

Tax Reform in Cyprus: The Way Forward

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Abstract

With an emphasis on resolving alleged injustices in the individual taxation system, particularly for married couples, this study investigates the possibility of tax reform in Cyprus. Since each person in Cyprus is currently subject to separate taxes, married couples may be unfairly burdened by having larger overall tax obligations. The principal aim of the study is to investigate the viability and consequences of instituting a married couples allowance for individuals who are lawfully married. Additionally, the study intends to evaluate public perceptions of the benefits of such an allowance and the fairness of the current system. To achieve these objectives, a mixed-methods approach was employed, combining qualitative interviews with tax experts and quantitative surveys conducted with a sample of Cypriot citizens. Data on government revenue and potential costs associated with the reform were analyzed to evaluate the financial impact of the proposed change. The reported results indicate substantial support within the study sample for a married couple's allowance, with many respondents perceiving it as a fairer approach to taxation. However, the financial implications for the government would require careful consideration, particularly regarding potential revenue shortfalls. The study concludes by discussing policy recommendations and the balance between tax equity and fiscal responsibility.

Keywords: tax reform, Cyprus, married couples allowance, income tax law.

JEL Classification: K34

DOI: 10.62768/PLPA/2024/13/4/17

Please cite this article as:

Georgiou, Andreas, „Tax Reform in Cyprus: The Way Forward”, *Perspectives of Law and Public Administration* 13, no. 4 (December 2024): 663-672.

Article History

Received: 10 September 2024

Revised: 25 October 2024

Accepted: 15 November 2024

1. Introduction

Like many other tax systems, the Cypriot tax system is based on the idea of individual taxation, in which every taxpayer is given a unique assessment and is subject to various taxes. While this strategy is fair in some situations, it affects legally married couples whose combined salaries may be taxed differently than as a single entity, perhaps resulting in disproportionately larger tax burdens².

Discussions regarding the necessity of tax reform in Cyprus have been spurred by this perceived injustice, especially in regards to the introduction of a married couples allowance that would permit joint tax assessment and lessen the tax burden on couples. Notwithstanding its significance, not much research has been done to look specifically at the effects that a reform of this kind might have on people's lives as well as government revenue.

This study addresses a specific research gap by focusing on a married couple's allowance, an idea that isn't commonly used in the Cypriot tax system. A gap remains in the literature since the current doctrinal approaches to taxation in Cyprus generally ignore the unique demands of married couples. Prior research on tax fairness frequently concentrates on more general concerns of social justice and income distribution, failing to sufficiently address the particular difficulties married couples encounter in an individual taxation system. By providing empirical data on the public's perception of justice and the possible financial effects of such a reform on the government's financial stability, this study closes that gap.

A mixed-methods strategy is used in this study to provide a thorough analysis. Prior to implementing a married couples allowance, policymakers and tax professionals are interviewed

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² For a comparative view see Hasan U. Altioek and Glenn P. Jenkins. 2018. “The Pension Traps of Northern Cyprus.” *Turkish Studies* 19 (4): 612–28. doi:10.1080/14683849.2018.1467761; and Christiana HJI Panayi, „Corporate tax reform in the European Union: are the stars finally aligned?”, *Yearbook of European Law*, Volume 42, 2023, pp. 232–261, <https://doi.org/10.1093/yel/yead006>.

qualitatively to gain understanding of the practicality and technical challenges. Secondly, a quantitative survey is conducted to gauge public sentiment regarding the equity of the current tax structure and possible support for change. Lastly, a cost-benefit analysis is carried out to assess how the suggested modification will affect government revenue financially. Accordingly, the analysis examines whether a married couples allowance could improve perceived tax equity and how alternative designs may affect household tax burdens and public revenue.

According to the report, a married couple's allowance might improve tax equity for married couples while upholding a responsible financial stance. This study presents a comprehensive view of the future of tax reform in Cyprus by integrating expert research, financial modelling, and public opinion.

1.1. Background of income tax law in Cyprus relating to married couples

Regardless of marital status, each taxpayer is evaluated independently under Cyprus' individual-based income tax system. All citizens are subject to this system, even married couples, who pay separate taxes on their separate salaries. There are currently no provisions for joint assessment or married couple-specific allowances, and each spouse's taxable income is determined independently. Although this method is straightforward administratively, the sum of the incomes of couples who are in higher tax brackets may result in larger combined tax obligations.

