining.

Employer and employee contributions, 2026

Contribution	Employer	Employee	Base and ceiling
Social insurance	8.8%	8.8%	Insurable earnings up to €68,904 per year (€5,742 per month, €1,325 per week); rate fixed to 2028, rising in five-year steps to 10.3% – 10.7% by 2039
General Healthcare System	2.9%	2.65%	All emoluments; the employee's contributions capped at total income of €180,000 per year
Social cohesion fund	2.0%	—	Total emoluments, no ceiling
Redundancy fund	1.2%	—	Up to the social insurance ceiling
Human resource development (training) fund	0.5%	—	Up to the social insurance ceiling
Central holiday fund	8.0%	—	Up to the ceiling, unless the employer is exempted on the basis of its own paid-leave arrangements
Total employer cost above salary (holiday fund exempt)	15.4%	11.45%	On earnings within the ceilings; 4.9% employer on earnings above €68,904

Social Insurance Law 59(I)/2010; General Healthcare System Law 89(I)/2001. Self-employed persons pay 16.6% social insurance on notional income by occupation and 4% GHS; directors' fees attract GHS at 2.65% (individual) and 2.9% (payer) and are taxed under PAYE. See Guide 04 for the individual position, the first-employment exemptions and the treatment of expatriates under EU social security coordination.

PENALTY

Late payment of social insurance contributions attracts a penalty of 3% per month of delay up to 27% of the amount due, plus interest; late PAYE attracts interest at 3.5% per year and a 1% monthly penalty on completed months. Beyond the penalties, salaries for which contributions were not paid in the year in which they fell due become non-deductible for corporation tax (Chapter 03), which is usually the larger cost.

● Immovable property held by a company

A company that owns Cyprus property is taxed on rental income at 15% under corporation tax (SDC on rents having been abolished from 2026), with deductions for interest on the acquisition loan, capital allowances at 3% or 4% on the building and running costs. Rent must be received through a bank or other recognised electronic method for the tenant's expense to be deductible. On disposal, three charges arise for the seller and one for the buyer.

Taxes on Cyprus immovable property transactions

Charge	Rate and base	Reliefs
Capital gains tax (seller)	20% on the gain: proceeds less the higher of cost and 1 January 1980 value, indexed for inflation, less acquisition and disposal costs and interest on related loans; applies also to shares deriving at least 20% of value from Cyprus property (unlisted on a regulated market)	Qualifying reorganisations; loan restructurings; property acquired at market value from unrelated parties between 16 July 2015 and 31 December 2016; land exchanges with developers completed within five years; the €50,000 annual exclusion for shares on unregulated exchanges
Levy on disposals (seller)	0.4% of the sale consideration, or of the Land Registry general valuation for share disposals of property-holding companies	Debt-for-asset swaps; qualifying reorganisations; listed shares; loan restructurings
Transfer fees (buyer)	3% on the first €85,000 of market value, 5% on €85,001 – €170,000, 8% above €170,000, per property; reduced by 50% where the purchase is not subject to VAT; nil where VAT applies; 1% mortgage registration fee	Reorganisations; loan restructurings; transfers to trustees at €50
VAT (seller charges)	19% on new buildings and building land; exempt for used buildings and non-building land; 5% for qualifying first residences of individuals	Reverse charge by lender in loan restructurings and forced sales
Corporation tax (seller)	15% where the disposal is a trading transaction (development, dealing); CGT then does not apply	Classification as trading or investment depends on the facts

Capital Gains Tax Law 52/1980; Central Agency for the Equal Distribution of Burdens (Creation, Objects, Responsibilities and Other Related Matters) Law; Department of Lands and Surveys (Fees and Charges) Law. Immovable property tax was abolished from 2017; municipal and sewerage charges continue to be levied locally.

● Registrar of Companies obligations and levies

Every Cyprus company files an annual return (form HE32) with the Registrar of Companies together with its audited or, where eligible, reviewed financial statements, maintains its register of members, directors and charges, and reports its beneficial owners to the UBO register maintained by the Registrar, with confirmation of the information annually and updates within the statutory period after any change. The annual company levy of €350, previously payable to the Registrar by 30 June, was abolished for 2024 onwards.

Stamp duty is abolished for documents executed on or after 1 January 2026; documents executed up to 31 December 2025 remain within the former scale (0.15% on €5,001 – €170,000 and 0.2% above, capped at €20,000) and can still be stamped late with penalties. Capital duty is €105 on authorised capital at incorporation (€175 for a company without share capital), €20 on each allotment of shares whether at nominal value or a premium, and nil on increases of authorised capital.

PLANNING POINT

The abolition of stamp duty removes a cost that was often overlooked on intra-group loan agreements, guarantees and share purchase agreements executed in Cyprus or relating to Cyprus assets. Agreements signed in December 2025 and still unstamped remain liable; agreements amended or re-executed from 2026 are not. Review the contract register for documents that were deliberately executed abroad to avoid duty, since that reason no longer applies.

