

CYPRUS HOLDING COMPANY

Introduction

Cyprus has developed into a popular platform from where international investors and multinational companies hold and manage their trans-border investments.

This is mainly due to:

- The favourable Cyprus tax regime, offering the lowest overall taxation in the European Union;
- The broad tax exemption system for dividends from overseas subsidiaries;
- The general tax exemption for profits from the sale of securities, which includes gains from the sale of shares in other companies;
- The absence of withholding tax over dividends paid by Cyprus companies to foreign shareholders;
- The extensive double tax treaty network Cyprus has with more than 45 countries and
- The possibility for Cyprus companies to make use of the benefits of the European Union Parent-Subsidiary Directive and the EU-Interest and Royalty Directive.

The Cyprus Tax Regime

Holding company income

Tax on dividends received from foreign subsidiaries

Dividends received by Cypriot companies from foreign subsidiaries are subject to a so-called Special Contribution for Defence tax (SCD) at 15% rate.

However, dividends from a foreign subsidiary of which at least 1% of the capital is owned by the Cyprus Holding Company are exempt from SCD.

An exception only applies if:

- The (1% or more) subsidiary directly or indirectly engages more than 50% in activities leading to investment income ("passive" income), and
- The subsidiary's income is subject to an effective tax burden of less than 5%.

Profits from the sales of shares

Profits from the sales of shares in other companies are income tax exempt in Cyprus. This is based upon the general tax exemption, applicable in Cyprus, for profits from the sales of securities. "Securities" are defined as "shares, bonds, debentures, founders' shares and other securities of companies or other legal person, incorporated under a law in Cyprus or abroad, including options thereon".

An exception only applies, and taxation at 20% will take place, if a profit is realized upon the sales of shares in certain (non-listed) companies owning Cyprus real estate, to the extent such profit reflects the gain from the sale of the underlying Cypriot real estate.

Interest income

Tax on interest received in Cyprus

Gross interest income received by a Cyprus company is subject to a special Contribution for Defence Tax (SCD) of 10 %. Besides, 50% of the net interest income is subject to corporate income tax of 10%. However, net interest which results from the ordinary course of the business of a company or is closely connected therewith is exempt from SCD but is subject to tax at 10% corporate income tax.

Interest received by banks, insurance companies and group finance companies will in general only be subject to Cyprus's standard corporate income tax rate of 10%

Tax on interest paid to non-resident shareholders

In Cyprus interest payments to non-resident creditors are exempt from any withholding tax. There are no "thin capitalization rules", which might limit deduction of interest to the extent that a Cyprus company's debt/equity ratio would exceed a certain level.

Capital Tax

Cyprus does not levy capital tax over capital contributions into companies resident in Cyprus. A stamp duty at 0,6% rate is only payable on the authorised share capital of a Cyprus company (at incorporation of the company or increase of such capital).

Cyprus Double Tax Treaty Network

Cyprus has developed an extensive network of double tax treaties with more than 45 countries. Those double tax treaties ensure that dividend and interest payments made by foreign subsidiaries/debtors to Cyprus companies suffer minimum or no withholding taxation in the remitting country.

In the cases of withholding taxes on payments to Cyprus companies, there are broad possibilities to credit those taxes against Cyprus tax payable on that income.

Besides, a Cyprus company, being a resident of an EU-Member State, has access to the benefits of the EU Parent-Subsidiary Directive, which, under circumstances, provides for withholding tax exemption for dividends between EU-based subsidiaries and EU-based parent companies.

Furthermore, a Cyprus company has access to the benefits of the EU-Interest and Royalty Directive, which under circumstances provides for withholding tax exemption for interest-and royalty payments between EU-companies.

Other advantages of Cyprus include:

- No CFC Legislation
Cyprus does not have the concept of "CFC legislation" (Controlled Foreign Corporation), according to which it would immediately include profits realized by (certain) low-taxed foreign subsidiaries, owned by Cyprus companies, in the taxable bases of the latter companies;
- Competitive fees for company formation and administration;
- Low capital requirements;
- Strong legal system based on English common law;
- Well developed infrastructure;
- Pro-business attitude of the authorities;
- Strategic geographic location.