



Accountants &
business advisers

Cyprus:

The premier holding company destination



Over the past thirty five years, Cyprus has developed into one of the most favourable places for international business. A low tax regime combined with its excellent geographical position and infrastructure were the key factors for its success.

The accession of the country to the European Union triggered a bold tax reform that aimed towards the alignment of the legislation with EU's Acquis Communautaire and Code of Conduct of Business Taxation as well as the compliance with the requirements of the Organisation for Economic Co-operation and Development (OECD).

The result of this reform was a sophisticated low tax jurisdiction that rapidly became the jurisdiction of choice for international investors and the premier financial centre for the set-up and operation of holding companies for the purpose of holding their participations around the world.

Main features of a Cyprus Holding Company

A Cypriot Holding Company (CHC) features the following tax and other advantages:

1. Full exemption from tax on dividend income received from participations

Dividends received by a CHC from overseas participations will be exempt from tax provided that:

a) the overseas company paying the dividend engages directly or indirectly in more than 50% on activities which give rise to non investment income

or

b) the foreign tax burden on the income of the paying company is significantly lower than the Cyprus tax burden of the company receiving the dividend.

The term "significantly lower" means less than 50% of the corporate tax rate in Cyprus i.e. lower than 6.25%.

Dividends are **not** considered investment income if they are derived directly or indirectly from trading subsidiaries.

2. No withholding tax on distribution of profits irrespective of the country of residence of the recipient or the existence of a double tax treaty

No withholding tax on dividends to non-residents (individual or body corporate) irrespective of the country of residence or the existence of a double tax treaty.

3. Full exemption from capital gains tax and income tax on the disposal of securities

Full exemption from tax on gains from the disposal of securities (shares, debentures, founders' shares, units of open-ended and close-ended collective investment schemes etc) regardless of whether the gain is considered to be of capital or revenue nature.

Therefore, the disposal of shares held in a subsidiary by a CHC has no tax effects in Cyprus.

4. Low tax rate

The corporation tax rate is 12.5%.

5. No capital gains or income tax on the liquidation of participations. The liquidation of participations held by CHC's does not give rise to any taxes in Cyprus.

6. No capital gains tax or income tax on the disposal of the shares of a CHC

The disposal of the shares of the Cypriot Holding Company will not result in any taxes in Cyprus irrespective of the provisions of a double tax treaty.

7. No capital gains tax or income tax on the redemption of a unit of a collective investment scheme

The redemption of a unit of a collective investment scheme will not result in any taxes in Cyprus irrespective of the provisions of a double tax treaty.

8. No capital gains or income tax upon liquidation of a CHC.

No capital gains-tax, income tax or any other tax arising from the liquidation of a CHC, owned by non-residents.

9. Reduced withholding tax on dividends received from treaty countries

Cyprus maintains an extensive and expanding double tax treaty network with over 40 countries that can be used by the investor to minimize tax burden.

10. Unilateral tax credit

Regardless of whether a tax treaty is present, unilateral tax credit is applied for taxes paid abroad if the income is subject to tax in Cyprus. Treaty provisions may be applied if they are more beneficial than the tax credit.

11. EU parent - subsidiary Directive

According to the provisions of the Directive, any payment of dividend from one member state to another is free of withholding tax provided the required conditions are satisfied under the local legislation of the member state.

12. Substance requirements

According to the Cyprus tax legislation, there are no substance requirements for Cypriot companies.

13. Debt-equity/thin capitalization rules

There are no debt-equity restrictions in Cyprus and a company may therefore be financed in any proportion of debt-to-equity.

14. Minimum holding period

There is no minimum period of holding participations in order to be eligible for either the tax exemption on dividend income or the tax exemption on the disposal of shares.

15. Interest Income

Interest income arising as a result of ordinary activities is taxed like any other "trading" income at 12.5%.

Other non trading interest is tax at 30%.

16. Reorganization provisions

Transactions that are defined as "reorganizations", involving companies resident in the Republic and / or not residents of the Republic, are exempt from corporation or capital gains tax as well as transfer fees.

Mergers, divisions, transfer of assets and exchange of shares, are considered reorganizations.

