

Harmonization Pact Will Not Effect Cyprus Tax

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Cyprus will not see an increase in its corporate tax rate as a result of the “harmonization pact” proposed by German Chancellor Angela Merkel and French President Nicolas Sarkozy.

On March 2nd the Cyprus Chamber of Commerce and Industry (KEVE) published a press release stating that there will be no increase to the country’s corporate tax rate as a result of the controversial proposal for an EU “harmonization pact” brought forward by France and Germany in February.

The “harmonization pact” proposed that all EU member nations instate a common consolidated tax base, set a unified minimum retirement age, instate pre-determined government debt limits, and eliminate the indexation of wages to inflation. If the plan for the “harmonization pact” is enacted, then companies would face tax liabilities in the country where their sales occur, as opposed to the country in which they are based. EU leaders are scheduled to meet in Brussels on March 11th for further discussion.

The suggestions were interpreted by some members of the business community as a proposal for a European common minimum tax rate, leading media to discuss its potential implications and feasibility. The concept of a unified tax rate is of particular concern to European jurisdictions with relatively low levels of corporate taxation, such as Cyprus and Bulgaria, which have corporate tax rates of 10 percent, and Ireland with a rate of 12.5 percent. In the press release KEVE reassured local- and overseas-based owners of Cyprus registered businesses that no proposal has been made to instate a unified rate, saying that “...it is clear that both the Franco-German proposal and the compromise proposal of the President of the EU are a common tax base rather than ordinary tax rate.”

Replying to discussions of the business community regarding a EU-wide unified tax rate and talks of proposed 17 percent harmonized corporate tax rate which have begun to circulate in the media, the KEVE press release stated, “... we also emphasize that there is no reference anywhere to a minimum tax rate of 17% or another figure,” adding that there is “no such proposal, so there is no reason for concern.”