



## **Nicosia-Based SPL Audit Guides Businesses Through Cyprus's Most Significant Tax Reform in Over Two Decades**

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As businesses across Cyprus and beyond adapt to one of the most far-reaching overhauls of the country's tax framework since its accession to the European Union, SPL Audit (Cyprus) Ltd continues to serve as a trusted advisory partner for companies and high-net-worth individuals seeking clarity on how the reform affects their structures, compliance obligations, and long-term planning. The comprehensive package of legislative amendments, which took effect on 1 January 2026 and was approved by the House of Representatives in December 2025, introduced changes that affect virtually every area of Cypriot taxation, from corporate income tax and dividend distributions to personal income thresholds and enforcement mechanisms.

At the centre of the reform is the increase in the standard corporate income tax rate from 12.5 per cent to 15 per cent, a measure designed to align Cyprus with the OECD Pillar Two global minimum tax framework. While the headline rate adjustment has attracted significant attention, tax professionals and policymakers alike have emphasised that Cyprus retains a broad suite of exemptions and incentives that continue to position the jurisdiction as one of the most competitive within the European Union. The participation

exemption on qualifying dividends, the intellectual property box regime, the notional interest deduction, and the absence of withholding tax on outbound dividends to non-residents all remain intact under the reformed framework.

A spokesperson for SPL Audit said: "The 2026 reform is not simply a rate change. It is a structural recalibration of how Cyprus taxes corporate profits, distributes dividends, and enforces compliance. For businesses operating through Cypriot entities, particularly those with cross-border operations, the implications extend well beyond the corporate tax line. The abolition of deemed dividend distribution, the reduction in special defence contribution rates on distributed profits, and the introduction of targeted anti-avoidance measures all require careful analysis and, in many cases, the restructuring of existing arrangements."

SPL Audit, an independent audit, tax, and advisory firm headquartered in Nicosia, has been providing professional services to local and international clients since 2010. The firm's tax advisory division works with corporate entities, their executives, and beneficial owners across a range of disciplines, including corporate tax planning, international tax structuring, transfer pricing, VAT compliance, and private client advisory. The firm also coordinates with an established network of international partner firms to deliver support to clients with operations beyond Cyprus.

Among the most consequential aspects of the reform is the abolition of the deemed dividend distribution mechanism for profits earned from the 2026 financial year onward. Under the previous regime, Cyprus-resident companies that did not distribute a specified portion of their profits within two years were subject to a deemed distribution charge at a rate of 17 per cent under the special defence contribution. The removal of this provision simplifies tax planning for owner-managed businesses and holding structures, although transitional rules continue to apply to profits earned during the 2024 and 2025 financial years.

Simultaneously, the special defence contribution rate applicable to actual dividends distributed from post-2026 profits has been reduced from 17 per cent to 5 per cent for Cyprus tax-resident individuals. This reduction is expected to encourage the distribution of new profits and materially affect dividend policy for privately held companies. However, the reform also introduces a targeted anti-avoidance provision addressing concealed dividends, under which a 10 per cent special defence contribution may be applied where value is transferred to shareholders or connected persons in a manner that substantively constitutes a distribution of profits.

The reform also extends the tax loss carry-forward period from five years to seven, a measure that benefits businesses with longer investment cycles, including technology start-ups and capital-intensive enterprises. Additionally, the 20 per cent super-deduction on qualifying research and development expenditure has been extended to 2030, reinforcing incentives for innovation-driven companies operating through Cyprus.

For international businesses, the reform introduces an expanded definition of tax residency. Companies incorporated under the Cyprus Companies Law are now automatically considered Cyprus tax residents unless an applicable double tax treaty provides otherwise. This change removes the previous requirement that such companies must not be tax resident in another jurisdiction and has implications for multinational groups using Cypriot entities within their corporate structures.

The spokesperson added: "Cyprus remains a credible, well-regulated, and strategically located jurisdiction for international business. The reform aligns the country's tax system with EU directives and OECD standards while preserving the fundamental advantages that have attracted international investment for decades. The key is for businesses to take a proactive approach, reviewing their structures, segmenting profit pools by year, and ensuring that compliance processes are aligned with the enhanced enforcement provisions that now form part of the legislative framework."

Indeed, the strengthening of tax administration and enforcement powers represents another significant dimension of the reform. The Cyprus Tax Department has been granted expanded authority to obtain information from taxpayers, including the power to suspend bank confidentiality obligations and to request declarations of assets and liabilities for a retrospective period of up to eight years. Increased penalties for non-compliance and the potential suspension of business activities for entities with outstanding tax obligations underscore the government's commitment to raising fiscal discipline across the board.

The firm noted that the reform's reach extends to individual taxpayers as well. The personal income tax-free threshold has been raised to 22,000 euros, and new deductions for dependent children, students, and green investments have been introduced. From a compliance perspective, all Cyprus tax residents aged 25 and over are now required to file annual tax returns, regardless of whether they have taxable income, broadening the scope of the tax monitoring framework.

Cyprus's extensive network of over 65 double tax treaties, its full membership in the European Union and the eurozone, and its common law legal tradition continue to underpin the jurisdiction's appeal. The island's professional services sector, comprising experienced auditors, legal advisors, and financial specialists, provides the infrastructure that international businesses require when establishing or maintaining operations in the region.

SPL Audit's tax advisory team provides end-to-end support across corporate tax compliance, international structuring, advance tax rulings, transfer pricing studies, group restructuring, and tax clearance during liquidation or strike-off. The firm also advises private clients on wealth preservation, succession planning, and personal tax efficiency, including strategies for individuals relocating to Cyprus under the non-domiciled resident regime.

As businesses continue to assess the practical impact of the 2026 reform on their operations and long-term plans, the firm encourages corporate decision-makers and their advisors to undertake a comprehensive review of existing structures, dividend policies, and compliance processes in light of the new legislative requirements.

## About SPL Audit

SPL Audit (Cyprus) Ltd is an independent audit, tax, and advisory firm based in Nicosia, Cyprus, serving both local and international businesses, including high-net-worth individuals. Established in 2010, the firm delivers tailored solutions across accounting, audit and assurance, tax compliance, VAT compliance, international tax planning, and financial advisory services. The team comprises skilled, highly trained, and experienced professionals who bring deep expertise and insight to every engagement. Visit their website at <https://splcy.com/>.

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## SPL Audit

*SPL Audit (Cyprus) Ltd is an independent firm in Nicosia serving international businesses, local companies, and HNW individuals through top experienced accountants, advisors, and tax specialists.*

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