



NEWSLETTER

Holding Companies in Cyprus - Tax and other advantages

1 Introduction

Cyprus has always been an ideal location for holding companies, and in light of the 2003 tax reform and its accession to the European Union in 2004, the island's attractiveness as a holding company location has been highly upgraded in comparison to other financial centres around the world. Offering the lowest tax rate in the EU, complying with the EU requirements as well as OECD requirements against harmful tax practice, have made Cyprus an ideal International Financial Centre for both inbound and outbound EU investors.

Cyprus is most commonly used as an intermediate holding company jurisdiction and is of particular interest in the following circumstances:

- For international or domestic groups investing outside Cyprus, aiming at dividend income streams. Such dividend in most cases will be exempt from taxation in Cyprus;
- To hold subsidiaries that have scope for significant capital appreciation and that may be spun off or sold in the future. Such disposals are not subject to taxation in Cyprus;
- To benefit from the favourable withholding tax provisions of the Cyprus double tax treaties network;
- To benefit from the tax provisions of the EU Parent-subsidiary directive and the other directives;

- Where a jurisdiction is required that does not have controlled foreign company legislation;
- Where it may be important to achieve a tax free unwind of the holding company at some stage in the future
- To avail of the easy exit strategy under Cypriot law which allows payment of dividend, interest and royalties (in most cases) without payment of withholding tax;
- Appropriate for any fund or investment vehicle, as there is no tax on transactions in securities, even if this is the trading activity of the entity;
- Cyprus is a member of the EU, thus, avoiding the use of suspicious offshore jurisdictions amongst business partners and government authorities.

Cyprus can be used as the location for the ultimate holding company, for instance in a group that is relocating to a new jurisdiction or on formation of a new publicly traded corporation with international operations.

2 Setting-up a Cypriot Holding

Although there are no restriction on the legal form of the holding company in Cyprus, the most commonly used form is the private limited liability company.



There are no legal requirements as to the minimum or maximum share capital of the company. However, it is recommended that the authorised share capital should be at least C£10.000 that may conveniently be divided into 10.000 shares of C£1 each. Not all of these shares have to be subscribed for, but it is recommended that at least 1.000 shares are issued and fully paid upon incorporation.

Under the Cyprus Companies Law Cap 113, financial statements of Cypriot companies are prepared in accordance with the International Financial Reporting Standards (IFRS's). These standards require the Cypriot holding companies to prepare consolidated audited financial statements on an annual basis. Consolidation is not required when the Cyprus holding company is an intermediary holding company and a holding company further up the ownership chain prepares consolidated financial statements under IFRS's.

Shareholders

Under Cypriot law, every company, limited by shares, must have at least one shareholder.

Appointment of Directors

Companies are managed and controlled by the board of directors. Under Cypriot Company Law, a Cypriot private company must have at least one director. In all other cases at least two directors are required.

Management and control of a company determines under Cypriot tax legislation the tax status of the company. Therefore, where the board meets is significant for tax purposes.

Period needed for registering a Company

The formation and registration procedures, including various administrative needs such as printing of the company's letterheads, opening of statutory books and the opening of the required bank accounts, up to the time the certificate of incorporation is issued, can normally be completed within a period of two weeks.

3 Taxation aspects

Corporation tax - Taxation of trading income

Trading income is taxed at the rate of 10%

Taxation of dividend income

Dividends and other profit distributions received by a Cyprus tax resident company from another Cyprus tax resident companies are exempt from corporation tax. Dividends and other profit distributions received by a Cyprus tax resident company from a foreign company are exempt from Corporation Tax. Such income is also exempt from Special Contribution for Defence (15%) provided that the company receiving the dividend owns at least 1% of the company paying the dividend. This exemption does not apply only if:

- (a) More than 50% of the paying company's activities result directly or indirectly in investment income, and
- (b) the foreign tax is significantly lower than the tax rate payable in Cyprus.