17. Group loss relief

Offsetting of losses between group companies will be granted only where the surrendering company and the claimant company are part of the same group for the whole of the tax year and interest participation rate between the two companies is more than 75%. In the case where a subsidiary company is incorporated by its parent company during a specific tax year, the subsidiary company will be considered as being a member of the group for the whole tax year and therefore will be able to claim group relief for that tax year.

VAT considerations

If the CHC's activities are strictly the holding of shares in other entities, then it is not considered as a taxable entity as it falls outside the scope of VAT legislation and as such it is not obligated to be registered for VAT purposes.

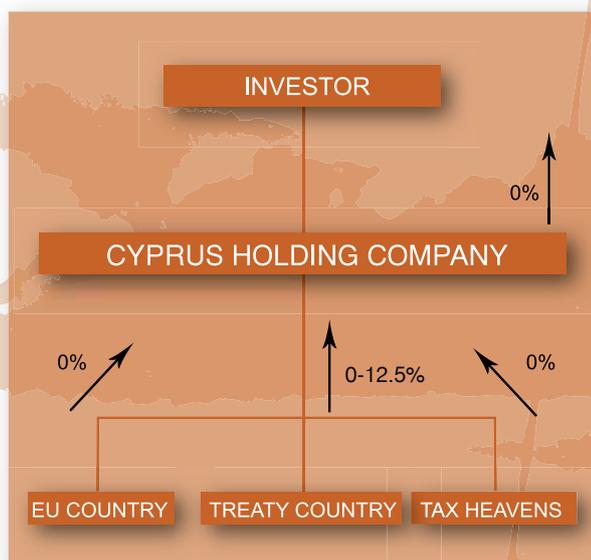
However, if the CHC is engaged in other activities as well, such as the provision of management and administration services, then it may be able to deduct VAT suffered on expenses incurred in Cyprus.

Common uses of a Cyprus holding company

Cyprus holding companies are commonly used as intermediaries, especially in the following circumstances:

- For international or domestic groups investing outside Cyprus, that aim to dividend income. Such dividends are usually tax exempt in Cyprus.
- To hold subsidiaries that may be disposed off in the future. Such disposals are not taxable in Cyprus.
- To benefit from and utilise the favourable conditions of the Cyprus Double tax treaty network.
- To have the ability to achieve a tax-free unwind of the holding company at any point in the future.

Diagram of the benefits of a Cyprus Holding Company



Reporting requirements

1. Accounting & record-keeping

The directors of every Cyprus company are responsible for the maintenance of adequate and sufficient accounting records that must be compiled annually into proper financial statements in accordance with International Financial Reporting Standards. Where applicable, companies must prepare consolidated financial statements.

2. Audit

Cypriot companies are obligated by either the Companies Law or the tax legislation to have their financial statements audited by an auditor licensed in Cyprus in accordance with International Standards on Auditing.

3. Tax compliance and other annual submissions

According to the Cyprus tax legislation, all resident companies are required to submit an income tax return annually.

Additionally, an annual return accompanied by financial statements must be submitted with the Registrar of Companies.

How to set-up a Cyprus Holding Company

1. Name of the company

Common practice has shown that at least two alternative names are needed in order to save time in case the Registrar of Companies rejects one of them.

2. Objects of the company

Cypriot companies must have a Memorandum and Articles of Association, specifying the activities of the company (known as the objects clause).

3. Share Capital

There is no minimum level for the issued and paid up capital of a Cyprus Company. However, it is common to be at least €1.000.

4. Shareholders

There must be at least one shareholder. Shares can be held by trustees in Cyprus.

5. Directors

Management and control of a company in Cyprus must be demonstrated in order to determine the tax status of the Company. It is common practice for the majority of the directors to be Cypriot residents.

6. Company secretary and registered office address

Every company must have a secretary and a registered office address in Cyprus.

CONTACT

PKF International

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PKF International is an association of legally independent firms.

PKF in Cyprus

PKF is a major accounting and consulting organization in Cyprus. The professional services provided by the Cyprus firm include:

- Audit and business advisory services
- Advice on foreign and local investment
- Tax planning for companies and individuals
- Local tax compliance
- Establishment and administration of IBC's

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