



## The Cyprus Holding Company Regime

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Cyprus has always been an excellent location for holding companies not only due to its favourable tax regime with transparent legal system but also due to the island's privileged position with excellent communications, the low operating costs and the world class professionals and banking services. One thing is certain - there is not just one optimal holding company jurisdiction to suit all investors or investment profiles. A multitude of tax and non-tax factors are taken into account by investors before they finally decide on a holding company jurisdiction.

As we are moving forward in time from EU Accession we are seeing more and more clients preferring Cyprus as a holding company location to other traditional jurisdictions, in order to achieve efficient tax repatriation of profits.

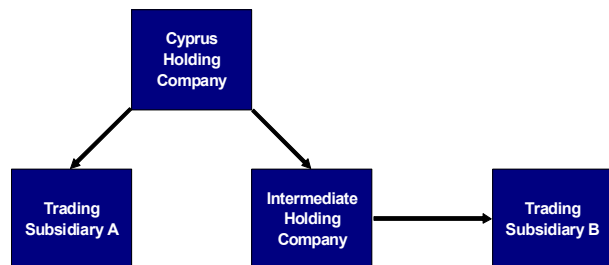
### **A Cyprus Holding Company offers the following tax advantages:**

- ◆ Dividends received by a Cyprus Holding Company from overseas are tax-exempt provided that a minimum 1% holding in the company paying the dividend is maintained. This exemption does not apply if both (i) the non-resident company paying the dividend carries on, directly or indirectly, more than 50% of investment activities - passive income - and (ii) the overseas tax burden of the paying company is significantly lower than the Cyprus tax burden (practically interpreted by the Tax Authorities meaning less than 5% "headline tax" – not effective tax burden).
  - ◆ No capital gains tax is payable on the sale or transfer of securities and the gains are exempt from Income Tax (except gains from disposal of shares in companies owning Real Estate situated in Cyprus). Therefore, no tax arises on the disposal / liquidation of participations held by the Cyprus Holding Company or the disposal of the shares of the Cyprus Holding Company or the liquidation of the Cyprus Holding Company owned by non-residents.
  - ◆ Profits from a Permanent Establishment (PE) outside Cyprus are tax-exempt and its losses can be set-off against Cyprus Income (this exemption also does not apply if the PE carries on more than 50% of investment activities and the overseas tax burden is significantly lower than the Cyprus tax burden). PE's exemption in conjunction with the use of some of Cyprus Double Tax
- Treaties (DTT) can result in PE profits avoiding tax altogether.
- ◆ No withholding taxes on distribution of profits by a way of dividend payments to non-residents, irrespective of whether the recipient is a body corporate or individual, its country of residence or the existence of a DTT.
  - ◆ No capital gains or income tax on the liquidation of participations or the liquidation of the Cyprus Holding Company itself.
  - ◆ No capital taxes or net worth taxes during the life of the Cyprus Holding Company.
  - ◆ Tax losses are carried forward indefinitely and can also be surrendered as group relief subject to certain provisions.
  - ◆ Mergers, Takeovers and other Re-Organizations can take place within groups with no tax consequence.
  - ◆ Unilateral tax-relief is granted to all Cyprus Companies for foreign tax suffered irrespective of the absence of a DTT.
  - ◆ No obligation or right for the holding company to register for VAT. This applies where the main business activity is the acquisition and holding of shares in other companies without taking part in the management and administration of these companies either directly or indirectly. In many cases this may be an advantage as the VAT reverse charge provisions will not apply.
  - ◆ Benefits from the use of Cyprus's wide treaty network with over 40 countries (including main Western European countries as well as most of Eastern European Countries) which provides for reduced withholding tax rates on dividends received from treaty countries.
  - ◆ Cyprus as a full member of the European Union offers the benefits from the provisions of the Parent - Subsidiary Directive, provided the required conditions are satisfied under the local legislation of the relevant EU country, with payment of dividend from any other member state to be free of withholding tax.
  - ◆ There are no substance requirements, no debt-equity restrictions, no minimum holding period and no thin capitalization rules relating to deduction of interest.

The benefits of using a Cyprus Holding Company are demonstrated by the illustrations below:

## Illustration 1

The use of a Cyprus Holding Company with direct and indirect holding in trading companies.



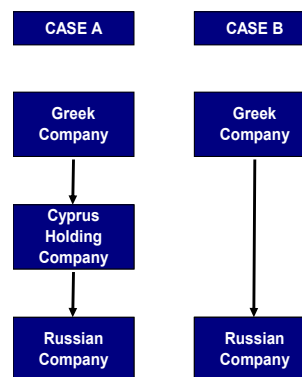
- ◆ Dividend received is exempt from taxation if the holding company holds shares directly in a trading company A or Intermediate Holding Company.
- ◆ Subsidiaries can be resident anywhere.
- ◆ If subsidiary A is resident in the EU then no withholding tax from paying subsidiary based on EU Parent - Subsidiary Directive.
- ◆ If subsidiary A is outside the EU then Cyprus Double Tax treaties come into effect.
- ◆ Additionally the Group can take advantage of the Double Tax Treaties of the non-Cypriot Intermediate Holding Company.

## Conclusion - Who can benefit?

- ◆ EU residents who currently have holding companies outside the EU.
- ◆ EU residents with subsidiaries outside the EU if can utilise the Double Tax Treaties of Cyprus.
- ◆ Non-EU residents with subsidiaries in the EU.
- ◆ Non EU residents with subsidiaries outside the EU utilising the Double Tax Treaties of Cyprus or the Intermediate Holding Company.

## Illustration 2:

A Greek Company uses a Cyprus Company as a holding Company for the Russian Company (Case A) instead of having a direct investment in the Russian Company (Case B) **realising a 19,25% benefit on Net Profit before tax.**



	Case A Using CHC	Case B direct
Net profit after tax	100.000	100.000
Withholding tax at 5% / 20%	-5.000	-20.000
Net dividend received	95.000	80.000
Cyprus Corporation tax 10% (n/a for profits earned from a permanent establishment abroad)	0	n/a
	95.000	80.000
Withholding tax 0%	0	n/a
Net dividend received in Greece	95.000	80.000
Tax in Greece (max as per treaty 25%), 35%	-23.750	-28.000
Net Income	71.250	52.000