TAXATION DEPARTMENT
TAX DEPARTMENT

GUIDE

Explanatory guide to the implementation of the tax reform for individuals who are tax residents of Cyprus (from the tax year 2026)

January 2026

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1. Tax year of application of the amendments to the tax system, resulting from the tax reform.

The tax reform begins to be implemented from the tax year 2026, for which the tax return will be submitted within the year 2027 (the submission deadline is until July 31, 2027).

It is noted that within the year 2026, the tax return for the tax year 2025 will be submitted.

2. Tax-free amount and tax scales.

The tax-free amount (i.e. the taxable income on which a 0% tax rate is imposed) has increased from €19,500 to €22,000 with effect from the tax year 2026 onwards.

The tax scales applicable from the tax year 2026 are as follows:

Tax rate	Taxable income
0%	from €0 to €22,000
20%	from €22,001 to €32,000
25%	from €32,001 to €42,000
30%	from €42,001 to €72,000
35%	from €72,001 and above

* Taxable income is the net amount that is taxed, after deducting the exemptions and deductions allowed by tax legislation.

3. Individuals who are required to submit a tax return for the tax year 2026 and beyond.

For the tax year 2025, based on the relevant legislation and the relevant Decree issued by the Council of Ministers, individuals with a gross income exceeding €19,500 are required to submit a tax return.

From tax year 2026, a person who:

(a) has gross income (income before deduction of any exemptions or deductions) that falls within the provisions of section 5 of the Income Tax Law, or

(b) is a tax resident of Cyprus" and has completed his 25th year of age but not his 710th year, by 31 December of the tax year, regardless of income, he is obliged to submit a tax return.

The Council of Ministers retains the power, by Decree, to exempt categories of persons from the obligation to submit a tax return.

2 Income/profit/benefit from carrying on a business, employment, dividends, interest, pension, amounts of income payable pursuant to a court order or pursuant to a term set out in a will or contract, rents, intellectual property or patent rights, ownership, sale of cryptocurrencies, breach/cancellation of contract.

* Resides in Cyprus for more than 183 days or meets the conditions for the 60-day residence rule in Cyprus.

4.Which person is not required to file a tax return from tax year 2026 onwards?

A person who does not have a gross income and by December 31 of the tax year (a) has not reached the age of 25 or (b) has reached the age of 71, is not required to submit a tax return.

5. New personal deductions provided for in the tax reform.

The tax reform introduces a series of significant new personal deductions that aim to provide relief to individuals who are tax residents of Cyprus, based on their family situation and income criteria, for:

- Dependent children
- Expense for rent or interest on a serviced mortgage loan, primary residence
- Expenses for energy upgrading of a main residence and purchase of an electric vehicle.

These new personal deductions do not reduce the taxable income on which the maximum deduction of 1/5 for insurance premiums, GHS contribution and contributions to funds and plans is calculated, and are granted in addition.

The new personal deductions are declared on Form T.F.59-Declaration for claiming tax deductions, for calculating the tax and contributions withheld by the Employer. In this Form, the final amount of the deduction per category is declared, without reference to income criteria or number of children, e.g. for two (2) dependent children, a total child deduction of €2,250 is declared (€1,000 for the first and €1,250 for the second dependent child).

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* Such funds and plans include the Social Insurance Fund, Widows' and Orphans' Pension Fund, pension funds and plans, insurance plans and medical coverage plans.

6. Basic conditions for granting new personal discounts.

Basic conditions for the provision of the new personal discounts are as follows:

- Spouses or civil partners or partners without civil partnerships who have children together must consent to the disclosure of their tax information to each other, in order to confirm that the family income does not exceed the income criteria. Consent will be given in a special field on the tax return of each spouse or civil partner.

- The tax returns of spouses or civil partners or of partners without civil partnerships and with common children or of single persons must have been submitted within the prescribed deadlines.

7. Income criteria for granting new personal deductions.

The income criteria, based on which an individual is entitled to the new personal deductions, are the following:

(A) Families

The total gross family income must not exceed the following limits:

- €100,000 for families without children or with one (1) or two (2) children
- €150,000 for families with three (3) or four (4) children
- €200,000 for families with five (5) or more children

Calculating gross family income

For the calculation of family income, the gross income, within the tax year, obtained by all family members is taken into account, including from work, employment, pensions, rents, income from interest and dividends, alimony, subsidies from the Cyprus Agricultural Payments Organization, as well as any public assistance granted by the Social Welfare Services, as well as from any other grants, allowances and sources of income in the Republic or abroad.

