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PART 6/29

**COMMISSION STAFF WORKING DOCUMENT**

**Mind the Gap Report**  
**Challenges and opportunities for tax compliance and tax expenditure in the EU**  
**Cyprus**

# Country fiche: Cyprus

## Summary box: Areas of Strength and Areas for Improvement

### Areas of Strength

- **Cyprus has made progress in digitalising its tax administration, reducing the tax compliance burden for taxpayers.** In 2023, Cyprus rolled out an integrated tax administration system, which has modernised the interaction of taxpayers with the tax administration. The new portal is a comprehensive system with a single unified picture of taxpayers, thereby facilitating a consolidated monitoring, assessment and inspection of taxpayers. Cyprus plans to gradually add more Artificial Intelligence elements in the “Tax for All” system by end-2025. Cyprus, among others, has a high e-filing rate for VAT, PIT and CIT, above the EU average for all tax types.
- **Cyprus has made progress in addressing its tax policy gap on Corporate Income Tax by tightening its tax rules on outbound payments of dividends, interests and royalties to associated companies in low-tax jurisdictions and non-cooperative tax jurisdictions and by introducing substance requirements.** As of 1<sup>st</sup> January 2026, non-deductibility of interest and royalty payments towards zero and low-tax jurisdiction will apply, as well as a withholding tax on dividend payments. A withholding tax on interest, dividend and royalty payments to jurisdictions included in Annex I of the EU list of non-cooperative jurisdictions has been in place since 2023.

### Areas for Improvement

- **Cyprus does not currently perform personal income tax (PIT) and corporate income tax (CIT) gap estimations.** In light of the level of activity of the shadow economy in Cyprus, undergoing research to identify the different tax gaps, in particular PIT and CIT could help to further understand the underlying drivers of the shadow economy. Moreover, measuring tax gaps would provide valuable insights into compliance levels, enforcement effectiveness, and priority areas for tax policy reform.
- **Cyprus reports on tax expenditures (TEs) in the annex of its budget, but with limited coverage.** Based on the available evidence CIT related tax relief has the biggest fiscal impact followed by VAT relief. Available tax expenditure reports however provide limited transparency and comparability. It is not possible to assess whether Cyprus is actively evaluating the effectiveness of its tax relief provisions. Currently available estimates suggest that the use of TEs is limited and below the EU average. Cyprus could enhance fiscal transparency and accountability by systematically reporting on tax expenditures.
- **Cyprus could improve the efficiency of its tax collection operations by putting in place a tax recovery strategy.** By classifying taxpayers based on their risk of non-payment, the strategy could tailor recovery efforts appropriately, focusing resources on areas where they will be most effective.

- **Cyprus has faced difficulties with the processing of data resulting from automatic exchange on information.** More systematic use of the available data and tools would enable Cyprus to strengthen tax compliance policies and improve revenue collection.

# 1. Snapshot of Tax System: Tax Revenues and their Sources

**Total tax revenues as a percentage of GDP are below the EU average (37.4% in 2023 compared to 39.0%)<sup>(1)</sup>.** However, since 2010, Cyprus registered one of the biggest increases in tax revenues in the EU (circa 5 percentage points)<sup>(2)</sup>. Revenues from labour taxes represent the largest share in Cyprus's tax mix (42.8%) but less than in most Member States (EU average of 51.2%). In contrast, consumption (32.7% of total) and capital taxes (24.5%) take each take up a higher share in the tax mix compared to the EU average (26.9% and 21.9%, respectively). Among the different tax types, VAT revenue amounted to 25.4% of total tax revenues (EU average of 18.3%). Revenues from both property and wealth taxes are low while revenues from corporate income taxes are considerably higher compared to the EU average. This could be driven by a disproportional corporate tax base which could be linked to profit shifting. Environmental taxes, while being close to the EU average, have been declining since 2010. In this context, as part of its Recovery and Resilience Plan (RRP), Cyprus has been working on a green tax reform, that includes a tax on landfill, levy on water and a carbon tax on transport, broadening the carbon tax as recommended by the IMF<sup>(3)</sup>.

**Despite progressive labour taxation, the ability of the tax and benefit system to reduce income inequality is among the lowest in the EU.** Risk of poverty or social exclusion is relatively low in Cyprus (17.1% of the population in 2024, compared to 21.0% in the EU-27)<sup>(4)</sup> and income distribution has become less unequal (the Gini index for equivalised disposable income is, at 30.1% in 2024, not far from the EU average of 29.3%)<sup>(5)</sup>. Labour taxes are relatively progressive, as the difference in the tax wedge<sup>(6)</sup> between high-income (167% of average wage) and low-income earners (67% of average wage) is, at 10.2 percentage points in 2024, significantly above the EU average of 7.8 percentage points. However, the tax and benefit system reduced income inequality (measured as the difference in Gini coefficients before and after taxes and benefits) by 4.5 percentage points in 2023, one of the lowest effects in the EU (7.9 percentage points on average)<sup>(7)</sup>. This may be partly explained by the fact that there are few taxes on capital. Cyprus has neither wealth, inheritance nor gift tax. Capital gains are in principle untaxed. Wealth is increasingly concentrated at the top 1%.

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<sup>1</sup> Data on tax revenues are based on European Commission: [Data on Taxation Trends](#), edition 2025 (reference year 2023). The 2026 edition (reference year 2024) will be published in the first quarter of 2026. Preliminary data point to a downward revision of tax revenue data for 2023 (to 36.2% of GDP), followed by a stabilisation of total tax revenues around 36.3% of GDP in 2024: [https://doi.org/10.2908/GOV\\_10A\\_TAXAG](https://doi.org/10.2908/GOV_10A_TAXAG).

