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ARTICLE

Cyprus: Cyprus Government Confirms No New Taxes In 2015 Budget

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Cyprus Finance Minister Harris Georgiades Dec. 11 said that there would be no new taxes or cutbacks in the coming year when he announced the 2015 budget to parliament. The government's forecasts are "conservative" and "realistic," adding that it would safely remain within its targets, without the need arising for new taxes or new cuts, Georgiades said.

The government "made difficult decisions last year" and has therefore devised the 2015 budget based on conservative estimates to rein in the "reckless and repeated increases in government spending," in previous years, he said.

"We resolved that this state must henceforth function within its means, without the need to constantly burden households and businesses with new taxes and without inflating public debt in a way that stumps growth and impairs future generations," Georgiades said.

The fiscal deficit is forecast to be below 3 percent of gross domestic product in 2015, which is the EU's excessive deficit limit. Meanwhile, the government also predicts a small primary surplus, meaning no new debt will be created. The finance minister also announced an increase in public expenditure, amounting to approximately 60 million euros (\$75 million) over the coming year.

Despite the economic downturn in recent years, Georgiades pointed out that the Cypriot economy has proved resilient, achieved mainly through the strengths and key prospects of productive sectors such as tourism, business and financial services and shipping. "That is why safeguarding our tax regime and tax stability is of paramount importance, because it is the main pillar for a broader effort to create a climate favorable for business and investment."

Economic Stability Welcomed. Philippos Aristotelous, advocate and partner at tax firm Andreas Neocleous & Co. LLC in Limassol, welcomed the budget announcement. Speaking to Bloomberg BNA Dec. 15, Aristotelous said the finance minister has used the budget to reassure everyone that the economy is stabilizing following the economic crisis. Despite the quasi-political nature of the budget statement, it reflects the projections and anticipation of the administration as it enters a new financial year and sends a positive signal that the economy is entering into still waters for the first time following the crisis, he said.

Discussing the government's potential to introduce tax cuts in the coming years, Aristotelous said that he did not anticipate any tax cuts, but said incentives may be possible. "The administration has not announced any plans or intentions to introduce any tax cuts, but I believe that they may consider tax incentives, although it is unclear

that area the incentives would apply to."

He hinted that the funds and energy sectors may be the first to benefit from any tax relief, but pointed out that any tax cuts would be made with caution to avoid violating European Union state aid rules and provisions of the "Troika" program. This refers to the three entities — the European Commission, International Monetary Fund and European Central Bank — that cooperate over economic assistance with EU countries that require help in putting their economies back on the path of sustainable economic growth.

Referring to the international business sector and foreign investment, Aristotelous said ideally he would like to see a return to the 10 percent corporate tax rate, which he said "was something that was very helpful for Cyprus to attract foreign investment."

Aristotelous stressed, however, that any reduction in the corporate tax rate should only be introduced if there is macroeconomic certainty. "It has to be done in a sophisticated and scientific way to ensure it does not lead to any changes that present Cyprus to the global economy as an unreliable partner and as a country with an unreliable tax framework," he said.

The full budget speech can be found, in Cypriot, at <http://bit.ly/1wSdDo0>.

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The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.

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