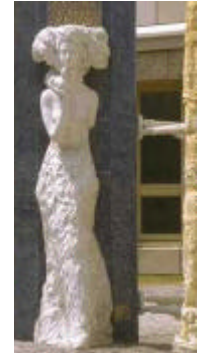


# **TAX ASPECTS OF CYPRUS AS AN INTERNATIONAL BUSINESS CENTRE JOINING THE EUROPEAN UNION**

*Report on our Study Project*

*June 20, 2001*



# **Report on Study Project**

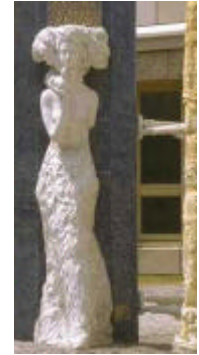
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## ***Table of Contents***

- **Executive Summary**
- **Introduction**
- **International Business and the Need for a Tax Reform**
- **Taxation of Personal Income**
- **Taxation of Corporate Profits**
- **Withholding Taxes**
- **Determination of Income from Trade and Business**
- **International Taxation**
- **Taxation of the International Business Sector**

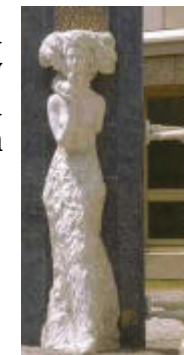


**Department of Austrian and  
International Tax Law  
Vienna University of Economics and  
Business Administration**



# **I**

## **EXECUTIVE SUMMARY**

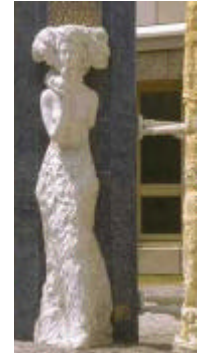


# **I Executive Summary**

---

## *Contents*

- **General Remarks**
- **Limitations to our Report**
- **Our Opinion**
- **Strategies for a Tax Reform in Cyprus**
- **Proposals for a Tax Reform in Cyprus**

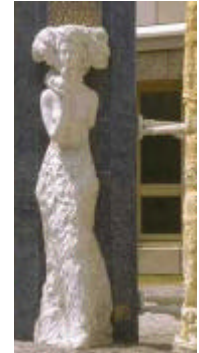


## **I/3 Executive Summary**

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### ***Our Opinion on the International Business Sector:***

- **Very Dynamic Development**
- **Great Value to Cyprus**
- **Upgrading Cyprus as International Business Centre**

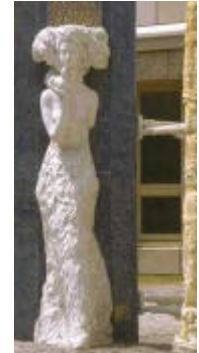


## **I/3 Executive Summary**

---

### ***Our Opinion on the International Business Sector:***

- **Commitments to OECD and EU require tax measures to be taken**
- **Tax Measures for International Business or for Companies alone are Not Sufficient**
- **Need for a Substantial Tax Reform**

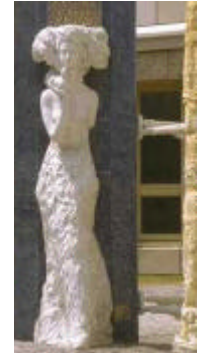


## **I/4 Executive Summary**

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### ***Strategies for a Tax Reform:***

- **Align with OECD and EU Requirements**
- **Use Additional Revenues from VAT and Excise Duties for General Tax Reductions**
- **Cover all Taxes on Income**
- **Abolish Taxes Uncommon to OECD Countries**



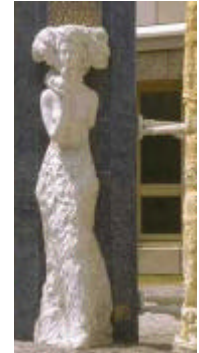
## **I/4 Executive Summary**

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### ***Strategies for a Tax Reform:***

- **Introduce General Tax Rules Favourable to International Business**
- **Combine Measures Covering all Areas of Income Taxation**
- **Achieve a Similar Tax Burden on International Business to that under Present Rules**



