



CYPRUS HOLDING COMPANIES



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The Tax Reasons for the Establishment of a Cyprus Holding Company

Introduction

Cyprus is a well established and well regulated international financial centre. Due to the accession of Cyprus to the European Union (EU) and the enactment of the new Cyprus tax legislation, which is now compatible with the “acquis communautaire” of Cyprus is regarded as an attractive location for the establishment of Holding Companies. Cyprus laws and practices are now harmonised with the EU Laws and Directives, the Code of Conduct and the Organization for Economic Cooperation and Development’s recommendation on Harmful Tax Corporation.

Tax Regime

Unlike other European Holding Companies, a Cyprus Holding Company need only hold 1% of the share capital of a foreign subsidiary in order to receive the tax benefits awarded under the new tax reforms.

New Tax Legalisation

A uniform 10% corporate tax rate, applicable to worldwide income, is now levied on all resident companies. This represents the lowest corporate tax rate in the European Union and thus the most advantageous standard rate of corporation tax.

The new taxation status on a Company is residence-based. A company is only ‘resident in the Republic of Cyprus’ if its business is centrally managed and controlled in Cyprus. Therefore, under the new rules, a resident corporation is taxable on its worldwide income accrued or arising from sources both within and outside Cyprus if it is managed and controlled from Cyprus.

In view of the new tax legislation, International Business Companies operating from Cyprus are now in a much more beneficial position because they can enjoy the benefits deriving from the tax exemptions as well as the corporate tax benefits of the new tax legislation.





Tax Exemptions

50% of Interest Receivable

The new tax legislation exempts 50% of interest received by the corporation, excluding interest received from the recipient's ordinary course of business or closely connected with the recipient's ordinary business.

Dividends Received

Dividends received from abroad are now totally exempt from corporation tax. Furthermore, they are also exempt from the 15% defence contribution levy provided that the direct holding is at least 1% of the share capital of the overseas company.

Restructuring Provisions

The EC Merger Directive 90/434/EEC has been embodied into the new tax law, therefore there are tax exemptions on the transfer of assets (including shares) under a reorganisation (merger / de-merger / transfer of assets).

Gains on shares and Capital Gains Tax

Profits from the buying and selling of shares are exempt from tax. There is no capital gains tax except for the 20% capital gains tax applying to gains accruing from the disposal of immovable property owned in Cyprus and shares in non-listed companies, which own immovable property in Cyprus.

Profits from activities of Permanent Establishment abroad

The profits from a permanent establishment abroad are exempt from taxation. The exemption does not apply if (i) the Permanent establishment directly or indirectly engages in more than fifty per cent (50%) in activities that produce investment income, and (ii) the foreign tax burden is substantially lower than that in Cyprus.

Cyprus Branches of Companies

With the accession of Cyprus in the EU, double taxation relief is available to all Cyprus branches of companies resident in other member states in the European Union, due to the fact that there is no discrimination between companies resident in a Member state and the branches of such companies residence in another member state.





Distributions by Cyprus Holding Companies

Dividends paid to non-resident shareholders are exempt from withholding tax. In fact, Cyprus does not impose withholding taxes on the payment of dividend, interest and royalties (provided the intellectual property rights are not used in Cyprus) to non-resident recipients.

Corporate Tax Benefits

Carry forward of Losses

Tax losses for the year 1997 onwards may be carried forward indefinitely. Losses incurred abroad by a permanent establishment of a Cyprus company can be offset against profits of the Cyprus company.

Group Relief

The Group relief rules now enacted, provide for group relief of tax losses between a Holding Company and its subsidiaries on condition that the Holding Company owns at least 75% of the Subsidiary directly or indirectly and/or otherwise among companies of the same group for the whole year. However, losses brought forward will not be available for Group Relief.

A company is considered to be a member of a group if 75% of its shares are owned by another company and/or both companies represent 75% ownership of another company.

Network of Double Tax Treaties

Cyprus combines a low-tax corporate regime with a network of double tax treaties. It has concluded 34 double tax treaties, which is considered to be one of the highest number attributable to any offshore jurisdiction, particularly with regards to treaties with Central and Eastern European Countries and Middle Eastern countries.

Most of the Cyprus Treaties follow the OECD model and all of them have the impact of reducing or eliminating the normal rates of withholding taxes imposed by the Contracting states on the payment of dividends, interest and royalties. This is particularly beneficial for foreign investors wishing to invest in certain Eastern European countries and Russia.





Conclusion

Cyprus is a premier European Union low tax jurisdiction. It has an extensive double taxation agreement network which facilitates the reduction of withholding taxes; Dividends remitted by Cyprus Companies can flow through without the burden of additional taxation. These features, combined with its global reputation make it an obvious choice for the establishment of an intermediary Holding Company.





Who to Contact

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