

# PCV

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**TAXES**

The image features a hand in a suit jacket pointing towards the word 'TAXES'. Surrounding the hand are several hexagonal icons representing financial and business concepts: a percentage sign, a book, a checklist, a family of three, a globe, a dollar sign, a bar chart with an upward arrow, a classical building, a globe, a checklist, a bar chart with an upward arrow, and a gear.

## CYPRUS TAX REFORMS 2025 KEY CHANGES & BUSINESS IMPLICATIONS

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## Introduction

Cyprus is set to introduce comprehensive tax reforms, marking a significant shift in its fiscal landscape. A blueprint for these changes has been presented by the Economics Research Centre of the University of Cyprus (CypERC) to key stakeholders, including business associations and professional bodies.

However, before implementation, the proposal will undergo thorough scrutiny by the Ministry of Finance, which will submit it to the Council of Ministers for approval. Once approved, the draft bills will be filed with the House of Representatives (HoR), where the Finance Committee will review them before a final vote in the plenary session.

The new reforms are expected to take effect in 2025, with full implementation by 2026.

Below, we break down the most important tax reforms and what they mean for businesses and individuals.

### **Corporate Tax Rate Increase**

A major reform is the increase in the corporate income tax rate from 12.5% to 15%, applicable to all corporations operating in Cyprus.

### **Special Defence Contribution (SDC) Adjustments**

The proposed changes to the Special Defence Contribution (SDC) include:.

- **Abolition of deemed distribution rules**, eliminating the requirement for companies to distribute and tax profits under SDC



- **Removal of SDC on rental income**, reducing the tax burden on property owners
- **Reduction of the SDC rate on dividends** from 17% to 5% for natural persons who are both tax residents and domiciled in Cyprus
- **Non-domiciled status rules remain unchanged**, though a potential extension period may be introduced, subject to an annual fee.

## Streamlining of Stamp Duty

The scope of stamp duty will be significantly reduced, applying only to agreements related to immovable property, banking, and insurance transactions. This reform simplifies commercial transactions by eliminating unnecessary administrative burdens.

## Personal Income Tax Adjustments

The tax brackets will be restructured, benefiting lower-income earners while adjusting the tax burden on higher incomes.

### Key changes:

- The tax-free threshold increases from €19.500 to €20.500
- The highest tax band (35%) now applies to incomes above €80.000 (previously €60.000)

### Taxable Income (€)

up to 20.500

20.501 - 30.000

30.001 - 40.000

40.001 - 80.000

over 80.000

### Tax Rate (%)

0%

20%

25%

30%

35%





## New Deductions for Families and Individuals

To support families and sustainability initiatives, new tax deductions will be introduced:

- **Parents with children or students** will receive tax relief based on income criteria
- **Mortgage interest and rent payments** for primary residences will be deductible
- **Households investing in green upgrades** (such as energy-efficient systems) will benefit from tax incentives

## Key Considerations for Businesses

Businesses should prepare for several tax adjustments that may impact their financial planning:

- **Stock Options:** The government is considering a reduced tax rate for stock options at the time of exercise, subject to specific conditions
- **Ex-Gratia Payments & Golden Handshakes:** These will now be fully taxable for employees, but employers will be able to claim deductions
- **Culture-Related Donations & Contributions:** These will become tax-deductible, promoting corporate social responsibility
- **Extension of Tax Loss Carryforward:** The period for carrying forward losses increases from five (5) to ten (10) years subject to restrictions, providing businesses with greater flexibility
- Current **Insurance Premium Tax** provisions to be annulled



- **60-day Rule Tax Residency:** The extension of definition to cover individuals whose centre of business interest is in Cyprus, regardless of their physical presence
- **Green and Digital Transformation Incentives:** Companies investing in sustainability and technology will be eligible for:
  - **Super deductions** on qualifying expenses
  - **Accelerated depreciation** on related assets
  - **Deductions for employee training**
  - **No restrictions on carried-forward losses from such investments**

## Next Steps

The proposed reforms signal Cyprus' commitment to maintaining a business-friendly environment while ensuring compliance with international tax regulations. However, with the approval process still underway, businesses and individuals should monitor developments closely to prepare for any legislative amendments.

Our legal experts on tax matters are available to help businesses navigate these upcoming changes, ensuring compliance and optimising tax strategies. Contact us at [info@pelagiaslaw.com](mailto:info@pelagiaslaw.com) for tailored advice on how the 2025 tax reforms may affect your financial planning.