<sup>2</sup> Only in 2023, nominal revenues further increased by 15.6%. This exceeded the growth rates of underlying tax bases, which can be linked to improved tax collection, mainly by faster processing of and thus reducing the backlog of tax declarations, and digitalising VAT payments. See [Post-Programme Surveillance Report, Cyprus](#), Spring 2024, European Economy Institutional Paper 289, June 2024, page 5.

<sup>3</sup> Cyprus 2025 article IV Consultation, IMF Country Report No. 25/117, June 2025

<sup>4</sup> European Commission, Eurostat [\[ilc\\_peps01n\]](#)

<sup>5</sup> European Commission, Eurostat [\[ilc\\_di12\]](#)

<sup>6</sup> The tax wedge is defined as the sum of personal income taxes and employee and employer social-security contributions net of family allowances, expressed as a percentage of total labour costs (the sum of the gross wage and social-security contributions paid by the employer). Data are based on European Commission, DG ECFIN: [Tax and Benefits Database](#).

<sup>7</sup> European Commission, DG EMPL calculations based on EU-SILC survey data.

## 2. Monitoring of Compliance Gaps

### 2.1. Overview

**Cyprus is not among the EU Member States that officially estimate or publish national tax gaps.**

The Cypriot Tax Department does not publish a formal tax gap estimate by tax type or a consolidated total tax gap using a documented bottom-up or top-down methodology. Selected activities relevant to tax gap assessment include the participation in the EU VAT gap exercise. Cyprus' Tax Department and Statistical Service cooperates closely with the experts calculating Cyprus' VAT gap for the EU, providing relevant data and participating in bilateral meetings.

### 2.2. Monitoring VAT Compliance Gap

**Cyprus overall performs strongly in terms of VAT compliance, with a VAT compliance gap <sup>(8)</sup> that was estimated in 2023 at around EUR 100 million, or 3% of the VAT Total Tax Liability (VTTL) <sup>(9)</sup> well below the EU average of 9.5%.** Cyprus had one of the smallest VAT compliance gaps, ranking 3<sup>rd</sup> among EU Member States. Its VAT compliance gap has been consistently decreasing over the past 5 years, from 11% in 2019, and dropping 3 percentage points between 2022 and 2023. Cyprus' VAT compliance gap estimates for 2021 and 2022 were updated upwards in the 2025 edition of the VAT gap in Europe study, resulting in a less dramatic decrease over the past 5 years. This comes as a result of benchmark revisions of the national accounts, particularly higher reported intermediate consumption and gross fixed capital formation. <sup>(10)</sup>

**The small decline in the share of services, combined with the declining growth in recreational services, restaurant, and accommodation services in household final consumption, likely contributed to the decrease in the VAT compliance gap.** The share of services in gross added value of the economy decreased by 0.5 percentage points in 2023. Meanwhile, recreational services, restaurant, and accommodation services in household final consumption grew by 14 percentage points less than in 2022. As services are typically harder to tax effectively compared to traditional goods, a lower share of services can lead to a lower risk of non-compliance. This effect may have further been supported by the slower growth in the demand for tourism, as measured by nights spent in tourist accommodations (ca. -37 percentage points).

**Furthermore, as bankruptcy declarations declined (ca. -16%), this may have led to comparatively easier VAT collection, further reducing the VAT compliance gap.** To the extent that e-commerce is linked to digital payments, the increase in the share of e-commerce (ca. +2 percentage points) can explain to some extent the decrease in the VAT compliance gap, as the digital trail discourages non-compliance.

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<sup>8</sup> The VAT compliance gap is an estimate of revenues lost due to VAT fraud, evasion and avoidance, bankruptcies and financial insolvencies, or miscalculations.

<sup>9</sup> The VAT Total Tax Liability (VTTL) is the theoretical tax revenue that would be collected in a situation of perfect taxpayer compliance, assuming an unchanged net VAT base.

<sup>10</sup> See European Commission, Syntesia, Poniatowski, G., Bonch-Osmolovsky, M., Śmietanka, A. et al., *VAT gap in Europe – Report 2025*, Publications Office of the European Union, Luxembourg, 2025, <https://data.europa.eu/doi/10.2778/7868422>.

**In 2023, VAT losses due to Missing Trader Intra-Community (MTIC) fraud <sup>(11)</sup> were estimated at around EUR 50 million in Cyprus.** Despite some light fluctuations, they have overall remained rather stable since 2010 <sup>(12)</sup>.

## **2.3. Personal and Corporate Income Tax Compliance Gap, and Measures of the Shadow Economy**

**The European Commission is not aware of any CIT and PIT compliance gap estimation activities in Cyprus at the time of writing of this document.** Estimating CIT and PIT compliance gaps could help policy makers understand the nature and magnitude of the problems related to CIT and PIT tax collection. In addition, measuring and monitoring tax compliance gaps can support tax administration in assessing the effectiveness of their tax policy actions.

**European Commission estimates suggest a moderate CIT tax compliance in Cyprus.** Based on a top-down methodology using national accounts data, developed by the Joint Research Centre, the CIT compliance gap in Cyprus was at around 7% of collected CIT revenues in 2017 (using the GVA-based methodology). This figure is below the (unweighted) EU average of 10.9%, based on available estimates for 23 Member States <sup>(13)</sup>.

**The size of the shadow economy in Cyprus is well above the EU average.** In 2022, the shadow economy in Cyprus represented 23.9% of its GDP, according to estimates by Schneider, F. and Asllani, A. for the European Parliament <sup>(14)</sup>. This ratio is 6.3 percentage points above the EU-27 unweighted average, despite the declining trend in recent years (25.6% of GDP in 2012). However, estimates vary depending on the methodology used. Other research estimated the size of the shadow economy in Cyprus based on two different macro-approaches, with results ranging from 11-18% of GDP (currency-based approach) to 25-34% of GDP (approach based on electricity consumption) in the period between 1985 and 2006 <sup>(15)</sup>.