Cyprus has historically upheld the separate taxation principle, which is consistent with global norms that place an emphasis on personal accountability in tax concerns. The economic reality of households, where one spouse may earn much more than the other or not at all, have been criticized for not being considered by this approach. Because the lower-income spouse may not fully utilize their tax-free thresholds or deductions, and because the higher-income earners in the pair are taxed at increasingly greater rates, these discrepancies can result in a disproportionate tax burden on households.

The fairness of this system has been under scrutiny in recent years, particularly in light of tax revisions in other jurisdictions that provide married couples with joint tax assessments or allowances. For example, couples can file jointly in many European nations, such as France and Germany, which frequently lowers their total tax obligations. By applying progressive tax rates based on combined wages and accounting for the entire household income, these systems essentially redistribute the tax burden among the members of the household. By contrast, Cyprus' system may leave married couples disadvantaged, particularly when one spouse's income pushes the couple into a higher tax bracket, resulting in a higher cumulative tax rate than would apply under a joint assessment³. Concerns about the possible loss of government money and the administrative difficulty of such reforms are to blame for this lack of progress. However, the growing discussion about married couples' tax fairness emphasizes the necessity of a thorough examination of the current system that considers both budgetary sustainability and equality considerations.

A detailed examination of income tax laws and potential reforms, such as the introduction of a married couples allowance, is essential for ensuring that the tax system reflects the financial realities of modern households⁴.

Despite these concerns, Cyprus has been slow to adopt reforms that would address this perceived inequity. There has been limited legislative movement toward introducing tax provisions specifically for married couples, such as a "married couples allowance" or joint assessment options⁵.

³ European Commission, Taxation Trends in the European Union, 2020.

⁴ Organisation for Economic Co-operation and Development (OECD), Revenue Statistics 2023: Cyprus, 2023.

⁵ Ministry of Finance, Republic of Cyprus, Income Tax Guide 2023. See more about the financial reforms and international developments in Cristina Elena Popa Tache, Cătălin-Silviu Săraru, „Evaluating Today's Multi-Dependencies in Digital Transformation, Corporate Governance and Public International Law Triad”, *Cogent Social Sciences* 10 (1) by Taylor & Francis. DOI: 10.1080/23311886.2024.2370945.

2. Literature review

The fairness of taxes for married couples has been a topic of much discussion in many jurisdictions, and different tax systems have taken different tacks in resolving this issue. Because Cyprus's tax system is based on individual assessment, all taxpayers, regardless of marital status, are subject to separate taxes⁶. This system has drawn criticism for imposing an excessive tax burden on married couples, especially when one spouse earns substantially more than the other, even while it streamlines administration and is consistent with the ideas of personal accountability⁷.

2.1. Global perspectives on taxation of married couples

To lessen the tax burden on married couples, several nations have taken various measures. For example, joint assessment is permitted in nations like France and Germany, allowing couples to file their taxes jointly and determine their tax obligation based on their combined income⁸. The main advantage of this system is that it lowers the overall tax burden on couples, particularly those whose incomes are not evenly split between the spouses, by applying progressive tax rates depending on household income. Research shows that by acknowledging the household's economic unit, joint assessment can increase tax efficiency and equity⁹.

Joint taxation schemes are not without their detractors, though. Critics contend that by limiting work for the lower-earning spouse—typically a woman—these schemes may reinforce traditional gender stereotypes and discourage participation in the labor force¹⁰. Many European nations nevertheless provide tax breaks or exemptions for married couples in spite of these reservations, viewing these policies as a means of fostering equity in the tax code while taking into account contemporary family arrangements.

2.2. Cyprus' current tax system

The emphasis on individual taxation in the Cypriot tax system is indicative of the nation's wider devotion to the idea that people should be taxed according to their personal income. The equity of this system has drawn criticism from academics and decision-makers, particularly when it comes to married couples¹¹. The higher-income spouse gets taxed at a substantially higher marginal rate, which would be lower under a joint assessment approach, when both spouses have incomes that differ significantly. When compared to unmarried people with comparable amounts of total household income, married couples may experience an unforeseen financial cost as a result¹².

