Newsletter

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Cyprus: the way forward

The business friendly environment of Cyprus is renowned over the years. Recent developments pose a challenge which Cyprus has the potential to overcome. The ingredients for a recovery are all present: a business orientated culture; the unrivaled expertise of its business services; the entrepreneurship of its private sector.

The MoU which was formally approved at the Eurogroup meeting of 12 April 2013, sets the framework for the recovery with the support of the EU; rebuilding the soundness of the Cyprus banking sector through its restructuring and recapitalization; the control of public finances through cost cutting and reforms aimed to improve the efficiency of public sector spending; a stable tax rate; implementation of structural reforms to support competitiveness and sustainable and balanced growth.

For all these reasons, the way forward for Cyprus is based on solid ground, with new prospects.

The MoU – an overview

The MoU - which goes well into 2016 - sets out the key objectives and conditions of the Cypriot economic adjustment programme which, are as follows:

To restore the soundness and downsizing of the Cypriot banking sector

The immediate objective is to restore the soundness of the two local banks through resolution, merger restructuring and recapitalization. Other than the capital controls, that apply to cash held as at 26 March 2013, the rest of the banking system is unaffected.

To control public spending through reductions in primary expenditure

The emphasis will be primarily placed on cost-cutting measures. This sends a positive message that instead of increasing taxes, public expenses will be placed under control.

To implement structural reforms that support competitiveness and sustainable growth

Improving the competitiveness of the economy will help Cyprus to successfully encounter the new challenges ahead. The intention is now to move towards a more liberal economic environment in handling issues like the wage indexation system and protectionism over certain regulated professions.

The tax angle

Of particular interest to international investors are the specific measures which affect the tax and regulatory framework in Cyprus, as well as any possible future measures.

According to the final MoU, on the basis that the Cypriot government will undertake all necessary actions, the planned tax measures to apply in the period up to 2016 are the following:

- Increase in the statutory corporate income tax rate from 10% to 12,5%
- Increase in the Special Defence Contribution rate on interest income from deposits from 15% to 30% (essentially to achieve an after-tax return on bank deposits more comparable to EU average)
- Increase in Property Tax on land and buildings situated in Cyprus
- Increase of the special levy payable by banks from 0.11% to 0.15%
- Increase taxes on motor vehicles (road tax, registration fee, excise duties)
- Increases in excise duties

The Future of the International Services Industry in Cyprus

The above tax-related measures confirm the widely held view that the tax system of Cyprus would remain fundamentally unchanged. None of the anticipated changes would have an adverse impact on international groups based in Cyprus.

Capital controls on cash transactions continue to be in place, however, these do not apply to new cash coming into banks in Cyprus or to cash held in banks outside Cyprus.

The Cyprus government is aware of the importance of the International Services Industry, as a pillar of the economy and the significant role it will play in achieving economic growth, thereby meeting the MoU targets. As a result it is expected that this sector will be safeguarded and promoted further.

At PwC we stand by our clients and we are committed to assisting them in reassessing investment opportunities through Cyprus.

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