NAVIGATING THE SHIFTING TIDES: UPCOMING CHANGES ON THE CYPRUS TAX LANDSCAPE

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The international tax landscape is constantly changing, driven by demands for transparency, compliance, and at the same time simplification. In this ever-evolving environment, Cyprus stands as a proactive player, demonstrating its commitment to remain OECD compliant; has so far adopted a number of Base Erosion and Profit Shifting (BEPS) recommendations, along with the relevant EU Directives, including the ATAD.

Pillar II as proposed by the OECD suggests the introduction of a global minimum corporate tax rate of at least 15%. Its primary goal is to ensure that multinational enterprises (MNEs) contribute a minimum level of tax, irrespective of the jurisdiction in which they are active. This approach aims to tackle concerns about profit shifting in low tax jurisdictions, which frequently leads to minimal or non-existent corporate tax payments.

In this context, the Cyprus government released in October 2023, for public consultation, a draft legislative proposal for the purposes of local implementation of the provisions of Council Directive (EU) 2022/2523, of 14 December 2022, on ensuring a global minimum level of taxation of MNE groups and large-scale domestic groups in the EU. This Directive forms part of a broader effort to address aggressive tax planning and the shifting of profits within the internal market. It is expected that the relevant bill, will be voted by the Cyprus parliament during the next few weeks.
As part of the ongoing changes, Cyprus is also set to implement a minimum top-up tax on the local level. This will most probably come into effect as from 2025.

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While implementing these changes is vital for global alignment, Cyprus acknowledges the need to introduce counter-measures to maintain its attractiveness as a tax jurisdiction.

One of the first steps to this direction was the reduction of the Special Defence Contribution on interest from 30% to 17% in December 2023. It is anticipated that additional measures are proposed and introduces to ensure that Cyprus remain a competitive jurisdiction for investment purposes and for implementing corporate structures. Striking a balance between compliance and competitiveness is crucial to ensure that businesses continue to see Cyprus as an appealing destination for their operations.

Cyprus is navigating the complexities of the dynamic international tax landscape with a proactive stance. By aligning with international standards, Cyprus is reinforcing its commitment to foster a transparent and compliant tax environment; at the same time it remains mindful of the importance to preserve its position as a strong and modern financial and business centre.

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