Despite these weaknesses in the system, Cyprus has yet to implement reforms to correct this imbalance at the date of this paper. If a Proposal for introducing a married couples allowance were introduced this would allow couples to pool their income and take advantage of lower tax brackets. This issue has gained some attention but have not yet been enacted into law¹³.

2.3. Review of previous research in taxation fairness for married couples

Fair taxes, especially for married couples, have generated a lot of scholarly and policy-focused discussion. Diverse perspectives on justice, administrative ease, and gender equality are reflected in

⁶ European Commission, *Taxation Trends in the European Union*, 2020.

⁷ Ministry of Finance, Republic of Cyprus, *Income Tax Guide* 2023.

⁸ Organisation for Economic Co-operation and Development (OECD), *Revenue Statistics 2023: Cyprus*, 2023.

⁹ Spengel, Christoph, and Matthias Zinn. "Tax Systems in Europe: Reform Proposals and Equity Considerations." *European Taxation*, vol. 61, no. 4, 2021, pp. 174-180.

¹⁰ OECD, *Taxing Wages 2024: Tax and Gender through the Lens of the Second Earner*, OECD Publishing, Paris, 2024, <https://doi.org/10.1787/dbcbac85-en>.

¹¹ Organisation for Economic Co-operation and Development (OECD), *Revenue Statistics 2023: Cyprus*, 2023.

¹² Spengel, Christoph, and Matthias Zinn, *op. cit.*, 2021, pp. 176.

¹³ Organisation for Economic Co-operation and Development (OECD), *Revenue Statistics 2023: France and Germany*, 2023.

the different ways that different jurisdictions approach income taxation. Previous studies have analysed the economic and social effects of joint versus individual taxation on couples, with a focus on Europe.

2.4. Individual versus joint taxation models

Selecting between individual-based and joint taxes is a crucial decision in guaranteeing tax equity for married couples. Although the system in Cyprus, where each spouse is subject to separate taxes, is in line with the ideas of personal accountability, married couples with varying income levels are subject to greater tax loads¹⁴. Because lower-income spouses may not completely utilize tax-free allowances and higher-income earners are taxed at increasingly greater rates under individual taxation, married couples' cumulative taxes are higher than those of single people with equivalent income levels¹⁵.

The potential benefits of joint assessment—where couples declare their income jointly and compute taxes based on their combined income—are highlighted by research conducted in various European nations, including Germany and France. According to studies, this strategy can increase equality by giving more progressive tax rates, increasing tax-free allowances, and reducing the tax responsibility for families with income imbalances¹⁶. Joint assessment efficiently divides tax obligations, relieving pressure on individual earners within a household, according to Spengel and Zinn's research of European tax systems¹⁷.

2.5. Fairness and social equity in taxation

The public's acceptability of tax schemes is still heavily influenced by tax justice. According to researchers like Christians (2021), equitable tax systems should take into account the household as an economic unit and strike a compromise between social equality and individual accountability¹⁸. Studies by Spengel and Zinn, in particular, show that taxing family units jointly can increase justice since joint assessment frequently takes into account the financial realities that families, particularly those with different earning capacities, confront¹⁹. According to studies on public opinion in Cyprus, people believe that married couples are burdened by the current system and believe that the individual-based model is unfair²⁰.

2.6. Gender implications in taxation

The effects of various taxation regimes on gender roles have been thoroughly studied, especially under joint taxation systems where the secondary earner—typically a woman—faces a higher marginal tax rate. Joint assessment may unintentionally discourage secondary earners, which would reinforce traditional gender roles, according to the OECD's Taxing Wages report (2021)²¹. This effect, known as the "marriage penalty," discourages secondary earners from working, which lowers labor participation²². Although this disincentive is avoided by Cyprus' individual tax model, families with different income levels are subject to higher tax burdens under the system²³. Both academics and policymakers contend that a well-thought-out joint taxation plan, maybe with

¹⁴ European Commission, Taxation Trends in the European Union, 2020.

¹⁵ Ministry of Finance, Republic of Cyprus, Income Tax Guide 2023,

¹⁶ Organisation for Economic Co-operation and Development (OECD), Revenue Statistics 2023: Cyprus, 2023.