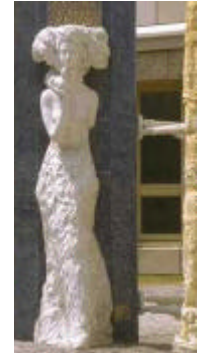


## **I/5 Executive Summary**

---

### ***Proposals for a Tax Reform in Cyprus:***

- **Reduce Substantially the Income Tax Burden**
- **Target a Flatter Tax Rate System**
- **Broaden Income Tax Basis**
- **Adopt Integration Type of Corporate Profit Taxation**
- **Target a 10% Corporation and a 10% Dividend Withholding Tax**
- **Strengthen Taxation at Source for Cyprus Residents**

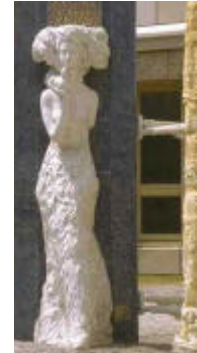


## **I/5 Executive Summary**

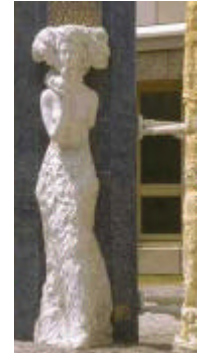
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### ***Proposals for a Tax Reform in Cyprus:***

- **Adapt Determination of Income from Trade and Business to EU and International Tax Policies**
- **Strengthen the Concept of Foreign and Cyprus Source Income**
- **Apply the New General Rules to International Business**
- **Maintain the Present Regime for the Shipping Industry and for ICISs**
- **Use an Innovative Tax Policy for Tax Competition**
- **Use Transitional Period for a Step by Step Reform**



## **II INTRODUCTION**

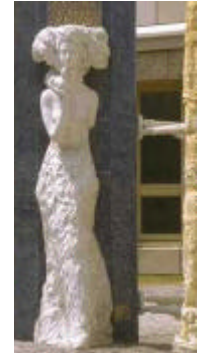


## **II Introduction**

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### *Contents*

- **Study Project**
- **Objectives**
- **Acknowledgements**
- **Research for Study Project**

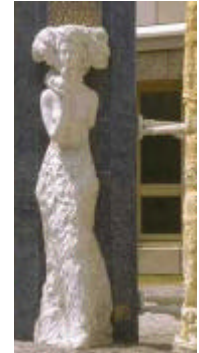


## **II/1 Study Project**

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### ***Department of Austrian and International Tax Law:***

- **We Teach Students of Economics and Law**
  - **Austrian Tax Law**
  - **European Tax Law**
  - **International Tax Law**
- **We Run Postgraduate Programs on**
  - **Austrian Tax Law**
  - **European Tax Law**
  - **International Tax Law**

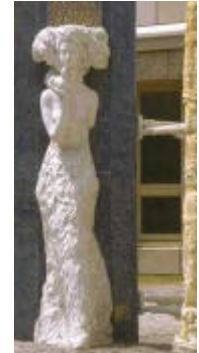


## **II/1 Study Project**

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### *Department of Austrian and International Tax Law:*

- **We do Research Work on**
  - **Austrian Tax Law**
  - **European Tax Law**
  - **International Tax Law**

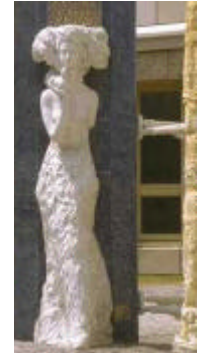


## **II/1 Study Project**

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### ***Department of Austrian and International Tax Law:***

- **Staff**
  - **2 Professors**
  - **2 Honorary Professors**
  - **2 Guest Professors**
  - **10 Assistant Professors**
  - **13 Lecturers**
  - **50 Visiting Professors and Lecturers**
  - **2 Secretaries**
  - **1 Librarian**



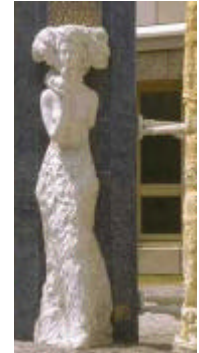
## II/2 Study Project

---

### *Objectives:*

- **Scientific Interest**
  - **Austrian EU Project**
  - **Follow-up in Candidate Countries**
  - **Interaction of Tax Disciplines**
  - **Excellent Conditions in Cyprus for a Tax Reform**