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<sup>11</sup> Missing Trader Intra-Community (MTIC) fraud is a form of VAT fraud that exploits VAT-free cross-border trade within the EU. Fraudsters purchase goods VAT-free from another Member State, sell them domestically, charge VAT to their customers, and disappear before paying this VAT to the tax authorities.

<sup>12</sup> European Commission, CASE, Poniatowski, G., Śmietanka, A., and Skowronek, A., *VAT compliance gap due to Missing Trader IntraCommunity (MTIC) Fraud – Final Report Phase II*, Publications Office of the European Union, Luxembourg, 2024, <https://data.europa.eu/doi/10.2778/6433841>.

<sup>13</sup> European Commission: Directorate-General for Taxation and Customs Union (2025), *The Corporate Income Tax Gap, A European approach to measuring losses in corporate tax revenues*, Publications Office of the European Union, <https://data.europa.eu/doi/10.2778/0541549>. The JRC has recently developed a novel approach to estimate the CIT gap based on National Accounts and existing data on the undeclared economy, providing approximations of the CIT gap for a majority of EU Member States. JRC's estimations are based on the exhaustiveness adjustments made to Gross Operating Surplus (GOS), Gross Value Added (GVA) and Gross Domestic Product (GDP), that national statistical offices perform to account for non-observed economy. The JRC approach does not capture CIT gaps associated with tax avoidance and (international) profit shifting, which would require other estimation methods.

<sup>14</sup> European Parliament (2022), *Taxation of the informal economy in the EU*.

[https://www.europarl.europa.eu/RegData/etudes/STUD/2022/734007/IPOL\\_STU\(2022\)734007\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2022/734007/IPOL_STU(2022)734007_EN.pdf)

<sup>15</sup> See Andreou et al. (2021), *The Shadow Economy in Cyprus: Evidence from Electricity Consumption and Currency Demand Models*, *Cyprus Economic Policy Review*, Vol. 15, pp. 46-74. Available at: [https://www.ucy.ac.cy/erc2/wp-content/uploads/sites/125/2023/08/CyEPR\\_Vol15\\_No1\\_A3\\_06\\_2021.pdf](https://www.ucy.ac.cy/erc2/wp-content/uploads/sites/125/2023/08/CyEPR_Vol15_No1_A3_06_2021.pdf)

**Undeclared work appears to be a significant driver of Cyprus' shadow economy.** While it is difficult to clearly establish which individuals are involved in undeclared work and therefore it is challenging to quantify the number of individuals involved, the European Labour Authority identified three main drivers of undeclared work in Cyprus <sup>(16)</sup>. To those belong (i) illegal immigrants working legal jobs receiving envelope wages, (ii) under-reporting of income of the self-employed and (iii) legal jobs that may not be declared as they are illegal per contract (e.g. public employees working illegally on private account). The challenges of the shadow economy are further exacerbated as Cyprus' economy is mainly driven by sectors in which undeclared work is common, such as construction, hotel accommodation and food services, agriculture or retail trade <sup>(17)</sup>.

## 2.4. Other Compliance Gaps

**There is currently no public information or evidence that Cyprus estimates other tax compliance gaps.** There are no official programmes or published figures for compliance gaps related to excise duties, environmental or energy taxes.

# 3. Monitoring of Policy Gaps

## 3.1. Tax Expenditures

**Cyprus provides reporting on tax expenditures (TEs) in the annex of its budget <sup>(18)</sup>.** According to the Global Tax Expenditures Database (GTED), TEs in Cyprus have a fiscal cost of about EUR 930 million. This is equal to 3.2% of GDP in 2022 and about 13.5% of all tax revenues <sup>(19)</sup>. TE reports for six consecutive years are reported <sup>(20)</sup>.

**According to the Cypriot tax expenditures report, CIT related tax relief has the biggest fiscal impact.** For CIT, foregone revenues of EUR 223 million are reported. VAT related tax expenditures are the second largest item reported with total costs of EUR 207.7 million. VAT exemptions make up about 37% of the VAT related costs with the rest caused by reduced rates. Exemptions seem relatively more important in Cyprus compared to other countries. These figures are difficult to reconcile with the estimates of the VAT policy gap, the VAT rate gap, and the VAT exemption gap in the 2025 VAT gap in Europe report (more information on these and their definitions can be found in section 3.2 below). According to the latter, the VAT policy gap was estimated at over EUR 2 billion in 2023, thus 10 times the value reported in the Cypriot tax expenditures report. Out of this total, 65% was due to exemptions, while the remainder could be attributed to reduced rates. Considering how strongly this

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<sup>16</sup> See European Labour Authority (2017). Factsheet on Undeclared Work – CYPRUS. Available at <https://www.ela.europa.eu/sites/default/files/2021-09/CY%20UDW%20Factsheet%202017%20-%20Cyprus.pdf>

<sup>17</sup> See European Commission (2023), In-Depth Review 2023-Cyprus. Available at: [https://economy-finance.ec.europa.eu/publications/depth-review-2023-cyprus\\_en](https://economy-finance.ec.europa.eu/publications/depth-review-2023-cyprus_en)

<sup>18</sup> The TE report is Annex 9 of the 2024 budget.

<sup>19</sup> Cypriot authorities in the TE report emphasize that “tax expenditures are often linked in terms of their effect and therefore the overall loss of revenue resulting from the implementation of the measures cannot be the accounting sum of all the estimates made individually for each specific arrangement”. In other words, the aggregation of individual TEs is rejected on methodological grounds, like in several other Member States.

<sup>20</sup> [GTED country profile Cyprus](#)



differs from the findings of the Cypriot TE report, there are likely substantial methodological differences in the approaches applied, and greater insight into the specificities of the TE report calculations could help explain the divergent results. PIT related TEs sum up to about EUR 150 million.

