

1. IMPORTANCE OF TAX INCENTIVES AND PREDICTABILITY OF THE TAX...

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Importance of tax incentives and predictability of the tax system



By Stavros Clerides

Investors who are interested in redomiciling their business activities to a different country have to consider significant parameters such as the cost and quality of life as well as the favourability and stability of the legal, political and tax system.

Specifically, when it comes to the latter, they are looking for a tax system that is transparent, stable and by extension predictable, giving them a guarantee as to the cost of their future activities in their

host country.

In its effort to become an established regional financial and business hub, Cyprus introduced a flexible and credible tax regime, opening up its doors to foreign companies.

It has now managed to have one of the simplest and most favourable tax systems in the EU and globally, making it attractive to foreign and local investors to base their activities in Cyprus.

Cyprus' tax regime is transparent and fully compliant with EU and OECD regulations and guidelines as well as international laws and regulations, while its corporate tax rate (12.5%) is one of the lowest in the EU.

Moreover, because dividends and gains from the disposal of shares and other titles are exempted from income tax, Cyprus has become a very attractive location for investment and holding companies and alternative investment funds.

Cyprus has adopted the worldwide taxation system, which means that tax residents of the Republic of Cyprus are taxed on their worldwide profits, irrespective of whether these were derived from sources inside or outside the country.

Persons who are not tax residents of Cyprus, are taxed only on the income they derive from sources within the country.

Cyprus' tax incentives, combined with

the country's wide Double Tax Treaty network, which includes many countries (mainly from Europe, Asia and Africa), as well as the high-quality support services offered by professionals of the sector, have contributed to Cyprus standing out amongst international businesses centres.

As a result, it is always seen as an option for investors looking to transfer the headquarters of their regional and/or international business activities.

It should be noted that Cyprus' tax incentives gave a significant impetus to the effort to restart the island's economy after the tragic financial events of 2013.

According to 2018 data, the sums received from corporate income tax, household income tax as well as VAT, exceed 15% of the annual GDP.

At the same time, it is estimated that the contribution of foreign companies to the total corporate tax, is quite large.

Undoubtedly, the current tax system has contributed to economic growth both directly and indirectly.

However, in order for it to continue to reflect contemporary financial and social conditions and modern challenges, there is a need for reform.

Despite their frequent partial revisions, the Income Tax and Special Contribution for the Defence Laws, are almost two decades

old whereas the Assessment and Collection of Taxes Law date back to 1978. As such, it is imperative to modernise these laws.

Moreover, the multiple partial individual amendments or revisions to these laws, because of their frequency (sometimes even 2 or 3 times per year) and gradual introduction, sometimes create heterogeneity and misinterpretations.

What needs to be implemented is comprehensive tax reform aimed at giving incentives to high-growth sectors, such as high-technology and education.

Certainly, this reform should only take place after an in-depth study and consultations with all the economic and social interest groups.

Such a reform could further contribute to economic development, welfare and social justice as well as improve the state's tax collection capacity, while respecting the rights of the citizens.

With the reform of the tax system, as well as, the wider structural reforms in the public sector, quick and effective administration of justice, Cyprus will become even more attractive for investments and business activities, helping create conditions for long-term prosperity.

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