



# The Cyprus Holding Company:

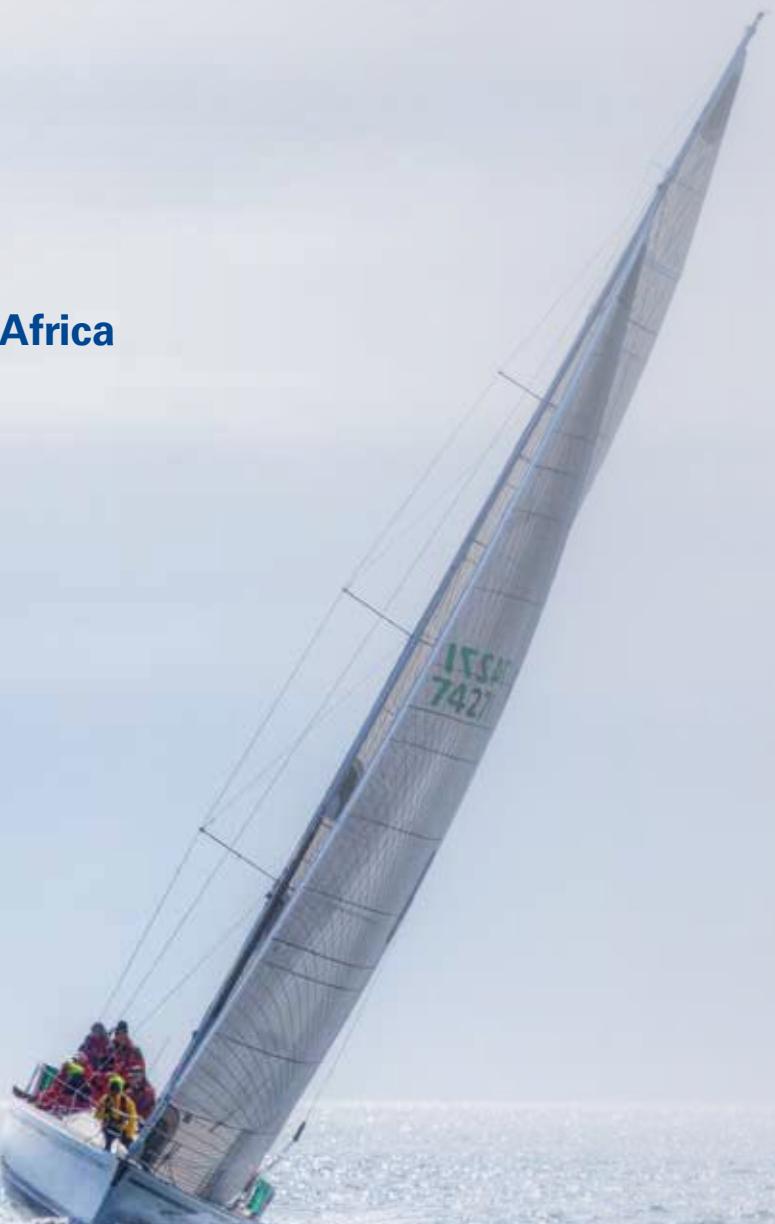
**A gateway to Europe, Asia, Africa  
and the Middle East**

Tax Services

October 2019

---

[kpmg.com.cy](http://kpmg.com.cy)





# Table of contents

|                                      |    |
|--------------------------------------|----|
| The Cyprus Holding Company           | 3  |
| Corporate Tax provisions             | 4  |
| Other taxes                          | 6  |
| Other considerations                 | 8  |
| Tax Treaties: withholding tax tables | 9  |
| Cyprus Holding matrix                | 12 |



# The Cyprus Holding Company

Cyprus is a full member of the European Union and a member of the Eurozone. Strategically positioned to connect Europe to Africa, the Middle East and Asia, Cyprus is a natural hub for business and trade.

The recent political and social upheaval in the Eastern Mediterranean basin, which has spilled over the wider area of the Middle East, in combination with the political and economic uncertainty in the greater region, not only upgrade the strategic position and geopolitical role of Cyprus in this part of the world, but also they render Cyprus a symbol of security and stability, in its capacity as the Easternmost border of Europe.

In the last decades, Cyprus has established itself as a reputable and trust-worthy financial centre complemented by an advanced legal, accounting and banking system, highly skilled and multilingual workforce, excellent telecommunications infrastructure and convenient year round flight connections.

The Cyprus tax legislation is fully compliant with the EU Acquis Communautaire and all EU Tax Directives. It is in full compliance with the EU Code of Conduct for Business Taxation and against harmful tax competition and has been recently rated as "largely compliant" by the OECD-hosted Global Forum on transparency and exchange of information for tax purposes. Cyprus has in

this spirit, assumed the status of an early adopter under the Common Reporting Standard initiative.

Aspiring to become the jurisdiction of choice, Cyprus offers one of the lowest corporate rates in the EU, combined with a notional interest deduction on newly introduced equity and a fully reformed Intangible Property regime in line with OECD's Base Erosion Profit Shifting (BEPS) action plan and the nexus principle.

