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Cyprus: Law and Practice

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CYPRUS

Law and Practice

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1. Corporate Structures, Residence and Tax Treatment

1.1 Corporate Forms and Their Tax Treatment

Businesses in Cyprus generally adopt a corporate form. The most common type of corporate form is that of a private (or public) limited liability company with shares. A Cypriot company is fiscally opaque for tax purposes; therefore, it is taxed as a separate legal entity.

Pursuant to Cyprus law, a company is a legal person with a separate legal personality, distinct from its members and its directors. Thus, its shareholders are not personally liable for the obligations of the company and the liability of the shareholders is limited to their share capital contribution. The existence of the company does not depend on the existence or continuation of its members.

Additionally, a Cyprus company may be limited by guarantee. Usually, companies limited by guarantee are incorporated as non-profit organisations in order to pursue charitable purposes.

1.2 Use and Taxation of Transparent Business Structures

Cyprus law allows for the establishment of general and limited partnerships. A partnership is not treated as a separate taxable person. It is a transparent entity and the tax is imposed on the partners rather than on the partnership. Partnerships are widely used in joint venture projects and in smaller (usually family-owned) businesses.

1.3 Tests for Determining Tax Residence

As per the provisions of the Cyprus income tax law, a legal person is considered to be a Cyprus tax resident if its management and control are exercised in Cyprus or if it was incorporated as a Cyprus company pursuant to the provisions of the Cyprus Companies Law or transferred its legal seat or registered office from abroad to Cyprus.

The tax legislation does not include a clear definition of the "management and control" test. The minimum requirements for an entity to be considered a Cyprus tax resident are quite general and include:

- the place of residence of the majority of the directors;
- the place where the meetings of the board of directors are held; and
- the place where the general policy of the entity is formulated.

1.4 Applicable Corporate and Individual Tax Rates

The applicable tax rate for corporations is 15% as from 1 January 2026.

Income for individuals is subject to progressive tax rates:

- The first EUR22,000 is tax-free.
- From EUR22,001 to EUR32,000, the applicable tax rate is 20%.
- From EUR32,001 to EUR42,000, the applicable tax rate is 25%.
- From EUR42,001 to EUR72,000, the income is taxed at 30%.
- Any amount above EUR72,001 is taxed at 35%.

A number of deductions and personal allowances are available, and these include allowances based on specific family thresholds.

Gains arising from the sale, gift, exchange or use of a crypto-asset are subject to a flat rate of 8%. This provision is applicable as of 1 January 2026.

Businesses owned directly by individuals are subject to the individual tax rates. The same applies to businesses owned through transparent entities.

2. Corporate Tax Regime

2.1 Taxable Profits

Business profits of a Cypriot company, adjusted for various disallowances and exemptions, are subject to tax at 15%. Cyprus tax residents are taxed on their worldwide income. Profits are taxed on an accrual basis and the International Financial Reporting Standards are followed.

Generally, expenses wholly and exclusively incurred by a company in the production of taxable income are allowable. Private expenses, expenses not matched to taxable income or not validated through proper supporting documentation, provisions (depreciation, amortisation, impairment, and obsolete stock), expenses linked to non-taxable assets, and exchange differences are considered non-deductible expenses. However, capital allowances, balancing allowances calculated on the disposal of a non-current asset, notional interest deduction, and notional loss in related-party transactions are also deductible.

Further to the latest tax reform, starting from 1 January 2026, gains arising from the sale, gift, exchange or use of a crypto-asset are subject to a flat rate of 8%.

2.2 Technology Investments

The current IP tax regime in Cyprus follows the nexus approach – according to which, a direct link between qualifying income and own qualifying expenses is essential for the IP to qualify. The level of the qualifying profits is positively correlated to the extent that R&D activities are performed by the same entity.

Under the current IP tax rules, 80% of the overall income derived from the qualifying intangible asset is treated as a deductible expense.

A qualifying intangible asset is defined as an asset that, as a result of R&D activities, has been acquired, developed or exploited by a person within the course of carrying out their business. Such assets specifically include:

- patents;
- computer software; and
- other IP that is legally protected and comprises:
  (a) utility models;
  (b) IP assets that provide protection to plants and genetic material or orphan drug designations, in addition to extensions of protection for patents; or
  (c) non-obvious, useful and novel IP assets (which are certified as such by an appropriate authority) where the person utilising the asset does not generate annual gross revenues in excess of EUR7.5 million from all intangible assets (or EUR50 million for groups).

Qualifying intangible assets specifically exclude trade marks, business names, brand image rights, and other IP rights used for the marketing of products and services.

Persons that may benefit from Cyprus' IP tax regime include Cyprus tax-resident taxpayers, tax-resident permanent establishments (PEs) of non-tax resident persons, and foreign permanent establishments that are subject to tax in Cyprus.

2.3 Special Incentives

In addition to the Cyprus IP tax regime explained in **2.2 Technology Investments**, there are a number of special incentives that apply in Cyprus.

