15 December 2025

Honourable Madam Chair and Honourable Members of the Parliamentary Committee on Finance and Budget

Position of the Cyprus International Businesses Association (CIBA) on Tax Reform

In view of the discussion of the relevant legislative proposals on tax reform, which is expected to be considered by the plenary session of the House of Representatives, the Cyprus International Businesses Association (CIBA) states that:

-it approached the entire process of formulating the relevant proposals within the framework of the Public Consultation with responsibility and a constructive attitude, submitting fully substantiated positions and recommendations on several aspects (see CIBA public consultation);
-it welcomes the overall effort undertaken by both the Government and the parliamentary parties to introduce improvements.

Despite any improvements made, CIBA feels the need and obligation to point out that an increase in corporate income tax may have a negative impact on the competitiveness of the Cypriot economy.
Without any intention of alarmism, CIBA reiterates what has been clearly confirmed on numerous occasions and constitutes a widely acknowledged international finding, which is also documented in the landmark OECD study entitled "Taxation and Economic Growth", namely that:
-**corporate taxation is the most harmful to economic growth,** as high tax rates can discourage investment, particularly in research and development;
-**a growth-oriented and fiscally neutral reform** should shift part of the tax burden from income taxation towards less distortive taxes, such as recurrent taxes on immovable property and VAT;
-**more open economies suffer a greater negative impact from an increase in corporate taxation compared to more closed economies.**

The above findings are particularly critical for Cyprus, which is a small open economy and relies heavily on international business activities. Consequently, an increase in corporate taxation is expected to negatively affect Cyprus's GDP.

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C I B A

With regard to the recent analysis by the Cyprus Economic Research Centre (CypERC/KOE) of the University of Cyprus, which concludes that an increase in corporate taxation (a) will not materially affect GDP and (b) Cyprus will remain competitive, CIBA notes that this approach does not take into account essential parameters highlighted in CIBA's attached positions, which were submitted as part of the Public Consultation and were also expressed during the examination of the legislative proposals by the competent Parliamentary Committee.

In the attached document, CIBA proposes alternative solutions aimed at preventing a reduction in both GDP and tax competitiveness. It is estimated that the adoption of these measures would substantially reduce the need to increase the corporate tax rate, and CIBA calls upon the Government and the parliamentary parties to reassess the relevant parameters and the risks arising from an increase in corporate taxation.

Should an increase in the corporate tax rate be adopted despite the above considerations, CIBA urges the Government to develop a package of tax incentives as an offsetting measure that would contribute to maintaining the competitiveness of the Cypriot economy.

Such a package could be linked to key challenges and strategic objectives of the Cypriot economy, as well as to the goals set out in **Vision 2035** for the Cypriot economy, transforming these challenges into opportunities—an outcome that a major reform such as tax reform should, by its nature, seek to achieve.

Within this framework, the development of tax incentives/deductions is proposed which would:
(a) strengthen the **green transition** by rewarding companies that introduce environmentally friendly practices exceeding the obligations arising from existing legislation;

(b) enhance **innovation and digital transformation** by rewarding companies that invest in innovative practices, thereby providing momentum to start-up companies—primarily driven by young scientists and professionals—from the demand side;

(c) contribute to **alleviating the traffic congestion** affecting urban centres by rewarding companies that create the framework for a large proportion of their workforce to operate remotely through teleworking, thereby substantially easing pressure on the road network during peak hours.

The above proposals could serve as important offsetting tools for maintaining the competitiveness of the Cypriot economy, while at the same time supporting key policy and social priorities and challenges, such as the green and digital transitions, as well as providing incentives to reduce traffic congestion.

With regard to the above proposals, whose adoption could transform tax reform into a genuine lever for supporting the strategic vision and objectives of the Cypriot economy, as well as improving citizens' quality of life, CIBA expresses its readiness to work with the Government, the parliamentary parties, and all organised stakeholders to shape the relevant package of incentives.

Annex

Potential Impacts of an Increase in Corporate Taxation and Presentation of Alternative Measures

The landmark OECD study entitled "Taxation and Economic Growth" (2008)[1] provides substantial insights into how the structure of a tax system can affect economic growth. According to the OECD, **corporate income tax is the most harmful to economic growth, as high tax rates can discourage investment,** particularly in research and development. **Personal income taxes** follow in terms of negative impact, while **indirect taxes,** such as VAT, are considered less distortive. The tax with the **least impact on growth is recurrent taxation** on immovable property.

Based on this analysis, the OECD concludes that **a growth-oriented and fiscally neutral reform should shift** part of the tax burden from income taxation towards less distortive taxes, such as recurrent taxes on immovable property and VAT.