KPMG operates in Cyprus since 1948 and currently employs more than 900 professionals working from 6 different offices around the country.

We are a member of the global network of KPMG, one of the world's largest professional firms providing Audit, Tax and Advisory services, employing 207.000 people in 153 countries and territories. Our clients look to KPMG for a consistent standard of service based on high order professional capabilities, industry insight, local knowledge and expertise.

Join us and experience at first hand a wider spectrum of opportunities available to you and your business.

**George Markides**  
Board Member, Head of Tax

# Corporate Tax provisions

## Tax residency

A company is considered to be a tax resident of Cyprus if the management and control function is exercised in Cyprus.

## Corporate tax

Trading profits are taxed at the rate of 12,5%, one of the lowest corporate income tax rates in Europe.

## Notional interest deduction (NID)

The NID is available on equity issued by a Cyprus company on or after 1<sup>st</sup> January 2015 and used in the business for the purpose of generating taxable income. It is calculated by multiplying the new equity amount by a so called "reference" interest rate. The reference interest rate is equal to the yield of the 10-year Governmental bond of the country in which the new capital is invested, plus 3%. The NID is deductible against the company's taxable profits that arise as a result of the newly introduced capital and cannot exceed 80% of the taxable profit, as calculated before allowing for this deduction.

## Interest Income

Active interest income (interest income effectively connected with the carrying on of a trade or business) is subject to the corporate income tax rate of 12,5%, as any other income.

Passive interest income, (income not connected to a trade or business), is exempt from corporate income tax and instead it is taxed separately at the Special Contribution for Defence

(SDC ) at the rate of 30% on a gross basis.

## Dividends

### Inter-company dividends

A Cyprus tax resident company is exempt from tax when receiving dividends from another Cyprus tax resident company, provided the dividend is not indirectly received after the expiry of a four year period, from the end of the year to which the profits giving rise to the dividend relate.

### Dividends received from abroad

Dividends received from abroad by a Cyprus tax resident company are exempt from corporate income tax, provided they are not allowed as a tax deduction in the jurisdiction of the foreign paying company.

Dividends received from abroad are also exempt from Special Contribution for Defense (SDC), if one of the following conditions is satisfied:

1. The company paying the dividend does not engage more than 50% directly or indirectly in activities which lead to passive income (active vs passive test)  
OR
2. The foreign tax burden on the income of the company paying the dividend is not substantially lower than the tax burden in Cyprus (effective tax rate test). If neither of the above conditions is satisfied, then dividends received from abroad are taxed at the SDC level at the rate of 17%.

## Royalties

If the intangible property right is granted to a Cyprus company for use outside Cyprus, then there is no withholding tax and the corporate tax rate (12,5%) is applied only on the royalty income left in the Cyprus Company. Gross amounts of royalties from sources within Cyprus by a company which is not a tax resident of Cyprus are liable to 5% withholding tax on film royalties and 10% withholding tax on any other royalties, unless a lower rate applies under a DTA (for income received from qualifying IP assets, see below).

## Intellectual property rights (IPR)

A new IP regime is in place as from July 1<sup>st</sup> 2016, fully aligned with BEPS Action 5 and the Nexus principle.

Profits from qualifying intangible assets are entitled to an 80% deduction, calculated as per the statutory formula set in line with the Nexus principle. The resulting effective tax rate will always be 2,5% or less.

A tax payer may elect to claim all or part of the available deduction for a particular year.

In the event of a loss, only 20% of that loss can be offset against income from other sources or be carried forward to be offset against income of the following tax years.

Transitional arrangements have also been introduced, allowing the provisions of the old IP regime to continue to apply up and until the 30<sup>th</sup> June 2021.

## **Tax credit availability**

A tax credit will be afforded, according to the Double Taxation Agreements (DTAs) concluded by Cyprus. In the absence of a DTA, Cyprus unilaterally affords a credit for the foreign tax, paid up to the amount of tax that would have been payable in Cyprus on the same income. For dividends received from EU Member States, the underlying tax credit is also available.

## **Withholding taxes**

There are no withholding taxes on payments to non tax resident persons, other than royalties derived from sources in Cyprus by a company which is not a tax resident of Cyprus.

## **Offshore drilling activities**

A 5% withholding tax is levied on the remuneration derived by a non tax resident person with no permanent establishment in Cyprus, as a result of the provision of services within Cyprus in relation to the extraction, exploration or use of the continental shelf, as well as the establishment and use of pipelines and other installations on the ground, on the seabed and on the surface of the sea.

## **Foreign Permanent Establishments (PE's)**

The profit of a foreign PE of a Cyprus holding company is exempt from corporate tax in Cyprus, if one of the following two conditions is satisfied:

1. The PE must not engage more than 50%, directly or indirectly, in activities which lead to passive income
- OR
2. The foreign tax burden imposed at the level of the PE is not substantially lower than the tax burden in Cyprus.

A person may elect that the profits of its foreign PE are not exempt from taxation in Cyprus, but taxed in accordance with the provisions of the Cyprus tax legislation. A tax credit for foreign tax paid abroad will be afforded in Cyprus, up to the level of the Cyprus tax payable arising on such profits.

The PE exemption method will retain the default position in the absence of an election.

