

The Cyprus Holding Company

A serious contender to holding company jurisdictions

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Preface

The tax law of Cyprus, as reformed, is probably the most modern, effective and simple tax system in the EU. The Cyprus tax legislation is fully compliant with the EU Acquis Communautaire and EU Directives.

It is in full compliance with the code of Conduct for Business Taxation and against harmful tax competition. As of April 2009, Cyprus proudly features on the White list of the OECD.

Opportunities to reduce the burden of income tax are numerous, for individuals as well as for domestic and international businesses. The full acceptance by Cyprus of the European Union Code of Conduct and the Campaign against Harmful Tax Competition has added a lot to the reputation of Cyprus, as having a very competitive but internationally respected tax legislation.

The strategic position of Cyprus, connecting Europe, the Middle East and Asia naturally makes the island a hub for business and trade. Cyprus has gained an enviable position in the international financial arena, mainly due to its good reputation as an international business centre with an experience of over 35 years, with highly skilled and multilingual qualified professionals, sophisticated infrastructure, and transparent legal system based on UK common law.

Cyprus is a member state of the EU since May 2004, has adopted the Euro as its official currency since 2008, and is a country with a strategic location, long history and culture, as well as nice weather with almost year-round sunshine.

All the above positive arguments have created excellent opportunities for tax professionals to establish Cyprus as a major financial centre within the European Union, developing Cyprus from an alleged tax haven country into a country that has a modern and competitive tax environment.

At Centaur Trust our client-focused and service based mind-set, along with our unprecedented depth of client insight, enables us to enhance the quality and consistency of services offered to our clients.

Our integrated, client-focused approach basically combines insight and innovation from multiple disciplines;

- Corporate Legal
- Tax & VAT
- Accounting & Financial Reporting
- Banking
- IT
- Secretarial
- Fiduciary
- Compliance
- Human Capital

Our aim is to gain detailed business and client industry knowledge, recognise the specific needs of our clients and then try to find and create practical solutions for specific administrative, regulatory, compliance and other corporate processes. By streamlining key processes, we aim to work together with our clients so as to be in a position to generate and maintain the kind of ordered, accurate, consistent and timely financial and non-financial data relating to all aspects of their business that will enable them to optimise their business performance.



Demetris Papaprodromou (BA, MSc, FCA)
Managing Director



Introduction Holding Company Location

Tax considerations may not be the decisive factor in choosing to set up a holding company in a particular jurisdiction. There are instances where the non-tax considerations may outweigh the tax considerations of an international group in choosing the location of its holding company.

Some non-tax considerations may include among others:

- Company law requirements
- Political stability and stable economic infrastructure
- Availability of human resources
- Telecommunication capabilities
- Set-up and other administration costs
- Spoken language and time zone

This publication aims to discuss only the major tax considerations that an international group should take into account in choosing the location of its holding company.

Historically holding companies have been in existence for various reasons, such as legal and commercial, but mainly tax. A holding company is used primarily to hold assets and participations in other companies. Typically, the holding company does not carry out any trading activities itself, but it is used solely to hold the assets or shares in other trading companies.

Different types of holding companies are used to attain a variety of fiscal and non-fiscal objectives, but mainly to:

- Protect legally certain assets from the trading operations of the group by keeping the assets in a separate holding vehicle that does not carry out any trading activities itself.
- Implement better sheltering of profits and repatriation strategies
 - Establish tax efficient structures for the shareholders themselves as well as for the whole group of companies in general, by;
 - creating a group for corporation tax purposes that will streamline in a more efficient and practical way group taxes
- Make the acquisition and disposal of participations more practical, less costly and much more efficient,

Throughout the world the barriers to capital movements are fast disappearing. Tax differences have become a very significant factor in commercial decisions, and therefore investment structures which have the least tax leakage are preferred by investors.

During the last decade various European Countries have introduced holding company regimes and nowadays it is very difficult for a multinational group to select the right jurisdiction in which to establish their holding company.

A multinational group, in choosing a suitable holding company jurisdiction, should take into account a number of tax considerations. Even though tax considerations may not be the decisive factor in choosing to set up a holding company in a particular jurisdiction, tax costs play a significant role.



The Cyprus Limited Liability Company

The law relating to registered companies is the Cypriot Companies Law, Chapter 113 of the laws of Cyprus, as amended (The Companies Law), which is almost identical to the United Kingdom's former Companies Act 1948, but several amendments have been made due to Cyprus accession to the EU.

Section 29 of the Companies Law defines a private company as:

“A private company means a company which by its articles of association specifically:

- Restricts the right to transfer its shares.
- Limits the number of its members to 50.
- Prohibits any invitation to the public to subscribe for its shares or debentures.

Incorporation and capacity to contract

The type of company that is adopted almost exclusively by foreign investors who are interested in creating a Cyprus registered company is the private Company limited by shares. A Cyprus Limited Liability Company comes into existence as a legal entity as soon as it is incorporated by the Registrar of Companies. This is evidenced by the Registrar issuing a Certificate of Incorporation that is conclusive evidence that the company has satisfied all legal requirements in respect of incorporation and that the company is duly registered under the Companies Law.

