Positions of the Cyprus International Businesses' Association (CIBA) on the Draft Bills Concerning the Tax Reform

The Cyprus International Businesses' Association (CIBA), as the organized voice of the international business community based in Cyprus, has studied and assessed the content of the Draft Bills relating to the issue of Tax Reform, which the Government put forward for Public Consultation. CIBA requested feedback from its members regarding the provisions of the Draft Bills under review.

This document is the product of internal consultation with our Members, and the positions set out herein reflect the views, suggestions, serious concerns, and reasoned reservations expressed by our Members.

Before setting out CIBA's positions on significant aspects of the Draft Bills, it is important to briefly highlight the following cross-cutting parameters, facts, and findings:

- On 12 March 2025, CIBA addressed a letter to the Competent Authorities with a number of questions and clarifications regarding the rationale, objectives, and intended outcome of the Tax Reform, with the aim of ensuring that the Cypriot economy remains competitive and attractive to international businesses. Unfortunately, six months later, we have received no reply to our questions, which were posed in order to understand the reasoning and to contribute constructively to the government's efforts through a fruitful dialogue.

- The Draft Bills reflecting the Government's Tax Reform proposal, as presented in the Public Consultation, are not accompanied by an Impact Assessment Study, i.e., a thorough and reasoned evaluation of the effects of their possible implementation. This makes it extremely difficult to justify, in practice, each proposed measure in terms of both necessity and proportionality. It should be noted that in the UK's tax reform process, relevant studies were published. **Moreover, the absence of a comprehensive tax policy framework that clearly defines the scope, objectives, and ultimate purposes of the reform, while analyzing tax policies related to achieving the intended results, has caused significant concern among both CIBA and its member companies, which represent a large share of international business in Cyprus.**

- It is well-established in global economic literature and practice that corporate taxation is among the most harmful forms of taxation for economic growth. **The OECD's landmark study *"Taxation and Economic Growth"* demonstrates that, compared to consumption and property taxes, corporate income taxes have a far more negative effect on GDP, investment, and innovation.**

The study highlights the following:

- Corporate taxation is the most damaging to growth, followed by personal income taxation.
- The negative effects are particularly severe in open economies, such as Cyprus.
- Reducing corporate tax rates has been shown to stimulate productivity growth, especially for innovative businesses. For instance, Hungary's reduction of corporate tax from 19% to 9% in 2017 was followed by a significant improvement in GDP growth.
- Empirical evidence shows that a considerable part of the burden of corporate taxation ultimately falls on employees, through reduced wages. Regression analysis indicates that a one percentage point increase in the marginal corporate tax rate reduces wages by 0.14% to 0.36%.
- **In light of the above, a fundamental question arises: how can Cyprus maintain or strengthen its competitiveness with higher corporate tax rates—specifically by raising the rate from 12.5% to 15%—when other competing jurisdictions (e.g., Malta at 5%, Hungary at 9%, UAE at 9%, Bulgaria at 10%, and Ireland at 12.5%) apply significantly lower rates?**

- **The reduction of shareholder-level taxation, in practice, often acts as an incentive to invest capital abroad rather than in Cyprus.** For example, a Cypriot investor receiving €10 million in dividend income might prefer to allocate funds abroad (for diversification or higher returns), such as in a Luxembourg or Swiss fund yielding 8–10%, rather than reinvesting domestically at 5%. Thus, the assumption that reducing the Special Defence Contribution will automatically generate increased domestic investment flows should be reconsidered carefully—especially in light of Cypriot investors' behavior after the 2013 "bail-in," which remains a dark chapter for the Cypriot economy.

- In international tax policy, jurisdictions seeking to attract foreign investment often rely on the principle of Capital Import Neutrality (CIN). **To date, the Cypriot Government has not presented a thorough analysis by independent, internationally recognized experts based on this principle in the context of Tax Reform discussions.** Such an evaluation would be crucial to ensure that any changes align with Cyprus's strategic objective: to remain an attractive destination for inbound investment.

- The Draft Bills, which were prepared based on recommendations presented in February 2025, lack Legal Clarity and Simplification of the current Cypriot tax framework. Consequently, they fail to meet the minimum goal of making the tax system easier to understand without unnecessary costs and wasted time for taxpayers, citizens, existing investors, or potential new investors considering Cyprus.