## **Trading in securities**

Any income arising from trading in "securities" is completely exempt from tax. The term securities includes but is not limited to: ordinary and preference shares, founder's shares, options on titles, debentures, bonds, short positions on titles, futures/forwards on titles, swaps on titles, depositary receipts on titles, rights of claims on bonds and debentures, index participations (only if they result in titles), repurchase agreements or Repos on titles, participations in companies, units in open-end or closed-end collective investment schemes such as Mutual Funds, International Collective Investment Schemes (ICIS) and Undertakings for Collective Investments in Transferable Securities (UCITS).

## **Tax losses**

Group relief is allowed for at least seventy-five percent (75%) group holdings and is applicable only on current year's results, assuming claimants are Cyprus tax resident companies and members of the same group for the whole tax year.

Losses that cannot be utilised in the current year are carried forward for a period of five (5) years, commencing from the end of the year to which the losses relate.

As of January 1<sup>st</sup> 2015, cross border group relief is allowed, under the assumption that the subsidiary company surrendering the losses is resident in the EU and that all other possibilities for utilising such losses have been exhausted.

## **Business entertainment**

Expenses incurred in the course of business entertainment are generally tax deductible whilst being subject to a cap at the rate of 1% of gross income with a maximum amount of €17.086.

## **FOREX differences**

Foreign exchange (FX) gains or losses will be tax exempt/not tax deductible irrespective of whether they are realised or unrealised. The exemption will not apply to companies that are trading in currencies and currency derivatives. Such companies irrevocably elect for unrealised gains/losses not to be taxed/tax deducted accordingly.

## **Acquisition costs**

Any interest expense incurred for the 100% direct or indirect acquisition of shares in a company will be deductible for tax purposes, provided that the assets of the company acquired do not include any assets that are not used in the business.

## **Interest limitation rule**

As from 1<sup>st</sup> January 2019 exceeding borrowing costs (EBC)\* shall be deductible only up to 30% of the taxpayer's earnings before interest, tax, depreciation and amortisation (EBITDA).

Not captured by the rule:

- EBC up to EUR 3.000.000
- Standalone entities and financial undertakings
- Loans concluded before 17 June 2016

\* EBC is the amount by which tax deductible borrowing costs exceed taxable interest income.

# Other taxes

## **Controlled Foreign Companies**

### **rules (CFC)**

As from 1<sup>st</sup> January 2019, income derived by foreign subsidiaries or permanent establishments of Cyprus companies may in certain circumstances be taxed in Cyprus. The rules specifically refer to non-distributed income of the CFC, which arises from non-genuine arrangements which have been put in place for the purposes of obtaining tax advantage.

### **Capital gains tax (CGT)**

Capital gains are not included in the ordinary trading profits of a business, but instead are taxed separately under the Capital Gains Tax Law.

CGT is only imposed on the sale of immovable property situated in Cyprus, as well as on the sale of shares directly or indirectly held in companies (other than listed shares) in which the underlying asset is immovable property situated in Cyprus. CGT is imposed at a flat rate of twenty percent (20%), after allowing for indexation on cost.

### **Inheritance or estate taxes**

There are no inheritance or estate taxes.

### **Wealth taxes**

Cyprus imposes no tax on wealth.

### **Exit taxes**

As from 1<sup>st</sup> January 2020, exit tax on relocation of assets will be transposed in the Cyprus Income Tax Law. There are no taxes on the sale of shares or upon liquidation of a Cyprus company and no withholding tax upon the repatriation of profits / proceeds to the non - resident shareholders.

### **VAT**

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 obligation 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. The right to claim input VAT depends on the types of activities (besides the holding of investments the company is involved in) and where these activities take place.



# Other considerations

## **EU Directives**

Cyprus has fully adopted in its legislation all EU Tax related Directives including the Parent- Subsidiary, the Interest and Royalties, the Merger Directive, the Directive on Administrative Cooperation in the field of Direct Taxation and most recently the Anti-Tax Avoidance Directive (ATAD).

## **Transfer pricing**

As from the 1<sup>st</sup> of July 2017 the arm's length principle must apply to all intra group back-to-back financing arrangements.

An appropriate transfer pricing analysis must be carried out in order to determine the applicable arm's length remuneration. Under certain conditions, entities carrying out a purely intermediary activity may opt for a Simplification Measure (resulting to a minimum return of 2% after tax on assets).

Cyprus is in the late stages of adopting transfer pricing legislation (covering all types of transactions) that meets the

standards set in the OECD transfer pricing guidelines.

## **Re-domiciliation**

Re-domiciliation of companies in and out of Cyprus is possible.

## **Double tax agreements (DTA's)**

Cyprus has currently concluded over 65 DTAs covering the overwhelming majority of the European countries, the United States of America, Canada, India, China, Russia, Switzerland and the C.I.S. countries.

## **Annual corporate levy**

Every company registered in Cyprus is subject to an annual levy of €350.

In case of corporate groups, the total annual levy due for the group is capped at €20.000.

## **Stamp duty**

Stamp duty is due on written documents addressing Cyprus situated property or cases where the subject matter of the transaction is in Cyprus, irrespective of the place where the agreement is signed.