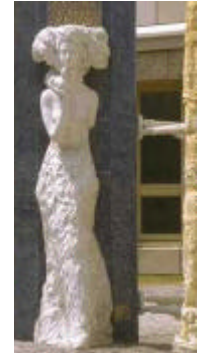


## **II/2 Study Project**

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### ***Objectives:***

- **Value of our Study to Cyprus and the European Union:**
  - **We are an Independent European Research Institution**
  - **We are Experts on European and International Tax Law**
  - **We have Experience in Accession Issues from the Austrian Accession Process**
  - **We are Familiar with all European Institutions Involved**
  - **We are no Partisans in the Lobbying Arena**
  - **The Study on Austria Can Serve as a Model for Cyprus**

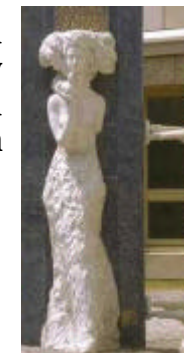


## **II/2 Study Project**

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### ***Reasons for Launching this Research Project***

- **English as Second Business Language**
- **Technical Publications are in English**
- **Support by the EU Commission**
- **Support by Cyprus Authorities**
- **Support by Accounting Profession**
- **Support by Law Profession**
- **Support by Banks**
- **Support by the Business Community**
- **Support by Deloitte & Touche**

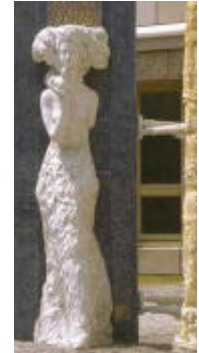


## **II/4 Introduction**

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### ***Research Work for the Project:***

- **Status Report**
  - **Economic Aspects**
  - **Legal Aspects**
  - **Cyprus/European Union**
- **EU-Criteria**
- **OECD and EU Measures against Harmful Tax Competition**

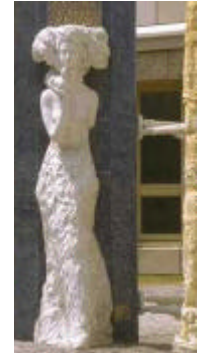


## **II/4 Introduction**

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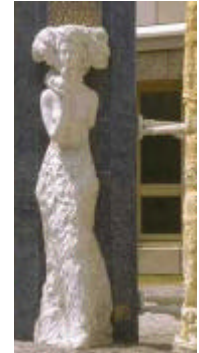
### ***Research Work for the Project:***

- **Trends in International Taxation - Theory and Practice**
- **Evaluation of the Cyprus Tax Legislation on International Business**
- **Parameters for a Tax Reform in Cyprus**
- **Tax Tools in the EU for International Business Centres**
- **New Tax Rules for Cyprus as an International Business Centre in the EU**



# **III**

## **INTERNATIONAL BUSINESS AND THE NEED FOR A TAX REFORM**

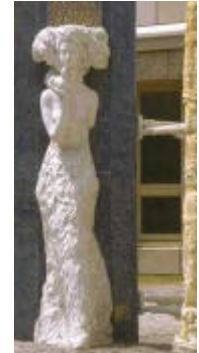


### **III Intern. Business and its Need for a Tax Reform**

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#### *Contents:*

- **Dynamic Development of the International Business Sector**
- **The Value of the International Business Sector to Cyprus**
- **Upgrading Cyprus as an International Business Centre**
- **Taxation of International Business in Cyprus**
- **Developing a Tax Reform Strategy**

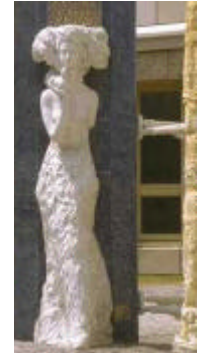


## **III/4 Intern. Business and its Need for a Tax Reform**

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### *Taxation of International Business in Cyprus:*

- **Definition of “International Business”**
- **Exemptions from Taxes on Income**
- **Corporation Tax Rate of 4.25%**
- **Nature of Business and Type of Income**



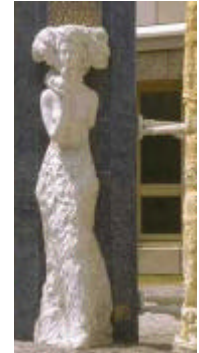
## **III/4 Intern. Business and its Need for a Tax Reform**

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### ***Taxation of International Business in Cyprus:***