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Compliance calendar, returns, payments and penalties

The Cyprus corporate tax year runs on a fixed rhythm: provisional tax in July and December, a final self-assessment and return afterwards, and monthly withholding and payroll payments throughout. The final dates change between tax years 2025 and 2026: for 2025 the balance is due on 1 August 2026 and the return by 31 March 2027 unless extended by decree; for 2026 onwards both the return and the final payment are due on 31 January of the second following year. Missing a date costs interest at 3.5%, fixed penalties and, for provisional tax, a 10% surcharge.

31 Jul / 31 Dec

Provisional tax instalments for the current year

31 Jan 2028

Return and final self-assessed tax for tax year 2026 (tax year 2025: payment 1 August 2026, return 31 March 2027)

10%

Additional tax where provisional taxable income is below 75% of the final figure

6 years

Minimum retention of books, records and returns after the return (or a revised return) is filed

● Registration, records and accounts

A company registers with the Tax Department through the TFA portal within 60 days of incorporation, or of becoming resident in Cyprus, and notifies changes of registered office, activities, auditors or directors within 60 days. Books and records must be updated within four months of each transaction, invoices issued within 30 days, and stock counted at each year end. Records are kept for at least six years after the return to which they relate, or any revised return, is filed, and for as long as the year remains open to assessment (below). Every company prepares financial statements under IFRS as adopted by the EU. The statements are audited by a licensed statutory auditor unless the company is eligible for the review engagement introduced into the Companies Law by Law 88(I)/2022, under which a small company within the statutory size criteria may have its statements reviewed rather than audited; the current size criteria and the categories of company excluded from the option should be checked in the consolidated Companies Law before it is relied on. The tax computation is based on the audited or, where eligible, reviewed financial statements. The €120,000 threshold below which self-employed individuals need not prepare audited accounts is an income tax rule for individuals and does not apply to companies.

● Provisional tax

By 31 July of each tax year a company estimates its chargeable income for the year and pays the first of two equal instalments of the resulting tax; the second is paid by 31 December, when the estimate may be revised upwards or downwards. A downward revision after the first instalment produces a refund or offset; an upward revision requires payment of the additional first instalment with interest from 31 July. The final balance is paid by self-assessment: for tax year 2025 on 1 August 2026, and for tax year 2026 onwards with the return by 31 January of the second year following the tax year, so 31 January 2028 for 2026. A company that expects no taxable profit need not file a provisional return.

WORKED EXAMPLE

Mu Ltd estimates 2026 chargeable income of €400,000 and pays two instalments of €30,000. Its final chargeable income is €600,000 and its tax €90,000. Because €400,000 is less than 75% of €600,000 (€450,000), additional tax of $10\% \times (\text{€}90,000 - \text{€}60,000) = \text{€}3,000$ is charged, and the €30,000 balance is due with the 2026 return by 31 January 2028. Had Mu revised its estimate to €460,000 by 31 December 2026 and paid the extra €9,000, the surcharge would have been avoided entirely, because €460,000 exceeds 75% of the final figure.

● The corporation tax return

The return (form TD4) is filed electronically through TFA together with the summary information table and, where applicable, the group relief claim, the NID and IP Box schedules and the foreign tax credit computation. For tax years up to 2025 the statutory deadline is 31 March of the second year following the tax year, so the 2025 return is due by 31 March 2027; in practice that deadline has regularly been extended by decree, and at the review date the 2024 return had been extended to 30 November 2026. For tax year 2026 onwards the amended Assessment and Collection of Taxes Law sets 31 January of the second year following the tax year as the date for both the return and the final self-assessment payment: the 2026 return and payment are due by 31 January 2028. The return must be based on the audited or, where eligible, reviewed financial statements and is signed by a director and the auditor or tax adviser. Objections to an assessment are lodged within the statutory period, followed by the Tax Tribunal and the Administrative Court.

CAUTION

Extensions of the filing deadline do not extend the payment date. The balance of tax for 2025 remains due on 1 August 2026, and for 2026 onwards on 31 January of the second following year, based on the company's own computation; interest runs from that date regardless of when the return is filed. Confirm the current decree for the return of each year before relying on an extension; the Tax Department announces them on its website and through the TFA portal.