Agreements with a value of up to €5.000 are not subject to stamp duty.

Agreements with a value in excess of €5.000 and up to €170.000 are subject to stamp duty tax of 0,15%. Any amount in excess of €170.000 is subject to stamp duty tax at the rate of 0,20%. Maximum stamp duty per agreement is €20.000. The duty is payable within 30 days from the day of signing the agreement.

## **Tax rulings practice exists**

It is possible to request and obtain in advance a tax ruling from the Tax Authorities.



# Tax treaties: withholding tax tables

**The following tables give a summary of the withholding taxes provided for in the double tax treaties entered into by Cyprus.**

| Cyprus Companies            | Effective Date  | PAID FROM CYPRUS (1) |            |             | RECEIVED IN CYPRUS |              |              |
|-----------------------------|-----------------|----------------------|------------|-------------|--------------------|--------------|--------------|
|                             |                 | Dividends %          | Interest % | Royalties % | Dividends %        | Interest %   | Royalties %  |
| <b>Treaty countries</b>     |                 | 0                    | 0          | 0 (2)       | Treaty rates       | Treaty rates | Treaty rates |
| Andorra                     | 01/01/2020      | 0                    | 0          | 0           | 0                  | 0            | 0            |
| Armenia                     | 01/01/2012      | 0(27)                | 5(6)       | 5           | 0(27)              | 5(6)         | 5            |
| Austria                     | 01/01/1991 (31) | 0                    | 0          | 0           | 10                 | 0            | 0            |
| Azerbaijan (55)             | 01/01/1983      | 0                    | 0          | 0           | 0                  | 0            | 0            |
| Bahrain                     | 01/01/2017      | 0                    | 0          | 0           | 0                  | 0            | 0            |
| Barbados                    | 01/01/2018      | 0                    | 0          | 0           | 0                  | 0            | 0            |
| Belarus                     | 01/01/2000      | 5 (17)               | 5          | 5           | 5(17)              | 5            | 5            |
| Belgium                     | 01/01/2000      | 10 (8)               | 10 (6,18)  | 0           | 10 (8)             | 10 (6,18)    | 0            |
| Bosnia and Herzegovina (25) | 01/01/1987      | 0                    | 10         | 10          | 10                 | 10           | 10           |
| Bulgaria                    | 01/01/2002      | 5 (22)               | 7 (6)      | 10          | 5 (22)             | 7 (6, 23)    | 10 (23)      |
| Canada                      | 01/01/1985      | 0                    | 15 (4)     | 10 (5)      | 15                 | 15 (4)       | 10 (5)       |
| China                       | 01/01/1992      | 0                    | 10         | 10          | 10                 | 10           | 10           |
| Czech Republic              | 01/01/2010      | 5 (28)               | 0          | 10          | 5 (28)             | 0            | 10           |
| Denmark                     | 01/01/2012      | 15 (29)              | 0          | 0           | 15 (29)            | 0            | 0            |
| Egypt                       | 01/01/1996      | 15                   | 15         | 10          | 15                 | 15           | 10           |
| Ethiopia                    | 01/01/2018 (65) | 5                    | 5 (51)     | 5           | 5                  | 5 (51)       | 5            |
| Estonia                     | 01/01/2014      | 0                    | 0          | 0           | 0                  | 0            | 0            |
| Finland                     | 01/01/2014      | 5 (9)                | 0          | 0           | 5 (9)              | 0            | 0            |
| France                      | 28/01/1983      | 0                    | 10 (10)    | 0 (3)       | 10 (9)             | 10 (10)      | 0 (3)        |
| Georgia                     | 01/01/2017      | 0                    | 0          | 0           | 0                  | 0            | 0            |
| Germany                     | 01/01/2012      | 5 (30)               | 0          | 0           | 5 (30)             | 0            | 0            |
| Greece                      | 01/01/1967      | 25                   | 10         | 0 (12)      | 25 (11)            | 10           | 0 (12)       |
| Guernsey                    | 01/01/2016      | 0                    | 0          | 0           | 0                  | 0            | 0            |
| Hungary                     | 01/01/1982      | 0                    | 10 (6)     | 0           | 5 (46)             | 10 (6)       | 0            |
| Iceland                     | 01/01/2015      | 5(49)                | 0          | 5           | 5(49)              | 0            | 5            |
| India                       | 01/01/2017 (32) | 10                   | 10 (10)    | 10          | 10                 | 10 (10)      | 10           |
| Iran                        | 01/01/2018      | 5(22)                | 5 (10)     | 6           | 5(22)              | 5 (10)       | 6            |
| Ireland                     | 01/01/1962 (33) | 0                    | 0          | 0 (12)      | 0                  | 0            | 0 (12)       |
| Italy (34)                  | 01/01/1970      | 0                    | 10         | 0           | 15                 | 10           | 0            |
| Jersey                      | 01/01/2018      | 0                    | 0          | 0           | 0                  | 0            | 0            |
| Kazakhstan                  | (44)            | 5 (54)               | 10 (10)    | 10          | 5 (54)             | 10 (10)      | 10           |
| Kuwait                      | 01/01/2014      | 0                    | 0          | 5           | 0                  | 0            | 5            |
| Kyrgyzstan (55)             | 01/01/1983      | 0                    | 0          | 0           | 0                  | 0            | 0            |
| Latvia                      | 01/01/2017      | 0 (56)               | 0 (56)     | 0 (57)      | 0 (56)             | 0 (56)       | 0 (57)       |
| Lebanon                     | 01/01/2006      | 5                    | 5          | 0           | 5                  | 5            | 0            |
| Lithuania                   | 01/01/2015      | 0 (45)               | 0          | 5           | 0 (45)             | 0            | 5            |
| Luxembourg                  | 01/01/2019      | 0 (58)               | 0          | 0           | 0 (58)             | 0            | 0            |
| Malta                       | 01/01/1994      | 15                   | 10 (10)    | 10          | (47)               | 10 (10)      | 10           |