The concerns expressed by CIBA reflect the perspectives of international businesses based in Cyprus, but they are also directly tied to the competitiveness, prospects, and sustainability of the national economy. International companies contribute significantly to Cyprus's GDP and generate positive spillover effects across the entire economy, as their activities sustain a wide range of supporting services provided by domestic firms, which rely on international business turnover for their own profitability and viability.

On **8 August 2025**, CIBA formally requested from the Ministry of Finance the publication of all Impact Assessment Reports (including Opinions), the Legal Service's statements on the legality of the proposed tax amendments, and the opinion of foreign experts regarding compatibility with State Aid rules, EU acquis, standards, and principles. Publishing these documents on the Ministry's website, with open access, would enable stakeholders to better assess the six Draft Bills and provide constructive suggestions. Unfortunately, no response has been received from the Ministry to date.

In an economy reliant on **Foreign Direct Investment (FDI)**, there can be no discrimination between "foreign" and "Cypriot" investors, nor short-term approaches prioritizing dividend income at the expense of long-term business growth. International businesses have proven their willingness to collaborate with Cypriot entrepreneurs for joint development. Only in this way can we move forward together.

Key Position: Corporate Tax Increase

CIBA members express **serious concern** regarding the proposed increase of the corporate tax rate from 12.5% to 15%. While recognizing the government's intent to align with international developments, such a change poses serious risks to Cyprus's competitiveness as an international business hub. The 12.5% rate has historically served as a cornerstone of the country's attractiveness, providing stability and predictability to investors. Its loss could discourage new incorporations, drive existing structures to relocate, and reduce demand for corporate services—damaging Cyprus's long-term reputation.

Moreover, this reform may **disproportionately burden SMEs**, which are not subject to OECD's Pillar 2 but would nevertheless face heavier tax obligations, contradicting the broader policy goal of supporting SMEs—the backbone of the Cypriot economy.

CIBA therefore calls on the government to adopt **compensatory measures** to keep the overall tax burden at current levels. Possible measures include:

- targeted incentives (e.g., deductions for R&D, innovation tax relief, green transition incentives),
- adjustments to depreciation and deductible expenses,

- and dedicated support for SMEs.

We also recommend a **detailed impact study** comparing Cyprus with competitor jurisdictions not increasing corporate tax, to ensure Cyprus remains a competitive and sustainable FDI destination.

Indicative Positions on Specific Draft Bill Provisions

CIBA's Position on Amendments to the Assessment and Collection of Taxes Law of 1962 – Article 9B
CIBA supports the creation of effective tax collection tools and anti-evasion mechanisms that protect law-abiding members and responsible businesses. However, appropriate balance must be struck with clear, pre-defined criteria to prevent subjective interpretations (discretionary powers) that may raise administrative costs and harm reputations unnecessarily (e.g., share pledges, business closures, notices, and low activation thresholds such as €3,000).

CIBA's Position on Amendments – Article 9Γ (Confiscation of Movable Property)
CIBA opposes the removal of the exemption preventing confiscation of movable assets before deadlines expire or procedures are concluded under Articles 20, 20A, and 21. Allowing the Tax Commissioner to seize assets prematurely—while taxpayers retain appeal rights—violates due process, proportionality, and legal certainty, especially for SMEs where movable assets are essential for operations. This concentration of power could discourage investors and foster perceptions of an unpredictable tax regime.
➡️ CIBA recommends maintaining the exemption, limiting confiscation to finalized assessments or exceptional cases of proven fraud/tax evasion, with additional safeguards for predictability and trust.

CIBA's Position on Amendments – Article 9Δ (Charges on Immovable Property)
CIBA strongly opposes abolishing the exemption preventing registration of charges on immovable property before deadlines lapse or assessments are finalized. Premature charges can severely restrict access to financing, hinder sales or refinancing, and harm reputations—even if taxpayers are ultimately compliant. Risks are especially severe in real estate, infrastructure, and investment sectors. This could destabilize the banking sector, as banks may tighten lending policies.
➡️ CIBA suggests charges should only apply after final assessments or in exceptional cases of proven fraud/tax evasion, with fairer alternatives such as liens/mortgages instead of unilateral encumbrances.