- **International Banking Units**
- **Shipping and Ship Management Activities**
- **International Collective Investment Schemes**
- **Various other Tax Reliefs**
- **Prevention from Doing Local Business**
- **Tax Treaties as Tax Planning Tools**



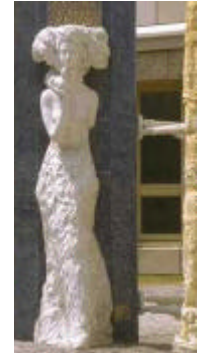


## **III/5 Intern. Business and its Need for a Tax Reform**

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### *Developing a Tax Reform Strategy:*

- **International Pressure for New Rules**
- **Embedment of International Business in the Tax System**
- **Combination of Various Reform Measures**
- **Need for a Substantial Tax Reform**
- **EU Law, EU Policies and Tax Competition Compliance**

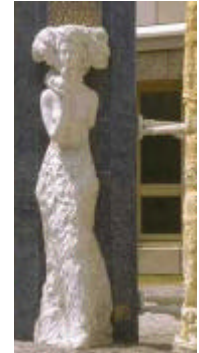


## **III/5 Intern. Business and its Need for a Tax Reform**

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### *Strategies for a Tax Reform:*

- **Align with OECD and EU Requirements**
- **Use Additional Revenues from VAT and Excise Duties for General Tax Reductions**
- **Cover all Taxes on Income**
- **Abolish Taxes Uncommon to OECD Countries**

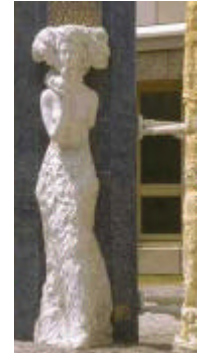


## **III/5 Intern. Business and its Need for a Tax Reform**

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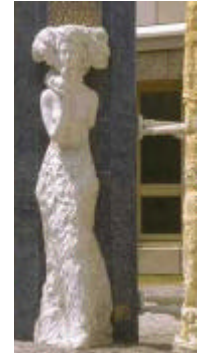
### *Strategies for a Tax Reform:*

- **Introduce General Tax Rules Favourable to International Business**
- **Combine Measures Covering all Areas of Income Taxation**
- **Achieve a Similar Tax Burden on International Business to that under the Present Regime**



# **IV**

## **REFORM OF TAXATION OF PERSONAL INCOME**

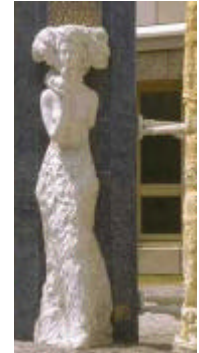


## **IV Taxation of Income of Individuals**

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### ***Contents:***

- **Reduction of Effective Tax Burden**
- **Reduction of Tax Rates**
- **Enlargement of Tax Base**
- **Evaluation of Reform Proposals**

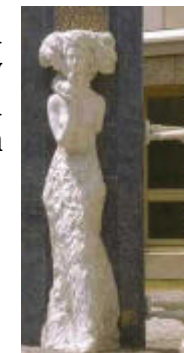


## **IV/1 Taxation of Income of Individuals**

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### ***Reduction of Effective Tax Burden:***

- **Substantial Reduction of Taxes on Income to Outbalance the Increase in VAT and Excise Duties**
- **Calculation of Reduction of Tax Burden**
- **Tentative 30-40% Reduction of Effective Tax Burden**



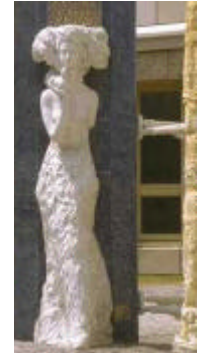
## IV/2 Taxation of Income of Individuals

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### *Reduction of Tax Rates*

- **Tentative Tax Rates:**

Income in CYP	Rates in %
0-12,000	0
12,001-24,000	10
24,001 and above	20



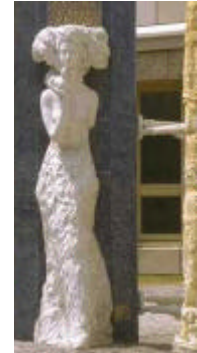
## **IV/3 Taxation of Income of Individuals**

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### ***Enlargement of Tax Base:***