# Tax treaties: withholding tax tables

Con.

| Cyprus Companies        | Effective Date  | PAID FROM CYPRUS (1) |            |             | RECEIVED IN CYPRUS |              |              |
|-------------------------|-----------------|----------------------|------------|-------------|--------------------|--------------|--------------|
|                         |                 | Dividends %          | Interest % | Royalties % | Dividends %        | Interest %   | Royalties %  |
| <b>Treaty countries</b> |                 | 0                    | 0          | 0 (2)       | Treaty rates       | Treaty rates | Treaty rates |
| Mauritius               | 01/01/2001 (62) | 0                    | 0          | 0           | 0                  | 0            | 0            |
| Moldova                 | 01/01/2009      | 5 (22)               | 5          | 5           | 5(22)              | 5            | 5            |
| Montenegro (25)         | 01/01/1987      | 0                    | 10         | 10          | 10                 | 10           | 10           |
| Norway (35)             | 01/01/2015      | 0 (13,30)            | 0          | 0           | 0 (13,30)          | 0            | 0            |
| Poland (36)             | 01/01/2013      | 0 (37)               | 5 (6)      | 5           | 0 (37)             | 5 (6)        | 5            |
| Portugal                | 01/01/2014      | 10                   | 10         | 10          | 10                 | 10           | 10           |
| Qatar                   | 01/01/2010      | 0                    | 0          | 5           | 0                  | 0            | 5            |
| Romania                 | 01/01/1983      | 10                   | 10 (6)     | 5 (7)       | 10                 | 10 (6)       | 5 (7)        |
| Russia                  | 01/01/2000 (38) | 5 (16)               | 0          | 0           | 5 (16)             | 0            | 0            |
| San Marino              | 01/01/2008 (63) | 0                    | 0          | 0           | 0                  | 0            | 0            |
| Saudi Arabia            | 01/01/2020      | 0 (59)               | 0          | 5 (60)      | 0 (59)             | 0            | 5 (60)       |
| Serbia (25)             | 01/01/1987      | 0                    | 10         | 10          | 10                 | 10           | 10           |
| Seychelles              | 01/01/2007      | 0                    | 0          | 5           | 0                  | 0            | 5            |
| Singapore               | 01/01/2002      | 0                    | 10 (6,24)  | 10          | 0                  | 10 (6,24)    | 10           |
| Slovakia (39)           | 01/01/1981      | 0                    | 10 (6)     | 5 (7)       | 0                  | 10 (6)       | 5 (7)        |
| Slovenia                | 01/01/2012      | 5                    | 5 (6)      | 5           | 5                  | 5 (6)        | 5            |
| South Africa (50)       | 01/01/1999 (52) | 5 (40)               | 0          | 0           | 0                  | 0            | 0            |
| Spain                   | 01/01/2015      | 0 (43)               | 0          | 0           | 0 (43)             | 0            | 0            |
| Sweden                  | 01/01/1988      | 0                    | 10 (6)     | 0           | 5 (46)             | 10 (6)       | 0            |
| Switzerland             | 01/01/2016      | 15(29)               | 0          | 0           | 15(29)             | 0            | 0            |
| Syria                   | 01/01/1996      | 0 (46)               | 10 (6)     | 15 (26)     | 0 (46)             | 10 (6)       | 15 (26)      |
| Thailand                | 01/01/2001      | 10                   | 15 (6,20)  | 5 (21)      | 10                 | 15 (6,20)    | 5 (21)       |
| Ukraine (19)            | 01/01/2014 (53) | 5 (41)               | 2          | 10 (42)     | 5 (41)             | 2            | 10 (42)      |
| U.A.E                   | 01/01/2014      | 0                    | 0          | 0           | 0                  | 0            | 0            |
| United Kingdom          | 01/01/2019 (64) | 0 (61)               | 0          | 0           | 0 (61)             | 0            | 0            |
| USA                     | 01/01/1986      | 0                    | 10 (10)    | 0           | 5 (48)             | 10 (10)      | 0            |
| Uzbekistan (55)         | 01/01/1983      | 0                    | 0          | 0           | 0                  | 0            | 0            |