**Cyprus' tax expenditure reporting provides limited information.** The report discusses fiscal implications of 15 tax relief provisions. It is not reported how many provisions there are overall and how many provisions cannot be quantified. Nevertheless, information on the number of taxpayers benefiting from a specific provision is included in the TE report. The report discusses methodological fundamentals and states that quantifications rely on the late returns submitted for each type of tax, contingent on availability. For property taxes which have been abolished in 2017, thus 2016 values are reported. The PIT related information seems to refer to the tax years 2020 and 2021 and for CIT to the tax year 2020. Moreover, no information related to the evaluation and review of tax expenditures could be identified.

**Microsimulation-based evidence suggests that TEs related to PIT have hardly any fiscal impact.** According to a recent Commission services' report <sup>(21)</sup>, Cyprus is estimated to have very low tax expenditures in PIT (1% of total PIT revenue), but VAT reduced rates paid by households are estimated to lower tax revenues by more than 25%. The simulated tax expenditures overall have a small impact on disposable household income. Moreover, the simulated tax expenditures represent from 0.03% of GDP in Cyprus compared to an EU average of on average 1.2% of GDP in 2023.

### 3.2. VAT Policy Gap

**The VAT policy gap <sup>(22)</sup> in Cyprus was estimated at 41% of the notional ideal revenue <sup>(23)</sup> in 2023, lower than the overall EU VAT policy gap of 51%.** It has remained relatively stable over the past 5 years, increasing by over 2 percentage points since 2022 and observing a slight decrease compared to 2019. In nominal terms, it amounted to around EUR 2 billion in 2023. <sup>(24)</sup>

**The VAT exemption gap <sup>(25)</sup> was estimated at 26% of the notional ideal revenue in 2023 (ca. EUR 1 billion), compared to 38% for the EU overall.** This constitutes a sharp increase compared to 2022 (+6 percentage points), as well as a relatively high increase compared to 2019 (+3 percentage points). It is driven largely by the rise in the national policy-driven VAT exemption gap.

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<sup>21</sup> Turrini, A., Guigue, J., Kiss, Á., Leodolter, A., Van Herck, K., Neher, F., Leventi, C., Papini, A., Picos, F., Ricci, M., Lanterna F.; (2024). [Tax Expenditures in the EU: Recent Trends and New Policy Challenges](#). European Economy-Discussion Papers, (212).

<sup>22</sup> The VAT policy gap refers to the revenue lost due to the application of VAT exemptions and reduced, super-reduced, and zero VAT rates on selected products.

<sup>23</sup> The notional ideal revenue is the benchmark VAT revenue that assumes perfect taxpayer compliance in a situation where the current standard VAT rate is applied to all final consumption and household, government, and NPISH investment.

<sup>24</sup> See European Commission, Syntesia, Poniatowski, G., Bonch-Osmolovsky, M., Śmietanka, A. et al., *VAT gap in Europe – Report 2025*, Publications Office of the European Union, Luxembourg, 2025, <https://data.europa.eu/doi/10.2778/7868422>.

<sup>25</sup> The VAT exemption gap refers to the portion of the VAT policy gap resulting from revenues lost due to the application of VAT exemptions on selected products.

**The VAT rate gap <sup>(26)</sup> was estimated at around EUR 800 million in 2023, or 15% of the notional ideal revenue.** This was higher than the EU average of 12%. The VAT rate gap has significantly decreased compared to 2022 (-4 percentage points), as well as compared to 2019 (-3 percentage points). The introduction in 2023 of a reduced 5% VAT rate on primary residences – within set size and value limits – is reflected in the higher portion of the VAT rate gap attributable to accommodation and restaurant services. A further reduction of the VAT rate gap was also prompted by the reduction of the reduced 5% rate to 3% or 0% on selected products and applying zero-rating to essential commodities.

**The national policy-driven VAT exemption gap <sup>(27)</sup> was estimated at around EUR 250 million in 2023, or 5% of the notional ideal revenue, while the overall EU estimate was 11%.** This represents a sharp increase compared to 2022 (ca. +6 percentage points), and a more moderate increase since 2019 (ca. +3 percentage points).

## 4. Effectiveness of Tax Collection and Recovery Systems

### 4.1. VAT Collection

**Generally, the database of VAT-registered taxpayers is well maintained in Cyprus and includes all relevant fields of details on taxpayers.** The information contained in the registers must be filled while registering a new VAT payer and is adequate for effective interaction with the taxpayer. Following the 2022 report, rejection letters of VAT registration applications are also recorded in the taxpayers' digital files allowing to easily locate the previous applications and the reasons for their rejection <sup>(28)</sup>.

**However, Cyprus could benefit from preliminary checks before VAT registration.** For instance, following the example of other Member States which use risk indicators or carry out verifications systematically, including visits to the premises of a taxpayer if needed. Such procedures could increase the trust that applications for registration are authentic and that applicants meet the legal requirements. It is seen as a good practice to integrate a risk assessment procedure in the registration process.

**Furthermore, Cyprus could more systematically perform follow-up checks on VIES<sup>29</sup> registration numbers after the taxpayer has registered and ensure that VIES numbers are removed in the event of fraud to ensure the reliability of the database.** Currently there is a dedicated "cancellations

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<sup>26</sup> The VAT rate gap refers to the portion of the VAT policy gap resulting from revenues lost due to the application of reduced, super-reduced, and zero VAT rates on selected products.

<sup>27</sup> The national policy-driven VAT exemption gap represents the part of the VAT policy gap that can in principle be influenced by national policies on VAT exemptions. In practice, it consists of revenue forgone from services falling under Article 137 (such as real estate and certain financial services), from the SME scheme, and from national exemptions applied under standstill clauses or derogations.

<sup>28</sup> Commission's Ninth Report on VAT registration, collection and control procedures following Article 12 of Council Regulation (EEC, EURATOM) No 1553/89, [EUR-Lex - 52022DC0137 - EN - EUR-Lex](#). / Answers to the survey sent to the Member States in June 2025 in view of the Tenth Report on the same subject matter.