Cyprus Holding Companies

Cyprus is an attractive jurisdiction for establishing a holding company. Specifically, dividend income received by a Cyprus holding company is generally exempt from any income tax in Cyprus (subject to the hybrid instrument exception explained in **9.6 Hybrid Instruments and BEPS Implementation**) and from special defence contribution (SDC) (subject to the passive dividend rule explained in **6.3 Dividends From Foreign Subsidiaries**). Also, no withholding tax applies to any outgoing dividend or other profit distributions or interest, irrespective of the existence of a double-tax treaty (DTT). Furthermore, profits from the sale of shares are tax-exempt. In general, no restrictions on foreign share ownership exist, and, as a result, a foreign investor is allowed to be the sole shareholder of a Cyprus company.

Tonnage Tax System

Cyprus tax-resident ship-owners or ship management companies that qualify under the relevant legislation with regard to qualifying ships (as defined therein) engaged in qualifying shipping activities (as defined therein) can fall under the tonnage tax system (TTS). The TTS refers to fixed rates of tax based on the net tonnage of the ship – ie, no requirement for a computation of tax-adjusted profits exists. It is also important to note that there is no tax levied on the disposal of

qualifying ships and that dividends distributed out of companies under the TTS are not subject to the SDC.

Incentives for Individuals

Special incentives are also provided to individuals. A tax incentive was introduced in 2022 and amended on 30 June 2023, that provides that a natural person employed in Cyprus (as of 1 January 2022) enjoys a tax exemption of 50% on salaries for a period of 17 years from the date of employment, irrespective of whether the individual changed employers during the relevant 17-year period – provided they have previously not been resident in Cyprus for a period of at least 15 consecutive years and earn more than EUR55,000 per year. Previously (ie, before the June 2023 amendment), the exemption was only granted for the first employment of the individual in Cyprus.

Furthermore, individuals who first take up employment in Cyprus after 26 July 2022, with annual emoluments lower than EUR55,000, will be eligible for a 20% or EUR8,550 exemption (whichever is lower) for a maximum period of seven years. An individual must have been employed abroad for at least three consecutive years prior to the commencement of employment in Cyprus in order to claim this exemption, which can be claimed from the year after taking up employment in Cyprus.

Non-Doms

In addition, individuals who are not tax resident in Cyprus or individuals who are tax resident but non-domiciled in Cyprus are not subject to the SDC on dividends or interest. Non-dom status, once obtained, lasts for 17 years. However, a new provision was introduced in the tax legislation (applicable as of 1 January 2026) which states that a non-dom individual whose non-dom status has expired maintains this domicile status up until the completion of 20 years. In addition, an individual whose non-dom status has expired may choose to be subject to an alternative method of tax for a period of five consecutive years by paying an amount of SDC of EUR250,000 in one instalment, regardless of the amount of their dividend or interest income.

Innovative SMEs

A qualifying person that makes an investment in an innovative SME (as defined by the Cyprus Income Tax Law) may deduct the costs of the investment from the taxable income subject to limitations imposed by the law, such as:

- the tax deduction is limited to 50% of the investor's taxable income in the year in which the investment is made;
- the deductible amount cannot be more than EUR150,000 within a tax year; and
- the investor must retain the relevant investment in the innovative SME for at least three years.

This incentive is available until 31 December 2026.

Start-Up Visa

On 19 December 2024, the Deputy Ministry of Research and Digital Policy announced the approval of a revised start-up visa scheme, which is applicable as of 1 January 2025. This scheme enables owners and senior executives from third countries to enter, reside and work in Cyprus, for the purposes of establishing a new start-up or transferring an existing start-up into Cyprus.

2.4 Loss Relief

On a company level, tax-adjusted losses can be carried forward and be set off against tax-adjusted profits for the next seven years. Losses cannot be carried back.

On a group level (subject to the existence of certain criteria and the formation of a tax group), group members may surrender losses from one loss-making member to another profitable one. A direct or indirect holding of at least 75% for the entire tax year is necessary for a company to be considered forming part of a tax group.

As of 2015, the interposition of companies established in the EU – or in countries that either have a DTT with Cyprus or have signed the OECD terms for exchange of information – can be taken into consideration for the calculation of an indirect holding. Furthermore, group relief is available between companies established in EU member states, provided that the EU subsidiary

has exhausted all means of surrendering or carrying forward the losses in its own state.

2.5 Deduction of Interest

The Cyprus Income Tax Law provides that any interest relating to (or that is deemed to relate to) the cost of acquiring a private motor vehicle – irrespective of whether it is used in the business – or to the cost of acquiring any other asset not used in the business is not deductible.

The Commissioner of Taxation has taken the position that shares are not an asset used in the business and, as such, any interest on loans to acquire shares is not deductible for a seven-year period. This position is justified on the grounds that any income from the holding of shares (ie, dividends and capital gains) is exempt from corporation tax.