● The 2026–2027 calendar for a calendar-year company

Recurring and one-off deadlines

Date	Obligation	Form
Monthly		

Date	Obligation	Form
End of following month	PAYE, GHS and social insurance on salaries; monthly payroll return (transitional extension announced for the July to December 2025 and January 2026 monthly returns, to 31 March 2026); SDC and GHS withheld on dividends and interest paid; tax withheld on payments to non-residents	TD7, TD603, TFA
10th of following month	Intrastat (where thresholds exceeded)	Intrastat 1.1/1.2
15th of following month	VIES recapitulative statement	VIES 1
Quarterly		
10th of second month after quarter end	VAT return and payment	VAT 4
2026		
31 January 2026	Deemed distribution declaration for 2023 profits	TD623
28 February 2026	Tonnage tax declaration and payment for 2025 by qualifying charterers, ship managers and owners of foreign-flag ships, as published; dates by category to be confirmed with the Shipping Deputy Ministry	MS TT 2
31 March 2026	Statutory deadline for the 2024 corporation tax return (extended by decree to 30 November 2026); tonnage tax declaration and payment for 2026 by owners of Cyprus-flag ships on entry and annual renewal, as published (to be confirmed); extended deadline for the July to December 2025 and January 2026 monthly payroll returns	TD4, MS TT 2, TD7
30 April 2026	Extended deadline for the 2023 corporation tax return and summary information table	TD4, SIT
31 May 2026	Annual employer's return for the total 2025 payroll (transitional year): the operative date is subject to confirmation of the current Tax Department announcement on the TFA portal; file by this date unless a later date is confirmed	TD7
30 June 2026	CbC notification and secondary reporting review for groups with June year ends; CRS and FATCA reporting for 2025	Ariadne
30 July 2026	Pillar Two top-up tax return and payment for fiscal year 2024 (first year, calendar-year groups); statutory date, see the first-period relief below	—
31 July 2026	Provisional tax return for 2026 and first instalment; interest return for the first half year (financial institutions)	TD5/TD6, TD602
1 August 2026	Payment of final 2025 corporation tax by self-assessment (tax year 2025 keeps the former timetable)	TFA

Date	Obligation	Form
30 September 2026	End of the Pillar Two first-period relief: notifications (TD331 to TD334), top-up tax information returns, IIR returns (TD335) and top-up tax payments for fiscal years commencing 31 December 2023 to 31 December 2024 that fell due earlier attract no penalties, interest or surcharges if submitted or paid by this date (Tax Department announcement of 15 June 2026, subject to its conditions)	TD331–TD335
30 November 2026	2024 corporation tax return and summary information table; 2024 Local File and Master File to be in place	TD4, SIT
31 December 2026	Second provisional instalment for 2026 and revised estimate; deemed distribution date for 2024 profits; CbC report for 2025 (calendar-year groups) and CbC notification for 2026; public CbC report for 2025; year-end stock count	TD5/TD6, Ariadne
2027		
31 January 2027	Deemed distribution declaration and SDC for 2024 profits; interest return for the second half of 2026	TD623, TD602
31 March 2027	Statutory deadline for the 2025 corporation tax return and summary information table (tax year 2025 keeps the former timetable; subject to extension by decree); 2025 transfer pricing documentation prepared	TD4, SIT
31 July 2027	Provisional tax return for 2027 and first instalment	TD5/TD6
31 December 2027	Second provisional instalment for 2027; last deemed distribution date (2025 profits)	TD5/TD6
2028		
31 January 2028	2026 corporation tax return and summary information table, and payment of final 2026 corporation tax by self-assessment (statutory date for tax year 2026 onwards: 31 January of the second year following the tax year); SDC by self-assessment on 2026 foreign dividends failing the participation test; 2026 transfer pricing documentation prepared; last deemed distribution declaration and SDC (2025 profits)	TD4, SIT, TFA, TD623
Event-driven		
Within 60 days	Registration with the Tax Department after incorporation or change of residence; notification of changes of company details; production of Local, Master or minimum TP documentation after request	TFA, TD2003
Within 30 days	DAC6 report after the trigger event; payment of CGT and the 0.4% levy after a property disposal	Ariadne
Within one month	Dividend declaration and SDC on voluntary winding up or dissolution	TD623
15 months after year end	Pillar Two notification and GloBE information return (18 months for the first year); top-up tax return and payment 30 days later	—

Deadlines reflect the position at 24 September 2026. The Tax Department revises return deadlines by decree most years; the statutory dates are shown with the extensions known at the review date. Tax year 2025 keeps its own return and payment dates; the 31 January date applies from tax year 2026. The 2025 employer's return falls in the transition to monthly TD7 filing and its operative date, together with the tonnage tax dates by category, should be confirmed on the TFA portal and with the Shipping Deputy Ministry respectively.

● Interest and penalties

Interest on overdue tax is charged at the official rate set annually by the Minister of Finance, calculated on completed months: 3.5% for amounts due from 1 January 2026, 5.5% for 2025, 5% for 2024, 2.25% for 2023, 1.75% for 2020–2022 and 2% for 2019. Interest is not deductible. In addition, fixed and percentage penalties apply as set out below.

