

Summary of Advice on Corporate Income Tax Rate Amendment

The Minister of Finance has requested advice on the draft national ordinance to amend the corporate income tax rate. This draft ordinance aims to modify the Corporate Income Tax Ordinance of 1940, in anticipation of a comprehensive revision of tax legislation. The adjustment focuses on introducing a lower tax rate, primarily to improve tax compliance and enhance the fiscal climate within Curaçao's jurisdiction. Specifically, the draft ordinance introduces a reduced initial tax rate of 15% on the first NAf. 500,000 of taxable income generated by domestic enterprises. This measure is strategically designed to stimulate and support both existing and newly established small businesses structured as corporations. For taxable amounts exceeding this threshold, the current standard rate of 22% remains in effect. Additionally, entities already benefiting from an effective rate of ten percent (10%) will continue to enjoy this advantageous rate, regardless of the new 15% corporate tax rate introduction.

The draft ordinance also aims to significantly liberalize the Economic Zones Ordinance of 2000 by removing the restriction that limits companies located in the economic zone to supply a maximum of 25% of their total revenue to the local market. This change facilitates unrestricted access for these companies to supply their goods to the domestic market without requiring prior approval. This policy enhances the integration of businesses in economic zones with the local economy by allowing them to contribute to domestic trade without quantitative limitations. According to the proposed ordinance, companies that have already obtained an economic zone permit will immediately benefit from this new regulation, increasing their operational flexibility and contributing to economic activity within Curaçao.

The implementation of this ordinance is retroactive to January 1, 2023. This retroactive application underscores the government's urgency and commitment to stimulating economic growth and strengthening Curaçao's competitive position as an attractive location for international and local businesses.

After careful evaluation, the SER cautiously concludes that the proposed initial tax rate in corporate income tax will further widen the existing differences in tax treatment between income tax and corporate tax entrepreneurs. There seems to be no compelling justification for introducing an initial tax rate in corporate income tax. The SER advises the government to clarify in the explanatory memorandum accompanying this draft ordinance issues such as the definition of 'small entrepreneurs' and how the initial tax rate aligns with the principle of tax neutrality.

In light of the above, the SER questions the added value and effectiveness of a new initial tax rate of 15% in corporate income tax as an incentive for businesses in the economic zone. In line with these concerns, the SER strongly recommends revising the regulations for special economic zones with a focus on non-fiscal incentives, to develop a resilient strategy that responds to international tax reforms, SDGs, technological advancements, and global production shifts. UNCTAD's guidelines for modern special economic zones can serve as a guideline in this regard.