As of 1 January 2012, the above-mentioned provision does not apply in cases where new shares are acquired directly or indirectly in a wholly owned subsidiary – provided that this subsidiary does not own any assets that are not used in the business. If this subsidiary owns assets that are not used in the business, the restriction of interest will only correspond to the percentage of assets not used in the business.

Also, from 1 January 2020, Cyprus' tax legislation contains an interest limitation rule (ILR) that limits the otherwise deductible-exceeding borrowing costs of the Cypriot taxpayer/Cypriot group to 30% of adjusted taxable profit (taxable EBITDA). The ILR contains an annual EUR3 million safe harbour threshold.

2.6 Consolidated Tax Grouping

No rules for tax grouping exist, apart from the basic rules for group tax relief described in **2.4 Loss Relief**.

2.7 Capital Gains

In Cyprus, no capital gains tax exists, apart from the taxation of gains arising from the disposal of immovable property situated in Cyprus. The profits from the sale of shares are exempt from any taxation.

Capital gains tax applies only to direct and indirect disposals of real estate situated in Cyprus. The applicable rate is 20% and is applied on gains from the disposal of immovable property or gains from the disposal of shares that directly or indirectly own immovable property situated in Cyprus.

2.8 Other Taxes on Transactions

Pursuant to the tax reform that was approved by the Cyprus parliament in December 2025, stamp duty fee has been abolished as from 1 January 2026.

2.9 Other Notable Taxes

VAT

Incorporated businesses may be subject to VAT. The standard rate of VAT is 19%; however, reduced rates of 5% and 9% apply to certain supplies.

Special Defence Contribution (SDC)

The SDC is payable on passive income – namely, dividends, and passive interest income – by Cyprus tax-resident companies and individuals who are both tax residents and domiciled in Cyprus.

SDC on rents has been abolished as of 1 January 2026.

Dividends received by individuals (resident and domiciled in Cyprus) are subject to an SDC rate of 5%. Dividends received by Cyprus tax-resident companies are not subject to the SDC (subject to specific exceptions mentioned in **6.3 Dividends From Foreign Subsidiaries**).

The SDC rate on interest for both natural and legal persons is 17% as of 1 January 2024.

3. Corporations and Non-Corporate Businesses

3.1 Form of Closely Held Local Businesses

Closely held local businesses usually operate in corporate form – namely, as private limited liability companies with shares. The main reason for this is the lower corporate tax rate compared with the tax rates applicable to individuals or with the tax treatment of partnerships.

3.2 Individual and Corporate Rates

The corporate and individual tax rates are included in **1.4 Applicable Corporate and Individual Tax Rates**.

No particular rules exist to prevent individual professionals from earning income at corporate rates. Such professionals have the right to incorporate legal entities and conduct their business through them. If income is earned through such companies, it is taxed at the corporate tax rate. If the individual conducts business in their name, such individual is taxed at individual rates.

For specific professions (eg, advocates and doctors), an authorisation from the relevant regulator (eg, the Legal Council) is required prior to the incorporation of a special purpose company (such as a lawyers' limited company).

3.3 Restrictions on Retention of Earnings by Closely Held Corporations

Currently, there are no rules to prevent a Cyprus company from accumulating earnings.

The deemed dividend distribution rules have been abolished as from 1 January 2026.

3.4 Taxation of Individuals on Shares in Closely Held Corporations

The gains on the sale of shares are exempt from any taxation in Cyprus. Dividends received by individuals (resident and domiciled in Cyprus) are not subject to income tax but are subject to an SDC rate of 5%. A natural person who is a Cyprus tax resident but non-domiciled in Cyprus is exempt from the obligation to pay the SDC. This also applies to individuals who are foreign tax residents.

3.5 Taxation of Individuals on Shares in Public Corporations

The same rules apply as for the taxation of individuals on shares in private corporations.

4. Taxation of Inbound Investments

4.1 Application of Withholding Taxes

Cyprus does not apply any withholding tax on dividends or interest paid to non-residents (or to Cyprus tax residents who are non-domiciled).

Regarding the payment of royalties to a non-Cyprus tax resident, a maximum 10% withholding tax applies on the gross amount of such payment if the royalty rights were used in Cyprus (5% in relation to films). Also, in relation to dividends, interest and royalties paid to entities incorporated in another EU member state, the provisions of the relevant EU Directives apply.

Furthermore, the gross income derived by an individual who is not a tax resident in Cyprus from the exercise in Cyprus of any profession or public entertainment is subject to a maximum withholding tax of 10% (reduced by any DTT favourable rate). The obligation to withhold the tax lies on the Cyprus tax-resident person that has invited the non-resident professional/entertainer.

The maximum withholding tax for services regarding the exploration, extraction or exploitation of the continental shelf – as well as the establishment and use of pipelines and other installations on the ground, seabed and/or the surface of the sea – is 5%.