Penalties under the Assessment and Collection of Taxes Law and related laws

Breach	Penalty
Payment	
Tax not paid by the due date	5% of the tax due, plus interest at 3.5% per year
Tax still unpaid two months after the due date	Additional 5% of the tax due
Provisional taxable income below 75% of final taxable income	10% of the difference between final and provisional tax
Provisional instalment paid more than 30 days late	Interest at 3.5% and 5% flat penalty
SDC and GHS withheld on dividends and interest paid late	Interest from the end of the month following payment; 5% flat penalty
Tax withheld on payments to non-residents paid late	5% of the tax withheld, plus interest
Returns, notices and records (administrative penalties)	
Failure to submit a return, notice or information, or perform a duty, by the statutory deadline	€150 (individuals); €250 (companies with turnover or assets up to €1 million); €500 (larger companies)
Failure to comply within the period set by a written request of the Commissioner (not less than 60 days)	€300 / €500 / €1,000 respectively, per notice
Failure relating to another person on the Commissioner's written request	€300 / €500 / €1,000 respectively
Late registration; late notification of changes; books not updated within four months; invoices not issued within 30 days; no year-end stock count	€100 per breach (quarterly for records, monthly for invoices)
Late or non-submission of the summary information table	€500
Late production of Local or Master File	€5,000 / €10,000 / €20,000 by delay (Chapter 10)
Criminal and other	
Failure to submit a return, on conviction	Fine up to €20 per day of continuing failure, or imprisonment up to 12 months, or both
Omission of an object of tax from a return, on conviction	Fine up to €5,000 plus the tax due plus twice the difference between the tax properly imposed and the tax that would have been imposed on the return
Non-compliance with Council of Ministers guidelines	€5,000
Late payment of tonnage tax	10% surcharge for each year of delay
Late social insurance contributions	3% per month, maximum 27%, plus interest
CbC and DAC6 breaches	See Chapter 10

Assessment and Collection of Taxes Law 4/1978, articles 50A–51; Special Contribution for the Defence of the Republic Law 117(I)/2002; Social Insurance Law 59(I)/2010. Penalties are as published for 2026 and may be increased where the failure continues.

WORKED EXAMPLE

Nu Ltd's 2025 balancing payment of €25,000 is settled on 1 November 2026 instead of 1 August 2026. Interest for three completed months at 3.5% is €218.75, the flat penalty is $5\% \times €25,000 = €1,250$, and because more than two months have passed the additional 5% of €1,250 also applies, giving a total cost of **€2,718.75**. If the company had also filed its 2024 return after the extended deadline, the €250 or €500 administrative penalty would be added.

● Assessments, enquiries and rulings

Following the amendments made to the Assessment and Collection of Taxes Law by Law 243(I)/2025, the period within which the Tax Department may raise or revise an assessment is measured by reference to the filing of the return for the year, or of a revised return, and its due date, rather than simply from the end of the tax year: six years, extended to twelve years in cases of fraud or wilful default. A revised return therefore reopens the period for the year concerned, and the start date for a given year should be confirmed against the amended law before the year is treated as closed. Records must be kept for at least six years after the return, or the latest revised return, is filed and for as long as the year remains open, so records should not be destroyed by reference to the tax year alone. DAC6 penalties keep their own six- and twelve-year periods from the end of the year to which the arrangement relates. Enquiries typically begin with a written request for information under a deadline of at least 60 days. Objections are lodged within the statutory period after the assessment, and unresolved disputes proceed to the Tax Tribunal or the Administrative Court. The Tax Department issues advance tax rulings on the application of the law to specific transactions, for a fee, and responds to advance pricing agreement requests under the transfer pricing rules. A ruling binds the Department only where the facts presented are complete and accurate and the transaction is implemented as described.

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Worked examples

The examples in this chapter bring the rules together for the company types ATZ FinHub sees most often: a trading company, a financing company claiming the NID, a group using loss relief, an IP company, a holding company and a trading company with foreign withholding tax. Each states its assumptions; the figures are computed for tax year 2026 and rounded to the nearest euro.

• Example 1: full corporation tax computation for a trading company

Omega Trading Ltd is a Cyprus resident distributor with audited profit before tax of €420,000 for the year ended 31 December 2026. Its accounts include depreciation of €38,000, entertainment of €35,000 against gross income of €2,400,000, running costs of a director's saloon car of €6,500, salaries of €12,000 for May and June 2026 whose social insurance and GHS contributions fell due in June and July 2026 but were still unpaid at 31 December 2026 and were settled, with penalties, in March 2027, a general bad debt provision of €9,000, a customs fine of €1,200, dividend income of €60,000 from a Greek subsidiary, a gain of €25,000 on the sale of listed shares and an unrealised gain of €4,000 on a US dollar receivable. Capital allowances are €47,000. Losses brought forward from 2022 are €35,000. New equity of €1,000,000 was introduced in 2024 and invested in the trading business; assuming, for illustration only, a reference rate of 9% (a 4% ten-year government bond yield plus the 5% premium), the NID available is €90,000. Greek withholding tax of €4,000 was suffered on interest income included in the profit.

