

## Explanatory Guide on the Application of the Tax Reform For Individuals Who Are Cyprus Tax Residents (Effective from Tax Year 2026) January 2026

### 1. Tax Year of Application of the Tax Reform

The tax reform applies **from the tax year 2026**.

- The **2026 tax return** will be submitted in **2027**, with a deadline of **31 July 2027**.
- During **2026**, taxpayers will still submit the tax return for **tax year 2025**.

### 2. Tax-Free Threshold and Income Tax Bands

The **tax-free threshold** has increased from **€19,500 to €22,000**, effective from tax year 2026.

#### Income Tax Rates (from 2026)

Taxable Income (€)	Tax Rate
€0 – €22,000	0%
€22,001 – €32,000	20%
€32,001 – €42,000	25%
€42,001 – €72,000	30%
€72,001 and above	35%

*Taxable income means net income after allowable exemptions and deductions.*

### **3. Persons Required to Submit a Tax Return (from 2026 onwards)**

From tax year **2026**, a person must submit a tax return if:

#### **(a) Income-based obligation**

They have **gross income** falling under Article 5 of the Income Tax Law, including income from:

- Employment or business
- Dividends and interest
- Pensions
- Court-ordered income
- Rental income
- Royalties or intellectual property
- Sale of crypto-assets
- Breach or cancellation of contracts

#### **(b) Age and residence-based obligation**

They are:

- A **Cyprus tax resident**, and
- **Aged between 25 and 70** (inclusive) by 31 December of the tax year,
- **Regardless of income level**

The Council of Ministers may exempt specific categories of persons by decree.

### **4. Persons Not Required to Submit a Tax Return**

A person **is not required** to submit a tax return if:

- They have **no gross income**, and
- By 31 December of the tax year:
  - They are **under 25 years old**, or
  - They are **71 years or older**

## 5. New Personal Tax Allowances Introduced

The tax reform introduces **new personal tax allowances** for Cyprus tax residents, based on family status and income criteria, covering:

- **Dependent children**
- **Rent or mortgage interest for main residence**
- **Energy upgrading of main residence**
- **Purchase of electric vehicles**

These allowances:

- Are **additional** to existing deductions
- Do **not reduce** the taxable income used for the **1/5 cap** on insurance and social contributions
- Are declared via **Form T.F.59** (Employer Withholding Adjustment Form)

## 6. General Conditions for Granting the New Allowances

- Spouses or partners (civil partnership or cohabiting with common children) must **consent to mutual disclosure of tax information**
- All tax returns must be **submitted on time**

## 7. Income Criteria for Granting Allowances

### (A) Families

**Total gross family income must not exceed:**

Number of Children	Income Limit
0–2 children	€100,000
3–4 children	€150,000
5+ children	€200,000

**Family income includes** income from employment, pensions, rents, interest, dividends, grants, benefits, and foreign income.

**Excluded from family income:**

- Income of full-time student children
- Child benefit, student grants
- Disability and chronic illness benefits

### Definition of Family (for income purposes)

Includes:

- Married or cohabiting parents and children living together
- Single, widowed or divorced parent with children
- Children living with guardian where parents are deceased or missing
- Cases where one spouse is imprisoned (6+ months)

Children over 18 may live elsewhere and still be considered dependents.

### (B) Single Persons

A **single person** (no spouse, partner or dependent children) qualifies if:

- Gross income does not exceed **€40,000**

Cohabitation **without marriage or civil partnership** does not affect single status.

### 8. Allowance for Dependent Children

Granted **per biological or legally adopted parent**, as follows:

Dependent Child	Allowance
1st child	€1,000
2nd child	€1,250
3rd and each additional child	€1,500

### Dependent child definition (at 31 December):

- Under 18 years, or
- Student under 20 (secondary education)
- Soldier under 21
- University student under 24
- Permanently incapacitated (any age)

## 9. Special Cases – Single Parents & Shared Custody

### Single-Parent Families

- Same income criteria apply
- **Child allowance is doubled**

#### Example:

Single parent with 3 children → allowance €7,500

### Shared custody (children not living with the parent)

Allowance depends on the parent's own income category:

- Single → €40,000 limit
- Married/civil partnership → €100,000+
- Cohabiting with common child → family criteria apply

## 10. Allowance for Rent or Mortgage Interest (Main Residence)

Up to **€2,000 per person per year** for:

- Mortgage interest for purchase/construction of **main residence in Cyprus**
- Rent paid for **main residence in Cyprus**

#### Conditions:

- Property or loan in the name of at least one spouse/partner
- Rent paid via bank or electronic means
- State subsidies reduce the eligible amount
- Total allowance cannot exceed actual expense

## 11. Allowance for Energy Upgrades & Electric Vehicles

Up to **€1,000 per person per year** for:

- Energy efficiency upgrades (insulation, windows, systems)
- Renewable energy systems (PV, batteries)
- Electric vehicles (M1 category)
- Charging stations

Unused allowance may be **carried forward up to 4 years**, provided income criteria are met **in the year of expenditure**.

If income criteria are **not met in the year of expenditure**, the allowance is **lost**.

## **12. Allowance for Home Insurance (Natural Disasters)**

- Up to **€500 per year, no income criteria**
- Applies to any property (main, holiday, rented)
- Covers fire, earthquake, flood, etc.
- Reduces net income for the **1/5 deduction cap**

## **13. Life & Disability Insurance Premiums**

- Allowance extended to disability insurance
- Deduction limited to **7% of insured amount**
- Included within the **1/5 of net income cap**

## **14. Taxation of Partial Surrender of Life Insurance**

**If within 4 years:**

- **50% of the surrendered amount is taxable**

**After 4 years:**

- Tax applies to **50% of the excess** over the surrender value at the end of year 4
- Adjusted for prior partial surrenders

## **15. Taxation of Full Surrender of Life Insurance**

Taxed according to existing provisions, taking into account prior deductions and surrender values.

## **16. Taxation of Rental Income**

Rental income continues to be taxed under existing income tax provisions, subject to allowable deductions and new allowances where applicable.