Excluded from the calculation of gross family income are the income of children of full-time students from work or employment, child allowance, student sponsorship, student care benefits and scholarships, as well as allowances and sponsorships to deserving individuals with disabilities or chronic illnesses.

In the event that the taxpayer lives with another person with whom they have children in common, the gross income of this other person is also taken into account.

A family, for the purposes of calculating gross family income, consists of:

(a) Parents when they live together and their common children and the children of one or the other, from these parents, provided that the children live with these parents under the same roof ·

(b) a single, widowed, divorced father and his children living with him under the same roof.

(c) single, widowed, divorced mother and her children living with her under the same roof ·

(d) the children of the above family under (a) when both their parents are dead or missing, or the children of the above family under (b) and (c) when their father or mother, as the case may be, are dead or missing, who live under the same roof with the person having custody of them, his/her spouse if any, and their children if any, provided that they live with him/her under the same roof.

(e) a married father and his children living with him under the same roof, provided that his wife is serving a prison sentence of six (6) months or more ·

(f) a married mother and her children living with her under the same roof, provided that her husband is serving a prison sentence of six (6) months or more; and

(g) Spouses or partners in a Civil Partnership, who do not have children in common or who do not live under the same roof with any of the children of one and/or the other.

It is understood that a dependent child over the age of eighteen (18) years is not required to live under the same roof as the family as referred to in paragraphs (a) to (f). In such a case, the dependent child is considered a member of the mother's family and if there is no mother, then he is considered a member of the father's family.

Single parent family

The same income criteria apply to single-parent families.

Single-parent family means-

(a) the family, in which a parent lives with at least one (1) dependent child and who lives either without a spouse or a civil partner, or without another person with whom they have children in common, due to being a single parent, widowed, divorced or because the other parent has been declared missing by the court; or

(b) the family in which a married parent lives alone with at least one (1) dependent child, because the other parent is serving a prison sentence of six (6) months or more.

That is, the term "single-parent family" only applies if the parent:

- lives under the same roof as the dependent child and has custody of him/her and
- does not have a spouse or a civil partner or does not reside with another person with whom they have children in common.

Examples:

- A divorced mother who lives alone with her minor dependent child constitutes a single-parent family.
- A father, divorced, who resides with his dependent child, who is a 23-year-old student, and with another partner without a Civil Partnership, constitute a single-parent family.
- A divorced mother who resides with her dependent child who is a 23-year-old student and with another adult person (without marriage or civil partnership) with whom they have a child, does not constitute a single-parent family.

Number of Children

The legislation explicitly distinguishes:

- the number of children for income criterion, and
- dependent children for child benefit.

This separation is made so that the child deduction provided:

- take into account the actual size of the family for the income limit,
- but to provide the discount only for children who are still dependent children.

For the purposes of the income criteria, children means legitimate children, ancestors, children born out of wedlock and legally adopted children. The number of children, regardless of age, corresponds to the total number of children in the family whose usual residence is or was the family's main residence, provided that at least one (1) dependent child remains on December 31 of the tax year. As a rule, the usual residence of one (1) child is under the same roof as the mother.

5 Ancestor means the child of a spouse or civil partner, who is not a child of the other spouse/partner.

That is, all children who live or lived under the same roof, whether they are common children or children of only one spouse/partner, are counted in the number of children for the purposes of determining the family's income criterion, provided that at least one (1) dependent child remains in the family on December 31 of the tax year.

In other words, children are counted for purposes of the income test, regardless of:

- if they have exceeded the age limits to be considered dependent children, and
- the personal status of the children (e.g. married, employed, unemployed, etc.),

provided that on December 31 of the tax year there remains at least one (1) dependent child in the family.

However, the deduction for each dependent child is only provided to the child's biological or adoptive parent.

(B) Single persons

For single persons, i.e. individuals living without dependent children or a spouse or civil partner, their total gross income must not exceed €40,000.

It is noted that persons who reside/cohabit with other persons, in addition to the aforementioned persons, are still considered single persons.

Example:

A divorced parent, whose children all live with the other parent, and who lives under the same roof with a new partner without civil cohabitation, is considered a single person.

Gross income calculation

For the calculation of the gross income of a single person, the gross income, within the tax year, obtained, among others, from work, employment, pensions, rents, income from interest and dividends, subsidies from the Cyprus Agricultural Payments Organization, as well as any public assistance granted by the Social Welfare Services, as well as from any other grants, allowances and sources of income in the Republic or abroad, is taken into account.

