

“Securities”

Revised definition—Cyprus Inland Revenue

Circular No. 2008/12

Background

Cypriot tax rules provide full exemption from local taxation on gains from the sale of “securities”, irrespective of whether the gains are considered to be of a capital or of a revenue nature.

There is no requirement for any minimum holding period or minimum % holding.

Securities, as defined in the law, include shares, debentures, government bonds, founder’s shares or other securities of companies or other legal persons which have been incorporated in Cyprus or abroad, and options thereon.

Circular No 2008/12

A circular was issued by the Cypriot tax authorities towards the end of 2008 further clarifying what is included in the term “Securities”.

According to the circular, the term “securities” as is defined abroad has been broadened.

The circular also clarifies specific types of participation in foreign entities which are considered as Securities. In cases where it is not certain whether a specific financial instrument falls under any of the categories included in the circular, a request for a ruling may be submitted to the Commissioner of Income Tax.

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“Securities”

**Very broad
interpretation**

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List of Exempt Securities

1. Ordinary Shares.
2. Founder’s shares.
3. Preference shares.
4. Options on securities.
5. Debentures.
6. Bonds.
7. Short positions on securities.
8. Futures/forwards on securities.
9. Swaps on securities.
10. Depository receipts on securities, such as ADRs and GDRs.
11. Claim rights on bonds and debentures that do not include entitlement to interest of such products.
12. Index participations, provided that they relate to securities.
13. Repurchase agreements or ‘Repos’ on securities.
14. Participations in companies, such as Russian OOs and ZAOs and American LLCs, provided that the same are subject to income tax, Romanian SAs and SRLs and Bulgarian ADs and OODs.
15. Units in open-end or closed-end collective investment schemes that have been established and registered, and function in accordance with the provisions of specific and relevant legislation of the country of registration.

**“0% tax on gains
from the sale of
securities”**

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Examples of such collective investment scheme are:

- Investment Trusts, Investment Funds, Mutual Funds, Unit Trusts, Real Estate Investment Trusts;
- International Collective Investment Schemes or ‘ICIS’;
- Undertakings for Collective investments in Transferable Securities or ‘UCITS’;
- Other similar investment undertakings.

**“0%
withholding
tax rate on
outbound
dividends”**

**“Revised definition
increases the
attractiveness of
Cyprus holding
companies ”**

Conclusion

The revised definition of Securities will further strengthen the position of Cyprus as a leading international financial centre and should also increase the attractiveness of Cyprus holding companies and Cyprus based investment funds and other Cyprus based investment vehicles.

Taking into account the fact that Cyprus does not impose any withholding taxes on outbound dividends, the fact that Cyprus has been a full member of the EU since 2004, and the revised definition of securities, this should increase the opportunities for proper tax planning using Cyprus entities.

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