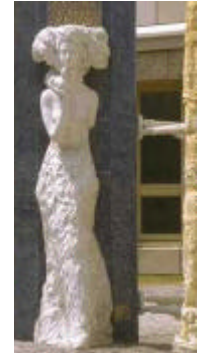
- **Elimination of Personal Allowances**
- **Evaluation of Exemptions, Deductions and Incentives**
- **Evaluation of Income Definition**
- **Strengthening Taxation at Source for Cypriot Residents**





# V

## REFORM OF TAXATION OF CORPORATE PROFITS

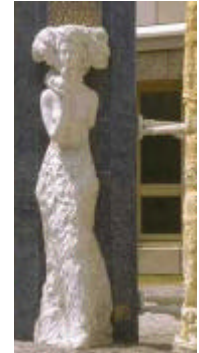


## **V Taxation of Corporate Profits**

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### *Contents:*

- **Principles of the Reform**
- **Corporate Tax**
- **Withholding Tax on Dividends**
- **Evaluation of Reform Proposals**

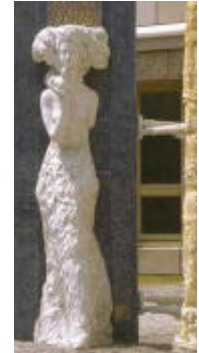


## **V/1 Taxation of Corporate Profits**

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### ***Principles of the Reform:***

- **Conform with EU and OECD Requirements**
- **No EU System in Sight**
- **Integration Type of Taxation of Corporate Profits**

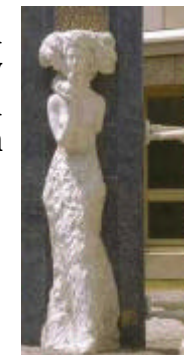


## **V/2 Taxation of Corporate Profits**

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### ***Corporation Tax:***

- **Tentative 10% Corporation Tax Rate**
- **Abolition of 10% Minimum Tax**
- **Abolition of Preferential Rates**
- **New Reorganisation Rules**
- **Review of Determination of Income Rules**

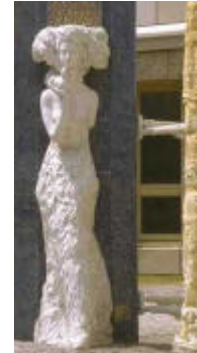


## **V/3 Taxation of Corporate Profits**

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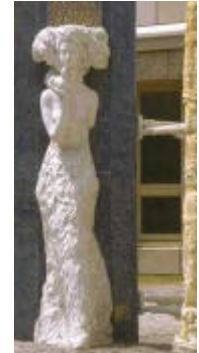
### ***Withholding Tax on Dividends:***

- **Corporation Tax + Withholding Tax » Marginal Income Tax Rate**
- **Tentative 10% Withholding Tax**
- **Tax on Corporate Profits » Income Tax**



# VI

## REFORM OF WITHHOLDING TAXES



## **VI Withholding Taxes**

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### *Contents:*

- **Present System of Withholding Taxes**
- **Strengthening Taxation at Source for Resident Individuals**
- **Final Taxation and Optional Assessment**
- **Evaluation of Reform Proposals**



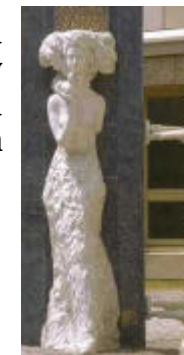
## **VI/1 Withholding Taxes**

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### ***Present System of Withholding Taxes:***

- **Present Withholding Taxes**
- **Cyprus-Source Emoluments**
- **Dividends**
- **Interest**
- **Royalties**
- **Certain Income Paid to Aliens**



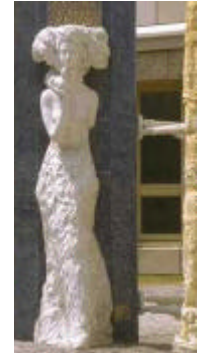


## **VI/2 Withholding Taxes**

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### ***Strengthening Taxation at Source for Resident Individuals:***

- **Effectiveness of Taxation at Source vs Assessment**
- **PAYE-System for Emoluments**
- **Dividends**
- **Interest**
- **Royalties**
- **Certain Income Paid to Aliens**