When a Cyprus company is formed, the memorandum of association will state:

- the amount of share capital the company will have; and
- the division of the share capital into shares of a fixed amount.

The usual timeframe for the registration of a Cyprus private Company limited by shares, is approximately five working days.

Authorised & Issued Share Capital

The amount of share capital stated in the memorandum of association is the company's 'authorised' capital. The amount of the authorised capital in itself is of no importance as an indication of creditworthiness. All that it shows is the maximum number of shares that the company can issue.

There is no maximum authorised share capital and no minimum share capital for Cyprus private limited companies. The authorised share capital can be denominated in any of the main currencies, though the default currency is the Euro. There is no requirement that the fixed amount of each share should be as a minimum of Euro1, consequently any subdivisions of the Euro are possible for the minimum fixed value of a share.

The number of shares from the authorised share capital that have been issued to shareholders is the issued share capital. The amount of issued capital cannot exceed the amount of the authorised capital and there is no requirement on companies to issue all their authorised share capital. Thus a Cyprus limited company can be established with only Euro1 as issued share capital.



Payment for shares

The law does not require that full payment should be made on the allotment of shares.

It does not also require that payment should be made wholly in cash. As a result payment for shares can take the form of goods, services, property, good will, know-how, or even shares in another company. The latter is often used when one company takes over another.

In summary shares may be allotted for payment in any of the following ways:

- 100% for cash;
- Partly for cash and partly for a non-cash payment; or
- 100% for a non-cash payment

Directors

A Cyprus company limited by shares must have a director and a director can be an individual or a legally incorporated entity.

The sole director of the company cannot also be the secretary of the company. However, this restriction is not applicable to single member private limited liability companies having a single member. Thus the sole member can also act and as the sole director as well as the secretary of the company.

Residency status of a director

The law does not require that directors of Cyprus private limited companies should be Cyprus nationals. On the contrary irrespective of the country of residency and on whether it is an individual or a legally incorporated entity anyone can be appointed as a director of a Cyprus company. Even though for legal purposes the residency status of a director is not important, for tax purposes it is quite important.

Cyprus companies are not automatically deemed to be tax resident in Cyprus by virtue of incorporation alone. Rather, in determining the tax residence status of a Cyprus company, the tax authorities will consider such criteria as the location of the central management & control of the company. Therefore, for a Cyprus company to be considered as tax resident in Cyprus, it is strongly suggested for the majority of the board of directors to be residents of Cyprus.

Shareholders

A Cyprus company limited by shares must have at least one registered shareholder that can be an individual or a legally incorporated entity (local or foreign corporations, foundations).

Secretary

A Cyprus company limited by shares must have a secretary and a secretary can be an individual or a legally incorporated entity.

Registered office

A Cyprus company limited by shares must have a registered office in the Republic of Cyprus to which all communications, writs and notices can be served upon the Company.



Tax Considerations

The major tax considerations that a multinational group should take into account in choosing a suitable holding company jurisdiction should include the following:

- Tax regime with regards to the realisation of capital gains from the future disposal of the shares in participation holdings (e.g. subsidiary, associate companies).
- Tax regime with regards to withholding tax on any dividends paid by the holding company to its shareholders.
- Tax regime with regards to the taxation of any dividends received from subsidiary companies.
- Tax regime with regards to the extraction of dividends from subsidiary companies with no or low withholding taxes.
- Other significant tax considerations
 - Controlled Foreign Companies (CFC) Rules
 - Thin Capitalisation Rules
 - Inheritance or Estate Taxes
 - Wealth Taxes
 - Tax Losses
 - Group Relief
 - Tax Credit for foreign tax paid
 - Stamp Duty
 - Capital Duty
 - Re-Domiciliation of Companies
 - Re-organisation rules
 - EU Interest and Royalties Directive
 - Tax Treatment of Liquidation Proceeds
 - Transfer pricing
 - VAT
- Double Tax Treaties



Tax regime with regards to the realisation of capital gains from the disposal of the shares in participation holdings

Cypriot tax rules provide full exemption from local taxation on the realisation of capital gains from the disposal of 'securities', irrespective of whether the gain is considered to be of a capital or of a revenue nature.

There is no requirement for any minimum holding period, minimum investment amount 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.

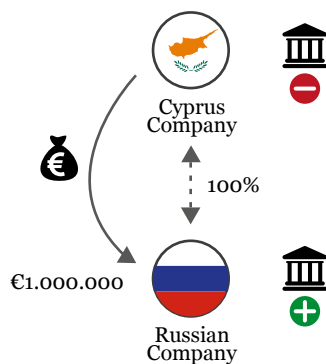
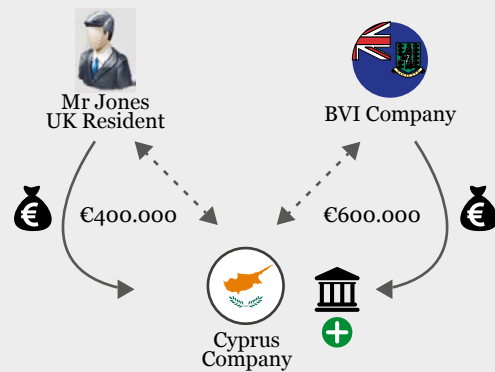
A circular has been issued by the Cypriot tax authorities further clarifying what is included in the term Securities. According to the circular the term includes, among others, options, short positions on futures, forwards on Securities, swaps on Securities, depositary receipts on Securities (ADRs, GDRs), rights of claim on bonds and debentures (rights on interest of these instruments are not included), index participations only if they relate to Securities, repurchase agreements or Repos on Securities, units in open-end or closed-end collective investment schemes). 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.