Foreign tax credit on income received by a Cyprus Company

Income received by a Cyprus company from abroad may have been liable to a withholding tax on payment in the country of origin. If this income is liable to tax in Cyprus, the tax paid abroad can be credited against the tax payable in Cyprus.

Foreign taxes are credited in Cyprus:

- (a) under unilateral provision of the Cyprus income tax law
- (b) under bilateral treaty provisions which in some cases provide for credit of the underlying tax as well

Repatriation of dividends from Cyprus

Cyprus does not impose any withholding tax on dividends and other profit distributions paid by a Cypriot Company to non-tax resident shareholders, including both individuals and corporations.

Tax exemption on disposal of shares

The profit arising on the disposal by a Cyprus tax resident company of shares in a company is exempt from any tax in Cyprus, provided the shares disposed qualify as "Titles" under the provisions of the Cypriot Tax Legislation. "Titles" are defined as Shares, Bonds, Debentures, Founder and other titles of companies or legal persons incorporated in Cyprus or abroad and rights thereon.

Deduction of costs

Under Cypriot law all expenses incurred wholly and exclusively for the production of the income are deducted before arriving at the taxable income.

Group Loss Relief

A loss making company can surrender its losses to other group companies as defined.

Controlled Foreign Corporation ("CFC") Legislation

Cyprus does not have controlled foreign corporation legislation. As a result, no income is imputed to a Cyprus parent even if the income arises in a tax haven or out of passive activities.

Thin Capitalisation

Cypriot tax legislation does not contain thin capitalization provisions.

Capital Duty

Capital contribution is subject to Capital Duty under the Cypriot legislation on the authorized share capital and any further increases, as follows:

- Upon Incorporation of the company: C£60 plus 0.6% on the authorized share capital
- Upon subsequent increases: 0.6% on the additional share capital

This Capital Duty can be reduced by having small-authorized share capital and issuing the shares at high Share premium. There is no capital duty payable on share premium. The capital duty is payable to the Registrar of Companies.

Stamp Duty

Under the Stamp Duty legislation of Cyprus, stamp duty is imposed on documents referring to assets in Cyprus, or matters or things that will be done in Cyprus irrespective of where the



documents are signed. Therefore, if there is no document, no stamp duty arises. Stamp duty rates are as follows:

- Stamp duty on agreements that do not include values on which stamp duty can be calculated – C£20 (in case where the Commissioner of
- Stamp Duty can determine the value, he can still seek to apply Stamp Duty
- Stamp duty on agreements (Contracts/Loan agreements) – between 0.15% - 0.20%

VAT

If the holding company's activity is limited to the holding of shares, it will not be a taxable person under the VAT legislation. As such it will fall outside the scope of the VAT legislation and will not be entitled or obliged to register for VAT purposes.

However, if the holding company is involved in activities in addition to the holding of shares, such as the provision of management services or granting of loans, then it may be entitled to deduct VAT that it suffers on expenses incurred in Cyprus or self-changed under the reverse charge provisions.

Other Taxes

There are no other significant taxes to be taken into consideration for holding companies in Cyprus.

Cessation of Operations

A Cypriot holding company held by non-resident shareholders can cease operations in Cyprus and distribute assets to its shareholders in any form (dividends, proceeds on liquidation, etc) without any tax cost to the shareholders.

4 Conclusion

Holding companies exist for legal, commercial and tax reasons. For years it was accepted that the alternatives were either the Luxembourg company established under the 1929 legislation or the Netherlands company enjoying the participation exemption

Cyprus during the process of harmonizing its national laws with the EU acquis communautaire has revised its system to create a unique system for holding companies. Whilst the Cypriot legislature has followed in the footsteps of many EU countries, it has also made these advantages available to non-EU residents, thus securing Cyprus' attractiveness to international businesses.

When comparing Cyprus to the Netherlands and Luxembourg for holding activities, it could be argued that it holds more benefits. All three countries effectively fully exempt dividend income and capital gains and Cyprus also poses more relaxed holding criteria. It is widely perceived that under present conditions Cyprus is the most attractive jurisdiction in Europe for holding companies.

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