

JANUARY 2026

Below is an English translation of the explanatory guide:

Explanatory guide – Tax reform for individuals who are tax residents of Cyprus (from tax year 2026)

Explanatory guide for the application of the tax **reform** for natural persons who are tax residents of Cyprus (from tax year 2026).^[1]

1. Tax year of application of the tax reform changes

The tax reform starts to apply from tax year 2026, for which the tax return will be submitted within year 2027 (deadline for submission is 31 July 2027).^[1]

During year 2026, the tax return for tax year 2025 will be submitted.^[1]

2. Tax-free amount and tax bands

The tax-free amount (i.e. the taxable income to which a 0% tax rate applies) is increased from €19.500 to €22.000, with effect from tax year 2026 onwards.^[1]

The tax bands applicable from tax year 2026 are as follows.^[1]

- 0% on taxable income from €0 to €22.000
- 20% on taxable income from €22.001 to €32.000
- 25% on taxable income from €32.001 to €42.000
- 30% on taxable income from €42.001 to €72.000
- 35% on taxable income from €72.001 and above.^[1]

“Taxable income” is the net amount subject to tax, after deducting exemptions and deductions permitted by the tax legislation.^[1]

3. Persons obliged to submit a tax return from 2026 onwards

For tax year 2025, based on the relevant law and Decree issued by the Council of Ministers, individuals with gross income exceeding €19.500 are obliged to submit a tax return.^[1]

From tax year 2026, an individual is obliged to submit a tax return if:^[1]

(a) they have gross income (income before any exemptions or deductions) that falls within article 5 of the Income Tax Law, or

(b) they are a Cyprus tax resident and have completed their 25th year of age but not their 71st year by 31 December of the tax year, irrespective of income.^[1]

The Council of Ministers retains the power, by Decree, to exempt categories of persons from the obligation to submit a tax return.^[1]

Article 5 income includes income/profits/benefits from business, employment, dividends, interest, pensions, income payable under court order or under a will or contract, rents, royalties, intellectual property or patent rights, property, sale of crypto-assets, and compensation for breach/termination of contract.^[1]

A Cyprus tax resident is a person who resides in Cyprus for more than 183 days or meets the conditions of the 60-day residence rule.^[1]

4. Who is not obliged to submit a tax return from 2026 onwards

A person who has no gross income and, by 31 December of the tax year:^[1]

(a) has not completed their 25th year of age, or

(b) has completed their 71st year of age,

is not obliged to submit a tax return.^[1]

5. New personal deductions introduced by the reform

The tax reform introduces a series of important new personal deductions aimed at relieving individuals who are Cyprus tax residents, based on their family situation and income criteria, in respect of:^[1]

- Dependent children
- Expenditure for rent or interest on a housing loan for primary residence
- Expenditure for energy upgrade of primary residence and purchase of an electric vehicle.^[1]

These new personal deductions do not reduce the taxable income on which the maximum 1/5 deduction for insurance premiums, GHS (GeSY) contributions, and contributions to funds and schemes is calculated; they are granted in addition to that.^[1]

The new personal deductions are declared on Form T.F.59 – “Declaration for claiming tax deductions for the calculation of tax and contributions withheld by the employer”.^[1]

On that form, the final deduction amount per category is declared, without reference to income criteria or number of children, e.g. for two dependent children a total child deduction of €2.250 is declared (€1.000 for the first and €1.250 for the second dependent child).^[1]

6. Basic conditions for granting the new personal deductions

The basic conditions for the new personal deductions are:^[1]

- Spouses or partners in a Civil Union or partners without Civil Union who have common children must consent to the disclosure of their tax details between them, to confirm that the family income does not exceed the income criteria; this consent will be given in a special field in each spouse's/partner's tax return.^[1]
- The tax returns of spouses or partners in a Civil Union or partners without Civil Union (with common children), or of a single person, must have been submitted within the prescribed deadlines.^[1]

7. Income criteria for granting the new personal deductions

A. Families

The total gross family income must not exceed:^[1]

- €100.000 for families without children or with one or two children
- €150.000 for families with three or four children
- €200.000 for families with five or more children.^[1]

For the purposes of family income, gross income within the tax year of all family members is taken into account, including income from employment, self-employment, pensions, rents, interest and dividends, alimony, subsidies from the Cyprus Agricultural Payments Organisation, as well as any public assistance from the Social Welfare Services and any other grants, allowances and income sources in Cyprus or abroad.^[1]

Excluded from the calculation of gross family income are: children's income from work or employment when they are full-time pupils/students, the child benefit, student grant, student welfare benefits and scholarships, as well as benefits and grants to destitute persons with disabilities or chronic illnesses.^[1]