Flowchart 1 gives a diagrammatical example showing the tax treatment on the realisation of capital gains from the disposal of a subsidiary company.

Flowchart 1 | Disposal of Shares

1. Share Issues Financing - Cyprus Company

- On 1/1/2015 the Cyprus company issued at a premium 1.000 shares of nominal value of €1,00 each for €1.000 each. (No stamp duty applies on share premium)
- The two shareholders of the Cyprus company subscribed for the total amount of €1.000.000. Mr Jones paid €400.000 and BVI Co paid €600.000

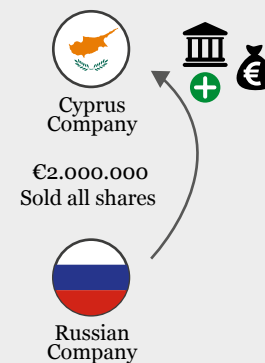


2. Share Acquisition - Russian Company

- On the same date, 1/1/2015, the Cyprus company subscribed and acquired 100% of the issued share capital of a Russian company, for a total consideration of €1.000.000

3. Disposal of Shares - Russian Company

- After 6 months, on 30/6/2015 the Cyprus company disposed the shares in the Russian company for a total consideration of €2.000.000



Sale of shares	€2.000.000
Purchase Cost	(€1.000.000)
Net Profit	€1.000.000
No Tax	Exempt

4. Tax Payable - Cyprus Company

- Cyprus tax rules provide full exemption from local taxation on the realisation of capital gains from the sale of shares in participation holdings
- There is no requirement for any minimum holding period
- There is no requirement for any minimum % holding
- There is no requirement for any minimum investment amount



Tax regime with regards to the tax treatment of outward dividends

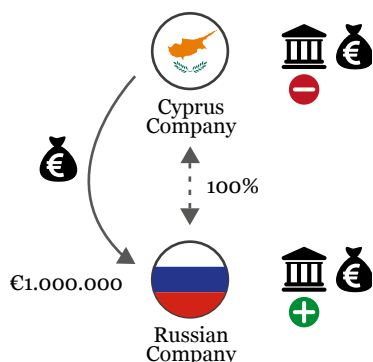
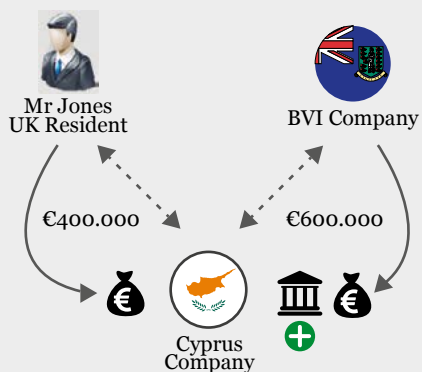
- Outward dividends paid by the Cypriot holding company to its ultimate parent company do not suffer any withholding tax in Cyprus.
- The exemption applies to dividend payments made to both resident and non-resident Cyprus companies, irrespective of the country of residency of the parent company, whether it is resident in a EU country or not.
- Outward dividends paid by the Cypriot holding company to individuals non-resident in Cyprus do not suffer any withholding tax in Cyprus.
- Outward dividends paid by the Cypriot holding company to individuals resident in Cyprus, do suffer a 17% special defence tax at source.

Flowchart 2, gives a diagrammatical example showing the tax treatment of outward dividends

Flowchart 2 | Outward Dividends

1. Share Issues Financing - Cyprus Company

- On 1/1/2015 the Cyprus company issued at a premium 1.000 shares of nominal value of €1,00 each for €1.000 each. (No stamp duty applies on share premium)
- The two shareholders of the Cyprus company subscribed for the total amount of €1.000.000. Mr Jones paid €400.000 and BVI Co paid €600.000

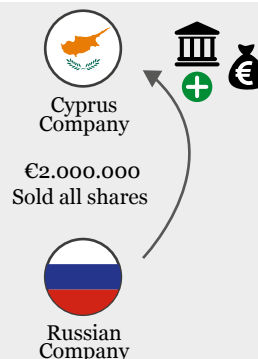


2. Share Acquisition - Russian Company

- On the same date, 1/1/2015, the Cyprus company subscribed and acquired 100% of the issued share capital of a Russian company, for a total consideration of €1.000.000.

