

**Ref. No.: 13.36.002.003**

## INTRODUCTORY REPORT

### **Law amending the Income Tax Laws of 2002 to (No. 2) of 2025**

The Council of Ministers, at its meeting of October 29, 2025, has approved the attached bill amending the Income Tax Laws of 2002 to (No. 2) of 2025 and has authorized the Minister of Finance to submit the proposed bill to the House of Representatives for enactment into Law, without returning it to the Council of Ministers, within the framework of its processing by the House of Representatives.

2. The bill under reference is included in the package of bills for the implementation of the Tax Reform. The aim of the reform under reference is to ensure a fairer tax system, which would burden the different economic strata proportionately, and strengthen tax justice, while reducing inequalities.

3. The Tax Reform, as promoted by the Ministry of Finance, includes the revision of tax rates and the reduction of the tax burden for households and businesses, the granting of targeted relief based on social criteria, the promotion of research and innovation, the fight against tax evasion and tax avoidance, the strengthening of tax compliance through the improvement of tax administration.

4. The framework was formed after taking into account the proposals of the study conducted by the Center for Economic Studies of the University of Cyprus for both natural and legal persons, as anti-abuse measures have been incorporated to strengthen existing tax collection measures and strengthen voluntary compliance, provisions which were suggested by the Taxation Department.

5. Furthermore, the bill under reference includes provisions which are the result of the study carried out by an independent person, within the framework of the Republic's commitments regarding milestone 211 of reform 10 (combating aggressive tax planning) of pillar 3.5 (Ensuring Fiscal and Financial Stability) of the Recovery and Resilience Plan (RRP). **The milestone under reference is included in the 10th**

**payment installment of €190 million.** The study aimed to in-depth

analysis of the tax framework of Cyprus through a detailed analysis of the relevant Laws<sup>1</sup>, as to whether and to what extent there are relevant provisions that lead legal entities to aggressive tax planning practices. As stated in the relevant milestone of the CDA, in the event that the study demonstrates that such provisions exist in the legislation, they should be amended or repealed accordingly within the first half of 2026.

6. The most basic provisions included in the bill in question are:

- i. For individuals, the tax scales are revised and expanded with a horizontal increase in the tax-free amount from €19,500 to €20,500, ii. In cases where the family annual income (spouses/partners) is less than €80,000 or for large families it is less than €100,000 or for singles less than €40,000, the following tax exemptions are granted to each spouse or partner:
  - (a) each child €1,000 (single-parent families are classified in the most favorable scenario, i.e. €2,000 discount per child)
  - (b) each student €1,000,
  - (c) interest on a serviced loan for the purchase of a primary residence or for the rental of a primary residence is granted a discount of up to €1,500,
  - (d) for energy upgrading of a main residence or for the purchase of a new electric vehicle, a discount of up to €1,000 is granted.
- iii. The corporate tax rate increases from 12.5% to 15%,
- iv. A special method of taxation of profits from the disposal of cryptocurrencies is introduced with a horizontal rate of 8% (any losses from disposal can be offset against profits within the same year),
- v. The loss carryforward period is extended from 5 years to 7 years,
- vi. The 120% super-deduction for research and development expenses of an intangible asset is extended until 2030,
- vii. The maximum limit for entertainment expenses deductible from taxable income is increased to €30,000 from €17,086, viii. The cost of initial listing on a recognized stock exchange is deductible for tax purposes up to the amount of €300,000 (any unused amount on the basis of a minor project "De Minimis" can be used within 3 years),
- ix. A special taxation method of 8% is introduced on royalties stock options (up to twice the employee's earnings) based on an approved employer benefit plan, it is noted that the benefit cannot exceed €1 million within the 10-year period, x. The increased capital allowance rates for expenses related to the energy upgrading of businesses are extended until 2030,

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<sup>1</sup> on Income Tax Laws, on Extraordinary Contribution for the Defense of the Republic Laws, on on Capital Gains Laws and the on Tax Assessment and Collection Laws.

- xi. The maximum limits per category of controlled transactions for which taxpayers are exempted from the obligation to maintain a Cyprus Documentation File are increased. For financial transactions the limit will be €10 million, for purchases and sales of goods €5 million and for other transactions €2.5 million.
- xii. It is clarified that gratuitous payments paid by an employer in a lump sum (at the start or end of employment) are subject to income taxation at a flat rate of 20%, after granting a tax-free amount of €200,000 in cases where the gratuitous compensation is given due to termination of employment,
- xiii. The deduction on the taxable income of natural persons is extended for insurance premiums for coverage of permanent or partial disability, beyond life insurance,
- xiv. Home insurance premiums against natural disaster risks are granted as a deduction of up to €500 on an individual's taxable income,
- xv. Increased capital allowances of twenty percent (20%) are granted for expenditure incurred on machinery and installations used for agricultural or livestock production, after deducting any subsidy amount, xvi. It is clarified that interest income of an individual, provident fund, state organizations, local government authority and General Government entities is exempt from income tax and is subject to an extraordinary defense contribution,
- xvii. It is determined that income from interest on a collective investment plan (open or closed type) is subject to income tax and is exempt from the imposition of an extraordinary defense contribution,
- xviii. The special pension regime from the provision of services abroad is amended, whereby amounts exceeding €5,000 (instead of €3,420) are taxed at 5%,
- xix. It is clarified that from 1/1/2031 the profit from the redemption of a share or share in a collective investment plan of open or closed type constitutes a dividend.

At the same time, measures are being introduced that aim to combat tax evasion and tax avoidance, with the aim of increasing tax compliance and protecting public revenues, the following are indicative:

- xx. It is clarified that legal entities that have been established or registered in the Republic are considered tax residents of Cyprus,
- xxi. It is determined that provident and pension funds are normally subject to taxation if they carry on a business or in the case of exploitation real estate,
- xxii. The granting of a deduction relating to interest for the acquisition of shares of a 100% subsidiary company is abolished, with transitional provisions until 2027, for investments made until 31/12/2025. In cases where the subsidiary is located in a non-cooperative jurisdiction, no deduction is granted, xxiii. It is clarified that the profit of a permanent establishment located in a non-

cooperative jurisdiction, is not exempt from income tax, xxiv. The amount of fines is modified, in order to strengthen voluntary compliance.  
compliance.

7. Attached is the relevant proposed amending Bill together with the relevant Explanatory Report signed by the Attorney General of the Republic and the impact analysis questionnaire that has been prepared for the above Bill for study and enactment into Law.

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MINISTRY OF FINANCE  
NICOSIA

October 30, 2025