## Notes:

- 1) Under Cyprus legislation there is no withholding tax on dividends, interests and royalties paid to non-Residents of Cyprus.
- 2) In case where royalties are earned on rights used within Cyprus, there is a withholding tax of 10%.
- 3) 5% on film and TV royalties.
- 4) 0% if paid to a Government or for export guarantee.
- 5) 0% on literary, dramatic, musical or artistic work.
- 6) 0% if paid to the Government of the other State.
- 7) This rate applies for patents, trademarks, designs or models, plans, secret formulas or processes, or any industrial, commercial or scientific equipment, or for information concerning industrial, commercial or scientific experience.
- 8) 15% if received by an individual or if received by a company controlling directly or indirectly less than 25% of the capital of the paying company.
- 9) 15% if received by an individual or if received by a company directly controlling less than 10% of the voting power.
- 10) 0% if paid to a Government bank or financial institution.
- 11) The treaty provides for withholding taxes on dividends but Greece does not impose any withholding tax in accordance with its own legislation.
- 12) 5% on film royalties (apart from films broadcasted on television).
- 13) 5% if received by a person controlling less than 50% of the voting power.
- 14) 0% if recipient is a company which alone or together with associated companies control directly or indirectly at least 10% of voting power.
- 15) 10% for payments of a technical, managerial or consulting nature.
- 16) 10% if dividend paid by a company in which the beneficial owner has invested less than EUR 100,000.
- 17) If the investment is less than EUR 200,000, dividends are subject to 15% withholding tax which is reduced to 10% if the recipient is the beneficial owner and directly controls 25% or more of the share capital of the paying company.
- 18) No withholding tax for interest on deposits with banking institutions.
- 19) The old USSR/Cyprus treaty was applicable until 31/12/2013. From January 1st 2014, the provisions of the Ukraine-Cyprus Double Tax Treaty entered into force.
- 20) 10% on interest received by a financial institution or when it relates to sale on credit of any industrial, commercial or scientific equipment or of merchandise.
- 21) This rate applies for any copyright of literary, dramatic, musical, artistic or scientific work. A 10% rate applies for industrial, commercial or scientific equipment. A 15% rate applies for patents, trademarks, designs or models, plans, secret formulae or processes.
- 22) This rate applies to companies holding directly at least 25% of the share capital of the company paying the dividend. In all other cases the withholding tax is 10%.
- 23) This rate does not apply if the payment is made to a Cyprus international business entity by a resident of Bulgaria owning directly or indirectly at least 25% of the share capital of the Cyprus entity.
- 24) 7% if paid to a bank or financial institution.
- 25) Montenegro, Serbia and Bosnia and Herzegovina apply the Yugoslavia/Cyprus treaty.

