



Michalis Avraam
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AUDITORS AND BUSINESS ADVISORS

The Cyprus Holding Company



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Cyprus is widely recognised as one of the most beneficial holding company jurisdictions and continues to be one of the largest source of investments into the Russian Federation. Being an EU member state since 2004 and in full compliance with OECD requirements, Cyprus represents an ideal gateway for investments between the EU and Eastern Europe/Asia.

The attractiveness of Cyprus as a holding company jurisdiction is the result of a number of factors which are hereby analysed:

- **Ability to receive dividends at low or zero withholding tax rates**
- **Non taxation of dividends received**
- **Non taxation of profits from the sale of “titles”**
- **Tax free distribution of dividends to its non resident shareholders**
- **Other tax considerations and incentives**

Ability to Receive Dividends at Low or Zero Withholding Tax Rates

Cyprus holding company has the ability to extract foreign sourced dividends from its subsidiaries at zero or low tax rates. This is achieved through:

- Cyprus’s extensive Double Tax Treaty network can be utilised to avoid double taxation of the same profits in respect of the same person or entity
- EU Parent Subsidiary Directive exempts the withholding tax deduction on dividends and other profit distributions paid by EU subsidiary companies to their EU parent companies and eliminates double taxation of dividend income at the level of the parent company. The main criterion that needs to be met is that the parent holds at least 10% of the share capital of the subsidiary
- Unilateral Tax Credit Relief is granted to Cyprus companies for any withholding tax or other tax paid on the particular income abroad, thus reducing or eliminating the Cyprus tax bill



Non Taxation of Dividends Received

Cyprus holding company rarely pays tax on the dividends that it receives from its subsidiaries, as indicated below:

Taxation	
Income Tax	Exempt
Special Defence Contribution Tax	17% ^{1,2,3}

Notes:

- 1) Dividends received by a Cyprus resident company, or a company not resident in Cyprus but which maintains a permanent establishment in Cyprus, from a non-resident company are not subject to tax, unless:
 - the non-resident company paying the dividend engages more than 50% in activities that lead to investment income (passive income), and
 - the foreign tax burden on the income of the non-resident company paying the dividend is substantially lower than the tax burden of the resident company that receives the dividend (i.e. the foreign tax burden is lower than 5%)

In case the above conditions are applicable, thus dividends will be taxable in Cyprus under Special defence contribution tax, the tax bill can be reduced through:

- Application of underlying tax provisions included in the Double Tax Treaties: tax credit is given in Cyprus for any foreign tax paid on profits by the company paying the dividends
 - Application of unilateral tax credit relief: tax credit is given for any withholding foreign tax paid on dividends
- 2) Dividends received by Cyprus resident company from another Cyprus resident company are not subject to special defence contribution tax, excluding dividends paid indirectly after 4 years from the end of the year in which the profits which were distributed as dividends arose
 - 3) Dividends received directly or indirectly from dividends on which defence contribution has already been paid are exempt

Non Taxation of Profits from the Sale of Titles

Taxation	
Income Tax	Exempt ^{1,2}
Capital Gains Tax	Exempt ³

Notes:

- 1) The list of qualifying securities accepted by the tax authorities as "titles" includes: shares, bonds, debentures, options / futures / forwards / swaps / depositary receipts / index participations / repos on titles, units in open-ended or closed-ended collective investment schemes
- 2) Bills of exchange, promissory notes, currencies and commodities are not considered as "titles" by the Cyprus Inland Revenue Department, hence profits from their trading will be included in taxable income of the company that is subject to income tax
- 3) In case Cyprus resident company (whose shares are being sold) is the owner of immovable property in Cyprus, there will be capital gains tax of 20% on profit arising from sale, calculated in accordance with the provisions of the Capital Gains Tax legislation



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Tax Free Distribution of Dividends to Non-Resident Shareholders

Non-Cyprus resident shareholders:

- Dividends payable by a Cyprus resident company to its non Cyprus resident shareholders (individuals or corporations), irrespective of whether they hold the shares directly or through nominees, are not subject to withholding tax in Cyprus
- Deemed distribution of dividends does not apply in case the shareholders are non Cyprus residents, irrespective of whether they hold the shares directly or through nominees

Cyprus resident shareholders:

- Dividends paid by Cyprus resident company to another Cyprus resident company are not subject to withholding tax excluding dividends paid indirectly after 4 years from the end of the year in which the profits which were distributed as dividends arose
- Dividends paid by Cyprus resident company to physical person (resident in Cyprus) are subject to 20% special defence contribution tax
- The special defence contribution legislation provides for the deemed distribution of dividends every two years, only to the extent of Cyprus tax resident shareholders (companies and individuals)

Other Tax Considerations and Incentives

- The existence of flexible re-organisation rules, group relief and possibility of losses to be carried forward (losses can be carried forward indefinitely)
- No Controlled Foreign Company (CFC) rules
- No thin capitalisation provisions
- Possibility of re-domiciliation to other jurisdictions
- Possibility as to the listing in international Stock Exchanges
- Favourable provisions as to the taxation of interest and royalties
- No withholding taxes on interest and royalties: No withholding taxes on payment of interest to non-residents. No withholding taxes on payment of royalties arising from sources outside Cyprus
- Taxation of trading income at lowest EU rate of 12,5% on net profits (10% up to 31/12/2012)
- Cyprus allows for the establishment and maintenance of companies at substantially lower set-up and annual operational costs in comparison with other jurisdictions
- Excellent accounting, legal and banking professional services infrastructure

Michalis Avraam & Partners Limited has taken all reasonable care to ensure that this leaflet is accurate. The information contained is designed as a general guide and readers are advised to verify this information to ensure that it applies in their particular circumstances.

For specialist advice or further clarifications you may contact one of our professional consultants.

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