Benefits and grants to destitute individuals with disabilities or chronic illnesses are excluded from the calculation of gross income.

Example:

A person with a gross income of €35,000 lives in a rented property with another person with a gross income of €45,000, (e.g. to save on rent), which rent amounts to €9,600 per year and which they pay in half.

The first person is within the income criterion and can claim a deduction for a main residence rental expense of €2,000 (for a rental expense of €4,800), while the second person is outside the income criterion and is not entitled to the said rent.

8. Beneficiaries and application of the discount for dependent children.

The deduction for dependent children is granted to each biological or adoptive parent, for each dependent child, who is a biological or legally adopted child, as follows:

- €1,000 for the first dependent child,
- €1,250 for the second dependent child,
- €1,500 for the third and each additional dependent child.

The dependent child for each parent, for whom a deduction is granted, is considered the biological or legally adopted child who, on December 31 of the tax year, is – 1-

1. under 18 years of age,

ii. Secondary school student under 20 years of age,

iii. a soldier in the National Guard under 21 years of age,

iv. student under 24 years of age,

n. a child who is permanently deprived of the ability to support themselves, regardless of age.

Example:

A family has five children, of whom three (3) have already reached the age of 24 on 31 December 2026, while the other two (2) are minors. For the tax year 2026, the family income criterion remains at the limit of €200,000 because there are five (5) children and if the gross family income does not exceed this limit, then each parent is granted a deduction of €2,250 (€1,000 for the fourth child who is considered the first dependent child for the purposes of the deduction and €1,250 for the fifth child who is considered the second dependent child for the purposes of the deduction).

9. Application of the child deduction for cases of single-parent families or for cases where the parent has joint parental responsibility for the children, who do not reside with him.

(A) Single-parent families

For single-parent families, the same income criteria are applied depending on the number of children, and the amount of the deduction provided to the single parent is doubled for each dependent child.

Example:

A single parent who has three (3) dependent children is entitled, if his total gross income does not exceed €150,000, to a deduction of €7,500 (€2,000 for the first child, €2,500 for the second child and €3,000 for the third child).

(B) Parent who has joint parental responsibility and does not reside with his/her children

A parent who has joint parental responsibility for his dependent child, who does not reside with him, but resides with the other parent in a single-parent or other family, is entitled to the deduction for a dependent child based on the income criterion applied in his case, as follows:

- if he is single, then the income criterion of €40,000 applies.
- if he is a family member, i.e. a spouse or a partner in a Civil Cohabitation, in which there are no other children living under the same roof, then the income criterion of €100,000 applies.
- if he is a family member, i.e. a spouse or a partner in a Civil Cohabitation, in which other children (either common or of one of the two) live under the same roof, then the income criterion is applied depending on the children.
- if he/she lives with a partner without a Civil Cohabitation, with whom they have a common child, then he/she is a family member and an income criterion is applied depending on the children.

Examples:

- A divorced parent, living alone (being a single person) is a parent of two (2) dependent children who live with the other parent and for whom he has joint parental responsibility. The first mentioned parent, if his gross income does not exceed €40,000, is entitled to a deduction of €1,000 for the first dependent child and €1,250 for the second dependent child.

- A divorced parent of two (2) dependent children living with the other parent and for whom he has joint parental responsibility, has entered into a Civil Partnership with another person who is the parent of two (2) dependent children living with him and with whom he has a common dependent child. The first mentioned parent is a member of a family with a Civil Partnership and three (3) children living with him (one (1) common child and two (2) children of the partnership). The income criterion is that of a family with three children, i.e. €150,000. If the gross family income of the first mentioned parent and his/her spouse does not exceed the amount of €150,000, then for the two (2) dependent children living with the other parent, he/she is entitled to a deduction of €1,000 for the first dependent child and €1,250 for the second dependent child, while for his/her third dependent child, who lives with him/her, he/she is entitled to a deduction of €1,500 (Total €3,750).

10. Implementation of a new personal deduction for rent or mortgage interest.

Based on the income criteria determined according to the number of children in the family, a subsidy is granted. discount of up to €2,000 to each spouse, civil partner or non-civil partner with common child or single person for:

- Interest on a serviced mortgage loan for the purchase or construction of a primary residence in Cyprus. A serviced loan also includes a loan that has been restructured and the installments are paid continuously, until December 31 of the tax year.
- Rent paid for the use of a main residence in Cyprus.