CIBA's Position on New Article 9ΣΤ – Pledging of Shares for Tax Debts
CIBA understands the intent but expresses strong concern. The proposed €3,000 threshold and 30-day deadline are excessively low/strict, risking disproportionate

actions against businesses with temporary liquidity issues.
➡️ CIBA proposes:

- raising the threshold (≥ €50,000, variable by taxpayer size),
- extending deadline to ≥90 days,
- applying the measure as a last resort after substantive checks,
- ensuring judicial review.
  Otherwise, these risks undermining investor confidence, deterring investment, and eroding Cyprus's reputation as a stable hub.

Furthermore, the new provision appears to overlap with the existing regulations concerning movable property, raising questions about the necessity of additional powers. The pledging of shares, which represent the ownership and control of a company, entails significant risks for shareholders and investors. Their premature encumbrance may discourage new investments, limit a company's ability to restructure or attract capital, and undermine the confidence of foreign businesses in Cyprus as an attractive and stable business destination.

Particular concern is also caused by the fact that the Court, as provided, has no authority to examine the legality or the amount of the tax liability when lifting the pledge. The lack of judicial review burdens the image of the system as unilateral and may be perceived by investors as excessive state intervention.

CIBA proposes that:

- the threshold be increased and differentiated according to the size of the taxpayer (e.g., turnover, assets),
- the deadline be extended beyond 90 days,
- safeguards be established to ensure that the measure is applied only after substantive review and as a last resort,
- and sufficient judicial oversight be ensured for the protection of taxpayers' rights.

In this way, a balance can be achieved between the need for timely tax collection and the maintenance of a stable, fair, and investment-friendly environment in Cyprus.

CIBA's Position on New Article 9Z – Transfer of Immovable Property to the State Against Tax Debts

CIBA recognizes that the proposed arrangement may serve as an alternative solution for the settlement of significant tax liabilities, particularly in cases where taxpayers face liquidity problems. However, we express reservations regarding the low threshold of €10,000, as well as the possibility for the state to retain any excess amount as credit for up to five years. We believe that any excess amount should be returned immediately to the taxpayer and that the €10,000 threshold is far too low for businesses, creating a disproportionate risk of losing commercial or investment real estate.

Furthermore, although the provision includes certain safeguards (such as valuation by the District Land Registry and the ±20% threshold), it still raises concerns about the fairness and proportionality of its application. The possibility of losing property for relatively small debts may deter existing and potential investors, undermining Cyprus's attractiveness as a destination for corporate establishments and real estate investments.

CIBA suggests that:

- the threshold be increased so that it applies only to large and serious liabilities,
- any excess amount be returned immediately to the taxpayer,
- and clear and transparent procedures be established, including strict safeguards to prevent abuse.

Such an approach could preserve the measure as a useful tool in exceptional cases, while at the same time strengthening business and investor confidence that Cyprus remains a jurisdiction with strong guarantees for the protection of property.

CIBA's Position on Income Tax Law – Article 5 (Scope of Taxable Employment Income)
Concerns arise over broadening taxable income to include incentives, ex gratia payments, early retirement benefits, and unspecified compensations. This risks unfair treatment between public/private sector employees and uncertainty from a broad "catch-all" provision.
➡️ CIBA suggests selective taxation of significant/exceptional benefits, with reduced rates for regular incentives and ex gratia payments, supported by impact studies and stakeholder consultation.

CIBA's Position on Articles 20Δ & 20E – Stock Options & Cryptocurrency Gains
While recognizing the principle, the 8% rate and 20% cap on stock option income undermine their effectiveness, particularly for start-ups competing for talent. Similarly, taxing crypto gains at a flat rate, disallowing loss carry-forwards, and distinguishing mining income adds complexity and uncertainty, deterring fintech/crypto growth.
➡️ CIBA proposes reconsideration of rates/rules, allowing loss carry-forwards, clarifying scope, and conducting impact studies before implementation.

CIBA's Position on Income Tax Law – Article 33 (Arm's Length Principle)
CIBA is concerned by the proposal to treat directors as related parties. Not all directors hold shares/control; many are nominees. Such a blanket approach undermines predictability, risks over-compliance, and may deter FDI.

➡️ CIBA suggests directors be treated as related parties only if they hold shares or exercise control.