If the taxpayer cohabits with another person with whom they have common children, the gross income of that other person is also taken into account.^[1]

For family-income purposes, “family” means:^[1]

- Parents living together and their common children and each parent’s children who live with them under the same roof.
- Unmarried, widowed or divorced father and his children who live with him under the same roof.
- Unmarried, widowed or divorced mother and her children who live with her under the same roof.
- Children of such a family where both parents are deceased or missing, or children of the above single-parent families if the father or mother is deceased or missing, who live under the same roof with the person who has their custody, his/her spouse (if any) and their children (if any).
- Married father and his children who live with him under the same roof if his spouse is serving a prison sentence of six months or more.
- Married mother and her children who live with her under the same roof if her spouse is serving a prison sentence of six months or more.
- Spouses or partners in a Civil Union who have no common children or do not live under the same roof with any of their respective children.^[1]

A dependent child over 18 is not required to live under the same roof as the family for it to be considered family member; in that case, it is treated as belonging to the mother’s family or, if there is no mother, to the father’s family.^[1]

B. Single persons

Single persons (i.e. individuals living without dependent children and without spouse or Civil Union partner) are entitled to the new deductions only if their total gross income does not exceed €40.000.^[1]

Persons cohabiting with other persons (other than the above categories) continue to be considered single persons.^[1]

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 Union is treated as a single person.^[1]

For single persons, gross income is calculated similarly (employment, self-employment, pensions, rents, interest, dividends, CAPO subsidies, public assistance, other grants/benefits and income in Cyprus or abroad), excluding benefits and grants to destitute persons with disabilities or chronic illnesses.^[1]

Example: A person with gross income €35.000 co-rents accommodation with another person with gross income €45.000, total annual rent €9.600 shared equally.^[1]

The first person is within the income criterion and can claim a rent deduction for primary residence of €2.000 (on rent of €4.800), whereas the second person is outside the criterion and cannot claim that rent deduction.^[1]

8. Beneficiaries and application of the deduction for dependent children

The deduction for dependent children is granted to each biological or adoptive parent, for each dependent child who is their biological or legally adopted child, as follows:^[1]

- €1.000 for the first dependent child
- €1.250 for the second dependent child
- €1.500 for the third and each additional dependent child.^[1]

For each parent, a “dependent child” for which the deduction is granted is a biological or legally adopted child that, on 31 December of the tax year, is:^[1]

- i. under 18 years old
- ii. a secondary-school pupil under 20
- iii. a soldier in the National Guard under 21
- iv. a student under 24
- v. a child permanently unable to support itself, regardless of age.^[1]

9. Application of the child deduction in single-parent and shared custody cases

A. Single-parent families

For single-parent families, the same income criteria apply according to the number of children, but the child deduction is doubled for the single parent for each dependent child.^[1]

Example: A single parent with three dependent children, if their total gross income does not exceed €150.000, is entitled to a deduction of €7.500 (€2.000 for the first, €2.500 for the second, €3.000 for the third child).^[1]

“Single-parent family” means:^[1]

- a family where one parent lives with at least one dependent child and lives without a spouse or Civil Union partner or without another person with whom they have common children, because the parent is unmarried, widowed, divorced or the other parent has been declared missing; or

- a family where a married parent lives alone with at least one dependent child because the other parent is serving a prison sentence of six months or more.^[1]

The term applies only if the parent:^[1]

- lives under the same roof with the dependent child and has custody; and
- does not have a spouse or Civil Union partner and does not live with another person with whom they have common children.^[1]

B. Parent with shared custody whose children do not live with them

A parent who has joint parental responsibility of a dependent child that does not live with them, but lives with the other parent in a single-parent or another family, is entitled to the child deduction based on the income criterion applicable to that parent, as follows:^[1]

- if single, the €40.000 single-person criterion applies
- if part of a family (spouse/Civil Union partner) with no children living with them, the €100.000 family criterion applies
- if part of a family where other children live under the same roof (common or of either partner), the family-income criterion according to number of children applies
- if cohabiting (without Civil Union) with a partner with whom there is a common child, they are considered part of a family and the family-income criterion according to children applies.^[1]

Examples in the guide illustrate these combinations and the resulting deduction amounts.^[1]

10. Deduction for rent or interest on housing loan – primary residence

Subject to the relevant income criteria by number of children, a deduction up to €2.000 is granted to each spouse, Civil Union partner, or cohabiting partner with a common child, or single person, in respect of:^[1]

- Interest on a serviced housing loan for purchase or construction of primary residence in Cyprus (including restructured loans that are being serviced up to 31 December of the tax year).
- Rent paid for the use of primary residence in Cyprus.^[1]

Additional conditions:^[1]

- For interest deduction, the residence must belong to at least one of the two spouses/partners or the single person.
- The loan must be in the name of at least one of them.