Further conditions for the provision of the discount are as follows:

- For the interest deduction, the residence must be owned by at least one of the two spouses or partners or the single person.
- For the interest deduction, the serviced loan is in the name of at least one of the two spouses or partners or the single person.
- The amount of the deduction provided to both spouses or partners or to the single person does not exceed the actual expense for paying the interest or rent.
- Any government grants or subsidies for mortgage interest or rent reduce the amount of the expense for which a deduction is granted.
- Rent must be paid to the property owner by bank transfer or card or recognized electronic payment method.

11. New personal deduction for capital expenditure on energy upgrades to a main residence and the purchase of an electric vehicle.

Based on the income criteria determined according to the number of children in the family, a deduction of up to €1,000 is granted to each spouse or civil partner or civil partner without a civil partner with a common child or single person, for capital expenditures incurred for:

- improving the energy efficiency of the main residence in Cyprus,
- technical energy efficiency systems, renewable energy systems, as well as electricity storage batteries, in the main residence in Cyprus,
- electric vehicles registered with the Department of Road Transport.

The discount of €1,000 per spouse/partner/single person is granted each year and concerns the total amount of all expenses for energy upgrading and the purchase of an electric vehicle.

If the expenditure is more than the €2,000 deduction provided to both spouses/partners or more than €1,000 provided to a single person, in the year the expenditure was incurred, the balance of the expenditure can be carried forward and granted up to €1,000 per spouse/partner or single person for up to the following four years, subject to the income criteria in each tax year.

It is noted that, if, in the year in which the expenditure is made, the deduction cannot be granted because the income criterion is not met, then the said deduction cannot be carried over and granted in subsequent years.

Examples:

- A family installed photovoltaic systems on their main residence that cost €10,000, with a grant from the public treasury of €4,000. Provided that they are within the income criterion, for the remaining €6,000 –

  (a) in the event that both spouses have taxable income, then each spouse is granted a deduction of €1,000 for three (3) tax years (€3,000 for one spouse and €3,000 for the other spouse), provided that the income criterion is met in the tax years of transfer.
  (b) in the event that one spouse is below the tax-free amount, then the deduction of €1,000 can be claimed and granted to one spouse for a maximum total period of five years. Therefore, from the net expenditure of €6,000, a maximum deduction of €5,000 can be granted (€1,000 for the tax year of the expenditure and for the four (4) subsequent tax years to one spouse, provided that in the tax years of transfer the income criterion is met) and for the balance of €1,000 no deduction can be granted.

- A family with two (2) children, in the tax year 2026 where the family income is €110,000, purchased an electric vehicle.
  The income criterion is not met in the year of the expenditure, therefore the deduction for the purchase of an electric vehicle cannot be granted to any spouse/partner, neither in the year of the expenditure, nor in the following four (4) years, even if during these following years the family income drops below €100,000.

Further conditions for the provision of the discount are as follows:

- Any government grant or subsidy from public funds (e.g. the "Photovoltaics for All" plan) reduces the amount of the expense for which a discount is granted.
- The main residence for which the energy upgrade is being carried out must be owned by at least one of the two (2) spouses/partners or the single person.
- The amount of the discount provided to both spouses or partners, or to the single person, does not exceed the total actual expenditure for the energy upgrade of a home or the purchase of an electric vehicle.

Capital expenditures carried out to improve the energy efficiency of the main housing, means expenses relating to:

1. thermal insulation of horizontal structural elements;
ii. thermal insulation of walls and elements of the load-bearing structure
iii. replacement of window frames.

Capital expenditures carried out for technical energy efficiency systems, renewable energy systems, as well as for electricity storage batteries, in the main residence means expenses relating to:

1. thermal insulation of hot water pipes'
(ii) heat recovery systems;
iii. energy management systems
iv. installation of a high-efficiency cogeneration system for electricity and heat'
n. installation of photovoltaic systems net billing or autonomous
vi. purchase and installation of batteries for storing electrical energy.

Capital expenditures incurred for electric vehicles means expenditures relating to:

i . new electric vehicles of category M1
ii. Category 1 AC (alternating current) or Category 2 DC (direct current) electric vehicle charging stations.

New is an electric vehicle that:

- has been delivered within 6 months of the date of its first placing on the market, or
- has traveled up to 6,000 kilometers,

whichever happens first.