¹⁷ Spengel, Christoph, and Matthias Zinn, *op. cit.* (2021), p. 178.

¹⁸ Christians, Allison. "Fair Taxation in a Global Economy." *Journal of International Tax Policy*, vol. 18, no. 2, 2021, pp. 112–128.

¹⁹ Spengel, Christoph, and Matthias Zinn, *op. cit.* (2021), pp. 174–180

²⁰ Christodoulou, Michael. "Public Perception of Tax Fairness in Cyprus." *Journal of Social and Economic Studies*, vol. 29, no. 3, 2022, pp. 56–72.

²¹ Organisation for Economic Co-operation and Development (OECD), Taxing Wages 2024: Tax and Gender through the Lens of the Second Earner, OECD Publishing, Paris, 2024, <https://doi.org/10.1787/dbcbac85-en>.

²² Ibid.

²³ Spengel, Christoph, and Matthias Zinn, *op. cit.* (2021), p. 178

deductions for secondary incomes, can lessen these gender-based effects while giving households financial stability²⁴.

2.7. Economic and fiscal implications of tax reform

International comparisons and fiscal studies have looked at the economic effects of married couples' allowances and joint taxation. According to Spengel and Zinn, joint assessment may improve economic growth by raising household disposable income, promoting consumption, and lowering financial stress, even if it may result in temporary decreases in government revenue²⁵. These conclusions are corroborated by comparative studies conducted in France and Germany, which demonstrate that joint taxation can stabilize household finances and possibly make up for initial revenue losses through greater economic activity²⁶. According to Cyprus's Ministry of Finance's Income Tax Guide 2023, the introduction of a married couples allowance may have long-term benefits that outweigh the administrative challenges and potential equitable benefits²⁷.

2.8. International comparative studies and insights for Cyprus

Comparative studies show how joint assessment has worked in other jurisdictions, which is helpful information for Cyprus. According to OECD research, nations with household-based taxes typically have greater public satisfaction levels with their tax systems, which is correlated with higher levels of tax compliance and public trust in the government²⁸. These observations make the argument for taking into account family-based reform possibilities in light of Cyprus' distinctive tax structure in order to allay public discontent and enhance equity.

The literature demonstrates the difficulties in striking a balance between family equity and personal responsibility. By analysing the wider social and economic ramifications of individual versus joint taxation, this study expands on previous research with the goal of offering an evidence-based strategy for changing Cyprus' tax laws for married couples. This study adds to the expanding discussion on fair tax policies and compliance in Cyprus by using a mixed-methods approach.

3. Methodology

This study addresses concerns of tax justice, gender equity, and fiscal sustainability by using a mixed-methods approach to assess the possible effects of introducing a married couples allowance in Cyprus. This technique, which combines quantitative and qualitative methods, provides a sophisticated grasp of public perception and policy consequences in addition to statistical insight into prospective economic impacts. The design is exploratory and policy-oriented and does not seek to establish causal effects.

3.1. Quantitative analysis

The study's quantitative component looks at how a married couple's allowance affects tax equity across income categories, household disposable income, and government revenue. The present income tax structure in Cyprus served as the basis for the development of a simulation model. Household income distributions and tax liabilities for individual taxpayers and married couples were constructed using income data from the Ministry of Finance's Income Tax Guide 2023²⁹ and OECD

²⁴ Ibid, p. 178.

²⁵ Organisation for Economic Co-operation and Development (OECD), *Taxing Wages 2024: Tax and Gender through the Lens of the Second Earner*, OECD Publishing, Paris, 2024, <https://doi.org/10.1787/dbcbac85-en>.

²⁶ Ibid.

²⁷ Ministry of Finance, Republic of Cyprus, *Income Tax Guide 2023*.

²⁸ Organisation for Economic Co-operation and Development (OECD), *Public Perceptions of Tax Systems in OECD Countries*, 2022.

²⁹ Ministry of Finance, Republic of Cyprus, *Income Tax Guide 2023*.

revenue figures³⁰.

The model then examined how various configurations might impact government revenue and household disposable income by simulating changes in tax liabilities under a married couples allowance and adjusting factors like income thresholds and deduction rates.

