

# Doing Business Through a Cyprus Company

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## I. General

The Cyprus Company is a European jurisdiction Company where advantageous tax planning structures can be achieved in view of the modern and attractive tax regime and company legislation.

Further, stability and respectability gained through its European Status make the Cyprus Company the most advantageous vehicle for International Tax Planning and use.

Compared to other offshore jurisdictions facing an unstable future, unless they effect structural changes in their systems, Cyprus has made the move with the final result known and now in practice.

The Cyprus Company, with its European diversion and acceptability opens the gates to Europe. It offers a lawful way to enter Europe and also a lawful way to go out of Europe without adverse tax consequences.

## II. Taxation

In summary a Tax resident Cyprus company is taxed as follows:

### 0% tax on Dividends received

Dividends received by a Cyprus Company, on certain conditions, are free of tax making Cyprus the most competitive jurisdiction for holding companies.

### 0% withholding tax on Dividend payments

Dividends payable by a Cyprus resident company to its foreign shareholders (whether a company or individual) are not subject to any withholding tax in Cyprus.

In effect, Cyprus provides full tax exception on the payment of dividends to its nonresident shareholders and has a real advantage over the other traditional holding jurisdictions.

### Companies engaged in the trading of titles

Trading companies in shares and other securities as identified in the law may be formed with 0% taxation on profits from this trading. No capital gains tax is payable on the sale or transfer of shares. No capital gains tax is paid on the transfer of immovable property owned by a Cyprus Company abroad (outside Cyprus).





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### No estate duty is payable on the inheritance of shares

In case of the death of a shareholder there is no estate duty payable in Cyprus.

### 10% Taxation for tax resident companies.

Resident trading companies, subject to certain exceptions for holding companies, and companies trading in shares / securities pay one of the lowest taxation in Europe (10%) on their net profits.

### 0% Taxation for NON tax resident companies.

Non tax resident trading companies engaged in global international trading, may be established with 0% taxation in all respects, provided their management and control is outside Cyprus. Trading companies which are now looking for respectable jurisdictions with the EU “stamp ” have the possibility to use such a structure on their trading tax planning.

### 0% taxation on profits from foreign establishment.

A resident company is not taxed on profits received from its overseas establishment, subject to certain conditions.

### Unilateral Tax Credit Relief.

Unilateral tax credits are granted on any tax paid abroad to any foreign country, irrespective of whether Cyprus has a Double Taxation Treaty or not. In such a case the income is not taxed twice but only once.

### Trusts

International Cyprus Trusts may be established holding the shares or to be used as a vehicle for a tax structure – International trusts do not pay any taxation on their profits.

### Double Tax Treaties / International Tax planning

Cyprus has signed a considerable number of Double Taxation Treaties with various countries, to avoid the double taxation of income earned in any of the two contracting

states. Many countries have entered into such agreements with Cyprus. For the time being the countries are:

Austria	Belarus	Belgium	Bulgaria
Canada	China	Czech Republic*	Denmark
Egypt	France	Germany	Greece
Hungary	India	Ireland	Italy
Kuwait	Lebanon	Malta	Mauritius
Norway	Poland	Qatar	Romania
Russia	Seychelles	Singapore	Slovakia*
South Africa	Syria	Sweden	Thailand
United Kingdom	USA	USSR	Yugoslavia

\* Slovakia and the Czech Republic apply the treaty that was signed with the ex -Czechoslovakia.

Negotiations are in process with Armenia, Algeria, Iran, Ukraine, Sri Lanka, Lithuania, Estonia, and Latvia to enter into such Double Taxation Treaties. The Czech Republic is also in negotiations to sign a separate Double Taxation Treaty, to the one that currently applies.

## III. Other advantages of the Cyprus Company

### Re-organizations of companies

The new tax legislation has provided extensively and flexible re-organisation rules. It implemented the European Commission Merger Directive. The Cyprus legislator implemented the Directive in a very liberal approach and the Cyprus re-organisation rules are far more flexible than the EC Directive.

The re-organisations according to Cyprus Law

- apply not only to companies but also to any body of persons
- they can be made not only between Cypriot or European Union entities but equally apply to entities from non-member states
- any profits or gains made by reason of re-organisations, the transfer of property, and the transfer of shares in exchange for shares in another company are exempt from income tax.

Re-organisations include merger, de-merger, transfer of assets and exchange of shares between Cyprus resident companies and / or non-resident Cyprus companies.



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### Losses

Losses can be carried forward and set off against future profits indefinitely. There is no time limit.

### Group relief

Group relief (set off of the loss of one company with the profit of another) is allowed provided both companies of the group are tax resident in Cyprus.

The requirement of the Income Tax Law that both companies must be tax residents of Cyprus in order to apply group relief, might be in conflict with the EU Law according to the decision of the European Court of Justice (ECJ) in the court case of MARKS & SPENCER PLC against the UK Inspector of Taxes where it approved that group relief within Member States is possible.

According to this judgement foreign subsidiaries may transfer losses back to their parent company if the losses cannot be used for tax purposes in the country where they were made].

Two companies are deemed to be members of a group if:

- One company is the 75% subsidiary of the other or
- Both are 75% subsidiaries of a third company

75% subsidiary means holding either directly or indirectly at least 75% of its voting shares and beneficially entitled directly or indirectly to at least 75% of the income and 75% of the assets in case of winding up.

