KOUNNIS ACADEMY
Professional & Personal Development

Tax Reform – Practical Examples

Income Tax – Individuals

1. Family with Two Dependent Children (Within Income Criteria)

Maria is married and has two children aged 15 and 12. She earns employment income of €30,000 per year, while her spouse earns employment income of €45,000 per year. She also receives rental income of €10,000 per year from an apartment in Nicosia.

She services a loan for the construction of her primary residence, paying a monthly instalment of €500, of which €125 represents interest. She has also installed photovoltaic systems at her residence at a total cost of €5,000.

Additional information:

- Life insurance premiums: €1,000 per year
- Home fire insurance: €600 per year
- Professional body subscriptions: €350
- Other deductions: €300

Required:
Calculate Maria's tax liabilities before and after the tax reform.

Answer

New deductions

The new personal deductions are subject to income criteria.

Maria, her spouse, and their two children constitute a family unit. The total family income amounts to €85,000 (€30,000 + €45,000 + €10,000), which is below the €100,000 threshold. Therefore, she is entitled to claim personal deductions for dependent children, loan interest, and energy upgrades.

- Dependent children deduction:
  Two dependent children → €1,000 for the first child and €1,250 for the second child, totalling €2,250.
  (The same deduction may also be claimed by the spouse.)
- Interest deduction:
  €1,500 (€125 × 12).

The deduction is allowed up to the actual interest expense, with a maximum of €2,000 per spouse. If Maria claims the full €1,500, her spouse cannot claim an additional interest deduction.

- Energy upgrade deduction:
  €1,000 for Maria and €1,000 for her spouse, up to the amount of the actual expense. If the deduction is not fully utilised in the year incurred, it may be carried forward for up to four years, subject to the €1,000 per spouse annual limit.

Additionally, Maria is entitled to a home fire insurance deduction of up to €500 (not subject to income criteria).

Maria will be taxed under the new income tax rates, with a tax-free threshold of €22,000.

Furthermore, no Special Defence Contribution (SDC) will be payable on the rental income, as rental income is now taxed solely under income tax. Only GHS contributions will apply.

Type of Tax/Contributions	After Tax Reform	Before Tax Reform	Savings
Income Tax	880.00	2,612.50	1,732.50
Special Defense Contribution	-	225.00	225.00
Social Security Contributions	2,640.00	2,640.00	-
GeSY (Salary and Rent 2.65%)	1,060.00	1,060.00	-
Total	**4,580.00**	**6,537.50**	**1,957.50**

2. Family with Three Dependent Children (Outside Income Criteria)

Married couple with three dependent children. During the tax year, they incurred €50,000 for the purchase of an electric vehicle.

One spouse earns gross income of €90,000 and the other €65,000. They service a loan with a monthly instalment of €2,000, including interest of €500 per month.

Income:
The spouses and their three children constitute a family. Total gross income amounts to €155,000 (€90,000 + €65,000).

Income Criterion:
For families with three or four dependent children, the income threshold is €150,000.

Answer:
The parents are not entitled to the dependent children deduction, as their income exceeds the €150,000 threshold. For the same reason, they are not entitled to deductions for the purchase of an electric vehicle or for loan interest.

3. **Divorced Father Living Alone (Single Person) with Two Dependent Children – Outside Income Criteria**

The individual has two dependent children who reside primarily with their mother. He pays rent of €4,800 per year for his primary residence. His gross income amounts to €42,000.

Income:
The divorced father is considered a single person with gross income of €42,000.

Income Criterion:
For single individuals, the income threshold is €40,000.

Answer:
Despite having joint parental responsibility, he is not entitled to the dependent children deduction, as his income exceeds €40,000. For the same reason, he is not entitled to a deduction for primary residence rent.

4. Divorced Mother Living with Two Dependent Children (Within Income Criteria)

She is considered a single-parent family. Provided her total income does not exceed €100,000, she is entitled to **double dependent-child deductions**:

- €2,000 for the first child
- €2,500 for the second child

Total dependent children deduction: **€4,500**

Capital Gains Tax – Individuals

5. Disposal of Immovable Property by an Individual

Maria decides to sell her apartment in Nicosia for €150,000. The cost for capital gains tax purposes amounts to €100,000.

Required:
Calculate the capital gains tax before and after the tax reform.

The disposal is subject to Capital Gains Tax as it relates to immovable property situated in Cyprus.

However, Maria's personal exemption has increased from €17,086 to **€30,000**.

Disposal of a Property - Apartment	**After the tax reform**	**Before the tax reform**
Sale	150.000,00	150.000,00
Cost	(100.000,00)	(100.000,00)
Indexed purchase cost + capital discounts		
Profit	50.000,00	50.000,00
Lifetime exemption	(30.000,00)	(17.086,00)
Taxable profit	20.000,00	32.914,00
FCC @ 20%	**4.000,00**	**6.582,80**
Savings	**2.582,80**	

6. Exchange of Land for Apartments (Land-for-Development Arrangement)

Maria considers entering into a land-for-development arrangement, whereby she transfers a plot of land in Nicosia to a professional land developer in exchange for two apartments in the completed development.

Explanation:
The term "exchange" now includes land-for-development arrangements, which are **exempt from Capital Gains Tax**, subject to the following conditions:

- The disposal is made to a professional land developer as defined under the Streets and Buildings Regulation Law.
- The apartments must be completed within five (5) years from the date of the exchange agreement.

Income Tax – Companies

7. Cyprus Tax Resident Company with Cyprus Tax Resident Shareholders (Cyprus-Domiciled)

A company with net taxable profits of €100,000 for the year 2026.

(a) Determine the total tax and contribution outflows if 100% of profits are distributed as dividends, before and after the tax reform.

- **Corporate income tax:**
  Increased from 12.5% to 15%
- **Special Defence Contribution:**
  Reduced from 17% to 5%

Taxes / Contributions		After Tax Reform	Before Tax Reform
Income Tax		15,000.00	12,500.00
Special Defense Contribution (at 100% dividend)		4,250.00	14,875.00
GeSy (at 100% dividend)		2,252.50	2,318.75
TOTAL		**21,502.50**	**29,693.75**
Effective Tax Rate		22%	30%

(b) Filing deadline and payment of final tax – consequences of non-compliance

The final corporate income tax return must be submitted by **31 January of the year following the year after the tax year**, i.e. **31 January 2028**.

Penalties for late submission:

- €250 if turnover / total assets are below €1 million
- €500 if the thresholds are exceeded

Late payment penalties:

- 5% surcharge after one month
- Additional 5% surcharge after two months
- Plus interest

Provisional tax must also be paid in two instalments during the tax year: **31 July and 31 December**.
A 10% surcharge applies if provisional tax paid is less than 75% of the final taxable income.

(c) Distribution of profits from prior years

The company generated profits of €40,000 in 2024 and €60,000 in 2025.

If dividends are distributed in 2026 or later (e.g. in 2032):

- Dividends distributed from profits within six years from the enactment of the legislation (until 31.12.2031) are subject to SDC at 17%.
- Transitional provisions apply:
    - Profits of 2024 and 2025 are subject to deemed dividend distribution at 70% × 17%, payable within two years from the end of the relevant tax year.
    - Any actual dividends paid are reduced by amounts already deemed distributed.

For profits of €100,000:

- Deemed distribution: €70,000 × 17% = **€8,092**
- Remaining 30% distributed after six years: €30,000 × 5% = **€1,500**

Total SDC payable: €9,592