The report also highlights that the effects of corporate taxation depend on the degree of openness of an economy. **More open economies suffer a greater negative impact from an increase in corporate taxation compared to more closed economies.** This finding is particularly critical for Cyprus, which is a small open economy and relies heavily on international business activities. Consequently, **an increase in corporate taxation is expected to negatively affect Cyprus's GDP.**

The recent analysis by the **Economics Research Centre (CypERC/KOE) of the University of Cyprus[2]** concludes that an increase in the corporate tax rate to 15% will not materially affect Gross Regional Product. However, this conclusion is based on the **assumption** that **no behavioural changes will occur**—an assumption explicitly noted in the report (p. 18). In practice, an increase in corporate taxation may lead multinational companies to relocate activities to more competitive jurisdictions or may deter new investors from choosing Cyprus.[3] Given that the majority of Cyprus's corporate tax revenues originate from foreign investors (Tax Department 2024: Income Tax – Legal Persons (Companies) €1,904,482,859 compared to Special Defence Contribution €434,218,103),[4] **the omission of such behavioral factors substantially underestimates the actual impact on GDP.**

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1 Å. Johansson, C. Heady, J. M. Arnold, B. Brys, L. Vartia, 2008 OECD Economics Department Working Papers No. 620, Taxation and Economic Growth, https://dx.doi.org/10.1787/241216205486

2 October 2025 University of Cyprus Economics Research Centre, Cyprus Tax Reform, Overview of the Final Report on the Cyprus Tax Reform Project, https://www.parliament.cy/images/media/redirectfile/Overview_TaxReform_Oct29_2025_Marked_PIT.pdf

3 OECD 2008 Taxation and Economic Growth page 5, […] taxes also affect the decisions of households to save, supply labour and invest in human capital, the decisions of firms to produce, create jobs, invest and innovate, as well as the choice of savings channels and assets by investors.

At the same time, the **competitiveness** of the Cypriot tax system would be significantly **reduced**. With a corporate tax rate of 15%, Cyprus would fall to approximately **tenth place** among corporate tax regimes in Europe, behind countries such as Estonia and Latvia (0% on undistributed profits), Malta (approximately 5% through its refund system), Hungary and the UAE (9%), Bulgaria (10%), certain Swiss cantons such as Zug (below 12%), as well as Ireland and Liechtenstein (12.5%).

Although CypERC argues that Cyprus remains competitive according to the Mannheim index (p. 14), this conclusion is based on the assumption that investors are resident shareholders—an assumption that **rarely** reflects reality in practice. Moreover, another competitiveness index used by CypERC (p. 16) ranks Cyprus in 5th place, but does not include key competitors such as Malta, the UAE, and others.

Within this context, the **Cyprus International Businesses Association (CIBA)** proposes alternative solutions to avoid a reduction in GDP and tax competitiveness:
1. **The imposition of an immovable property tax** on properties valued above €3 million, from which it is estimated that €54 million could be collected annually—this being one of the least distortive forms of taxation (proposal of CypERC, p. 20).

2. **An increase in VAT on luxury goods**, another tax measure with a limited negative impact on the economy.

Furthermore, the quantitative assessment of CypERC notes that it does not take into account several important factors (p. 21), including:
1. **The implementation of the Global Minimum Tax of 15% under Pillar II,** from which the Ministry of Finance estimates revenues of €200–250 million annually from 2026 onwards.[5]

2. **The increase in tax revenues through the broadening of the tax base,** such as the taxation of crypto-assets, stock options, and similar instruments.

3. **Improvements in tax collection efficiency,** which increased by approximately 14% annually during the period 2021–2024 (from €5.01 billion to €7.42 billion).[6] In addition, the new anti-tax-avoidance provisions are expected to further strengthen tax revenues.

4. **Forecasts for GDP growth of approximately 3% over the next two years,** according to recent announcements by international rating agencies.

The inclusion of the above factors would **substantially reduce the need to increase the corporate tax rate.**

Overall, the available evidence indicates that Cyprus should carefully consider alternative measures to increase public revenues—many of which have a smaller impact on economic growth—before proceeding with an increase in corporate taxation. A balanced approach would strengthen fiscal stability while at the same time preserving the country's long-standing competitive position as an international business centre.

4 Τμήμα Φορολογίας, Ετήσιες Εισπράξεις Τμήματος Φορολογίας για την περίοδο 2019 μέχρι 2025, https://www.mof.gov.cy/mof/tax/taxdep.nsf/All/86EEF39E017F59FEC2258B970026FD27/$file/%CE%95%CF%84%CE%AE%CF%83%CE%B9%CE%B5%CF%82%20%CE%95%CE%B9%CF%83%CF%80%CF%81%CE%AC%CE%BE%CE%B5%CE%B9%CF%82%20%CE%A4%CE%BC%CE%AE%CE%BC%CE%B1%CF%84%CE%BF%CF%82%20%CE%A6%CE%BF%CF%81%CE%BF%CE%BB%CE%BF%CE%B3%CE%AF%CE%B1%CF%82%20%CE%B3%CE%B9%CE%B1%20%CF%84%CE%B7%CE%BD%20%CF%80%CE%B5%CF%81%CE%AF%CE%BF%CE%B4%CE%BF%202019%20%CE%BC%CE%AD%CF%87%CF%81%CE%B9%202025.pdf

5 https://www.ekathimerini.com/economy/1256289/cyprus-mps-vote-for-15-corporate-tax/

6 **ΕΤΗΣΙΑ ΕΚΘΕΣΗ ΤΜΗΜΑΤΟΣ ΦΟΡΟΛΟΓΙΑΣ ΓΙΑ ΤΟ ΕΤΟΣ 2024**
https://www.mof.gov.cy/mof/tax/taxdep.nsf/All/2DE1B1C7053E582BC2258CBB00389DE6/$file/%CE%95%CE%A4%CE%97%CE%A3%CE%99%CE%91%20%CE%95%CE%9A%CE%98%CE%95%CE%A3%CE%97%20%CE%A4%CE%A6%202024.pdf