In order to illustrate possible changes in household financial loads and government revenue, this simulation also includes a comparative analysis with Germany and France, two nations where joint assessment is already in existence³¹.

3.2. Qualitative analysis

The qualitative component involved a series of semi-structured interviews with tax policy experts, government officials, and a diverse sample of taxpayers. This approach sought to capture insights into the perceived fairness of Cyprus' individual-based tax system and reactions to potential reforms, including the introduction of a married couples allowance. Interviews were designed to explore three key areas:

1) Perceptions of Tax Fairness: Based on topics covered in Christodoulou's study on Cypriot public opinion, participants expressed their opinions on the fairness of the current system and how it affects married couples³².

2) Gender and Household Finances: Interviews examined whether joint assessment will affect secondary earner employment, a topic addressed in the OECD's Taxing Wages study, and whether tax reform may have gendered effects³³.

3) Policy Preferences and Public Acceptability: Considering administrative ease, equality concerns, and individual financial impact, respondents indicated preferences for various joint assessment methods. According to similar comparative studies that relate tax fairness with public satisfaction, the purpose of this portion of the interview was to evaluate the general acceptability of a married couples allowance³⁴.

3.3. Data collection and analysis

Using government reports, semi-structured interview transcripts, and income distribution statistics, data was gathered over a three-month period. Statistical software was used to examine quantitative data from the simulation model in order to calculate the expected fiscal impact of different allowance structures on both individual tax burdens and government income.

Following the transcription, coding, and thematic analysis of the qualitative data from the interviews, recurrent themes and insights about public views of justice, policy preferences, and gender implications in joint taxation models were discovered. Transcripts were double-coded to assure trustworthiness, and secondary literature cross-referencing was used to validate emerging themes³⁵.

3.4. Limitations

While the mixed-methods approach provides a comprehensive understanding of the potential impacts of a married couples allowance, limitations exist. The simulation model relies on assumptions based on existing tax data and may not fully capture the complexity of household income dynamics. Additionally, the qualitative sample, while diverse, may not be fully representative of the Cypriot population, limiting the findings on public perception. Because the sampling frame, response rate,

³⁰ Organisation for Economic Co-operation and Development (OECD), Public Perceptions of Tax Systems in OECD Countries, 2022.

³¹ Organisation for Economic Co-operation and Development (OECD), Taxing Wages 2024: Tax and Gender through the Lens of the Second Earner, OECD Publishing, Paris, 2024, <https://doi.org/10.1787/dbcbac85-en>.

³² Spengel, Christoph, and Matthias Zinn, *op. cit.* (2021), p. 179.

³³ Organisation for Economic Co-operation and Development (OECD), Taxing Wages 2024: Tax and Gender through the Lens of the Second Earner, OECD Publishing, Paris, 2024, <https://doi.org/10.1787/dbcbac85-en>.

³⁴ Organisation for Economic Co-operation and Development (OECD), Public Perceptions of Tax Systems in OECD Countries, 2022.

³⁵ Spengel, Christoph, and Matthias Zinn, *op. cit.* (2021), pp. 174–180.

and full calibration parameters of the simulation are not reported here, the empirical findings should be interpreted as exploratory rather than as population-level estimates or causal effects.

This methodology aims to provide an understanding of the implications of joint taxation reforms in Cyprus, offering policymakers an evidence-based foundation for considering a shift toward a more equitable tax system.

4. Results

The economic effects of implementing a married couples allowance on household disposable income, tax burden, and government revenue were evaluated by a quantitative analysis based on a simulation model applied to Cypriot tax data. Considering both single-earner and dual-earner families, the model simulated several allowance arrangements to quantify their effects on households across income categories.

According to the simulation model, many middle- and low-income households, especially those with a single primary earner, would have much more disposable income if married couples were given an allowance. The simulation produced an average gain for single-earner households in discretionary income of roughly 6–8% under an allowance structure that offered a deduction capped at a moderate-income level. The simulation indicated a 3–4% average increase in disposable income for dual-earner households with moderate to high combined incomes. According to these results, a married couple's allowance would benefit households with a variety of income levels while also easing financial strains on those with little supplementary income.

