



# Cyprus Tax Residency and Non-Dom rules

Tax services



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# About Cyprus

## Location

With a strategic geographical location in the middle of three continents, namely Asia, Europe and Africa, Cyprus is the third largest island in the Mediterranean Sea and the natural gateway to the Middle East.

With a size that is big enough to be called cosmopolitan, at the same time, small enough to be regarded as the ideal place to raise a family. An island which enjoys more than 300 days of sunshine yearly, with mild winters and the largest number of blue flag beaches per coastal line in the world!

A sovereign European country with a cultural heritage so rich that is lost in the centuries, yet an island that patiently awaits to be explored and re-discovered, offering an unparalleled level of quality of life which is second to none.

## Business

With more than 40 years of experience as an international business centre that is supported by an abundance of highly skilled professionals and complemented by a modern and investor friendly EU compliant tax system, a solid, impartial and credible legal system that is based on common law principles and a welcoming attitude towards expatriates, Cyprus is naturally the ideal hub for business and trade.

Two international airports (Larnaca, Paphos) with daily flights to all major destinations within and outside the EU and two multipurpose deep seaports (Limassol, Larnaca) connect the island to the rest of the world.

Even though the small and agile Cypriot economy has faced challenges as a result of the global pandemic and most recently the uncertainty as a result of geopolitical tensions, it is now on the path of steady and sustainable growth, evidenced by the recent positive upgrades to the Cypriot economy to investment grade by the international rating agencies (Moody's, S&P, Fitch).

Dynamic sectors of the economy such as energy, professional services, tourism, shipping, construction and real estate are enhancing this trend.

## Family

Cyprus has a multicultural population and enjoys a high standard of living and a very low crime rate. It is a great place to live in, embracing security and safety for the whole family.

Cyprus is home to many private schools offering a high level of education and their basic teaching language is English. There is also a number of reputable state institutions and private universities of higher education, which have secured endorsement of their diplomas by UK and USA educational establishments or cater for external degree programs and professional examinations.

We, at KPMG in Cyprus, hope that in the context of this brochure the reader can discover the endless opportunities and the many benefits that Cyprus has to offer to families and businesses alike. We look forward to meeting you in person when in Cyprus next!



# The corporate tax system at a glance

## Main Features:

- Taxation is based on residency status (management and control test or incorporation test)
- 15% corporate tax on trading profits
- Notional Interest Deduction (NID) available for new capital introduced
- Attractive Intangible Property (IP) Regime in line with OECD's "nexus" principle
- Corporate tax on sale of securities: 100% exemption
- No withholding tax on outgoing payments (dividends-interest-royalties\*)
- Dividend income is exempt from taxation (subject to relaxed conditions)
- Special mode of taxation of 8% on benefits arising from stock options (subject to conditions)
- Flat tax rate of 8% for taxation of gains arising from crypto-assets
- Applicability of all EU tax directives
- Foreign exchange differences are tax neutral
- Group relief availability (for 75% holdings)
- Tax exempt re-organisations
- Advanced tax ruling practice offers safety and predictability for investments
- Attractive and constantly expanding Double Tax Treaty network
- EU approved tonnage tax regime
- Tax incentives for investing in Innovative Small and Medium Enterprises (SMEs).

\*Except on certain payments to companies in low tax jurisdictions as well as in jurisdictions featured in the EU list of non-cooperative jurisdictions (Annex I).

# Tax residency rules for individuals

## The 183 days rule

Cyprus has adopted a residency-based system of taxation, whereby physical presence in Cyprus exceeding 183 days in a tax year (1 January to 31 December) will constitute tax residency for individuals.

Therefore, if an individual is physically present in Cyprus for more than 183 days in a tax year, s/he will be considered a tax resident of Cyprus in that tax year. Consequently, if the individual is physically present in Cyprus for less than 183 days in a tax year, s/he will be considered to be a non-Cyprus tax resident in that tax year.