3. Disposal of Shares - Russian Company

- After 6 months, on 30/6/2015 the Cyprus company disposed the shares in the Russian company for a total consideration of €2.000.000



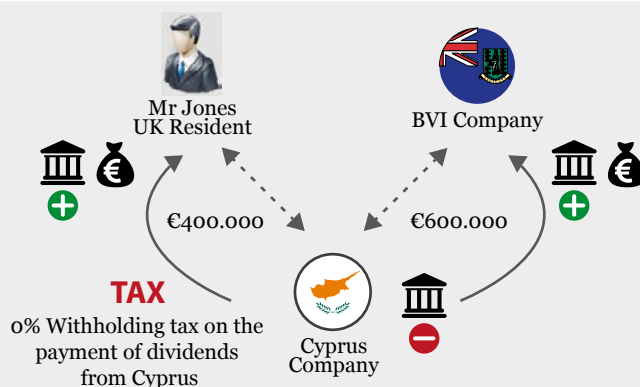
Sale of shares	€2.000.000
Purchase Cost	(€1.000.000)
Net Profit	€1.000.000
No Tax	Exempt

4. Tax Payable - Cyprus Company

- Cyprus tax rules provide full exemption from local taxation on the realisation of capital gains from the sale of shares in participation holdings
- There is no requirement for any minimum holding period
- There is no requirement for any minimum % holding
- There is no requirement for any minimum investment amount

5. Dividend Payment - Cyprus

- The Cyprus company distributes in the form of dividends the whole profit of €1.000.000 from the realisation of the investment in the Russian Co.
- Cypriot tax rules provide no withholding tax on dividend payments made to non-residents of Cyprus. On 30/06/15, Mr Jones will receive €400.000 and BVI Co will receive €600.000, both receipts without any withholding tax deduction in the Cyprus company.





Tax regime with regards to inward dividends

Dividends received from Cypriot participation holdings

Cyprus provides full exemption from local taxation in respect of dividends received by a Cyprus holding company from its local subsidiaries. This exemption is given regardless of the holding period of the shareholding and without any minimum investment amount or % holding requirements.

Dividends received from non-Cypriot participation holdings

Cyprus provides full exemption (subject to certain conditions) from local taxation in respect of dividends received by a Cyprus holding company from its non-Cypriot participation holdings. This exemption is given regardless of the holding period of the shareholding and without any minimum investment amount or % holding requirements.

The exemption will not be granted only if **both** of the conditions below are satisfied:

- The company paying the dividend engages directly or indirectly more than fifty per cent (50%) in activities which lead to investment income*; **AND**
- The foreign tax burden** on the income of the company paying the dividend is substantially lower than the tax burden in Cyprus.

* *Investment income* means any income which is not derived or arising from any business, employment, pensions or annuities which are paid by reason or in connection with a past employment. Dividends and interest can be considered as investment income.

** *Foreign tax burden* substantially lower. Generally accepted by the tax authorities in Cyprus that substantially lower means lower than 6,25%.

When dividend income is not exempt there is a 17% defence tax. However, Cyprus Income Tax Law provides relief from double taxation in relation to tax imposed by the laws of another country.



Tax regime with regards to the extraction of dividends from subsidiary companies

A Cyprus holding company can achieve low or zero withholding tax rates when extracting dividends from foreign participation holdings by relying either on its extensive double tax treaty network, or on the EU Parent Subsidiary Directive.

If the participation holding is in the capital of a company in another member state and provided all conditions of the EU Parent/subsidiary directive are met, the incidence of taxation is eliminated altogether.

Where the investment is in the capital of a company outside the EU, or where the conditions of the Parent/Subsidiary Directive are not met, Cyprus can rely on its extensive network of double tax treaties, the rates of which, especially as far as Eastern European investments are concerned, are considered particularly advantageous. Appendix 1, shows the list of double tax treaties that Cyprus has enacted with third countries, as well as the corresponding rates of withholding tax.

Extraction of Dividends from EU Countries

Cyprus has transposed into Cypriot Law the EU Parent Subsidiary Directive, though Cyprus tax rules are more liberal than the requirements of the Directive.

While the directive provides for a minimum holding by a parent company of 10% in the capital of a company in another member state, Cyprus has imposed no minimum % holding, no minimum holding period and no minimum investment amount.

Cyprus companies are eligible EU-Companies benefiting from the participation exemption regime. Consequently, dividends distributed by eligible EU subsidiaries, to a Cyprus holding company would not be subject to any withholding taxes in those countries, provided all conditions of the EU Parent/subsidiary directive are met.

Extraction of Dividends from Non-EU Countries

Cyprus has an extensive double tax treaty network. In most of the cases, incoming dividends received by a Cyprus holding company from its foreign subsidiary are either exempt from, or subject to, reduced withholding taxes in the subsidiary's jurisdiction.

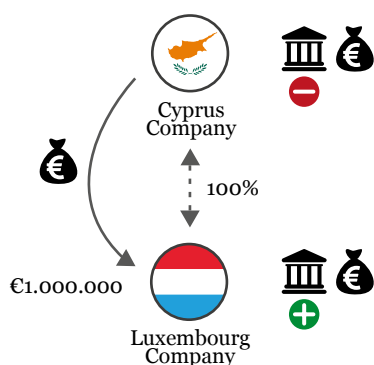
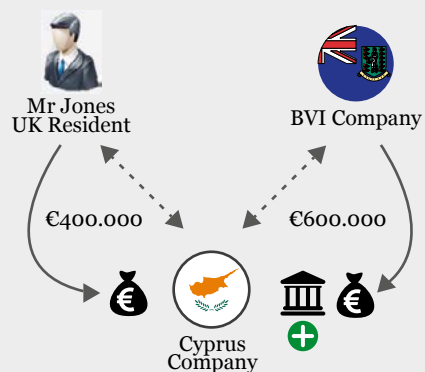
The main purpose of these treaties is the avoidance of double taxation of income earned in any of these countries. Under these agreements, a credit is usually allowed against the tax levied by the country in which the tax payer resides, for taxes levied in the other treaty country, and as a result the tax payer pays no more than the higher of the two rates.