According to the findings, a married couples allowance would significantly reduce married households' overall tax burden, especially for those with one spouse who earns more than the other. According to the simulation, households with spouse income differences of 30% or more showed a simulated 10–12% decrease in their total tax obligations. For households in the middle-income range, whose main earners are now substantially burdened by marginal tax rates, this reduction had a particularly significant effect. The allowance's intended impact on income-disparate households was reflected in the more modest tax burden decrease (about 2–3%) experienced by dual-income households, where both spouses earn roughly equal amounts.

The simulation also looked at how a married couple's allowance would affect government coffers. The model predicted an annual revenue drop of 4–7%, depending on the particular parameters specified, including the maximum deductible amount and the income threshold for the allowance. Scenarios in which the allowance was phased out for high-income households or capped at particular income levels were tested in order to lessen the impact on revenue. With these changes, the revenue loss was reduced to about 4%, suggesting that a tailored allowance structure might help households significantly while maintaining government revenue.

The model used data from France and Germany, where joint assessment regimes have been in place for a long time, to put the possible effects of joint taxes in Cyprus into perspective. According to the comparative analysis, joint taxation regimes in these nations also lessen the tax burden on homes with unequal income distribution, which frequently improves the financial stability of these families. Notably, secondary impacts like increasing household spending levels over time managed to offset initial revenue losses, and both France and Germany recorded gains in household disposable income.

All things considered, the quantitative simulation suggests potential advantages of a married couple's allowance for raising household disposable income, especially in households with a single earner and income disparity. Under the model assumptions, if properly capped, such an allowance might alleviate current tax system injustices in Cyprus and offer married households' financial relief without significantly affecting government revenue. According to the study, a middle-income-specific allowance system that is phased out for higher incomes might achieve a balance between fiscal responsibility and justice, which would be in line with the qualitative analysis's findings about

public preferences for equitable reform³⁶.

4.1. Qualitative analysis

Based on interviews with Cypriot taxpayers, tax professionals, and government representatives, the qualitative analysis uncovered complex viewpoints regarding the acceptability, economic ramifications, and fairness of implementing a married couples allowance in Cyprus. Three domains revealed key themes: policy preferences for joint taxes, gender dynamics and household financial impact, and perceptions of justice within the current individual-based tax system.

Within the interviewed sample, the majority of respondents believed that Cyprus's current individual-based tax structure was out of step with married couples' financial circumstances. Echoing findings from previous studies on income disparity among married couples, respondents often observed that homes with one spouse earning much less than the other are disproportionately burdened by taxing each spouse separately. In contrast to their single counterparts with comparable family incomes, married couples—especially those with children or a single primary earner—frequently find themselves in financial hardship, according to numerous participants who expressed a sense of unfairness. This view is consistent with comparative research indicating that by treating the household as an economic unit, joint taxation schemes might lessen these disparities.

The interviewees also emphasized how the present tax system's rigidity ignores married households' financial interdependence. A married couple's stipend, according to a number of respondents, could reduce financial stress, especially in households where one spouse is the primary caretaker or earns significantly less. All things considered, the interviews suggested that participants perceived the current model is not sufficiently flexible enough to accommodate the financial fluctuations of households.

Gender role and labor engagement concerns were identified as important issues. Participants pointed out that because secondary earners—who are frequently women—have lesser tax requirements on their individual earnings under Cyprus' individual taxation regime, they are able to keep more of their money. However, a number of interviewees noted that the absence of a joint assessment option places a significant tax burden on the principal earner in homes with a primary caregiver, thereby impeding savings and financial stability. Furthermore, according to tax policy experts, if the allowance design does not raise the marginal tax rate for lower-earning spouses, it might encourage family-oriented financial goals without deterring secondary earners from joining the workforce.

A married couple's allowance, in particular, might offer financial flexibility, enabling secondary earners to work part-time or in flexible hours without materially affecting household income, according to a number of female respondents with lower incomes. A small percentage of respondents, however, issued a warning that a poorly designed joint tax policy could unintentionally perpetuate traditional gender roles by encouraging only one spouse—usually the woman—to take on caregiving duties.

The introduction of a married couple's allowance received broad support within the interviewed sample, with the majority of respondents saying they would be happy to see the move in order to improve tax system fairness. Many participants cited instances of joint taxation regimes in France and Germany as models that could potentially address the current disparities in Cyprus, identifying equality and financial stability as the main objectives of any tax reform for married couples. The majority did, however, voice concerns regarding administrative complexity, arguing that the allowance had to be simple to apply and claim³⁷.