Also, no withholding tax applies on any outgoing dividend or other profit distributions or interest, irrespective of the existence of a DTT. Furthermore, profits arising from the disposal of titles (shares) are tax-exempt. Non-Cyprus tax residents or non-domiciled Cyprus tax residents who are shareholders of a Cyprus company are not subject to any SDC.

Since 31 December 2022, Cyprus has applied withholding tax on certain outbound payments of dividends, interest and royalties – subject to specific conditions – in cases where the recipient is a legal entity that has tax residency in a jurisdiction included in the EU list of non-co-operative jurisdictions, or is incorporated there but not a tax resident in any other jurisdiction.

4.2 Key Treaty Jurisdictions for Inbound Investment

Cyprus enjoys a wide network of DTTs, as it has entered into such with more than 70 countries. The majority of these treaties follow the OECD Model Tax Convention on Income and on Capital (the "OECD Model") – with the exception of the DTT with the USA, which follows the most recent model of US agreements. Foreign investors usually use Cyprus companies to make investments in local corporate stock or debts.

4.3 Tax Authority Scrutiny of "Treaty Shopping" Practices

The author is not aware of any cases in which the local tax authorities have challenged the use of treaty-country entities by residents of non-treaty countries.

4.4 Transfer Pricing Issues for Inbound Investors

The Cyprus transfer pricing rules (as such rules apply from 1 January 2022 onwards) cover all types of transactions between related parties in excess of EUR750,000 per category of transaction. The types of transaction include sale and purchase of goods, provision and receipt of services, financing transactions and any IP-related transaction, financing transactions, as well as other transactions between related parties. In relation to the definition of the connection between related parties, the 25% relationship test applies.

The current thresholds for a local file are the following:

- transactions for the sale of goods: EUR5,000,000;
- financing transactions: EUR10,000,000; and
- all other transactions: EUR2,500,000.

Moreover, transfer pricing documentation compliance requirements have been introduced in relation to Cyprus tax-resident persons and/or permanent establishments of non-Cyprus tax-resident entities located in Cyprus that are engaging in local or cross-border transactions. Such transfer pricing documentation must be prepared on an annual basis, prior to the income tax return submission for the relevant tax year, and it must include the master file, the local file and the summary information table.

The Cyprus transfer pricing rules also include advanced pricing agreement procedures.

4.5 Challenges to Related-Party Limited Risk Distribution Arrangements

Tax authorities do challenge related-party transactions in general. As already mentioned in **4.4 Transfer Pricing Issues for Inbound Investors**, Cyprus has re-enforced its transfer pricing regulations by introducing the requirement for performing transfer pricing studies for all related-party transactions.

4.6 Local Transfer Pricing Rules and OECD Standards

Cyprus' transfer pricing rules, which became effective on 2 January 2022, do not deviate from OECD standards. Transactions between related companies are obliged to follow the arm's-length principle as set out in the OECD Transfer Pricing Guidelines.

4.7 Transfer Pricing Disputes and Mutual Agreement Procedures

Transfer pricing rules have been adopted since 2017 (and updated in 2022) and, given that this is something relatively new in Cyprus, the author is not aware of any disputes resolved by local authorities. However, owing to the fact that extensive reform of the applicable transfer pricing rules in Cyprus took place in 2022, the local tax authorities are expected to be more aggressive when it comes to transfer pricing matters from now on.

5. Taxation of Non-Local Corporations

5.1 Compensating Adjustments

The Cyprus tax authorities do not have any experience of mutual agreement procedures (MAPs) under a transfer pricing arrangement. Therefore, if an adjustment is made from a foreign tax authority, the corresponding adjustment will not be allowed/made for Cyprus tax purposes. The reason for this is the absence of a relevant regulatory framework.

5.2 Local Branches and Local Subsidiaries

The taxation of local branches of foreign corporations is no different to that of local subsidiaries of foreign corporations.

5.3 Capital Gains of Non-Residents

There is no capital gains tax applicable in Cyprus in relation to profits from the sale of shares. Profits from the disposal of titles are exempt from any tax in Cyprus. Titles are defined as shares, bonds, debentures, founders' shares, and other titles of companies or other legal persons incorporated in Cyprus or abroad (and rights thereon).

5.4 Tax Implications of Change of Control

Any disposal to related parties should be executed on an arm's-length basis. Moreover, Cyprus introduced exit taxation rules in 2020, within the wider implementation of the EU Anti-Tax Avoidance Directive (ATAD).