<sup>29</sup> The VAT Information Exchange System (VIES) is an electronic interface that allows tax administrations to automatically 'exchange' VAT-relevant information on intra-Community supplies and VAT registration information.

unit” responsible for examining cases of deregistration in instances of fraud (including VIES deregistration). In most cases, deregistration arises from audits and recommendations made by other Units. Cyprus indicates to have an average speed in changing the status of VAT identification numbers used for both domestic and intra-EU transactions to “invalid” in the national VAT numbers register, where there are significant indicators of VAT fraud, e.g. following Eurofisc risk signals. Cyprus furthermore indicates that the invalidation takes place on average in a time span of 30 to 45 days (as nine other Member States do).

**Linking the VAT registration IT subsystem to other IT subsystems (such as filing and payment, collection and audit), would make good use of the VAT registration information and generate management information that supports the decision-making process.** Cyprus introduced a new integrated tax administration system (the ‘Tax For All - TFA’ portal) in 2023 as part of Cyprus’ RRP and supported by the EU funded technical support project ‘Implementation of the new Integrated Tax Administration System’. The TFA system has modernised the interaction of taxpayers with the tax administration and replaced the previous non-linked systems and to provide the tax authorities with a single unified picture of taxpayers. For instance, the TFA includes a single database containing the information of all taxpayers for all types of taxes for which the Tax Department of the Republic of Cyprus is responsible.

**Better and more accessible information about VAT obligations and applicable legislation requires minimal investment and improves tax compliance in the relatively short term.** Therefore adopting a service-oriented attitude towards VAT payers and use the opportunity offered by the interaction with taxpayers to provide high-quality VAT administration services is recommended. This recommendation was taken into account while drafting the TFA portal specifications.

**Since 2022, Cyprus improved the information about taxpayer obligations available online.** Following the introduction of the TFA portal, almost all communications and correspondence after the submission of the VAT registration application are conducted online. This change resulted in faster communication, saving both time and money (postage costs, telephone expenses, and fax costs—which has now been abolished).

**Cyprus should continue efforts for a higher on-time filing rate as a good indicator of the robustness of the VAT system.** In Cyprus, there is no use of risk criteria or profiling techniques (based on known circumstances and behaviour) for achieving on-time VAT filing. The on-time VAT filing rate was 97% in 2022 <sup>(30)</sup>. However the new TFA system provides functionalities in relation to reminding taxpayers of filing deadlines.

## 4.2. Tax Recovery

**Cyprus had a closing stock of collectible arrears as a percentage of closing stock arrears of 56% in 2023 <sup>(31)</sup>, but VAT arrears are above the EU average.** Cyprus should maintain a flexible IT subsystem to manage and prioritise VAT arrears. In 2023, the new integrated tax administration system

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<sup>30</sup> OECD Tax Administration 2024 data

<sup>31</sup> Source: ADB, CIAT, IOTA, IMF, OECD, International Survey on Revenue Administration, Indicators: “Closing stock of arrears at year end as percentage of total revenue collected.” <http://isoradata.org>

(the 'Tax For All' portal) has been introduced as part of Cyprus' RRP (see section 4.1). Currently the Debt Management function of the system has not been added and is still under development.

**Cyprus' tax administration does not have a tax recovery strategy to steer its recovery activities and does not publish a tax recovery report.** This is according to the results of the 2025 survey for the preparation of the report on the use of recovery assistance (Directive 2010/24/EU). By introducing a strategy that is distinguishing between different profiles of debtors, such as fraudsters, debtors experiencing temporary financial difficulties, etc and by classifying taxpayers based on their risk of non-payment, the tax administration could tailor their recovery efforts appropriately, focusing resources on areas where they will be most effective. Cyprus's reply to the 2025 survey <sup>(32)</sup> indicated that there is no available data on the national recovery rate for your Cyprus' claims relating to VAT, personal income tax and corporate tax.

**The recovery of different types of taxes follows the same rules and practices irrespective if they relate to VAT, income taxes, excise duties and other taxes levied at national level.** However, the recovery is not attributed to the same authority. The Tax Department is competent for VAT, income taxes, and other taxes levied at national level while the Customs and Excise Department is competent for excise duties, import duties and import VAT.

**Tax debts can only be written off under strict and formalised procedures.** For VAT and income taxes, the process requires review by a Technical Committee and, in the case of income taxes, final approval by the Council of Ministers. For excises, applications are decided case by case by the Technical Committee under Law 38(I)/2014. This multi-layered process reflects the authorities' cautious approach, ensuring political and administrative oversight, but it may also slow down decision-making and limit flexibility in addressing uncollectible debts.

**Currently, there is specific legislation in place for the cooperation and exchange of information between tax recovery authorities and insolvency administrators (courts and insolvency practitioners).** It allows the tax (recovery) authorities to exchange information with the administrator of the insolvency proceedings concerning assets that could be used for the recovery of the unpaid claims in the insolvency proceedings and covers information obtained by the tax authorities from other Member States. A good cooperation between tax recovery authorities and insolvency administrators, permitting them to exchange information on available assets, contributes to more successful recovery actions.

**Cyprus did not provide any statistics in respect of the average time needed to decide at administrative level on contestations of tax claims and the time needed for a final decision to solve contestations of tax claims,** as enquired by the aforementioned 2025 survey. Cyprus is encouraged to monitor and communicate such statistics to allow a better understanding of the efficiency of the relevant processes. Yet, Cyprus has declared to largely respect the deadlines for communication on the follow-up of recovery assistance requests from other Member States. One of the reasons for this performance may be that Cyprus has an internal control on the timely and effective execution of recovery assistance requests received from other Member States.

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<sup>32</sup> Survey for the report on the use of the recovery assistance (Directive 2010/24/EU, Article 27).

**Recovery under mutual assistance remains weak.** According to the authorities, the main reasons include the frequent absence of assets, insolvencies, payments made directly to applicant authorities (not reflected in statistics), and large claims unsupported by assets in Cyprus.

