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Cyprus Tax Update: Alternative SDC Regime for Certain Deemed-Domiciled Individuals

The Cyprus Tax Department has issued Circular 2/2026, dated 29 May 2026, clarifying the operation of the alternative method of imposing Special Defense Contribution (SDC) under Article 3D of the Special Contribution for the Defense of the Republic Law.

This regime is relevant to individuals who do not have a Cyprus domicile of origin but are, or will be, deemed domiciled in Cyprus under the 17-out-of-20-year tax residency rule.

Overview

The regime allows an eligible individual to elect an **alternative** method of settling SDC by paying a fixed amount of €250,000 for a five consecutive tax year period.

The election is not automatic; it requires a formal application, acceptance by the Tax Commissioner, and timely payment of the full amount.

The election may be made for up to two separate five-year periods, meaning a maximum of ten tax years in total, provided the relevant statutory and administrative conditions are met.

Who may qualify

An individual may be eligible only if both of the following apply:

- The individual does not have a domicile of origin in Cyprus.
- The individual has become, or will become, deemed domiciled in Cyprus because they have been Cyprus tax resident for at least 17 out of the last 20 consecutive years before the relevant tax year.

The circular expressly states that a person with a Cyprus domicile of origin cannot elect to this regime under any circumstances.

Key conditions

For the alternative SDC regime to apply, all the following must be satisfied:

- The individual must be eligible to elect to the regime.
- The application must be submitted by 30 June of the first year of the relevant five-year period.

- The application must be accepted by the Tax Commissioner.
- The full €250,000 must be paid in one lump sum by the end of the month following the month of approval.

Late applications are not accepted.

If the €250,000 is not paid by the deadline, the approval ceases to have effect and the individual remains subject to the ordinary SDC rules.

Timing and transition rules

As a general rule, the first five-year period must start in the same tax year in which the individual is first deemed domiciled in Cyprus.

For example, if an individual is first deemed domiciled in 2028, the first eligible five-year period would be 2028 to 2032.

The circular also confirms that the regime applies from tax year 2026 onwards.

As a transitional measure, individuals first deemed domiciled in 2024 or 2025 may still apply for the 2026 to 2030 five-year period, provided the application is submitted by 30 June 2026.

Individuals who became deemed domiciled in 2023 or earlier are not eligible for acceptance into any five-year period under this circular.

For a second five-year period, that period must follow immediately after the first, with no intervening tax year.

The circular also notes that applications may be submitted up to two years in advance of the relevant five-year period, subject to the acceptance rules.

Payment mechanics

The €250,000 payment covers the entire five-year period, effectively corresponding to €50,000 per tax year.

The amount must be paid as an actual payment and cannot be settled by offsetting refundable tax balances.

Where SDC has already been paid, whether through withholding or self-assessment, in respect of income falling within the relevant five-year period before the application is approved, that SDC may be refunded separately, but it cannot be offset against the €250,000 amount.

Once the lump sum is paid, the Tax Department will issue a certificate confirming the individual's

inclusion in the regime for the relevant five-year period, which may be used to support non-withholding of SDC where required.

Effect of the election

The election is irrevocable and binding for the full five consecutive tax years.

The circular makes clear that the €250,000 is final and cannot be refunded in whole or in part, even if the individual later ceases to be Cyprus tax resident or does not receive the anticipated income during the five-year period.

The amount also cannot be reduced by any foreign tax suffered on dividends or interest.

Accordingly, the decision to opt in should be considered carefully against the expected dividend and interest profile of the individual, as well as any exposure to deemed distribution SDC.

Main exemptions during the five-year period

Once validly included in the alternative regime, the individual is treated, for SDC purposes, in the same way as a person who is not domiciled in Cyprus.

Accordingly, for the relevant five-year period, the circular confirms exemptions from SDC in relation to:

- Dividends received from any person, whether Cyprus tax resident or not.
- Deemed dividend distribution under Article 3A.
- Interest income received or credited by any person, whether Cyprus tax resident or not.
- Deemed distribution of profits for 2024 and 2025 by Cyprus tax resident companies, to the extent attributable directly or indirectly to the relevant individual.
- Certain SDC on dividends received by Cyprus tax resident companies from other Cyprus tax resident companies, to the extent attributable directly or indirectly to the relevant individual.

Supporting documents and filing process

The application must be submitted on Form T.D. 631 and accompanied by the domicile of origin questionnaire (Form T.D.38Qa / T.F.38EρA) together with the required supporting documents.

It must also include certificates of clean criminal record from Cyprus and from the individual's country or countries of citizenship, together with official Greek translations and Apostille certification, where required by the circular.

For applications relating specifically to the 2026 to 2030 period, the criminal record certificates may be submitted by 30 September 2026, but the application itself and the domicile questionnaire must still be submitted by 30 June 2026.

The English version of Form T.D. 631 included with the circular states that the application is submitted via the Tax For All portal by sending a new message under “Tax Treatment” and selecting “Application for the extension of the non-dom regime.”

Practical observations for clients

This measure may be attractive for individuals expecting substantial dividend and/or interest income during the relevant five-year period, especially where their projected ordinary SDC cost would exceed the fixed €250,000 amount.

However, because the regime is front-loaded, non-refundable, and subject to strict acceptance and payment deadlines, a careful eligibility review and cost-benefit analysis should be undertaken before filing.

In practice, affected individuals should review, without delay, the year in which they first become deemed domiciled, whether the transition rule for 2024 or 2025 deemed domicile may apply, the availability of supporting documents, and the expected level and timing of dividend and interest income over the full five-year horizon.