- The deduction granted to both spouses/partners or the single person cannot exceed the actual interest or rent paid.
- Any state subsidy or allowance for housing loan interest or rent reduces the expenditure eligible for deduction.
- Rent must be paid to the owner via bank transfer, card or recognised electronic payment method.^[1]

11. Deduction for energy upgrade and electric vehicle

Subject to the income criteria by number of children, a deduction up to €1.000 per spouse/partner/single person is granted for capital expenditure incurred for:^[1]

- Improving the energy efficiency of the primary residence in Cyprus
- Technical energy-efficiency systems, renewable-energy systems and electricity-storage batteries in the primary residence in Cyprus
- Electric vehicles registered with the Department of Road Transport.^[1]

The €1.000 per person per year applies to the total of all such expenditure.^[1]

If the expenditure exceeds the amount that can be claimed in the year incurred (i.e. more than €2.000 for a couple, more than €1.000 for a single person), the balance can be carried forward and deducted up to €1.000 per person in each of the next four years, subject to meeting the income criteria in each year.^[1]

If in the year of expenditure the income criterion is not met, no deduction is granted and no amount can be carried forward.^[1]

Expenditure must be reduced by any state grants (e.g. the “Photovoltaics for All” scheme).^[1]

The primary residence must belong to at least one of the spouses/partners or the single person.^[1]

The deduction cannot exceed the total actual capital expenditure for the energy upgrade or electric vehicle.^[1]

The guide then lists in detail which capital items qualify (thermal insulation, replacement of frames, energy-management systems, PV systems, batteries, new category M1 electric vehicles, charging stations, etc.).^[1]

12. Deduction for home insurance against natural disasters

From 1.1.2026, a new deduction without income criteria is introduced for owners of any residence in Cyprus (primary, holiday or rented) who insure their property.^[1]

The deduction covers insurance premiums paid from 1.1.2026 for insuring residences against natural disasters (fire, earthquake, flood etc.) up to a total of €500 for all residences per tax year.^[1]

The deduction applies even if the home-insurance policy also covers other risks (e.g. theft).^[1]

This deduction reduces the net income on which the 1/5 cap for insurance-premium and fund/scheme contribution deductions is calculated.^[1]

13. Insurance premiums for life and disability cover

In addition to life-insurance premiums, a deduction is granted for premiums paid from 1.1.2026 for insurance policies covering permanent and/or temporary, total and/or partial disability.^[1]

The deduction for such policies, like life insurance, is limited to 7% of the insured sum payable in case of disability.^[1]

If the same policy covers both life and disability, the 7% limit is applied to the total combined insured sum.^[1]

This deduction is aggregated with other insurance and fund/scheme contributions and all are together limited to 1/5 of net income.^[1]

14. Taxation of partial surrender of life insurance policies

The reform introduces rules for taxing partial surrenders of life insurance policies:^[1]

(a) If fewer than 4 years have elapsed from the policy date and a partial surrender takes place, 50% of the amount surrendered is added to taxable income in the year of surrender.^[1]

(b) If 4 years have elapsed and a partial surrender takes place later, 50% of the portion of the surrender exceeding the cash-surrender value as at 31 December of the fourth year preceding the year of the partial surrender is added to taxable income.^[1]

The cash-surrender value is reduced by the amount by which partial surrenders in the previous three years exceed premiums paid over those three years.^[1]

The guide includes numerical examples of all scenarios.^[1]

15. Taxation of full surrender of life insurance policies

The rules on taxation of full surrender of life insurance policies are unchanged:^[1]

- If surrendered within the first 3 years, 30% of the premiums for which a tax deduction was granted is added to taxable income.^[1]
- If surrendered in the 4th, 5th or 6th year, 20% of such premiums is added.^[1]
- If surrendered after 6 years, there is no taxation.^[1]

Where a policy includes life and disability cover, the entire policy is treated as life insurance for these purposes.^[1]

The capital paid on surrender of the policy is not taxed.^[1]

16. Taxation of rental income

From 1.1.2026, the special defence contribution on rental income is abolished.^[1]

Rental income continues to be subject to income tax and GHS (GeSY) contributions.^[1]

Individuals must pay on their rental income:^[1]

- provisional income tax in two instalments on 31/7 and 31/12 of each tax year
- self-assessment GHS contributions in two instalments on 31/7 and 31/12, where GHS was not withheld by a corporate tenant.^[1]

If you wish, the text can be adapted into a client-friendly newsletter or Q&A leaflet focusing only on the key changes relevant to your target client base.^[1]

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