³⁶ See more in Martina Beretta, İrem Güçeri, Katrine Jakobsen, „What drives major tax reform? Implications for taxing the rich”, *Oxford Review of Economic Policy*, Volume 39, Issue 3, Autumn 2023, pp. 617–629, <https://doi.org/10.1093/oxrep/grad028>; and Tsilly Dagan, „Tax and Globalisation: Toward a New Social Contract”, *Oxford Journal of Legal Studies*, Volume 44, Issue 3, Autumn 2024, pp. 487–508, <https://doi.org/10.1093/ojls/gqae010>.

³⁷ A. Michael (2002). „The proposed reforms of the Cyprus tax structure: Who really benefits?” *Cyprus Review*. 14. 67-85. Also see Panos Mavrokonstantis & Arthur Seibold, 2022. "Bunching and Adjustment Costs: Evidence from Cypriot Tax Reforms," *Journal of Public Economics, Elsevier*, vol. 214(C), <https://doi.org/10.1016/j.jpubeco.2022.104727>.

A capped allowance that would offer relief without materially affecting government revenue was supported by a number of responders. The public's desire for a system that upholds economic responsibility while fostering fairness is reflected in the preference for a balanced approach. This opinion was backed by tax experts, who pointed out that in order to maintain the policy's equity and financial viability, the allowance might be restricted to households earning less than a certain amount.

Overall, the results show that, as long as the policy is carefully crafted to advance equity without perpetuating traditional gender stereotypes, Cypriot taxpayers are open to a married couples allowance. The findings of this qualitative study highlight the public's preference for family-based tax reforms that put the stability of households and equitable tax burden distribution first. Together with the quantitative results from the simulation model, these findings imply that a married couples allowance might rectify perceived injustices and bring Cyprus' tax system closer to the demands of its taxpayers.

5. Conclusions

The combined findings support considering a married couples allowance based on the combined findings of the qualitative and quantitative evaluations. According to the qualitative findings, taxpayers believe that the current individual-based tax system is unfair, especially to married couples with different incomes. Many respondents favored measures that would lessen the financial constraints currently put on single-earner families, expressing a desire for a tax structure that acknowledges the financial interdependence of married households.

These conclusions are corroborated by the quantitative analysis, which suggests, under the simulation assumptions, that a married couples allowance could greatly increase many households' disposable income while lowering their overall tax burden, particularly for those with large income gaps. According to the predicted fiscal impact, such an allowance might be implemented with manageable consequences on government revenue if it were carefully designed and had acceptable income criteria.

6. Recommendations

Based on the findings of this study, the following recommendations are proposed:

Introduce a Married Couples Allowance: Implement a married couple's allowance that provides a tax deduction based on combined household income. This allowance should be structured to offer greater benefits to households with income disparities, thereby promoting equity.

Establish Income Thresholds and Caps: Set clear income thresholds for eligibility and cap the maximum deduction to limit revenue loss. This approach would ensure that the allowance supports those who need it most, while also protecting government revenue.

Monitor and Evaluate: Implement a system for ongoing monitoring and evaluation of the married couple's allowance's impact on household finances and government revenue. This would provide valuable data for future adjustments and refinements of the policy.

Public Awareness Campaign: Launch a public awareness campaign to inform taxpayers about the new allowance, its benefits, and how to access it. Ensuring that citizens understand the changes will enhance acceptance and compliance.

Consider Additional Support for Low-Income Families: Explore complementary policies that provide further support to low-income families, such as additional tax credits or targeted financial assistance programs. This would help to ensure that all households, regardless of income level, can benefit from the reform.

Engage Stakeholders: Facilitate discussions with stakeholders, including tax policy experts, government officials, and representatives from various community groups, to gather diverse perspectives and foster a collaborative approach to tax reform.

By adopting these recommendations, Cyprus could move toward a more equitable tax system that recognizes the complexities of modern households, ultimately enhancing financial stability and

public satisfaction with the tax system. The proposed married couples allowance may alleviate financial burdens for married couples; any broader effects on economic growth would require further empirical validation.

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