Flowcharts 3&4 below, give two diagrammatical examples showing the tax treatment of inward and outward dividends when the subsidiary is located in Europe and when the subsidiary is located outside Europe.

Flowchart 3 | Dividends Received - EU

1. Share Issues Financing - Cyprus Company

- On 1/1/2015 the Cyprus company issued at a premium 1.000 shares of nominal value of €1,00 each for €1.000 each. (No stamp duty applies on share premium)
- The two shareholders of the Cyprus company subscribed for the total amount of €1.000.000. Mr Jones paid €400.000 and BVI Co paid €600.000

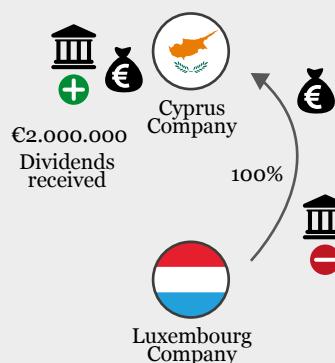


2. Share Acquisition - Lux Company

- On the same date, 1/1/2015, the Cyprus company subscribed and acquired 100% of the issued share capital of a Luxembourg company, for a total consideration of €1.000.000
- The Luxembourg company uses the funds to finance its activities in the steel making industry

3. Dividends Payable - Lux Company

- After 12 months, on 1/1/2016 the Luxembourg company declares and pays a dividend equal to €2.000.000
- The dividends are not subject to withholding tax in Luxembourg if the following conditions are fulfilled:
 - Direct and continuous shareholding of at least 10% in the Capital of Luxpro or with an acquisition price of at least €1.2m, for a period of at least 12 months.
 - The recipient of the dividends is a company listed in Article 2 of the EU Parent Subsidiary Directive.
 - Luxpro is a fully taxable company which is a resident of Luxembourg.



4. Tax Payable - Cyprus Company

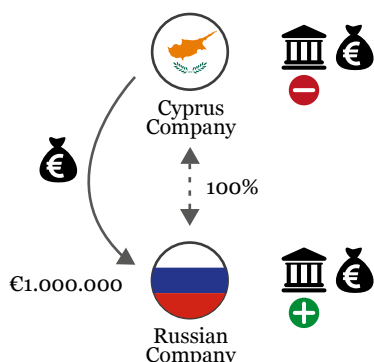
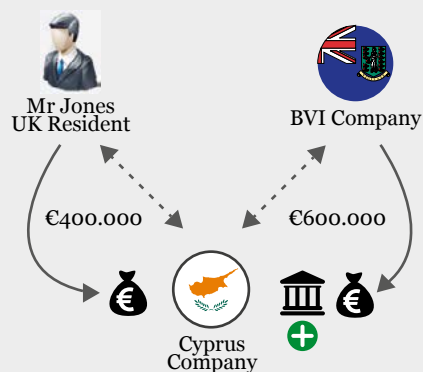
- Cypriot tax rules provide full exemption from local taxation in respect of dividends received from its foreign trading subsidiaries.
- Cyprus has transposed into Cypriot Law the EU Parent Subsidiary Directive.
- While the directive provides for a minimum holding by a parent company of 10% in the capital of a company in another member state, Cyprus has imposed no minimum % holding, no minimum holding period and no minimum investment amount.

Dividends Received	€2.000.000
Net Profit	€2.000.000
No Tax	Exempt

Flowchart 4 | Dividends Received - Non EU

1. Share Issues Financing - Cyprus Company

- On 1/1/2015 the Cyprus company issued at a premium 1.000 shares of nominal value of €1,00 each for €1.000 each. (No stamp duty applies on share premium)
- The two shareholders of the Cyprus company subscribed for the total amount of €1.000.000. Mr Jones paid €400.000 and BVI Co paid €600.000

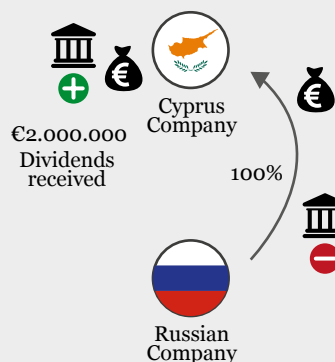


2. Share Acquisition - Russian Company

- On the same date, 1/1/2015, the Cyprus company subscribed and acquired 100% of the issued share capital of a Russian company, for a total consideration of €1.000.000
- The Russian company uses the funds to finance its activities in the oil industry

3. Dividends Received - Russian Company

- After 12 months, on 1/1/2016 the Russian company declares and pays a dividend equal to €2.000.000.
- The dividends normally are subject to withholding tax of 15% in Russia. However, Cyprus has one of the most favourable tax treaties with Russia, and this withholding tax is reduced to 5%.
- Thus, total withholding tax in Russia, €100.000
- Cyprus tax laws offer unilateral tax relief on any tax suffered abroad on income subject to income tax. Such tax paid will be credited against any income tax payable on such income irrespective of the existence of a double tax treaty.