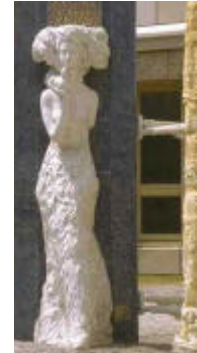


## **VI/3 Withholding Taxes**

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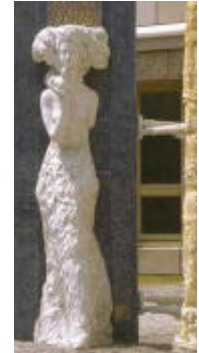
### ***Final Taxation and Optional Assessment:***

- **Final Taxation for all Withholding Taxes**
- **Optional Assessment Only**
- **Mandatory Assessment in Cases of Two or More Employments**



# **VII**

## **REFORM OF DETERMINATION OF INCOME FROM TRADE AND BUSINESS**

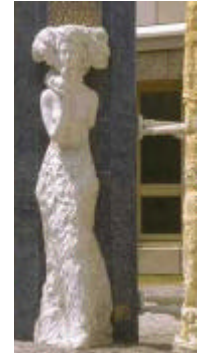


## **VII Determination of Income from Trade and Business**

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### ***Contents:***

- **Determination of Income in General**
- **Capital and Investment Allowances**
- **Developing EU Policies on Taxation of Business**
- **Evaluation of our Proposals**

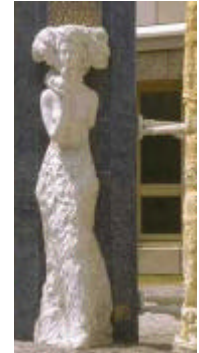


## **VII/1 Determination of Income from Trade and Business**

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### ***Determination of Income in General:***

- **Specific Issues for Trade and Business Only**
- **Concept of Taxable Income**
- **Treatment of Losses Incurred**
- **Carry Forward of Losses**
- **Review of Restrictions for Losses**

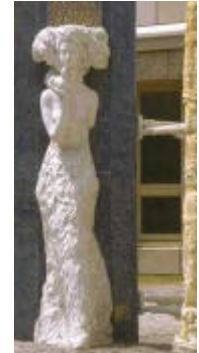


## **VII/2 Determination of Income from Trade and Business**

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### ***Capital and Investment Allowances:***

- **Rates for Capital Allowances**
- **Calculation of Annual Wear and Tear Allowance**
- **Renewal Based Allowances**
- **Mining Activities**
- **Investment Allowances**
- **Regional and Export Incentives**

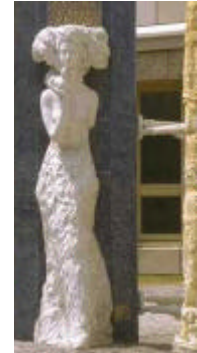


## **VII/2 Determination of Income from Trade and Business**

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### ***Developing EU Policies on Taxation of Business:***

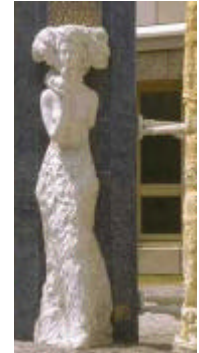
- **Ruding Report**
- **ECOFIN Council**
- **Study on Company Taxation in the Single Market**
- **Evaluation of Effective Level of Company Taxation in the EU**
- **Tax Obstacles to Cross-Border Activities**
- **No Program for Harmonisation of Tax Base and Rates**



# VIII

## REFORM OF INTERNATIONAL TAXATION



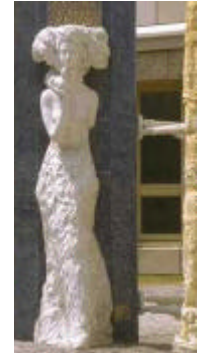


## **VIII International Taxation**

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### *Contents:*

- **Companies**
- **Individuals**
- **Exchange of Information and Rulings**
- **Evaluation of Reform Proposals**

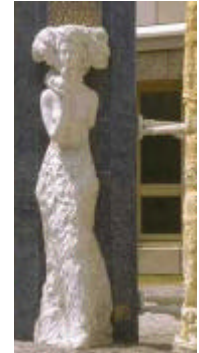


## VIII/1 International Taxation

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### *Companies:*

- **Incorporation as Factor for Tax Liability**
- **Exemption vs Credit Method**
- **Redefinition of Foreign Source Income**
- **Dividends**
- **Interest and Royalties**