- 26) A rate of 10% applies to copyrights on literary, artistic and scientific work including cinematograph films, and films or tapes for television or radio broadcasting.
- 27) The 0% is applicable if the beneficial owner has invested in the capital of the company not less than the equivalent of EUR 150.000 at the time of the investment. In all other cases the rate is 5%.
- 28) 0% if dividends received and beneficially held by a company directly holding at least 10% of the capital of the company paying the dividends for an uninterrupted period of at least 1 year.
- 29) 0% of the gross amount of the dividends 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, 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 or 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, recognised for tax purposes and controlled in accordance with the laws of that other State.
- 30) 15% if received by an individual or if received by a company directly holding less than 10% of the share capital of the company paying the dividends.
- 31) A Protocol signed on 21 May 2012 entered into force on 11 January 2013 and is effective as of 1 January 2014. The Protocol introduces new provisions on exchange of information but does not amend the existing withholding rates set by the original Treaty.
- 32) The provisions of the Treaty enter into force on 01/01/2017 for Cyprus and 01/04/2017 for India.
- 33) The provisions of the Treaty enter into force on 01/01/1962 for Cyprus and 01/04/1962 for Ireland.
- 34) An amending Protocol, signed on 4 June 2009, entered into force on 23 November 2010. The Protocol introduces clarifications as to the elimination of double taxation and further new provisions on exchange of information but does not amend the existing withholding rates set by the original Treaty.
- 35) In force until 31/12/2014, the Convention of 2 May 1951 concluded between Norway and the United Kingdom had been extended by Exchange of Notes, in accordance with Article 20, to Cyprus. A new DTT has been signed between Cyprus and Norway on 5 December 2013 and is in force as of January 1, 2015.
- 36) An amending Protocol, signed on 22 March 2012, entered into force on 9 November 2012. The Protocol introduces among others new rates for dividend and interest as well as further amendments to the initial Treaty; the withholding rates outlined herein refer to the new rates introduced by the Protocol.
- 37) The 0% is applicable if the beneficial owner hold directly at least 10% of the capital of the company paying the dividend for an uninterrupted period of 24 months. In all other cases the rate is 5%.
- 38) An amending Protocol, signed on 7 October 2010, entered into force on 2 April 2012. The provisions of the Protocol are effective as of 1 January 2013 with the exception of 1 January 2017 (Provisions on "Gains from Alienation of Property") and the provisions on "Assistance in Collection" that will generally apply upon the introduction of the necessary legal basis by Cyprus. The Protocol introduces among others, new exchange of information provisions but does not amend the existing withholding rates set by the original Treaty.
- 39) In an Exchange of Letters dated 10 December 1999 and 10 January 2000, Cyprus and the Slovak Republic agreed to continue to apply the Czechoslovak treaty of 15 April 1980 in relations between the two states.
- 40) 5% if the beneficial owner is a company which holds at least 10% of the capital of the company paying the dividends; 10% in all other cases.
- 41) The 5% applies where the company receiving the dividend owns at least 20% in the capital of the paying company or has invested an amount of at least EUR100.000. In all other cases, a 15% withholding shall apply.
- 42) A reduced 5% withholding tax in respect of the use or the right to use any copyright of scientific work, patent, trade mark, secret formula, process or information concerning industrial, commercial or scientific experience should apply. In all other cases, a general withholding tax on royalties of 10% applies.
- 43) 5% if the recipient is an individual or if the recipient is a company directly holding less than 10% of the capital.
- 44) Pending completion of the ratification process by Kazakhstan.
- 45) This rate applies to companies who are the beneficial owners of the dividend and hold directly at least 10% of the share capital of the company paying the dividend. In all other cases, the withholding tax is 5%.
- 46) 15% if received by an individual or if received by a company controlling directly less than 25% of the capital of the paying company.
- 47) Where the dividends are paid by a company which is a resident of Malta to a resident of Cyprus who is the beneficial owner thereof Malta tax on the gross amount of the dividends shall not exceed that chargeable on the profits out of which the dividends are paid.
- 48) To be entitled to this rate (a) must be a corporation, AND (b) minimum 10% ownership of the outstanding shares of the voting stock during the part of the paying corporation's taxable year which precedes the date of payment of the dividend and during the whole of its prior taxable year (if any), AND (c) not more than 25% of the gross income of the corporation paying the dividends (for such prior taxable year (if any)) consists of interest/dividends (other than interest derived from the conduct of a banking, insurance, or financing business and dividends / interest received from subsidiary corporation, 50% or more of the outstanding shares of the voting stock of which is owned by the paying corporation at the time such dividends / interest is received). Otherwise a 15% WHT rate applies.
- 49) 10% if received by an individual or if received by a company controlling directly less than 10% of the capital of the paying company.
- 50) A Protocol signed on 1 April 2015 introduces new rates with respect to Dividends to the Treaty. The Protocol was ratified on 20 May 2015 with an effective date of 1 April 2012 (retroactively) and it came into force as from 18 September 2015.
- 51) 0% if paid to the Government, a political subdivision or local authority or the national bank of the other state.
- 52) An amending Protocol signed on 1 April 2015, entered into force and it generally applies from 1 April 2012.
- 53) An amending Protocol, signed on 11/12/2015 has not yet entered into force (on the date of preparation of the above overview). Among other changes, the Protocol introduces new tax rates with respect to Dividends.
- 54) 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.
- 55) The treaty between the Republic of Cyprus and the Union of the Soviet Socialist Republics.
- 56) 0% if the beneficial owner is a company (other than a partnership), 10% in all other cases.
- 57) 0% if the beneficial owner is a company (other than a partnership), 5% in all other cases.
- 58) 0% 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; 5% in all other cases.
- 59) 0% if the beneficial owner is a company which holds directly or indirectly at least 25% of the capital of the company paying the dividends; 5% in all other cases.
- 60) 5% for the use of, or the right to use, industrial, commercial or scientific equipment; 8% in all other cases.
- 61) 15% rate applies to dividends paid out of income (including gains) derived directly or indirectly from immovable property by an investment vehicle which distributes most of this income annually and whose income from such immovable property is exempted from tax, other than where the beneficial owner of the dividends is a pension scheme in the other contracting state.
- 62) The provisions of the Treaty entered into force on 01/01/2001 for Cyprus and 01/07/2000 for Mauritius. On 30 April 2018 the amending Protocol which was signed on 23 October 2017 entered into force. The Protocol became effective from 1 July 2018 in respect of Mauritius and from 1 January 2019 in respect of Cyprus. The Protocol introduces new exchange of information provisions but does not amend the existing withholding rates set by the original Treaty.
- 63) On 27 June 2018 the amending Protocol which was signed on 19 May 2017 and ratified on 21 June 2018 entered into force. The Protocol became effective from 1 January 2019. The Protocol introduces new exchange of information provisions but does not amend the existing withholding rates set by the original Treaty.
- 64) Effective date: 1 January 2019 (withholding and other taxes) (Cyprus); 1 January 2019 (withholding taxes), 1 April 2019 (corporation taxes), 6 April 2019 (income and capital gains taxes) (United Kingdom).
- On 19 December 2018 the amending Protocol was concluded and on 10 July 2019 it was ratified. On the date of preparation of the above overview the Protocol was not in force. The Protocol refers to government service pensions of individuals who are not nationals of the country in which they are tax resident.
- 65) The provisions of the Treaty entered into force on 01/01/2018 for Cyprus and 08/07/2018 for Ethiopia.