12. Deduction for home insurance against natural disasters.

The tax reform introduces a deduction without income criteria for owners of any residence in Cyprus (e.g. main, holiday or rented to a third party) who take care of insuring their property. The deduction concerns the cost of a premium paid from 1.1.2026 for insuring the residence against natural disasters (such as fire, earthquake, flood, etc.), up to the total amount of €500 for all residences, for each tax year.

The discount is provided regardless of whether the home insurance includes other insurance coverage in addition to that of natural disasters, e.g. coverage against theft.

It is noted that the home insurance deduction reduces the net income on which the 1/5 limitation is calculated for the purposes of deductions for insurance premiums and contributions to funds and plans.

13. Life insurance premiums and permanent and/or temporary, total or partial disability.

In addition to the discount for life insurance premiums, a discount is also provided for premiums paid from 1.1.2026 for an insurance policy for permanent or temporary, total or partial disability. The discount for such an insurance policy, as for life insurance, is limited to 7% of the coverage amount payable by the insurance company in the event of disability.

In the event that the same insurance policy covers life and disability, the 7% limitation applies to the total amount of coverage for life and disability.

This specific deduction is included in the deductions for insurance premiums and contributions to funds and plans, which are limited to the limit of 1/5 of net income.

14. Taxation of partial redemption of a life insurance policy.

The tax reform introduces a provision for the taxation of the partial redemption of an insurance policy, as follows:

(a) If 4 years have not been completed from the date of the insurance policy and a partial redemption is made, then 50% of the amount of the partial redemption is added to the taxable income of the year in which the partial redemption was made and is taxed.

(b) If 4 years have passed since the date of the insurance policy and a partial redemption is subsequently made, then 50% of the redemption amount that exceeds the value of the gross redemption on 31 December of the fourth year preceding the year of the partial redemption is added to the taxable income and taxed.

The amount of the gross surrender is reduced by the amount by which the partial surrenders of the three previous years exceed the premiums paid during these three (4) years.

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* The gross surrender value is a technical insurance term and is the amount that the insurance company would pay if the policy had been fully surrendered on a specific date.

Example of partial redemption before 4 years have passed from the insurance policy:
Contract date: within 2023
Partial acquisition: within 2026
Partial redemption amount: €10,000

▶Taxable amount: 50%*€10,000=€5,000 is added to taxable income for the year 2026.

Example of a partial redemption, after 4 years from the insurance contract, without any other partial redemptions in the previous three (3) years:
Partial acquisition year: within 2026
Gross acquisition value as of 31.12.2022: €20,000
Partial redemption amount: €26,000

Excess amount: €26,000-€20,000=€6,000
▶Taxable amount: 50%*€6,000=€3,000 is added to taxable income for the year 2026.

Example of partial redemption, after 4 years from the insurance contract, with multiple partial acquisitions in the previous three (3) years:
Partial acquisition year: within 2026
Gross acquisition value 31.12.2022: €20,000
Partial redemption amount: €26,000
Premiums for the last three years 2023-2025: €12,000
Previous partial acquisitions 2023-2025: €18,000

Previous partial redemptions minus premiums paid: €18,000 - €12,000 = €6,000
Gross acquisition value reduced by partial acquisitions: €20,000 - €6,000 = €14,000
Excess amount: €26,000 - €14,000 = €12,000
▶Taxable amount: 50% * €12,000 = €6,000 added to taxable income for the year 2026.

15. Taxation of the cashing out of a life insurance policy.

Nothing changes regarding the taxation of life insurance policy redemptions, which are taxed as follows:

1. in the event of a life insurance policy being redeemed within three (3) years from the date of the contract, 30% of the premiums for which a discount was granted is added to taxable income and taxed,

ii. in the event of a life insurance policy redemption made within the fourth, fifth and sixth year from the date of the contract, 20% of the premiums for which a discount was granted is added,

iii. in the event of a life insurance policy being redeemed beyond six (6) years from the date of the contract, there is no taxation whatsoever.

In the event that an insurance policy includes life insurance and insurance for permanent or temporary, total or partial disability, then the entire policy is considered to constitute life insurance for the purposes of the above.

The capital paid upon redemption of the insurance policy is not taxed.

16. Taxation of rental income.

As of 1.1.2026, the imposition of an extraordinary defense contribution on rental income is abolished. Rental income continues to be taxed with income tax and with a GHS contribution.

Individuals are required to pay for rental income –

- provisional income tax, in two installments on 31/7 and 31/12 of each tax year.
- self-assessment for GHS contribution, in the event that it has not been withheld by a tenant legal entity, in two installments on 31/7 and 31/12 of each tax year.