The relevant provisions stipulate that corporate taxpayers that move assets or their tax residency out of Cyprus will be subject to tax at an amount equal to the market value of the transferred assets at the time of exit – minus their value for tax purposes – in any of the following circumstances:

- a Cyprus tax-resident company transfers assets from its head office in Cyprus to its permanent establishment in another member state or in a third country so that Cyprus does not have the right to tax the transferred assets owing to the transfer;
- a non-Cyprus tax-resident company with a permanent establishment in Cyprus transfers assets from its Cypriot permanent establishment to its head office or another permanent establishment in another EU member state or third country so that Cyprus does not have the right to tax the transferred assets owing to the transfer;
- a Cyprus tax-resident company transfers its tax residence from Cyprus to another EU member state or to a third country, apart from those assets that remain effectively connected to a permanent establishment in Cyprus; and
- a non-Cyprus tax-resident company with a permanent establishment in Cyprus transfers the business carried out by its permanent establishment from Cyprus to another EU member state or to a third country so that Cyprus does not have the right to tax the transferred assets owing to the transfer.

5.5 Formula-Based Income Attribution

The tax treatment of a foreign-owned local affiliate is the same as that of any other Cyprus company. No separate rules or formulas exist to determine their income. The rule is that Cyprus companies are taxed on their worldwide income and any foreign tax incurred is credited against the equivalent Cyprus tax on the foreign income.

5.6 Deductibility of Intra-Group Management and Administrative Charges

The general principle pursuant to the Cyprus Income Tax Law is that for an expense to be allowed as a deduction, it must have been incurred wholly and exclusively for the production of taxable income for the specific taxpayer – something that needs to be supported by the relevant documentation.

Therefore, any expenses paid by Cyprus companies on behalf of foreign affiliates will be treated as non-tax-deductible expenses. In addition, the Cyprus tax authorities could assess that a deemed receivable from the foreign affiliate exists in the Cyprus company's books, represented by the value of the expenses paid - on which, they will seek to impose and tax deemed interest at market interest rates.

5.7 Restraints on Related-Party Borrowing

Pursuant to Section 33 of the Cyprus Income Tax Law, all transactions between related parties must – for tax purposes – be carried out on an arm's length basis (ie, at fair values and on reasonable commercial terms). This is described as the "arm's length principle".

More specifically, under the arm's- length principle, where conditions are made or imposed upon the commercial or financial relations between two businesses that differ from those that would have been made between independent parties, any profits that would have accrued to one of the parties had the two businesses been independent – but have not so accrued – may be included in the profits of that business and taxed accordingly. These provisions also apply to any transactions between related parties.

Pursuant to the applicable transfer pricing rules (see **4.4 Transfer Pricing Issues for Inbound Investors**), a transfer pricing study is required for all transac-

tions between related entities. For financing transactions between related parties, the threshold is EUR10,000,000. The 25% relationship test applies to define the concept of related parties.

6. Taxation of Foreign Income of Local Corporations

6.1 Foreign Income Exemptions

Local corporations are taxed on their worldwide income. However, any foreign tax incurred is credited against the equivalent Cyprus tax on the foreign income. The tax credit in respect of the foreign tax cannot exceed the equivalent Cyprus tax in any circumstances. Credit is always granted to Cyprus tax residents on foreign tax incurred on foreign income, irrespective of the existence of a DTT.

6.2 Non-Deductible Local Expenses

As mentioned in **6.1 Foreign Income Exemptions**, Cyprus tax-resident companies are taxed on their worldwide taxable income, as taxation in Cyprus is based on the management and control of the company and not on the source of the income.

If an income is exempt (eg, dividends under conditions, sale or disposal of shares), any direct expenses associated with the specific activity are not allowed for tax purposes. Furthermore, indirect expenses must be apportioned across the Cyprus company's various activities. If the activity will generate exempt income, then the corresponding allocation of the indirect expenses will not be treated as tax-allowable.

6.3 Dividends From Foreign Subsidiaries

Dividends received by Cyprus companies from foreign subsidiaries are not subject to corporation tax in Cyprus. Nevertheless, an exception applies in that dividends received from a foreign company will be subject to corporation tax if paid out from hybrid instruments.

Moreover, dividends received by Cyprus tax-resident companies from foreign entities are not subject to the SDC, unless the passive dividend rule applies. According to this rule, the SDC is applicable if:

- the company distributing the dividend engages directly or indirectly in more than 50% of activities leading to investment income; and
- the foreign tax burden on the income of the paying company is lower (less than 7.5%) than the Cypriot tax burden.

6.4 Taxation of Intangibles Developed by Local Corporations

Intangibles developed by local corporations can be used by non-local subsidiaries in their business, provided that such intangibles are licensed to the non-local subsidiaries on an arm's length basis. Withholding taxes apply (10%) if the intangible is used in Cyprus by the non-local subsidiaries.

6.5 Controlled Foreign Corporation-Type Rules

The controlled foreign companies (CFC) rule is applicable in Cyprus as of 1 January 2019. The application of this rule results in the re-attribution of the income of a low-taxed controlled non-Cyprus subsidiary to its parent company in order to avoid revenue diversion to a jurisdiction with a more favourable tax regime. The CFC rules apply to Cyprus tax-resident companies and non-Cyprus tax-resident companies with a Cyprus permanent establishment.