## The 60 days rule

An individual who does not stay in any other country for one or more periods exceeding in aggregate 183 days in the same year, is deemed as tax resident in Cyprus in that year, if the following conditions are cumulatively met:

- (i) the individual stays in Cyprus for at least 60 days in the year,
- (ii) exercises a business and/or is employed in Cyprus and/or holds an office with a Cyprus tax resident company at any time during the tax year,
- (iii) maintains (by owning or leasing) a permanent home in Cyprus.

The law further clarifies that an individual that cumulatively meets all the above conditions shall not be treated as a Cyprus tax resident in the year, if during that year the exercise of any kind of business in Cyprus and/or employment in Cyprus and/or holding of an office with a tax resident person in Cyprus, is terminated.

Days spent in Cyprus should be calculated as follows:

- a) The day of departure from the Republic is deemed to be a day outside of the Republic;
- b) The day of arrival in the Republic is deemed to be a day in the Republic;
- c) The arrival in the Republic and the departure from the Republic in the same day is deemed to be a day in the Republic;
- d) The departure from the Republic and the arrival in the Republic in the same day is deemed to be a day outside the Republic.

# Non-domicile rules for individuals

According to the provisions of the Cyprus tax laws, an individual who is a tax resident of Cyprus under the provisions of the Income Tax Law (either under the 183 days rule or the 60 days rule) but is regarded as “non-domiciled” in the Republic of Cyprus, will be exempt from the provisions of the Special Defence Contribution (SDC) Law.

As per the SDC Law, dividends and interest income earned by individuals who are tax residents and domiciled in Cyprus, are subject to tax at the rate of 5% and 17% respectively, regardless of the country of origin of the income (i.e. from Cyprus or from abroad). Therefore, tax residents but non-domiciled individuals will enjoy dividend and interest income free from SDC tax in Cyprus.

As from 1/1/2026, rental income is not subject to SDC.

For SDC purposes, the term domicile is defined in accordance with the rules of the Wills and Succession Law, as follows:

- A domicile of origin (i.e. the domicile received by an individual at birth); and
- A domicile of choice (i.e. the domicile acquired by an individual by establishing a home with the intention of a permanent or indefinite stay).

A person who has a domicile of origin in Cyprus will be treated as “domiciled in Cyprus” for SDC purposes with the exception of:

- An individual who has obtained and maintained a domicile of choice outside Cyprus under the provisions of the Wills and Succession Law, provided that this individual was not a Cyprus tax resident for a period of at least 20 consecutive years prior to the tax year in question; or
- An individual who was not a Cyprus tax resident for a period of at least 20 consecutive years immediately prior to the entry into force of the introduced provisions (i.e. prior to 16 July 2015).

Irrespective of a domicile of origin, an individual who remains a tax resident of Cyprus for a period of at least 17 years out of the last 20 years prior to the tax year in question, shall be deemed as domiciled in Cyprus for SDC purposes.

## Extension of non-dom status

As per the recent amendments of the SDC Law, an alternative mode of taxation is available for individuals who are considered as deemed domiciled in Cyprus and they would like to extend their non dom status, for a maximum of two additional 5-year periods (i.e. 5+5 years).

This alternative method of taxation will extinguish the SDC liability of a taxpayer (covering interest and dividend income derived from both Cyprus and abroad, irrespective of the level of the income), with an upfront lump sum payment of €250.000, for each 5-year period.

## Taxation of domiciled tax resident individuals

Type of Income	Income Tax	SDC
Dividends	Exempt	Taxable
Interest	Exempt	Taxable
Rental Income	Taxable	Exempt

## Taxation of non-domiciled tax resident individuals

Type of Income	Income Tax	SDC
Dividends	Exempt	Exempt
Interest	Exempt	Exempt
Rental Income	Taxable	Exempt

# Personal income tax

## Income tax rates

A tax resident individual will be subject to tax in Cyprus under the following income tax rates:

Chargeable Income €	Tax Rate %	Tax Amount €	Cumulative Tax €
0-22.000	0	—	—
22.001-32.000	20	2.000	2.000
32.001-42.000	25	2.500	4.500
42.001-72.000	30	9.000	13.500
Over 72.000	35		

## Tax deductions

Annual life/disability insurance premiums (<7% of insured amount), Social Insurance Contributions, Provident and Pension Fund contributions (up to 10% of net taxable income), contributions to Medical Funds*, contributions to equivalent foreign funds** and contributions to the General Healthcare System.	Restricted to 1/5 of the taxable income before deduction of these allowances
Subscriptions to trade unions and professional bodies.	100%
Rental Income.	20% of gross rental income before interest and wear and tear allowance
<b>Family based deductions***</b> Tax deduction based on number of dependent children Interest expense or rental expense on primary residence Green transition capital expenditure for the current and the following four years	From €1.000 Up to €2.000 Up to €1.000
Insurance premiums for residential properties against natural disasters	Up to €500
Contributions and donations to approved charities (with receipts). Contributions and donations to approved cultural institutions.	100% Up to €50.000
Losses of current and previous seven years (for self-employed individuals with an obligation to prepare audited financial statements)	100%
Amount invested in an approved small and medium innovative company.** (applicable until 31/12/2026)	50% of taxable income (up to maximum annual deduction of €150.000)
Expenditure for a building in respect of which there is in force a Preservation Order.	EUR € Per m <sup>2</sup> 1.400 1 - 300 1.300 301 - 1.000 1.000 1.001 - over

\*Maximum 2% of gross taxable income. \*\* Under certain conditions. \*\*\*Subject to annual (family) income threshold and timely filing.

## Submission of tax returns

Cyprus tax resident individuals who derive taxable income are obliged to file an income tax return (TD1).

Cyprus tax resident individuals, aged between 25-70, also have an obligation to file a TD1, even if they don't derive any income.

Non-Cyprus tax resident individuals are obliged to file a TD1 if they derive any Cyprus sourced income which is taxable in Cyprus.

The submission deadline for the income tax return (TD1) is the 31st July following the relevant tax year.

Sole proprietors with an annual turnover of more than €120.000 are obliged to prepare audited financial statements.

The income tax return (TD1) of an individual is submitted electronically.

# Exemptions for first time employment in Cyprus

## Exemptions regarding employment income

Individuals who were not Cyprus tax residents before the commencement of their employment in Cyprus, may be entitled to one of the following exemptions:

### The 50% exemption rule under article 8(23A)

Individuals with an annual employment income in excess of €55,000 who take up first employment in Cyprus, may be eligible for an exemption from taxation of 50% of their employment income from sources in Cyprus.

Notes:

- This exemption applies for a 17 year period commencing from the year of employment.
- The exemption is granted to an individual who has not been a Cyprus tax resident for at least 15 consecutive years prior to the commencement of the employment in Cyprus.
- Subject to grandfathering provisions, individuals who commenced employment in Cyprus prior to 2022, may still claim an exemption under article 8(23A), with a maximum lifetime duration of the exemption for 17 years as from the date of the commencement of employment in Cyprus.

### The 20% exemption rule under article 8(21A)

Individuals who take up first employment in Cyprus and do not qualify for the 50% exemption under article 8(23A), may be eligible for a 20% or €8,550 exemption (whichever is lower) from their employment income from sources in Cyprus.

Notes:

- This exemption applies for a period of 7 years commencing from the year following the year of commencement of employment in Cyprus.
- This exemption is granted to an individual who had been employed outside of Cyprus at a non-Cyprus tax resident employer for at least 3 consecutive years prior to the commencement of the employment in Cyprus.