Group relief is available only when both companies belong to the same group for the whole financial year. Losses incurred in one year can be set off only against profits of the same year.

A partnership transferring business into a company can carry forward tax losses into the company for future utilisation.

### Controlled Foreign Company (CFC) Legislation

Cyprus does not have Controlled Foreign Company (CFC) legislation.

In effect no income is imputed to a Cyprus parent even if the income arises in a tax haven country or in respect of passive activities.

Recent decision of the European Court of Justice (ECJ) (between Cadbury Schweppes and the UK Commissioners of Income Tax) reconfirmed the tax competition within member

states and in effect established that CFC rules cannot be enforced once the subsidiary registered in a Member State is engaged in genuine economic activities.

This decision of the ECJ gives tremendous possibilities to investors and businessmen to proceed to a careful tax planning and use, for their business activities, subsidiaries situated in low tax rate countries such as Cyprus, the Tax system of which, even if it provides for low tax rates, has been strengthened by this decision.

### Thin Capitalization Rules

Cyprus tax legislation does not contain Thin Capitalization provisions, namely there are no provisions in the Law requiring the companies to maintain a particular debt to equity (particular) ratio.

In this respect, a Cyprus holding company may be capitalised with loans without any risk that interest paid at arms' length to the parent company will not be deductible.

### Re-domiciliation

Cyprus has recently enacted a new law allowing re-domiciliation of foreign companies in Cyprus and Cyprus Companies to be re-domiciled abroad.

This possibility gives tremendous flexibility to foreign holding companies which are currently using particular holding jurisdictions, which are not suitable, to move their holding companies in Cyprus without disturbing their overall structure.

### Listing in Stock Exchanges

The Cyprus Holding Company can be listed either in the Cyprus Stock Exchange or in any other reputable International Stock Exchange. Its corporate structure, which is based on the English company Law, makes it a suitable vehicle for such listing.

In order to proceed with such listing the following are required:

- transformation into public company
- engaging an adviser/broker for the preparation of the admission document, the application for listing and the carrying out of the listing process including road shows
- proceed with the listing of the shares

With Cyprus being a member of the European Union, the use of a Cyprus holding company as a vehicle for listing has the benefit of adding credibility because it applies the



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regulations and standards imposed by the Union. At the same time it can benefit from the various incentives and common platforms provided by European legislation.

Possible now to keep the register of Members abroad.

### Holding Company Financing its Group of Companies

A holding company acting as the financing vehicle of its group of companies is considered that the interest income it receives from financing the group, is closely related to its ordinary activities and this interest income will be taxed only with income tax and not Special Defence Contribution Tax.

### Financial Assistance

Financial Assistance to its shareholders to purchase its own shares is now possible.

### VAT

Holding activities fall outside the scope of the VAT in Cyprus and the Cyprus holding company engaged exclusively to holding activities is not entitled or obliged to register for VAT purposes.

Trading companies engaged in general trading, may be registered with Vat authority in Cyprus and apply relevant VAT rules which in cases of trading within European Union is mandatory.

### Withholding Taxes on Interest and Royalties

There are no withholding taxes on payments of interest to non-residents. Any interest due to non-residents is paid free of withholding taxes from Cyprus.

There are also no withholding taxes on royalties arising from sources outside Cyprus.

Royalties arising from the use of an asset in Cyprus are subject to 10% withholding tax.

### Liquidation

If a Cyprus holding company is liquidated and distributes its assets to its shareholders, in the case that the shareholders are non-residents of Cyprus then the distribution is done without any taxation on the non-resident shareholders.

## IV. Conclusion

The New Tax Legislation of Cyprus has created a unique environment for holding and trading companies. It has introduced numerous advantages making Cyprus a prime location in the international field of holding and trading regimes.

### In effect,

- the ability to receive dividends on low or zero withholding tax rate
- the non taxation of dividends received under the circumstances mentioned above
- the non taxation of profits from the sale of shares
- the tax free distribution of dividends to its non resident shareholders
- the flexible re-organization rules along with all the other tax considerations and incentives
- and the rest of the advantages mentioned above make the Cyprus Company the key player in the world regime of holding companies and also a valuable vehicle to the international investor for investments within the European Union or outside the European Union.

## V. The Future of the Cyprus Company

The tax reform has been designed to balance the future competitiveness of Cyprus as an International Business Centre and its commitments towards the European Union pending its accession. We do not predict any drastic changes to the current environment. Only positive changes step by step.

The result created a European jurisdiction where advantageous tax planning structures can be achieved.

The Cyprus Company has one of the lowest taxation in Europe and at the same time has acquired the European “stamp of respectability”.

The Cyprus Company, with its European diversion and acceptability opens the gates to Europe. In effect, it is The Gate to Europe for non-EU nationals or even the gate to move outside EU for EU and non EU Nationals.



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### Disclaimer

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### Our Firm

Kinanis LLC, Law and Consulting firm, is a multi-disciplinary practice which continues the business of Kinanis & Co established in 1983.

The firm comprises of four divisions, Corporate, Accounting, Litigation and Property, supported by various departments to meet in an effective manner the specialized needs of its corporate and private clients.

The firm is staffed with over 80 young, energetic and ambitious professionals, including lawyers, accountants and administrators who provide prompt, efficient and high quality services and who are capable of meeting the current demanding challenges of the local and international business environment.

### Contact Us

If you would like to receive further information or to contact us on any relevant matter, please contact the below persons at the respective divisions or departments.

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