Omega Trading Ltd: corporation tax computation, tax year 2026

Line	€	€
Profit before tax per audited accounts		420,000
Add: expenditure not deductible		
Depreciation	38,000	
Entertainment above cap (€35,000 – lower of €30,000 and 1% × €2,400,000)	11,000	
Private saloon car expenses	6,500	
Salaries whose contributions fell due in 2026 and were unpaid at year end (deductible in 2027, the year of payment)	12,000	
General provision for bad debts	9,000	

Line	€	€
Fines	1,200	77,700
Less: exempt income and allowances		
Dividend income (exempt; SDC participation test passed)	(60,000)	
Profit on disposal of securities (exempt)	(25,000)	
Unrealised non-trading exchange gain (neutral)	(4,000)	
Capital allowances	(47,000)	(136,000)
Adjusted profit		361,700
Less: losses brought forward (2022, available until 2029)		(35,000)
Profit before NID		326,700
Less: NID (€1,000,000 × assumed 9%, within the 80% cap of €261,360)		(90,000)
Chargeable income		236,700
Corporation tax at 15%		35,505
Less: foreign tax credit (Greek WHT on interest, within Cyprus tax on that income)		(4,000)
Less: provisional tax paid (31 July and 31 December 2026)		(28,000)
Balance payable with the 2026 return by 31 January 2028		3,505

Provisional taxable income of €186,667 (tax €28,000) is 78.9% of the final €236,700, so no 10% additional tax arises. The effective rate on accounting profit is 8.5% because of the exempt income, the losses and the NID. The 9% reference rate is an assumption for arithmetic; the actual computation uses the rate published by the Tax Department for the year and for the country in which the equity is employed. The salary add-back is an unambiguous case because the contributions fell due within 2026; contributions on the December payroll fall due in January and their treatment is subject to confirmation of current practice (Chapter 03). Expenses attributable to the exempt dividend and securities income have been assumed immaterial; the Tax Department may require an allocation.

● Example 2: financing company with the NID

Pi Finance Ltd was capitalised in January 2026 with €5,000,000 of new share capital, which it lends to a Polish group company at an arm's-length rate of 7%. Interest income is €350,000, operating expenses €40,000 and the reference rate for Poland (10-year bond yield at 31 December 2025 plus 5%) is assumed to be 10.5% for illustration. Financing transactions of €5,000,000 are below the €10,000,000 Local File threshold but equal to the €5,000,000 limit for safe harbours, so the company maintains minimum TP documentation with a benchmarking study.

Pi Finance Ltd: tax year 2026

Line	€
Interest income (within corporation tax from 2026)	350,000
Less: operating expenses	(40,000)
Taxable profit from the assets financed by new equity, before NID	310,000

Line	€
NID available: €5,000,000 × 10.5%	525,000
NID cap: 80% × €310,000	248,000
NID claimed	(248,000)
Chargeable income	62,000
Corporation tax at 15%	9,300
Effective rate on profit before NID	3.0%

Polish withholding tax on the interest is nil under the Interest and Royalties Directive (25% association) or 5% under the treaty; any Polish tax suffered would be credited up to €9,300. Interest from an ordinary financing business, or closely connected with the business, was already within corporation tax before 2026, and the NID applied in the same way: on the same €310,000 profit and €248,000 allowable NID, 2025 corporation tax would have been $12.5\% \times €62,000 = €7,750$, so the 2026 rate increases this company's tax by €1,550. A comparison with the former 17% SDC on passive interest requires different facts, since that charge applied to interest not arising from the ordinary course of the business. The unused NID of €277,000 is not carried forward. The exceeding borrowing costs for the interest limitation rule are nil because the company has interest income and no external borrowing.

● Example 3: group relief and loss planning

Rho Holdings Ltd owns 100% of Rho Retail Ltd and 80% of Rho Logistics Ltd, all Cyprus resident throughout 2026. Rho Retail has a 2026 taxable profit of €250,000 after using its own 2023 losses of €40,000. Rho Logistics has a 2026 loss of €180,000 and losses brought forward of €90,000. Rho Holdings has a taxable profit of €20,000 from management fees, after exempt dividends.

Rho group: allocation of the 2026 loss

Company	Own result after own losses b/f	Group loss surrendered / claimed	Chargeable income	Tax at 15%
Rho Retail Ltd	250,000	(160,000)	90,000	13,500
Rho Holdings Ltd	20,000	(20,000)	0	0
Rho Logistics Ltd	(180,000)	180,000	0	0
Group	90,000	—	90,000	13,500

Without group relief the group would pay €40,500 and Rho Logistics would carry €180,000 forward. Rho Logistics' €90,000 brought forward cannot be surrendered and remains available against its own profits until 2032 at the latest (if incurred in 2025). Both Rho Retail and Rho Logistics are 75% subsidiaries of Rho Holdings, so all three are one group; the 80% holding in Rho Logistics satisfies the test. The claims are made in the 2026 TD4 returns of all three companies.

● Example 4: IP company combining the IP Box and NID

Sigma Tech Ltd develops copyrighted software in Cyprus with its own engineers, financed by €1,500,000 of new equity introduced in 2025. In 2026 it earns licence income of €1,000,000 and incurs current costs of €250,000. Cumulative qualifying expenditure is €600,000, related-party outsourcing €150,000 and acquired IP €50,000, so the uplift is the lower of $30\% \times €600,000 = €180,000$ and €200,000 and the nexus fraction is $(€600,000 + €180,000) \div €800,000 = 97.5\%$ (Guide 03). The NID reference rate is assumed, for illustration only, to be 8.2%, giving an assumed allowable NID of €123,000 ($€1,500,000 \times 8.2\%$), which is within the article 9B cap of 80% of the €750,000 profit from the assets financed by the new equity (€600,000). The whole of the NID is attributable to the qualifying asset.