A CFC is defined as a low-taxed non-Cyprus tax-resident company or permanent establishment in which the:

- Cypriot taxpayer, alone or together with its associated enterprises, holds a direct or indirect interest of more than 50%; and
- the actual corporate tax paid on the profits of the company or the permanent establishment is lower than 50% of the tax that would be paid in Cyprus.

The non-distributed income of a CFC that results from non-genuine arrangements is added to the taxable income of the Cyprus tax-resident controlling company.

The CFC rule is not applicable when the company or the foreign permanent establishment has either:

- accounting profits of no more than EUR750,000 and non-trading income of no more than EUR75,000; or
- accounting profits of no more than 10% of its operating costs for the tax period.

In any case, the Cypriot controlling entity can claim credit for any foreign tax imposed on the CFC profits that are included in its tax base.

6.6 The Substance of Non-Local Affiliates

No rules related to the substance of non-local affiliates apply in Cyprus.

6.7 The Sale of Shares in Non-Local Affiliates

The definition of titles under Cyprus law includes shares, bonds, debentures, founders' shares, and other titles of companies or other legal persons incorporated in Cyprus or abroad (and rights thereon). Cyprus law provides that the gains on the sale of shares in non-local affiliates will be exempt from any taxes in Cyprus.

7. Anti-Avoidance Provisions

7.1 Overarching Provisions

A general anti-abuse rule has applied since 1 January 2019 and was introduced as part of the general implementation of the ATAD. This rule provides that non-genuine arrangements – the main purpose of which is to procure a tax advantage – are ignored. Such arrangements are considered to be "non-genuine", as their mere existence does not reflect valid commercial reasons or economic reality.

8. Audit Cycles

8.1 Regular Routine Audit Cycle

Cyprus companies are obliged to submit an annual tax declaration, which is prepared based on audited financial statements. Such financial statements should be audited and signed by a Cyprus-qualified and licensed auditor. A tax year is the same as a calendar year.

Currently, the deadline for the submission of the income tax return for legal persons is 31 January of the year following the year after the year of assessment (eg, for 2026 the relevant deadline would be 31 January 2028). Furthermore, a Cyprus company is obliged to file its annual return with the Cyprus Registrar of Companies accompanied by the audited financial statements of the previous year.

9. BEPS

9.1 Adoption of BEPS Recommendations

The commitment of Cyprus to follow the recommendations of the OECD/G20 Base Erosion and Profit Shifting Project (BEPS) is evident, given that it has already implemented various changes in line with the BEPS recommendations.

As per BEPS Action 2: Neutralising the Effects of Hybrid Mismatch Arrangements, Cyprus has introduced hybrid mismatch rules (see **9.6 Hybrid Instruments and BEPS Implementation** for further details).

Furthermore, by implementing both the BEPS recommendations and the ATAD, Cyprus has introduced the CFC rule and the ILR.

Pursuant to BEPS Action 5: Harmful Tax Practices, Cyprus has abolished the old IP box regime and has introduced new rules regarding tax benefits granted towards genuine IP activity, as per the nexus approach.

In order to prevent the granting of treaty benefits in inappropriate circumstances, Cyprus has opted for the principal purpose test (see **9.9 Anti-Avoidance Rules** for more details).

Moreover, in light of the BEPS recommendations to prevent artificial avoidance of permanent establishment status, Cyprus has transposed all relevant new definitions into its legislation, including definitions of commissionaire and similar arrangements.

Cyprus has also introduced transfer pricing rules, legislated country-by-country (CbC) reporting and signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit

Shifting (MLI/BEPS/OECD/G20) (the "Multilateral Instrument", or MLI).

9.2 Government Policy and Objectives Approach

The general attitude of the Cypriot government is to effectuate the BEPS recommendations by improving transparency but at the same time maintain the competitiveness of the local tax regime by providing various incentives to Cyprus tax residents (both domiciled and non-domiciled).

Both Pillars One and Two have been given effect in Cyprus. In 2024, the House of Representatives of Cyprus approved the implementation of the Council Directive (EU) 2022/2523 of 14 December 2022 on ensuring a global minimum level of taxation for multinational enterprise groups and large-scale domestic groups in the Union (the "Pillar Two Directive") into domestic legislation (the "GMT Law"). Furthermore, pursuant to the recent tax reform, which was approved in December 2025 and has been in force since 1 January 2025, the corporate tax rate is 15%.

At the same time, the Cypriot government provides further incentives to attract inward investment. This strategy commenced in 2021. As mentioned in **2.3 Special Incentives**, the start-up visa scheme has been revised, and is now more effective and flexible. The main goal of the Cypriot government is to enhance innovation and to develop an entrepreneurship-friendly landscape at the local level.

Furthermore, a digital nomad visa for third-country nationals wishing to live in Cyprus yet work for companies operating from abroad, is available. The ceiling for people to benefit from this digital nomad visa scheme is 500 resident permits.