#### **4.1. Use of Directive on Administrative Cooperation (DAC) <sup>(33)</sup> Instruments and Data <sup>(34)</sup>**

**Cyprus uses DAC1 <sup>(35)</sup> and DAC2 <sup>(36)</sup> data for assessing taxation on individuals in the field of personal income tax.** DAC1 (categories of income) <sup>(37)</sup> and DAC2 (financial accounts) data is currently used for awareness campaigns, domestic risk assessment analysis <sup>(38)</sup> followed, if necessary, by nudge letters for compliance purposes, and tax assessments.

**DAC data matching rates concerning individuals <sup>(39)</sup>, are under the EU average for DAC1 and for DAC2.** The average matching rate measuring success in identifying taxpayers with DAC data for the year 2024 is close to 45% for DAC1 <sup>(40)</sup>, and 14% for DAC2, the EU-average being at 84% and 87% respectively. Cyprus' tax administration has not proceeded with the matching process for cases that concerned legal entities (9% of the data) and non-CRS payments (72% of the data) for the time being. These very limited results are due to issues related transliteration and, more generally, to the fact that Cyprus dedicates limited resources to the processing of the data received.

**Cyprus does not use DAC3 <sup>(41)</sup> data (rulings) and makes a very limited use of DAC4 <sup>(42)</sup> (country-by-country reports).** DAC4 reports are not matched systematically, and data are used for further enquiries into the Multi-National Enterprise (MNE) Group's transfer-pricing arrangements or into other tax matters in the course of tax audits on a case-by-case approach.

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<sup>33</sup> Council Directive 2011/16/EU of 15 February 2011 on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC, as subsequently amended

<sup>34</sup> Source: Yearly Assessment 2025, EU-AIAC statistics 2024 – Subject to confidentiality clause on DAC art. 23a

<sup>35</sup> Council Directive 2011/16/EU of 15 February 2011 on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC

<sup>36</sup> Council Directive 2014/107/EU of 9 December 2014 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation

<sup>37</sup> Income from employment, Director's fees, Pensions, Immovable properties

<sup>38</sup> Risk assessment: tax risk assessment is a key element of modern tax administration. It allows tax authorities to identify indicators that suggest specific taxpayers or arrangements may pose an increased risk to their jurisdiction and require further actions in terms of compliance. In general, EU tax authorities use automated methods based on domestic data and information received from other jurisdictions. Yet, a manual element may remain, as (i) tax authorities vary in terms of whether tax risk assessment is conducted centrally by a specialist risk assessment team incorporating input from the compliance function, or locally by the compliance team (or tax inspector); (ii) some data types remain challenging to be automatically processed, e.g. literal summaries.

<sup>39</sup> The matching rate indicates to what extent a Member State has been able to identify their taxpayers in their national tax databases with information received from other Member States under the DAC. Such matching is necessary to ensure that the data can be used for tax compliance purposes. The matching rates mentioned in this report are based on the metrics approved by the tax authorities in the TADEUS meeting of December 2024

<sup>40</sup> Average rate for Income from employment, Director's fees, Pensions, Immovable properties

<sup>41</sup> Council Directive (EU) 2015/2376 of 8 December 2015 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation

<sup>42</sup> Council Directive (EU) 2016/881 of 25 May 2016 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation

**As regards DAC6 <sup>(43)</sup>, tax services consult the information directly available from the central directory for tax audit purposes without systematic matching. Cyprus makes a limited use of the advanced instruments provided for in DAC to facilitate cooperation on specific cross-border issues, such as simultaneous audits.** The synergies between participating Member States derived from these coordinated activities usually lead to an increase of the tax assessed and therefore contribute to reducing the tax gap. Cyprus was involved in four cases initiated by other Member States in 2024.

**In conclusion, Cyprus has faced difficulties with the processing of data resulting from automatic exchange of information.** While it has put in place measures to address the issues encountered, Cyprus is expected to continue its efforts to make more systematic use of the data available and better estimate the outcome of the use of such data, to maximise the benefits in terms of tax revenues increase that can be expected from these tools.

## 5. Digitalisation and Compliance

**Reforms under Cyprus' RRP include the digitalisation of its tax administration.** In 2023, Cyprus put into operation an integrated tax administration system (the 'Tax For All' portal – see section 4.1), which has modernised the interaction of taxpayers with the tax administration. The new portal is a comprehensive system that aims to replace the previous non-linked systems and to provide the tax authorities with a single unified picture of taxpayers. It will facilitate consolidated monitoring, assessment and inspection of taxpayers. Cyprus plans to gradually add more Artificial Intelligence elements in the 'Tax For All' system by end-2025.

### 5.1. Digital Transformation, Skills, and Culture

**Cyprus has developed a strategy for digital transformation.** They have also developed a strategy to build a digital culture within the administration. For parts of its tax administration, and identified the future skills required for a successful digital transformation <sup>(44)</sup>.

**The tax administration in Cyprus requires individuals to use an approved digital identity to access secure digital services.** However, that digital identity cannot be used by individuals to access secure digital services from another government body or from a private sector body <sup>(45)</sup>.

**Based on the 2022 and 2023 annual reports <sup>(46)</sup>, digitalization in Cyprus's Tax Department has progressed as follows:**

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<sup>43</sup> Council Directive (EU) 2018/822 of 25 May 2018 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation in relation to reportable cross-border arrangements

<sup>44</sup> OECD Inventory of Tax Technology Initiatives 2024. <https://data-explorer.oecd.org/>, Note that data is self-reported by tax administrations and therefore not 100 % objective or comparable.