Sigma Tech Ltd: tax year 2026

Line	€
IP profit before NID (€1,000,000 – €250,000 direct costs)	750,000
Less: assumed allowable NID attributable to the asset, deducted as a direct expense	(123,000)
Overall income from the qualifying asset	627,000
Qualifying profit: overall income × 97.5% nexus fraction	611,325
IP Box deduction: 80% of qualifying profit	(489,060)
Chargeable income (overall income less IP Box deduction)	137,940
Corporation tax at 15%	20,691
Effective rate on IP profit before NID	2.76%

Under the Intangible Assets Regulations (K.Δ.Π. 336/2016, regulation 4(2)) the NID attributable to the qualifying asset is treated as a direct expense in arriving at the overall income from the asset, so it is deducted before the nexus fraction and the 80% deduction and is not deducted a second time afterwards. The 2.5% of overall income outside the nexus fraction (€15,675) remains fully chargeable. The article 9B cap is documented separately from the IP Box computation, and the reference rate is an assumption: the published rate for the year and country applies in the actual computation. The R&D super-deduction is not available to Sigma because it claims the IP Box. Pillar Two would only be relevant if Sigma belonged to a group above €750,000,000 of revenue. See Guide 03 for the nexus records required.

● Example 5: holding company

Tau Holdings Ltd holds trading subsidiaries in Poland, Germany and the United Arab Emirates and an intra-group loan. In 2026 it receives dividends of €2,000,000 from Poland (19% tax), €1,500,000 from Germany (about 30% tax) and €300,000 from the UAE subsidiary, which trades actively and pays 9% UAE corporate tax; earns interest of €150,000 on the loan; sells its Slovak subsidiary for a gain of €5,000,000; and incurs expenses of €180,000, of which €36,000 relate to the financing activity and the balance to holding the investments.

Tau Holdings Ltd: tax year 2026

Item	Amount €	Treatment	Tax €
Dividends from Poland and Germany	3,500,000	Exempt from corporation tax; exempt from SDC (active subsidiaries)	0
Dividend from UAE subsidiary	300,000	Exempt from corporation tax; exempt from SDC because more than 50% of the payer's activities are trading, although its 9% rate is above the 7.5% test in any event	0
Gain on sale of Slovak subsidiary	5,000,000	Exempt (securities); no Cyprus immovable property	0
Interest income less attributable expenses (€150,000 – €36,000)	114,000	Corporation tax at 15%; no SDC from 2026	17,100
Expenses attributable to exempt income	144,000	Not deductible	—
Total Cyprus tax		Effective rate on total income of €8,914,000	17,100 (0.2%)

A distribution of the €8,000,000 of exempt profit to a non-resident parent bears no Cyprus withholding tax; to a domiciled resident individual it would bear 5% SDC and GHS within the cap. Polish and German withholding tax on the dividends is nil under the Parent-Subsidiary Directive, assuming the holding conditions and beneficial ownership are satisfied; UAE withholding tax is nil under the treaty and UAE domestic law. Tau must document Cyprus substance (Chapter 02) and file the summary information table for the intra-group loan.

● Example 6: trading company with foreign withholding tax and a foreign branch

Upsilon Engineering Ltd earns Cyprus trading profit of €600,000, service fees of €400,000 from a customer in a treaty country that withholds 10% technical service tax, and profit of €250,000 through a branch in a non-EU country taxed there at 25%, where the branch performs active engineering work. Expenses attributable to the foreign service fees are €150,000.

Upsilon Engineering Ltd: tax year 2026

Item	€
Cyprus trading profit	600,000
Foreign service fees less attributable expenses (€400,000 – €150,000)	250,000
Foreign branch profit (exempt: active, taxed at 25%)	0
Chargeable income	850,000
Corporation tax at 15%	127,500
Less: foreign tax credit — lower of foreign tax withheld (€40,000) and Cyprus tax on the foreign income (15% × €250,000 = €37,500)	(37,500)
Corporation tax payable	90,000
Foreign tax not relieved (permanent cost)	2,500

The branch profit is exempt because the branch is active; the €62,500 of foreign tax on it cannot be credited against Cyprus tax on other income. If the branch had made a loss of €250,000, the loss would have reduced Cyprus chargeable income to €600,000, with recapture against future branch profits. Where the foreign state's treaty with Cyprus excludes technical service fees from source taxation, the €40,000 should be reclaimed abroad rather than credited in Cyprus, because only €37,500 is creditable and the balance is lost.

● Example 7: owner-managed company, first year of the reform

Phi Consulting Ltd is owned by a Cyprus domiciled resident who is its sole director. It made accounting profits of €150,000 in 2025 (retained) and €180,000 in 2026. In 2026 the owner draws a salary of €40,000 and wishes to extract as much as possible. The company has no other adjustments. The two columns show the tax cost of each profit vintage on its own; each net figure assumes that the dividend in that column is the only dividend the owner receives in the year, so that the GHS is computed on it within the owner's remaining €180,000 base.