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Dividends Received	€2.000.000
Foreign Tax Suffered	€100.000
Net Profit	€1.900.000
Cyprus Tax - 0%	Exempt
Foreign tax suffered (€100.000)	Cannot be utilised or c/f

4. Tax Payable - Cyprus Company

- Cypriot tax rules provided full exemption from local taxation in respect of dividends received from its foreign trading subsidiaries.



Other Significant Tax Considerations

Controlled Foreign Companies (CFC) Rules

Countries such as Germany, UK, France, Denmark and many others have enacted CFC legislation. Under their CFC rules, income and sometimes capital gains of a subsidiary or sub-subsidiary company may be appropriated to the parent company.

Cyprus does not have in its legislation CFC rules as strict as those in the above countries. As a result, no income is appropriated to the parent company even if the income arises in a tax haven company.

Thin Capitalisation

Most of the European countries, with some exceptions (such as Austria and Ireland), have thin capitalisation rules, such as rules imposing minimum debt to equity ratio requirements. A company is said to be thinly capitalised when its capital is made up of a much greater proportion of debt than equity, i.e. its gearing, or leverage, is too high. When a company is thinly capitalised part of the interest deduction may be disallowed and treated as a dividend distribution.

Cyprus tax legislation does not contain thin capitalisation provisions.

Inheritance or Estate Taxes

Cyprus does not have in its legislation any inheritance or estate taxes.

Wealth Taxes

Cyprus does not have in its legislation any taxes that are imposed on wealth.

Tax Losses

When a loss is not wholly set-off against income from other sources in the same year, it can be carried forward for the next five years (from the end of the tax year in which they were incurred) and set-off against future taxable income of the company. Loss is automatically set-off against the first available taxable income of the company. Losses can only be carried forward. No carry-back of losses is allowed.

Group relief

Current year tax losses may be surrendered by one Cyprus tax resident group company to another.

Current year tax losses may also be surrendered by an EU group company, provided such company firstly exhausts all possibilities available to utilise its tax losses in its country of residence or in the country of any intermediary EU holding company.

Group relief is available if both companies are members of the same group for the entire tax year.

Two companies are considered to be part of a group for group relief purposes if:

- one is a 75% subsidiary of the other, or
- both are 75% subsidiaries of a third company

Tax Credit for foreign tax paid

Any tax suffered abroad on income subject to income tax will be credited against any income tax payable on such income irrespective of the existence of a double tax treaty.

Stamp Duty

In accordance with the Stamp Duty Law of 1963 as amended, section 4 of the law, states that every document listed in the first schedule to the law needs to be stamped, if it concerns property that is situated in the Republic, or if it concerns matters or things that are going to be executed or will be carried out in the Republic, irrespective of the place where these have been drafted or prepared.

It is important to be stated that any contracts relating to assets situated outside Cyprus or business affairs that take place outside Cyprus are exempt from stamp duty (e.g. purchase of shares in foreign companies). For 2016 the maximum stamp duty on contracts is Euro20.000.

Capital Duty

According to the Cyprus Companies Act Law, every Cyprus incorporated company must pay capital duty on incorporation equal to Euro103 plus 0,6% on the authorised share capital, or on any subsequent increase in the authorised share capital.

As there is no capital duty payable on share premium, a company can arrange its capital structure in such a way as to have small authorised capital and issue the shares above their nominal value, at a premium.



Re-Domiciliation of Companies

Re-domiciliation of companies in and out of Cyprus is permissible, however the other jurisdiction's legislation must also recognize such a possibility.

Reorganisation rules

The Cyprus tax legislation has transposed the Merger Directive into the local income tax law and in accordance with this legislation, no tax consequences arise in the case of a reorganisation involving a Cyprus holding company.

EU Interest and Royalties Directive

Cyprus has transposed into Cypriot Law the EU Interest and Royalties Directive (Council Directive 2003/49/ EC of 3 June 2003 on a common system of taxation applicable to interest and royalty payments between associated companies of different Member States).

Though Cyprus tax rules are more liberal than the requirements of the Directive.

- There is no withholding tax on interest payments made to companies or individuals non-resident in Cyprus.
- There is also no withholding tax on royalty payments, where the rights have been granted for use outside Cyprus, irrespective of the form of the recipient of the income.

Tax Treatment of Liquidation Proceeds

Non-resident shareholders

In case of the liquidation of a Cyprus resident company, irrespective of the method of liquidation, there are no taxes to be paid on the distribution of assets to non-resident shareholders, whether this is in the form of dividends, proceeds from liquidation etc.

There is one exemption to the above rule. If the Cyprus company owns immovable property situated in Cyprus then the disposal of the Cyprus situated property can result in Capital Gains Tax.

Transfer Pricing

There is no specific transfer pricing legislation in Cyprus, other than a provision in the Income Tax Law which requires transactions between 'related parties' to be in accordance with the 'arm's length principle'. The "arm's-length principle" of transfer pricing states that the amount charged by one related party to another for a given product must be the same as if the parties were not related. An arm's-length price for a transaction is therefore what the price of that transaction would be on the open market.