<sup>45</sup> OECD 2024 Inventory of Tax Technology Initiatives

<sup>46</sup> As published in the official webpage of the tax administration for [2022](#) and [2023](#)

- Electronic Payments via Tax Portal increased from 91.4% of all tax receipts collected electronically in 2022 (via JCC, banks and internet banking) to 95.4% in 2023. This could be attributed to increased usage and improvements in the tax portal.
- In 2023, Cyprus' new Tax For All portal was launched and it has continuously being improved <sup>(47)</sup>.
- Internal digital tools have been adopted to support staff training. Specifically, ethical-conduct quizzes were sent to staff monthly and the percentage of correct answers increased from 58.5% in 2022 to 75% in 2023.

## 5.2. Front-end Digitalisation

### 5.2.1 Pre-filling

**Cyprus' tax administration automatically prefills PIT returns** with data that it has collected. According to OECD data, this is not the case for VAT and CIT returns. This is in line with the approach followed by the majority of other Member States <sup>(48)</sup>. According to a recent Eurobarometer survey, 52% of citizens in Cyprus find it very easy or fairly easy to complete their tax return, placing them 13<sup>th</sup> among EU Member States <sup>(49)</sup>.

**Pre-filling of VAT returns in Cyprus is not supported <sup>(50)</sup>.** Cyprus is among the 19 Member States that do not pre-fill VAT returns, indicating an increased burden of VAT compliance for taxpayers. It is however important to take into account that "VAT in the Digital age" (ViDA) was adopted in March 2025 and will be rolled out progressively until 2035. This initiative will lead to the introduction of digital reporting and e-invoicing across the EU, thereby providing the conditions to introduce pre-filled VAT returns.

**Cyprus does not offer pre-filling for CIT returns <sup>(51)</sup>.** However, this is the norm in EU countries.

### 5.2.2 E-filing

**Cyprus has a high e-filing rate for VAT, PIT and CIT, above the EU average for all tax types.** Table 1 below shows that the percentage of tax returns filed electronically (e-filing rate) in 2022.

**For VAT, there was a noticeable improvement of this indicator from 94% in 2018 to 100% in 2023, putting Cyprus ahead of the EU average (99.2%).** The overall increase in e-filing for VAT reduces the time and effort that taxpayers are spending to comply with their tax obligations because

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<sup>47</sup> [Σελίδα υποστήριξης Tax For All - Tax For All - Gov.cy; Υποβολή της Δήλωσης \(Εργοδότη\) Παρακράτησης Φόρου και Εισφορών \(ΤΦ 7\) μέσω του Συστήματος TaxForAll \(TFA\) - Tax For All - Gov.cy](#)

<sup>48</sup> OECD Inventory of Tax Technology Initiatives 2024 ( [OECD Data Explorer • Inventory of Tax Technology Initiatives](#)).

<sup>49</sup> European Commission: Directorate-General for Taxation and Customs Union and Directorate-General for Communication, *Citizens' attitudes towards taxation – Eurobarometer report*, European Commission, 2025, <https://data.europa.eu/doi/10.2778/6066713>

<sup>50</sup> OECD Inventory of Tax Technology Initiatives 2024 ( [OECD Data Explorer • Inventory of Tax Technology Initiatives](#)).

<sup>51</sup> Ibid.

e-filing eliminates the need for manual paperwork and reduces the likelihood of errors since e-filing systems often include integrated error-check mechanisms <sup>(52)</sup>.

**For PIT, the percentage of e-filers has also increased and is close to full uptake.** At 99.9% in 2023, this puts Cyprus above the EU average of 87.1% and represents an increase of 5.8 percentage points since 2018 <sup>(53)</sup>. The Cypriot tax administration reported that 286,618 PIT returns were filed electronically in 2023 <sup>(54)</sup>.

**E-filing of CIT has decreased slightly between 2018 and 2023 and has fallen below the EU average.** There has been a 0.1 percentage point decrease in this figure in Cyprus since 2018. CIT is the tax type with the lowest percentage of e-filing in Cyprus, and it is now below the EU average of 97.1% <sup>(55)</sup>.

**5.2.3 Provision of other online Services**

**Regarding other online services offered to taxpayers, the Cypriot tax administration does not offer tax calculators, service for requesting extensions of deadlines or tax payment arrangements <sup>(56)</sup>.** While it did offer the possibility for uploading data files onto the tax administration’s system, the tax administration did not support services for filing tax related objections, provide a complete view across the major taxes or view of taxpayer information captured from third parties. Finally, it didn’t provide any mobile applications, nor engaged in commercial arrangements with 3rd parties providing applications for the administration. According to a recent Eurobarometer survey, only 32% of citizens in Cyprus believe that support for filing tax returns provided by the tax administration is either fully adequate or mostly adequate, placing Cyprus 25<sup>th</sup> among EU Member States <sup>(57)</sup>.

**5.3. Back-end Digitalisation**

**5.3.1 Use of Artificial Intelligence by the Tax Administration**

**Cyprus does not use artificial intelligence or machine learning as part of the big data analysis.** While the Cypriot tax administration has big data capabilities with the necessary people, skills and infrastructure and uses an enterprise-wide Business Intelligence and Visualisation tool, according to 2024 OECD data, it does not use artificial intelligence or machine learning as part of the big data analysis. It also does not systematically use analytics for real-time tax fraud detection and prevention.

<sup>52</sup> International Survey on Revenue Administration data.  
[https://data.imf.org/en/datasets/ISORA:ISORA\\_LATEST\\_DATA\\_PUB](https://data.imf.org/en/datasets/ISORA:ISORA_LATEST_DATA_PUB)

<sup>53</sup> Ibid.

<sup>54</sup> As published in the official webpage of the tax administration for [2022](#) and [2023](#)

<sup>55</sup> International Survey on Revenue Administration data.  
[https://data.imf.org/en/datasets/ISORA:ISORA\\_LATEST\\_DATA\\_PUB](https://data.imf.org/en/datasets/ISORA:ISORA_LATEST_DATA_PUB)

<sup>56</sup> [7. Taxpayer service - ISORA](#)

<sup>57</sup> European Commission: Directorate-General for Taxation and Customs Union and Directorate-General for Communication, *Citizens' attitudes towards taxation – Eurobarometer report*, European Commission, 2025, <https://data.europa.eu/doi/10.2778/6066713>



Other sources of information, like ISORA 2023 Country Level Data for Cyprus and taxadmin.ai do not provide any indications about the use of AI.