Phi Consulting Ltd: distribution planning at the end of 2026 (columns are alternatives, each computed on its own)

Step	2025 profits €	2026 profits €
Accounting profit before tax (2026 after salary and employer costs of €46,160)	150,000	133,840
Corporation tax (12.5% / 15%)	(18,750)	(20,076)
Profit after tax available for distribution	131,250	113,764
Deemed distribution exposure (70% of after-tax profit at 31 December 2027, less actual dividends)	91,875	None
SDC on distribution to the owner	17% until 2031	5%
GHS at 2.65% on the dividend, if it is the only dividend of the year	(3,478)	(3,015)
Net dividend if fully distributed (after SDC and GHS)	105,459	105,061

One GHS ceiling applies per individual across all income. If both dividends were received in the same year as the €40,000 salary, the dividend income within the €180,000 ceiling would be €140,000 and the GHS on the dividends €3,710 in total, not €3,478 plus €3,015: the combined net receipt would be €245,014 less SDC of €28,001 less GHS of €3,710 = €213,303, compared with €210,520 if the two columns were simply added. Distributing the 2025 profit costs €22,313 of SDC against €5,688 on a similar amount of 2026 profit. The owner cannot avoid the 17% charge on 2025 profit by waiting: 70% of it is deemed distributed on 31 December 2027 in any event, and the 17% rate applies to actual distributions until 2031. The practical course is to distribute at least the deemed amount of the 2025 profit by 31 December 2027, so that the SDC is paid on an actual dividend that the owner receives, and to specify in each resolution the year's profit from which the dividend is paid.

14

Year-end closing checklist and director responsibilities

The tax outcome for a year is largely fixed by the time the accounts are closed. This chapter sets out the year-end actions that protect deductions, reliefs and deadlines, the file that supports the return, and the personal responsibilities of directors under Cyprus tax and company law.

• Before the year end

- ✓ Pay all social insurance, GHS, provident and pension fund contributions for the year by their due dates, so that the related salaries remain deductible.
- ✓ Settle rent for Cyprus premises through the bank or another recognised electronic method.
- ✓ Review the provisional tax estimate against the forecast and revise it upwards by 31 December if the original estimate is below 75% of the expected final figure.
- ✓ Decide on dividends out of 2024 and 2025 profits in the light of the deemed distribution dates of 31 December 2026 and 2027 and the 17% transitional rate.
- ✓ Identify shareholder use of company assets and undervalue transactions, and either process them as benefits in kind or provide for 10% SDC.
- ✓ Confirm that intra-group loans and services are priced within the safe harbours or supported by benchmarking, and that the Local File thresholds have been tested at arm's-length values.
- ✓ Bring qualifying environment-friendly, electric vehicle and R&D expenditure into use before the year end so that allowances and the 120% deduction start in 2026.
- ✓ Where new equity is planned, complete the allotment, Registrar filing and use of funds before 31 December so that the NID runs from the date of introduction.
- ✓ Carry out the physical stock count and update the fixed asset register with disposals for balancing statements.
- ✓ Check the EU non-cooperative list and the low-tax test for every associated counterparty paid interest, royalties or dividends during the year.

• Closing the accounts and the tax computation

Year-end tax file for the 2026 return

Area	Documents and schedules
Financial statements	Audited or, where eligible, reviewed IFRS financial statements; trial balance; bank reconciliations; fixed asset register with tax written-down values; reserves note showing profit by year of origin (up to 2025 and 2026 onwards)
Tax computation	Reconciliation of accounting profit to chargeable income with a schedule for each adjustment; capital allowance and balancing computations; entertainment cap calculation; unpaid-contribution salary schedule; allocation of expenses to exempt income
Exempt income	Dividend vouchers and evidence for the SDC participation test (payer's activities and effective tax rate); securities disposal contracts; foreign PE accounts and the exemption or election analysis
Losses and groups	Loss roll-forward by year of origin and expiry; group structure chart with residence and voting percentages; group relief claims and surrenders agreed between companies
Incentives	NID: allotment resolutions, Registrar forms, bank evidence, use-of-funds tracing, published reference rate, cap computation by asset; R&D: project descriptions, cost ledgers and the ownership of resulting IP; IP Box: nexus tracking by asset (Guide 03); innovative SME certificates; audiovisual approvals
Interest	Interest limitation computation (exceeding borrowing costs, tax EBITDA, group allocation, carried-forward amounts); low-tax jurisdiction test for each associated lender or licensor; grandfathered loan register
International	Foreign tax certificates and credit computation by source; treaty residence certificates obtained and issued; withholding declarations; summary information table; Local or Master File or minimum documentation; DAC6 assessment log; CbC notification and Pillar Two scoping memo
Distributions	Dividend resolutions specifying profit year; shareholder residence and domicile declarations; SDC and GHS withholding computations and TD603 filings; deemed distribution computation for 2024 and 2025 profits; disguised dividend review
Other taxes	VAT reconciliation of returns to the ledger and partial exemption calculation; payroll reconciliation of TD7 returns to the ledger; property transaction files with CGT, levy and transfer fee computations
Payments and filings	Provisional tax returns and receipts; balancing payment; TFA filing confirmations; Registrar annual return (HE32) and UBO confirmation; retention schedule of six years from filing of the return