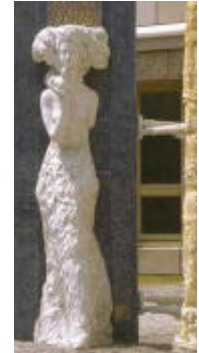


## VIII/1 International Taxation

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### *Companies:*

- **Non-Sophisticated CFC Legislation**
- **Limitation of Treaty Benefits to Companies with Local Presence**
- **Elimination of Tax Obstacles to Cross-Border Activities**
- **Evaluation of Place of Business/Permanent Establishment and Cyprus Source Rule Concepts for Internet and E-Commerce**

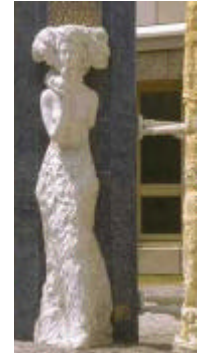


## VIII/2 International Taxation

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### *Individuals:*

- **Exemption vs Credit Method**
- **Income from Profession and Employment Exercised Abroad**
- **Expatriates**
- **Withholding Taxes**

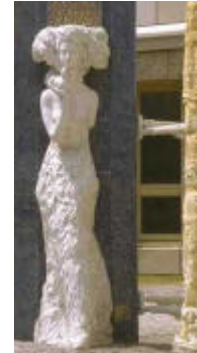


## VIII/3 International Taxation

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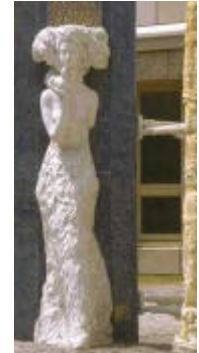
### *Exchange of Information and Rulings:*

- **Council Directive Concerning Mutual Assistance**
- **Tax Treaties with EU Member and Candidate States**
- **Tax Treaties with OECD Countries**
- **Policy Statement on Exchange of Information**
- **Transparent Rulings**



# **IX**

## **REFORM OF TAXATION OF THE INTERNATIONAL BUSINESS SECTOR**

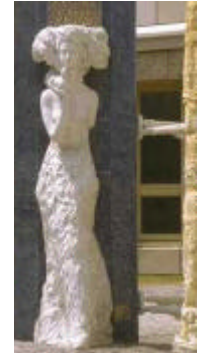


## **IX Taxation of International Business Sector**

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### *Contents:*

- **Application of General Rules**
- **Elimination of Preferential Treatment**
- **Effects on Various Industries**
- **Evaluation of Reform Proposals**



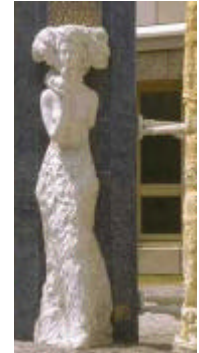
## **IX/1 Taxation of International Business Sector**

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### *Application of General Rules:*

- **Measures Favourable to Domestic and International Business**
- **Substantial Reduction of Tax Rates**
- **Integration Type System of Taxing Corporate Profits**
- **Strengthen Taxation at Source for Resident Individuals**



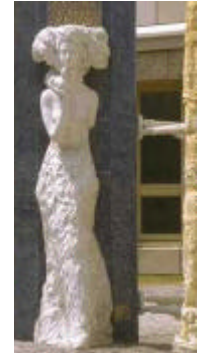


## **IX/1 Taxation of International Business Sector**

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### *Application of General Rules:*

- **General Rules for Determination of Income**
- **Measures for International Taxation**
- **Abolition of Taxes Uncommon to OECD Countries**

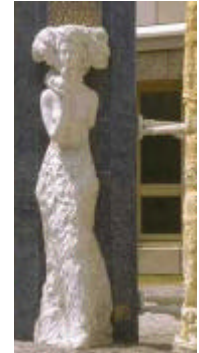


## **IX/2 Taxation of International Business Sector**

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### ***Elimination of Preferential Treatments:***

- **Elimination of Tax Exemptions**
- **Elimination of 4.25% Corporation Tax Rate**
- **Elimination of Various Other Tax Reliefs**



## **IX/3 Taxation of International Business Sector**

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### *Effects on Various Industries:*

- **No Restrictions to Foreign Source Income**
- **International Banking Units**
- **Insurance Companies**
- **Shipping and Ship Management**
- **International Collective Investment Schemes**