**Individuals who were not Cyprus tax residents before the commencement of their employment in Cyprus, may be entitled to one of the available exemptions for first employment in Cyprus.**

# Tax incentive for repatriation to Cyprus

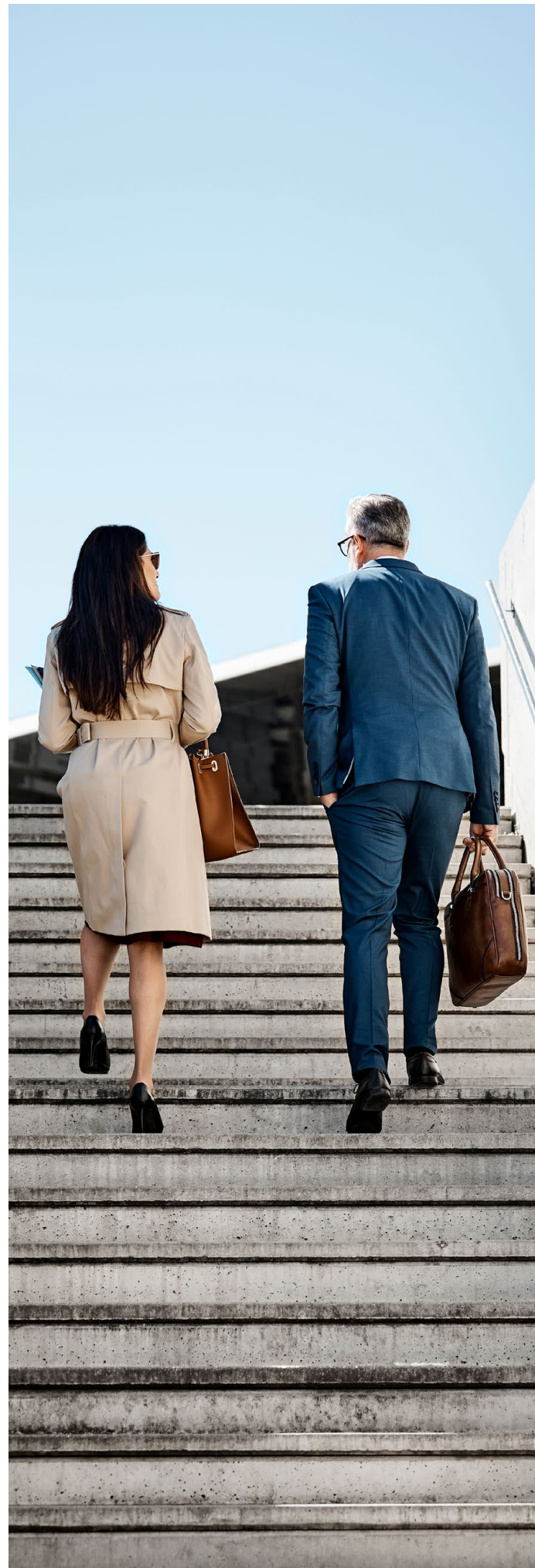
## The 25% exemption rule under article 8(21B)

Individuals, who commenced their professional activities in Cyprus after 1 January 2025, with an annual employment income (in case of employees) or annual profits (in case of self-employed individuals) in excess of €30.000, may be eligible for an exemption from taxation of 25% of their employment income or profits, with a maximum exemption of €25.000 per annum.

Notes:

- This exemption applies for a period of 7 years, commencing from the year of employment/self-employment in Cyprus.
- The exemption is granted to an individual, if the following conditions are cumulatively met:
  - a) The individual is a Cyprus tax resident\*;
  - b) The individual has not been a Cyprus tax resident for at least 7 consecutive years prior to the commencement of the employment/self-employment in Cyprus;
  - c) The individual had been a Cyprus tax resident at some point before the required 7-year period of non-Cyprus tax residency (as per point (b) above);
  - d) The individual had been employed full-time outside of Cyprus, by a non-Cyprus tax resident employer, for either:
    - (i) at least 36 months (3 years) within a period of 84 months (7 years), preceding the month of commencement of the professional activities in Cyprus. This threshold applies only to individuals holding a university degree; or
    - (ii) 84 months (7 years), preceding the month of commencement of the professional activities in Cyprus, in all other cases (e.g. individuals not holding a university degree).