● Director responsibilities

The directors are responsible for the company's compliance with the tax laws, for the accuracy of the returns they sign and for ensuring that tax withheld from employees, shareholders and non-residents is paid over. The Assessment and Collection of Taxes Law imposes criminal liability for failures to file and for omissions from returns, and the penalties in Chapter 12 are charged to the company but can, in cases of fraud or wilful default, reach the officers concerned. Under the Companies Law, directors approve the financial statements, declare interim dividends, confirm distributable reserves and answer for wrongful trading; they file the annual return and the beneficial ownership confirmation with the Registrar. A resident director's presence at board meetings in Cyprus is also part of the substance evidence that supports the company's residence (Chapter 02).

Director duties with a tax dimension

Duty	Source and consequence
Sign and file accurate corporation tax, VAT, payroll and withholding returns on time	Assessment and Collection of Taxes Law; VAT Law; fixed and percentage penalties, interest and criminal sanctions for omissions
Withhold and pay SDC, GHS, PAYE and non-resident tax	SDC Law; GHS Law; Income Tax Law; the company is the debtor for withheld amounts regardless of whether it deducted them
Declare dividends only from distributable profits after considering solvency	Companies Law, Cap. 113; unlawful dividends are recoverable from shareholders who knew, and directors may be liable
Prepare and approve audited or, where eligible, reviewed financial statements and file the annual return and UBO confirmation	Companies Law; late filing fees and possible strike-off; loss of good standing affects tax residence certificates and bank relationships
Maintain management and control in Cyprus	Income Tax Law residence test; loss of residence triggers exit tax and loss of treaty benefits
Ensure related-party transactions are at arm's length and documented	Income Tax Law article 33; transfer pricing regulations; adjustments, penalties and possible DAC6 reporting
Assess and report DAC6 arrangements where the company is the relevant taxpayer	Law 205(I)/2012 as amended by Law 41(I)/2021; penalties up to €20,000 per arrangement
Retain records for six years after the return is filed	Assessment and Collection of Taxes Law, as amended by Law 243(I)/2025; inability to support deductions in an enquiry

● Legal references

- Income Tax Law 118(I)/2002, as amended, including the amending laws of the 2026 tax reform: articles 2 (residence), 5 (charge), 8 (exemptions), 9 (deductions), 9(1)(d) (R&D), 9(1)(k) (IP Box), 9B (notional interest deduction), 10 (capital allowances), 11 (deductions not allowed, including the interest limitation rule in article 11(16)), 13 (losses and group relief), 21–24 (withholding on payments to non-residents), 26–30 (reorganisations), 33 (arm's-length principle) and the ATAD provisions on controlled foreign companies, exit taxation, hybrid mismatches and the general anti-abuse rule; Income Tax (Intangible Assets) Regulations, K.Δ.Π. 336/2016 (IP Box).
- Special Contribution for the Defence of the Republic Law 117(I)/2002, as amended for 2026 (article 3 rates, deemed and disguised distributions, dissolution and capital reduction).
- Assessment and Collection of Taxes Law 4/1978, as amended, including by Law 243(I)/2025 (returns, the 31 January date from 2026, provisional tax, self-assessment, article 5C, penalties, interest, assessment periods, records).
- Capital Gains Tax Law 52/1980, as amended (20% rate, 20% indirect holding threshold from 2026, exemptions).
- Value Added Tax Law 95(I)/2000, as amended.
- Social Insurance Law 59(I)/2010 and General Healthcare System Law 89(I)/2001, as amended.
- Merchant Shipping (Fees and Taxing Provisions) Law 44(I)/2010 (tonnage tax); Alternative Investment Funds Law 124(I)/2018; Open-Ended Undertakings for Collective Investment Law 78(I)/2012.
- Administrative Cooperation in the Field of Taxation Law 205(I)/2012, as amended by Law 41(I)/2021 (DAC6) and subsequent amendments (DAC7, DAC8); Country-by-Country Reporting Decree.
- Law on the Global Minimum Level of Taxation of Multinational Enterprise Groups and Large-Scale Domestic Groups of 2024 (Pillar Two); Tax Department relief announcement of 15 June 2026.
- Central Agency for the Equal Distribution of Burdens Law (0.4% levy); Department of Lands and Surveys (Fees and Charges) Law (transfer fees); Companies Law, Cap. 113 (registration fees, capital duty, annual return, beneficial ownership register, review engagements under Law 88(I)/2022).
- Tax Department Circular 6/2023 (transfer pricing simplification; NID excluded from borrowing costs); circulars on the definition of securities; Interpretative Circular 55 (DAC6 penalties).



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