## 5.4. Compliance Risk Management

### 5.4.1 Compliance Risk Management Strategy

**Cyprus has a formal compliance risk management strategy in place, allowing for identification, assessment and prioritisation of key compliance risks** <sup>(58)</sup>. Two out of the five possible areas are covered by this strategy, namely return filing and verification/audit. Cyprus compliance risk management strategy does not cover payment processing, collection enforcement, and taxpayer service. The strategy also does not make the risks or the results public on a regular basis, which can discourage compliance. In addition, a risk assessment framework for transfer pricing is being developed under the TSI project 'Building capacity in Cyprus to fight aggressive tax planning' <sup>(59)</sup>.

### 5.4.2 Audit Types

**The Cypriot tax administration performs desk audits, limited scope audits, single issue audits, comprehensive audits and avoidance and evasion investigations** <sup>(60)</sup>. The large variety of intervention processes indicates the administration's capacity to target all aspects of potential non-compliance.

**A "tax reform package" currently under legislative process includes measures to combat tax evasion and improve tax compliance and collection by the Tax Department.** The proposed law would grant the Tax Department the authority to seek judicial orders to suspend and seal business premises. Grounds for suspension include persistent breaches of tax obligations, failure to issue required invoices or receipts in transactions over EUR 500, or the obstruction of audits <sup>(61)</sup>. This measure provides a public, immediate, and visible sanction against domestic non-compliance. The initial suspension lasts 48 hours but can be extended, serving as a powerful deterrent, particularly in cash-intensive sectors.

**The proposed amendments broaden the Tax Commissioner's authority to obtain information, explicitly overriding confidentiality obligations, including banking secrecy and professional privilege.** The scope of inquiry would explicitly include the ability to request information regarding third parties if relevant to an ongoing investigation. This measure is transformative, granting the Tax Department the power to follow financial trails across all institutions without prior legal obstruction, thereby dismantling the traditional legal shields that have protected complex evasion schemes and

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<sup>58</sup> CIAT, IOTA, IMF, OECD, International Survey on Revenue Administration 2023 periodic tables, <https://data.rafit.org>

<sup>59</sup> For additional information, see Technical Support Instrument – Cyprus Country Factsheet: [https://reform-support.ec.europa.eu/our-projects/country-factsheets/cyprus\\_en](https://reform-support.ec.europa.eu/our-projects/country-factsheets/cyprus_en)

<sup>60</sup> <https://data.rafit.org/regular.aspx?key=74180916> – tab "Post filing enforcement actions" and "interventions after filing, intervention effectiveness"

<sup>61</sup> <https://www.legal500.com/developments/thought-leadership/cyprus-proposes-tougher-tax-enforcement-new-deterrence-tools-targeting-tax-wrongdoers/>

unreported assets. The Commissioner can also mandate that information be submitted in electronic formats suitable for automated processing.

### 5.4.3 Staff Dedicated to Audit, Investigation and Other Verification Functions

**Cyprus dedicates a substantial amount of human resources of the tax administration to audits.**

In Cyprus, the percentage of full-time equivalents (FTEs) assigned to audit, investigation and other verification functions was 42.9% in 2023, above the EU average of 32.2%, this figure has increased by 6.7 percentage points since 2018 <sup>(62)</sup>, indicating a greater emphasis placed on audits in Cyprus.

### 5.4.4 Additional Revenue from Audits as a Share of Total Revenue

**In Cyprus, additional revenues raised from audits represented the highest percentage of total net revenues in the EU until 2023.** This figure was equal to 9.4% of total net revenue in 2018 and 11.3% of total net revenue in 2022 but fell to just 3% in 2023. This was the highest figure in the EU for 2018 and 2022 but declined closer to the EU average in 2023 (the EU average was 2.8% in 2018, 2.2% in 2022 and 1.6% in 2023) <sup>(63)</sup>. Contrary to most EU countries, which experienced an decrease from 2018 to 2022, Cyprus continued raising more additional revenues as a share of total net revenue, before a sharp decline in 2023. The increased number of staff dedicated to audit related functions as well as the implementation of AI tools for risk analysis and fraud detection may have influenced these figures.

## 5.5 Tax Complexity

**Cyprus ranks 14<sup>th</sup> out of the 27 Member States in the Tax Complexity Index ('TCI') <sup>(64)</sup>, where a higher rank corresponds to lower tax complexity.** The TCI is based on the Global MNC Tax Complexity Project, a joint research project of Deborah Schanz (LMU Munich) and Caren Sureth-Sloane (Paderborn University). The TCI 2024 places Cyprus 17<sup>th</sup> among the Member States with regards to Tax Framework Complexity, and 11<sup>th</sup> with regards to Tax Code Complexity. This suggests an average performance of the country in both areas, although there seems to be room for improvement in some tax processes carried out by the tax authorities (e.g., audits, according to the authors), and some features of the structure of the tax regulations (e.g., alternative minimum tax, according to the authors).

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<sup>62</sup> Own elaboration based International Survey on Revenue Administration data

<sup>63</sup> Ibid.

<sup>64</sup> See: <https://www.taxcomplexity.org/> The aim of the Global MNC Tax Complexity Project is to identify the determinants of tax complexity, to develop and maintain an index measuring the level of tax complexity across countries [Tax Complexity Index, TCI] and to examine the effects of tax complexity. The Tax Complexity Index measures the complexity of a country's corporate income tax system as faced by multinational corporations. The closer a country is to the first position of the ranking, the lower level of complexity it exhibits, and vice versa.