*\*An exception applies for the year of commencement of the employment or self-employment in Cyprus, during which the individual may be either a Cyprus tax resident or a non-Cyprus tax resident*



# Other tax considerations

- 100% exemption on remuneration for salaried services rendered outside Cyprus for a period in excess of 90 days in a tax year to a non-Cyprus resident employer.
- Gains arising from crypto-assets are taxed with a flat rate of 8%. Any losses arising from crypto-assets may only be offset against profits from the disposal of crypto-assets occurring within the same tax year.
- Share based awards, as part of an approved employer share based scheme, are taxed with a flat rate of 8% (subject to various thresholds and restrictions).
- Ex-gratia payments (subject to conditions) are tax free up to €200.000 and taxed thereafter at a flat rate of 20%.
- Overseas pensions are exempt from tax up to the amount of €5.000 and taxed at the rate of 5% thereafter. The taxpayer may opt to be taxed in the normal way, where this special mode of taxation of income results in a higher tax liability (this election can be made from year to year).
- Flat taxation at the rate of 8% (minimum tax of €10.000 per annum) available to fund managers of specific Cyprus-based funds in regards to earnings from carried interest, under conditions.
- 100% exemption on lump sum payments from life insurance schemes or from approved provident funds.
- No inheritance and gift taxes.
- No wealth taxes.
- No immovable property taxes.
- Capital gains
  - Capital gains tax is only imposed on the disposal of immovable property situated in Cyprus, as well as on the transfer of shares directly or indirectly held in companies (other than listed shares) in which the underlying asset is immovable property situated in Cyprus and at least 20% of the fair market value of the shares is derived from the immovable property.
  - The sale of immovable property situated outside Cyprus is exempt from capital gains tax.



# The Cyprus Social Insurance and National Health Insurance Systems at a glance

## Social Insurance System

Any person who is undertaking employment activities in Cyprus is subject to social insurance contributions in Cyprus.

- The social insurance contributions for 2026 are capped to monthly earnings of €5.742 and annual earnings of €68.904. The social insurance contribution rate is 8,8% for the employee and 8,8% for the employer (for a total of 17,6%). The employer is also liable for a contribution of 1,2% to the Redundancy Fund, 0,5% to the Training and Development Fund and 2% to the Social Cohesion Fund. The cap mentioned above does not apply to the Social Cohesion Fund contributions. Instead, the Social Cohesion Fund contributions are applied on the gross remuneration received.
- Foreign nationals will be liable for social insurance contributions to the Cyprus Social Insurance System, if they are physically exercising their employment activities in Cyprus.
- An EU/EEA/Swiss national exercising employment in Cyprus may be eligible to remain insured under the Social Insurance System of his/her home country, as per the provisions of the applicable Regulation (EC) No. 883/2004, on the coordination of social security systems (i.e. a valid A1 certificate should be available).

**Table summarising the social insurance contributions for 2026**

Fund	Percentage on employee's earnings		
	Employer	Employee	
Social Insurance	8,8%	8,8%	C
Redundancy	1,2%	-	C
Training and Development	0,5%	-	C
Social Cohesion	2%	-	NC
<b>Total</b>	<b>12,5%</b>	<b>8,8%</b>	

C=Cap at €5.742/month; NC= No Cap

## National Health Insurance System (NHIS)

The National Health Insurance System (NHIS) Law is applicable as of the 1 March 2019.

Under the NHIS rules, employers are contributing 2,9% and employees 2,65% on gross earnings with an annual cap of €180.000.

**Table summarising the NHIS contribution rates**

Category	Current rates
Employees	2,65%
Employers	2,90%
Self employed	4,00%
Income earners (e.g. rents, interests, dividends)	2,65%
Persons holding office	2,65%
Pensioners	2,65%

## Exemption from NHIS contributions

Individuals may be exempted from NHIS contributions in Cyprus if they fall under one of the following main categories:

- Employees working in Cyprus, holding an A1 certificate;
- Pensioners residing in Cyprus, holding an S1 certificate.

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