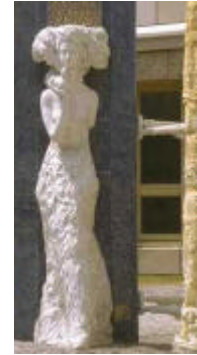




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NEED AND PRINCIPLES FOR A TAX REFORM IN CYPRUS

Prof. Dr. Wolfgang Gassner

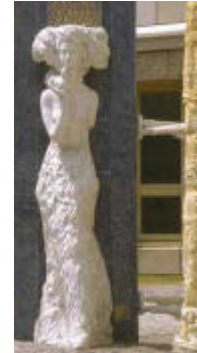
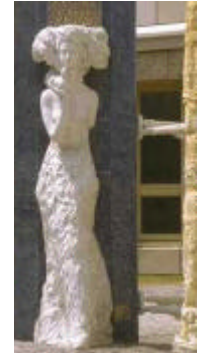


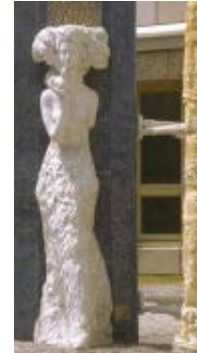
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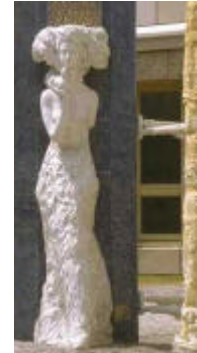
I Need for a Substantial Tax Reform

- **Avoid Conflicts with EU Law**
- **Comply with the Campaign Against Harmful Tax Competition**
- **Safeguard Economic and Social Stability**
- **Prepare for Global Tax Competition**



II Strategies

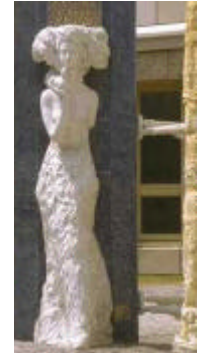
- **Align with EU and OECD**
- **Use Additional Revenues for a Tax Reform**
- **Reduce Taxes on Income**
- **Abolish Taxes Uncommon in OECD**



III Taxation of Personal Income

General Concept:

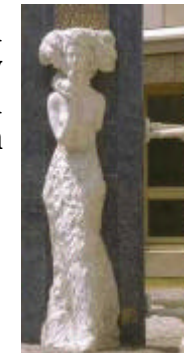
- **Extend Zero Rate Bracket**
- **Lower Rates Substantially**
- **Broaden Tax Base**
- **Strengthen Taxation at Source for Residents**



IV Taxation of Corporate Profits

General Concept:

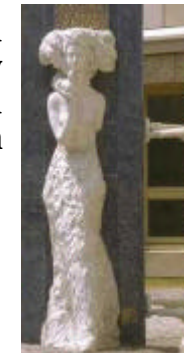
- **Eliminate Incentives and Preferential Rates**
- **Eliminate Minimum Tax**
- **Introduce Parent-Subsidiary Rules**
- **Introduce Merger Rules**
- **Adopt an “Integration Type” System**



IV Taxation of Corporate Profits

A New System for Cyprus:

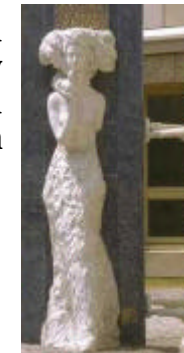
- **Low Flat Corporation Tax Rate**
- **Withholding Tax Rate on Dividends = Difference to Marginal Income Tax Rate**
- **Intercompany Dividends Exempt from Tax**
 - **Withholding Taxes on Dividends**
 - **Corporation Tax**



V Withholding Taxes

Strengthening Taxation at Source for Residents:

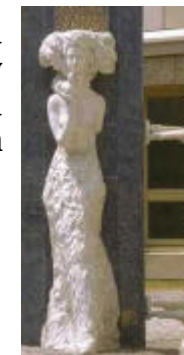
- **Tax Deducted on Wages = New Income Tax Rates**
- **Withholding Tax Rate on Dividends = Difference Corporation Tax Rate/Marginal Income Tax Rate**
- **Other Tax Rates = New Marginal Income Tax Rate**
- **Final Taxation**
- **Optional Assessment**



VI Determination of Chargeable Income from Trade and Business

Evaluation of Incentives:

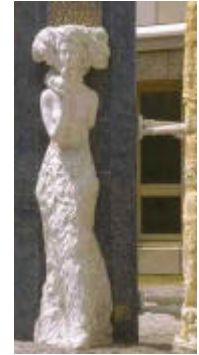
- **Eliminate (most) Incentives**
- **Consider Regional Incentives**
- **Consider Export Incentives**



VII International Taxation

Maintain Attractiveness for Foreign Investors:

- **Change from Credit to Exemption Method for Foreign Source Income**
- **Redefine Foreign Source Income**
- **Exempt Foreign Companies from Withholding Taxes on Dividends, Interests and Royalties**
- **Consider Treaty Benefits for Mailbox Companies**



VIII Taxation of International Business

Elimination of Alleged Tax Haven Status:

- **Combination of Rules Favourable to Domestic and International Business**
- **No Specific Rules and Reliefs**
- **State Aid Rules for Shipping Industry**
- **Exchange of Information**