CIBA's Position on Income Tax Law – Article 33E (Directors'/Consultants' Fees)
CIBA agrees in principle but highlights that in holding/shipping companies, directors may receive nominal/no fees, and requiring mandatory deemed salaries is unfair. Reclassifying such fees as personal income disregards legitimate structures.
➡️ CIBA suggests careful application, considering sector-specific practices.

CIBA's Position on Capital Gains Tax – Article 2 ("Ownership" Definition)
CIBA is concerned by lowering the threshold from 50% to 20% of share value derived from Cypriot immovable property, which would capture nearly all property-holding companies. The internationally accepted 50% is more representative.
➡️ CIBA suggests retaining 35–40% as a balanced compromise.

CIBA's Position on Assessment & Collection of Taxes Law of 1978 – Article 32A (Sealing of Premises)
CIBA is highly concerned about the proposal allowing temporary sealing of business premises for tax violations. The low activation thresholds do not distinguish between deliberate evasion and minor administrative delays. Sealing premises could cause severe revenue/reputation damage, especially in tourism, hospitality, or retail.
➡️ CIBA proposes strict safeguards, prior warnings, and limits on application.

CIBA's Position on the Abolition of Incentives for Mergers and Acquisitions – Article 29A of the Income Tax Law

The abolition of the incentive for mergers and acquisitions will eliminate a useful tool for strengthening both Cypriot and international businesses, due to the disproportionate measures being imposed. What is urgently needed is the implementation of reform under European law concerning the screening of Foreign Direct Investment (FDI). Businesses can only withstand the weight of one reform at a time.

CIBA's Position on the Amendment of the Assessment and Collection of Taxes Law of 1978 – Article 5

Increased administrative burdens – mandatory filing of returns by all companies, without simplified procedures.

CIBA's Position on the Amendment of the Income Tax Law – Article 2 – Tax Resident in the Republic

Regarding the proposed change to the timing and method of determining an individual's tax residency, the additional criterion relating exclusively to economic ties may lead to the taxation of individuals in Cyprus, such as family offices that do not reside in Cyprus but maintain economic activities in the country.

It is proposed that the determination of an individual's tax residency in Cyprus should also include additional criteria, such as the **centre of vital interests** and the **permanent family home**.

CIBA's Position on the Amendment of the Income Tax Law – Article 36

Reservation concerning the non-exemption from tax for the provision of salaried services outside the Republic (beyond 90 days) – this creates an unattractive framework for the provision of salaried services, limiting business flexibility and negatively affecting the operation of multinational companies based in Cyprus.

CIBA's Position on the Amendment of the Special Defence Contribution Law – Article 2

Extension of the non-domiciled residents' regime – this does not create a substantive incentive for extension of the regime after the passage of 17 years. The extension generally provides greater flexibility to individuals who are Cyprus tax residents (non-domiciled) and choose to extend the tax treatment of the non-domiciled regime.

CIBA's Position on the Amendment of the Capital Gains Tax Law – Article 10

Indirect Disposal of Real Estate through the issuance of shares – this triggers liability for Capital Gains Tax even though no direct consideration is received.

CIBA's Position on the Amendment of the Stamp Duty Law – First Schedule – Point 1

Stamp duty at the rate of 2% on banking and other contracts. Entirely unnecessary in the era of electronic transactions. It also affects the shipping sector, where competitiveness must be safeguarded.

CIBA's Position on the Amendment of the Income Tax Law – Article 14(1)

Taxation of Provident Fund income when derived from any business conducted by the Fund or from exploitation of property – this contradicts the state's effort to encourage employee participation in Provident Funds and to develop them into a second pillar of pension provision.

CIBA's Position on the Amendment of the Income Tax Law – Article 8(22)

Exclusion of fund units from the non-taxation when redeemed – competitor countries in Europe's services sector continuously provide more incentives to attract Investment Funds.

CIBA's Position on the Amendment of the Special Defence Contribution Law – Article 3(1)(a)

The legislative arrangement for a transitional period until 2030 creates a serious problem. The reduced dividend tax at the rate of 5% should take effect simultaneously with the implementation of the amending Bills. We remind that when the defence tax on dividends was increased from 15% to 17%, and when the defence tax on interest was increased from 15% to 30%, all these took effect overnight. Therefore, there is no reason why immediate implementation should not apply in the present case as well.