Also, the tax benefit provided in relation to investments in innovative SMEs, has been extended until 31 December 2026 (see 2.3 Special Incentives).

Further key reforms include:

- the provision of tax exemptions to highly skilled foreign employees;
- the provision of incentives for highly skilled foreign employees to apply for naturalisation after five years of residence and work in Cyprus; and
- the establishment of a Business Facilitation Unit that operate as the focal point of contact for:
  (a) companies with foreign interests wishing to relocate to Cyprus; and
  (b) businesses operating in specific areas of economic activity (eg, hi-tech or innovation companies, pharmaceutical and shipping companies, and companies operating in the field of biogenetics and biotechnology).

9.3 International Tax

As mentioned, Cyprus has recently implemented new tax rules, applicable as of 1 January 2026. Pillar Two has been given effect in Cyprus. Pursuant to the new tax rules, the corporate tax rate is now 15%.

Nevertheless, for the purpose of maintaining the competitiveness of the Cyprus tax regime, Cyprus has adopted other measures to mitigate and counteract the increase of the corporate tax rate. Namely, the SDC rate on dividends has been reduced to 5% (from 17%), the SDC on rental income has been abolished, the stamp duty fee has been abolished, the tax-free threshold for individuals has been increased and adjustments have been made to the intermediate personal income tax bands. Also, a number of allowances have been provided to families.

9.4 Competitive Tax Policy Objectives

Cyprus is viewed as having a competitive tax system that offers a number of incentives and advantages. The benefits of the Cypriot tax regime include:

- an absence of restrictions on foreign share ownership;
- the absence of withholding taxes on dividends or interest;
- the sale of shares and other titles is exempt from tax;
- one of the lowest corporate tax rates in the EU; and
- a number of tax exemptions for non-Cyprus tax residents (or non-domiciled).

The Cypriot government is implementing an action plan designed to attract foreign companies to operate from – or expand their activities in – the country, and also to attract foreign individuals to relocate to Cyprus.

Furthermore, Cyprus has shown its commitment to follow the BEPS recommendations and remain OECD-compliant. The implementation of the BEPS recommendations on a local level has so far been balanced against the various advantages provided by the Cypriot tax system. Such implementation has, in fact, contributed to the proper development of the Cypriot tax regime by enhancing transparency.

9.5 The Competitive Tax System

As outlined in **9.4 Competitive Tax Policy Objectives**, Cyprus has a competitive tax system offering various incentives to local and foreign investors. The more vulnerable areas of the Cypriot tax regime (such as the old IP box regime) have been abolished or modernised. Also, a reform of the Cyprus tax system has been implemented, pursuant to which, the corporate tax rate is, as of 1 January 2026, 15%. However, at the same time, other applicable taxes (such as the SDC) were reduced or abolished.

The aim of the Cypriot government is to promote the creation of substance and transparency while simultaneously providing incentives to foreign business to relocate their headquarters to Cyprus.

There are limited approved state aid schemes in Cyprus. However, such schemes cannot be considered constraints on the tax system, given that the majority of them aim to enhance productivity in specific areas (eg, rural tourism and hi-tech and innovative enterprises).

9.6 Hybrid Instruments and BEPS Implementation

Cyprus has had legislation dealing with hybrid instruments in place since 2016. Specifically, an exception applies in that dividends received from a foreign company will be subject to corporation tax if paid out from hybrid instruments.

Furthermore, as of January 2020, hybrid mismatch rules apply that aim to tackle the usual tax effects of hybrid mismatches, including a double deduction or a deduction with no inclusion. These new provisions apply only where there is sufficient connection between the parties.

This includes mismatches that arise between:

- a taxpayer and its associated enterprises;
- associated enterprises;
- a head office and a permanent establishment;
- two or more permanent establishments of the same entity; and
- mismatches resulting from a structured arrangement involving a taxpayer.

The reverse hybrid entity rule is also effective as of 1 January 2022.

9.7 Interest Deductibility and Territorial Tax Regime

Cyprus does not have a territorial tax system. All companies that are tax residents in Cyprus are taxed on income accrued or derived from all sources in Cyprus and abroad. Cyprus always grants credit to Cyprus tax residents on foreign tax suffered on foreign income, irrespective of the existence of a DTT. Effectively, a comparison is made between the equivalent Cyprus tax on the foreign-sourced income and the foreign tax incurred – with credit granted being the lower of the two.

In any case, the ILR was introduced in 2019 as part of the wider implementation of the ATAD. The aim of the ILR is to limit the provision of financing facilities to companies (which are based in high-tax jurisdictions) in low-tax jurisdictions through subsidiaries belonging to the same group. The ILR requires that the excess borrowing costs (EBC) that is greater than 30% of taxable income before EBITDA is not deductible for income tax purposes. As such, it limits the otherwise deductible EBCs to 30% of taxable EBITDA. However, the EBC is deducted up to a de minimis threshold of EUR3 million per fiscal year. Standalone entities (not part of a group) are excluded from the ILR. In any case, grandfathering has been provided for loans concluded before 17 June 2016.