The Cyprus tax legislation adopted the OECD model and guidelines to determine whether a transaction is at arm's length.

VAT

Holding companies have a range of structures and purposes. Some have minimal activities.

For example some may hold shares in subsidiaries and receive dividends but play no part in the management of their investment in the subsidiaries; whilst others are actively concerned with the supervision and management of their subsidiaries. Where the exclusive purpose of a holding company is the acquisition and holding of interest in shares in other companies, with the intention of deriving dividend income, such a company is not considered to be performing an economic activity for VAT purposes and consequently it does not have the status of a taxable person.

Companies which are not performing economic activities have neither the liability nor the right to register for VAT purposes and consequently they cannot claim input VAT.

However, holding companies may be liable to register for VAT where, in addition to the holding of investments, they also have taxable or exempt activities such as:

- The supply of management services for a consideration to subsidiaries;
- The provision of interest bearing financing to its subsidiaries (unless the financing is sourced from dividends distributed by the subsidiaries to which finance is granted);
- Trading in shares i.e. purchasing and selling shares on a frequent basis with the intention to profit from the fluctuations of the share price.

Where a holding company is registered for VAT purposes, it may claim input VAT on goods and services acquired in Cyprus and other EU Member States.

Appendix 1 - Double Tax Treaties

	RECEIVED IN CYPRUS	Dividends	Interest	Royalties
	Treaty countries:			
1	Armenia	0 ⁽³²⁾	5 ⁽³³⁾	5
2	Austria	10	0	0
3	Bahrain ⁽³¹⁾	0	0	0
4	Belarus	5 ⁽⁴⁾	5	5
5	Belgium	10 ⁽¹⁾	10 ⁽¹⁶⁾	0
6	Bulgaria	5 ⁽¹⁹⁾	7 ⁽²⁵⁾	10 ⁽²⁰⁾
7	Canada	15	15 ⁽⁷⁾	10 ⁽¹¹⁾
8	China	10	10	10
9	Czech Republic	0 ⁽³⁰⁾	0	10
10	Denmark	0 ⁽³⁴⁾	0	0
11	Egypt	15	15	10
12	Estonia	0	0	0
13	Ethiopia ⁽³¹⁾	5	5	5
14	Finland	5 ⁽³⁷⁾	0	0
15	France	10 ⁽²⁾	10 ⁽⁹⁾	0 ⁽²⁶⁾
16	Georgia ⁽³¹⁾	0	0	0
17	Germany	5 ⁽²⁾	0	0
18	Greece	25	10	0 ⁽¹²⁾
19	Guernsey	0	0	0
20	Hungary	5 ⁽¹⁾	10 ⁽⁸⁾	0
21	Iceland	5 ⁽³⁹⁾	0	5
22	India	10 ⁽²⁾	10 ⁽⁸⁾	15 ⁽¹⁵⁾
23	Iran ⁽³¹⁾	5 ⁽¹⁹⁾	5	6
24	Ireland	0	0	0 ⁽¹²⁾
25	Italy	0	10	0
26	Kuwait	10	10 ⁽⁸⁾	5 ⁽¹⁴⁾
27	Kyrgyzstan ⁽²⁷⁾	0	0	0
28	Lebanon	5	5 ⁽¹⁶⁾	0
29	Lithuania	0 ⁽⁴⁰⁾	0	5
30	Malta	0 ⁽²²⁾	10 ⁽⁸⁾	10
31	Mauritius	0	0	0
32	Moldova	5 ⁽¹⁹⁾	5	5

	RECEIVED IN CYPRUS	Dividends	Interest	Royalties
33	Montenegro ⁽²⁸⁾	10	10	10
34	Norway	0 ⁽³⁾	0	0
35	Poland	0 ⁽³⁶⁾	5 ⁽⁸⁾	5
36	Portugal	10	10	10
37	Qatar	0	0	5
38	Romania	10	10 ⁽⁸⁾	5 ⁽¹⁴⁾
39	Russia	5 ⁽⁶⁾	0	0
40	San Marino	0	0	0
41	Serbia ⁽²⁸⁾	10	10	10
42	Seychelles	0	0	5
43	Singapore	0	10 ⁽²³⁾	10
44	Slovakia ⁽²⁹⁾	10	10 ⁽⁸⁾	5 ⁽¹⁴⁾
45	Slovenia	5	5 ⁽³³⁾	5
46	South Africa	10 ⁽⁴¹⁾	0	0
47	Spain	0 ⁽³⁵⁾	0	0
48	Sweden	5 ⁽¹⁾	10 ⁽⁸⁾	0
49	Switzerland	0 ⁽³⁸⁾	0	0
50	Syria	0 ⁽¹⁾	10 ⁽⁸⁾	15 ⁽¹³⁾
51	Tajikistan ⁽²⁷⁾	0	0	0
52	Thailand	10	15 ⁽¹⁷⁾	5 ⁽¹⁸⁾
53	Ukraine	5 ⁽²¹⁾	2	5
54	United Arab Emirates	0	0	0
55	United Kingdom	0 ⁽²⁴⁾	10	0 ⁽²⁶⁾
56	United States of America	5 ⁽⁵⁾	10 ⁽¹⁰⁾	0
57	Uzbekistan ⁽²⁷⁾	0	0	0

NOTES: Paid from Cyprus

Dividends

Outward dividends paid by a Cypriot Company to non-tax residents of Cyprus, do not suffer any withholding tax in Cyprus.