# Cyprus Holding matrix

| ISSUE   | ANSWER  | ISSUE   | ANSWER   |
|---|---|---|--|
| <b>CORPORATE INCOME TAX RATE</b>  | 12,5%   | <b>TAX TREATY PROTECTION</b>  | Yes, provided management and control in Cyprus   |
| <b>NOTIONAL INTEREST DEDUCTION</b>  | Yes (up to 80% of taxable profit)   | <b>IP REGIME</b>  | Yes  |
| <b>DEDUCTION OF CAPITAL LOSSES</b> <ul style="list-style-type: none"><li>• Deductibility of unrealised capital losses (written down in value)</li><li>• Deductibility of realised capital losses</li><li>• Deductibility of amortisation of underlying goodwill</li></ul> | No  | <b>DEDUCTION OF COSTS</b> <ul style="list-style-type: none"><li>• Deductibility of interest costs</li><li>• Deductibility of acquisition costs</li><li>• Deductibility of costs on disposal</li></ul> | Yes (unless they relate to the acquisition of assets not used in the business of the company)<br>Yes (only for 100% direct and indirect acquisitions of subsidiaries with assets used in the business)<br>No |
| <b>DIVIDENDS</b> <ul style="list-style-type: none"><li>• Exemption</li><li>• Participation requirement</li><li>• Minimum holding period</li><li>• Taxation requirement:<ul style="list-style-type: none"><li>Corporation tax</li><li>SDC</li></ul></li></ul>              | Yes (under conditions)<br>No<br>No<br>No corporation tax if dividends received from abroad are not allowed as a tax deduction in the country of residency of the foreign paying company<br>No SDC if profits in subsidiary taxed > 6,25%, or passive income < 50% of total income | <b>WITHHOLDING TAX</b> <ul style="list-style-type: none"><li>• Dividends</li><li>• Interest</li><li>• Royalties</li><li>• Offshore Drilling Activities</li><li>• Liquidation Proceeds</li></ul>       | No<br>No<br>No (except for royalties derived from sources in Cyprus)<br>5%<br>No   |
| <b>CAPITAL GAINS</b> <ul style="list-style-type: none"><li>• Participation requirement</li><li>• Minimum holding period</li><li>• Taxation requirement</li></ul>  | None<br>None<br>20% capital gains tax on disposal of immovable property located in Cyprus and shares in companies holding immovable property located in Cyprus  | <b>GROUP RELIEF</b>   | Yes for companies in a 75% group structure and provided companies claiming group relief are tax residents of Cyprus for the whole year   |
| <b>TAX RULING SYSTEM</b>  | Yes   | <b>EXIT TAX</b>   | Yes, from 1.1.2020 (only on relocation of assets)  |
|   |   | <b>FOREX GAINS/LOSSES</b>   | Tax neutral (companies that are trading in currencies and currency derivatives can irrevocably elect to adjust for unrealised gains or losses)   |
|   |   | <b>CFC RULES</b>  | Yes  |

# Main contacts

## NICOSIA

### TAX SERVICES

#### **George Markides**

Board Member, Head of Tax  
**T:** +357 22 209 240  
**E:** gmarkides@kpmg.com

#### **Costas Markides**

Board Member  
**T:** +357 22 209 246  
**E:** cmarkides@kpmg.com

#### **Katia Papanicolaou**

Board Member  
**T:** +357 22 209 197  
**E:** kpapanicolaou@kpmg.com

### VAT SERVICES

#### **Haris Charalambous**

Board Member  
**T:** +357 22 209 300  
**E:** hcharalambous@kpmg.com

## LARNACA

#### **Michael Halias**

Board Member  
**T:** +357 24 200 222  
**E:** mhalios@kpmg.com

## LIMASSOL

#### **Alexandros Sofocleous**

Board Member  
**T:** +357 25 869 232  
**E:** asofocleous@kpmg.com

## PARALIMNI

#### **Paris Theophanous**

Board Member  
**T:** +357 23 820 080  
**E:** ptheofanous@kpmg.com

## PAPHOS

#### **George Andreou**

Board Member  
**T:** +357 26 943 050  
**E:** gandreou@kpmg.com

# Contact us

## Nicosia

**T:** +357 22 209 000  
**F:** +357 22 678 200  
**E:** nicosia@kpmg.com.cy

## Limassol

**T:** +357 25 869 000  
**F:** +357 25 363 842  
**E:** limassol@kpmg.com.cy

## Larnaca

**T:** +357 24 200 000  
**F:** +357 24 200 200  
**E:** larnaca@kpmg.com.cy

## Paralimni

**T:** +357 23 820 080  
**F:** +357 23 820 084  
**E:** paralimni@kpmg.com.cy

## Paphos

**T:** +357 26 943 050  
**F:** +357 26 943 062  
**E:** paphos@kpmg.com.cy

## Polis Chrysochous

**T:** +357 26 322 098  
**F:** +357 26 322 722  
**E:** paphos@kpmg.com.cy

[www.kpmg.com.cy](http://www.kpmg.com.cy)



©2019 KPMG Limited, a Cyprus limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. Printed in Cyprus.

KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative ("KPMG International") a Swiss entity.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

The views and opinions expressed herein are those of the author and do not necessarily represent the views and opinions of KPMG International Cooperative ("KPMG International") or KPMG member firms.