Moreover, a group equity "escape" or "carve-out" is provided. If the Cyprus-resident company is part of a consolidated group for financial reporting purposes, the taxpayer may be given the right to fully deduct its EBCs – provided that the ratio of its equity over its total assets is equal to (or even up to 2% lower or higher than) the equivalent ratio of the group.

9.8 Controlled Foreign Corporation Reform

As already mentioned in **9.7 Interest Deductibility and Territorial Tax Regime**, Cyprus does not have a territorial tax regime. However, it has implemented the CFC rule, as part of the wider implementation of the ATAD. The CFC rule has been explained in **6.5 Controlled Foreign Corporation-Type Rules**. This CFC rule applies as from 1 January 2019 to both Cyprus tax-resident companies and non-Cyprus tax-resident companies having a permanent establishment in Cyprus. The CFC rule results in the re-attribution of the income of a low-taxed controlled non-Cypriot subsidiary to its parent company in order to avoid revenue diversion to a jurisdiction with a more favourable tax regime.

9.9 Anti-Avoidance Rules

As previously mentioned in **7.1 Overarching Provisions**, a general anti-avoidance rule is applicable in Cyprus as of 1 January 2019.

Also, further to the signing of the MLI, Cyprus has opted for the principal purpose test. Such test is incorporated in the latest double taxation conventions (DTCs) entered into by Cyprus. Specifically, the DTT between Cyprus and the Netherlands signed on 1 June 2021 provides that a benefit under the relevant DTC shall not be granted if it is reasonable to conclude – having regard to all relevant facts and circumstances – that obtaining the benefit was one of the principal purposes of any arrangement or transaction that resulted directly or indirectly in such benefit. The only DTC entered into by Cyprus that includes the "limitation of benefits" test is the one with the USA.

These rules do not have any impact on inbound and outbound investors operating through Cyprus entities, owing to the fact that various incentives and benefits offered by the Cypriot tax system apply irrespective of the existence of any DTC.

9.10 Transfer Pricing and IP Taxation

New transfer pricing rules were introduced in 2022 and were applicable from 1 January 2022 (as explained in **4.4 Transfer Pricing Issues for Inbound Investors**). Such rules include the requirement for related parties to maintain documentation files in relation to intra-group transactions. The applicable thresholds are mentioned in **4.4 Transfer Pricing Issues for Inbound Investors**.

Pursuant to BEPS Action 5: Harmful Tax Practices, Cyprus has abolished the old IP box regime and has introduced new rules regarding tax benefits granted towards genuine IP activity, as per the nexus approach. The current applicable IP tax regime is explained in **2.2 Technology Investments**.

9.11 Country-by-Country Reporting and Transparency Provisions

In general, Cyprus has implemented a number of OECD and BEPS recommendations to promote transparency. As per the BEPS Action 13: Final Report, Cyprus has implemented CbC reporting by amending the applicable tax legislation pursuant to the Assessment and Collection of Taxes Law (Exchange of Information in the context of the Multilateral Competent Authority Agreement on the Exchange of Country-by-Country Reports) Decree of 2017.

Generally, the OECD guidance on the implementation of CbC reporting issued from time to time is used to interpret the Cyprus CbC reporting legislation for the purposes of ensuring a consistent and standard approach to CbC reporting. CbC reporting requirements apply in Cyprus as of 1 January 2016. However, in the event of conflict, the Cyprus' CbC reporting legislation takes precedence.

9.12 Digital Economy Businesses

Cyprus has taken steps to update its digital economy taxation.

Pursuant to the 2025 tax reform and applicable as of 1 January 2026, profits from the sale, gift, exchange, or use of crypto-assets (as defined by the EU's Markets in Crypto-Assets Regulation (MiCA) covering digital representations of value or rights stored and transferred via distributed ledger technology) are taxed at

a flat 8% rate. Losses can only offset gains within the same tax year. Crypto obtained through mining is excluded from this regime and taxed under general income tax rules.

As regards VAT taxation, digital services are taxed where the consumer resides, with compliance managed through the One Stop Shop (OSS) scheme for cross-border transactions.

9.13 Approach to Digital Services Taxation

Cyprus has taken certain action in relation to digital taxation.

The continuous development of the digital economy has triggered stricter rules on Cyprus VAT for digital services, especially for non-EU providers targeting Cypriot consumers. Digital services, including streaming, software, and cloud services, are taxed where the consumer resides. Moreover, businesses must register under the OSS scheme if providing services across EU member states. In addition, electronic invoicing and record-keeping requirements are tightening, demanding real-time reporting capabilities.

It is expected that further regulation will be introduced in relation to digital services taxation.

9.14 Offshore IP Provisions

The payment of royalties to a non-Cyprus tax resident is subject to a maximum 10% withholding tax on the gross amount of such payment if the royalty rights were used in Cyprus.

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