Interest

Interest payments by a Cypriot Company to non-tax residents of Cyprus, are made gross, without any tax deducted.

Royalties

No withholding tax is levied on royalties as long as the right is used outside Cyprus. 10% in the case of royalties granted for use within the Republic. 5% on film and TV rights.

1	15% if received by a company controlling less than 25% of the voting power.
2	This rate if received by a company controlling more than or equal to 10% of the voting power. 15% in all other cases.
3	NIL if paid to a company controlling at least 50% of the voting power.
4	This rate if the amount invested by the beneficial owner is over €200.000 irrespective of the % of voting power acquired. 10% is imposed if received by a holder of at least 25% of the share capital of the paying company. Otherwise the rate is 15%.
5	5% if received by a company controlling at least 10% of the voting power.
6	10% if received by company, which has invested less than €100,000.
7	NIL if paid to the Government or for export guarantee.
8	NIL if paid to the Government of the other State or to a financial institution.
9	NIL if paid to the Government of the other State or in connection with the sale on credit of any industrial, commercial or scientific equipment or any merchandise by one enterprise to another or in relation to any form of loan granted by a bank or is guaranteed from government or other governmental organisation.
10	NIL if paid to the Government of the other State, to a bank or a financial institution or in respect to debt obligations arising in connection with sale of property or the provision of services.
11	NIL on literary, dramatic, musical or artistic work with the exception of films used for television programs.
12	5% on film royalties (except films shown on TV).
13	10% on literary, musical, artistic work, films and TV royalties.
14	NIL on literary, artistic or scientific work including films.
15	Treaty rate restricted to Cyprus legislation rate of 10%. 10% also applies to payment of technical fees, management fees and consultancy fees.
16	NIL if paid to the Government of the other State, a political subdivision or a local authority, the National Bank or any institution the capital of which is wholly owned by the State or a political subdivision or a local authority or in the form of interest income from bank deposits.
17	10% on interest received by financial institutions, on interest paid in connection with industrial, commercial, scientific equipment or the sale or merchandise between two companies.
18	10% on right to use industrial, commercial or scientific equipment or for information concerning industrial, commercial or scientific experience and 15% for patents, trademarks, designs, models, plans, secret formulas or processes.
19	This rate is applicable if received by a company owning directly at least 25% of the capital. In all other cases the withholding tax is 10%.
20	This rate does not apply, where 25% or more of the capital of the Cypriot resident is owned directly or indirectly by the Bulgarian resident paying the royalties and the Cyprus company pays less than the normal rate of tax.
21	A new treaty has been signed as of 8 November 2012 that has not come into effect yet.
22	The treaty provides that the tax on the gross amount of the dividends shall not exceed that chargeable on the profits out of which the dividends are paid.
23	7% if paid to a bank or similar financial institution. NIL if paid to the government.
24	The treaty provides for 15% withholding tax but the local taxation provides for 0% withholding tax.
25	NIL if paid to or is guaranteed by the Government, statutory body, the Central Bank.
26	5% on film royalties, including films used for television programs.
27	The treaty between the Republic of Cyprus and the United Soviet Socialist Republic still applies.
28	The treaty between the Republic of Cyprus and the Socialist Federal Republic of Yugoslavia still applies.
29	The treaty between Cyprus and the Czechoslovak Socialist Republic still applies.
30	Nil if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the company paying the dividends where such holding is being possessed for an uninterrupted period of no less than one year. 5% in all other cases.
31	The new treaty which provides for changes in the above rates has been published in the Government Gazette but has not come into force until the time of publication of this booklet.
32	5% if the beneficial owner has invested in the capital of the company less than the equivalent of €150.000 at the time of the investment.

33	Nil if paid to the Government or to a local authority, or to the Central Bank.
34	Nil if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the company paying the dividends, where such holding is being possessed for an uninterrupted period of no less than 12 months. Nil if the beneficial owner is the other Contracting State or the Central Bank of that other State, or any national agency or any other agency (including a financial institution) owned or controlled by the Government of that other State. Nil if the beneficial owner is a pension fund or other similar institution providing pension schemes in which individuals may participate in order to secure retirement benefits, where such pension fund or other similar institution is established, recognized for tax purposes and controlled in accordance with the laws of that other State. 15% in all other cases.
35	The treaty has been published in the Government Gazette but has not come into force until the time of publication of this booklet.
36	Nil if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the company paying the dividends, where such holding is being possessed for an uninterrupted period of no less than 24 months. 5% in all other cases.
37	5% if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the company paying the dividends. 15% in all other cases.
38	NIL if paid to a company controlling at least 10% of the voting power.
39	5% if the beneficial owner holds at least 20% of the capital of the company paying the dividends or has invested in the acquisition of the shares or other rights of the company equivalent of at least Euro100.000. 15% in all other cases.



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