

Tax Alert

Low-Tax Jurisdictions List for 2026 (Circular 1/2026)

Overview

The Cyprus Tax Department has issued **Circular 1/2026**, defining the list of jurisdictions considered to have a “**low tax rate**” for the 2026 tax year. The circular is issued under:

- Article 2 of the **Income Tax Law** (definition of low-tax jurisdiction), and
- Article 2 of the **Special Defence Contribution (SDC) Law**, as amended.

This classification is relevant for the application of anti-avoidance provisions targeting payments to low-tax jurisdictions.

Key Implications

For the **2026 tax year**, the following provisions apply in relation to payments made to entities resident in listed jurisdictions:

- **Non-deductibility of expenses**

Under Article 11(17) of the Income Tax Law, **interest and royalty expenses** paid by Cyprus tax resident companies to associated companies in low-tax jurisdictions **are not tax deductible**.

- **Withholding tax on dividends**

Under Article 3(1)(b)(ii)(aa) of the SDC Law, **dividends paid to companies in low-tax jurisdictions are subject to SDC withholding at 5%**.

These rules apply specifically to payments made to entities in the jurisdictions listed below.

List of Low-Tax Jurisdictions for 2026

The following jurisdictions are classified as low tax for 2026 **(to be revisited and reviewed annually)**:

- Anguilla
- Vanuatu
- Bermuda
- British Virgin Islands

Contact us for any further information, clarification, or assistance in relation to the above or any other tax matters.



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- Guernsey
- Cayman Islands
- Turks and Caicos Islands
- Isle of Man
- Bahamas
- Bahrain

Important Update – EU Considerations

Anguilla and Vanuatu are currently included in the **EU list of non-cooperative jurisdictions (October 2025 update)**.

As a result:

- These jurisdictions are treated as **non-cooperative** for Cyprus tax purposes.
- Enhanced defensive measures apply, including:
 - o Application of **Article 21A of the Income Tax Law**, and
 - o Broader anti-avoidance provisions under both the Income Tax Law and SDC Law.

Practical Considerations

Cyprus companies should:

- **Review outbound payments** (dividends, interest, royalties) to related parties in the above jurisdictions.
- **Assess tax deductibility risks** for financing and IP structures.
- **Ensure proper withholding compliance** (particularly for dividends).
- **Revisit group structures** involving low-tax or EU non-cooperative jurisdictions.
- Consider **substance and business rationale** documentation where relevant.