

THE CYPRUS HOLDING COMPANY

Introduction

Cyprus after its accession in EU became a European jurisdiction with tax incentives for non-resident individuals and corporations.

The Cyprus Tax reform in July 2002 introduced the use of the Cyprus Company as a Holding Company.

Legal Characteristics

Companies being set up under the CAP 113 Companies Law of the Republic of Cyprus have the basic characteristics of the Anglo-Saxon Law based jurisdictions. In fact the CAP 113 law is identical to the old Companies Act 1948 of the UK.

Recently one shareholder is permitted as opposed to the requirement for two.

Explanations

a) Resident Individual

Is a person who spends 183 days or more in the Cyprus Republic

b) Resident Corporation

Is a corporate body the management and control of which is exercised from within the Republic.

c) Corporation Tax

Is calculated at the rate of 10% of the profits as determined by the tax laws of Cyprus.

d) Defence Contribution

The defence contribution is the tax whose revenue is earmarked for the defence of the Cyprus Republic. There are different rates applicable on the various types of income which is subject to defence contribution ;on dividends is set at 15% .

Tax Advantages

The Tax benefits in using a Cyprus Holding Company (CyHC) are as follows:

1. Dividend income payable to the CyHC from its subsidiaries or associate companies is **free** from corporation tax or from defence contribution, provided that :

- (i) the CyHC owns more than 1% of their capital (portfolio investment)
- (ii) the 50% of their income is not investment income **AND**
- (iii) the foreign tax imposed on their income before its payment as dividend is not substantially lower than the Cyprus tax

2. Any capital gain resulting from the sale of the shares held by the CyHC in its associates or subsidiaries is **free** of corporation tax or capital gains tax unless these are shares of a company which owns immovable property in Cyprus.

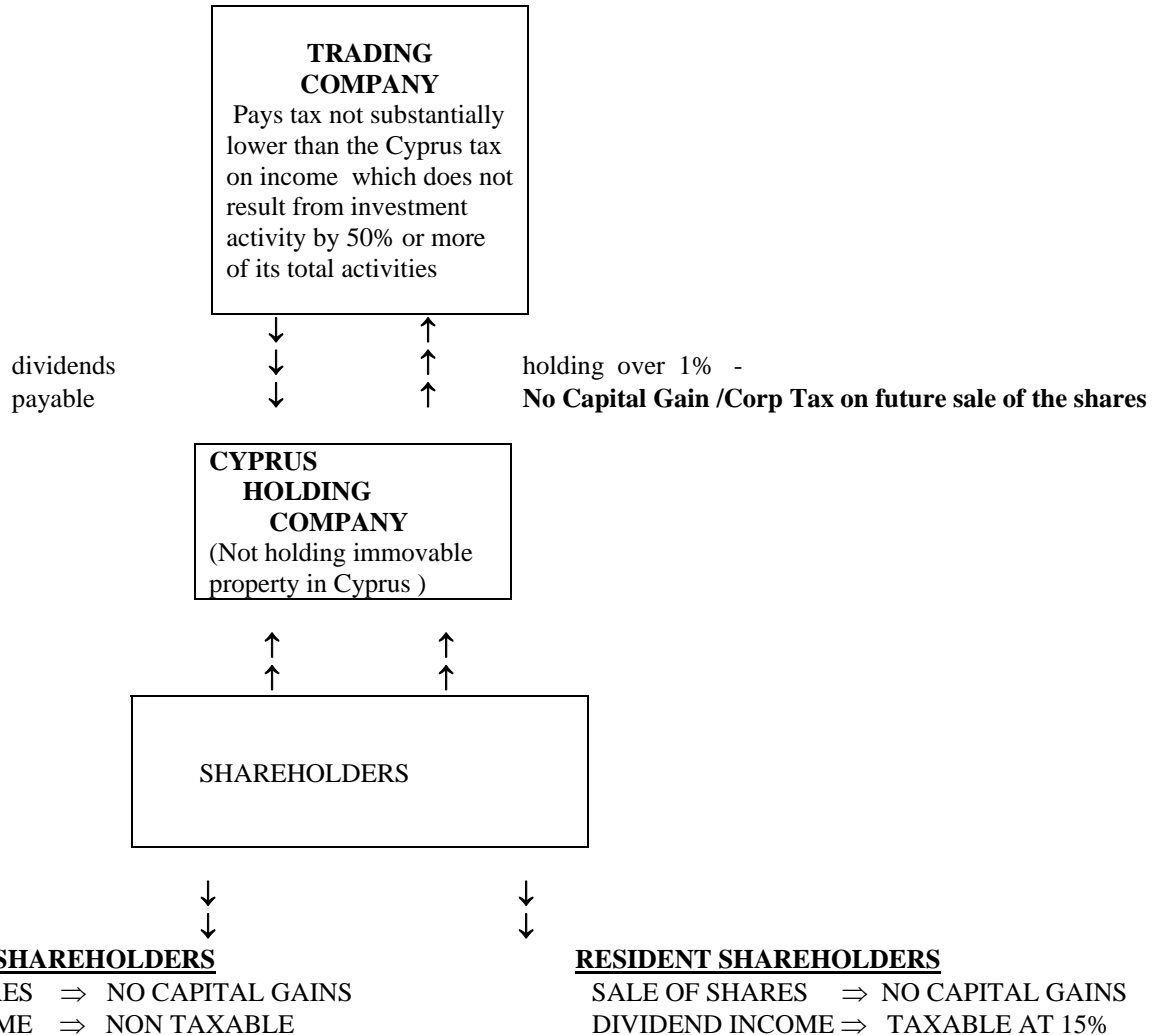
3. Any dividend payable by CyHC is treated as follows:

- i. **If the shareholder is a non-resident in Cyprus, then the dividend income is paid free from any withholding tax or defence contribution to the non-resident.**
- ii. If the shareholder is a resident individual then the company is obliged to withhold 15% defence contribution.

iii. If the shareholder is a resident corporation any dividend payable from the holding company is free from corporation tax or defense contribution. However if the shareholders of the resident corporation are resident individuals then they will result to pay defense contribution on potential dividends, which will accrue, to them.

4. If and when the shareholders of the CyHC decide to sell the shares in the CyHC then any capital gain resulting from the transaction is free of any tax since the disposal of companies securities listed or unlisted is not a taxable event according to the new legislation unless the company is a private one and holds immovable property in Cyprus.

DIAGRAM



Appendix

There is a provision in the Cyprus tax law which obliges Cyprus Companies, Holding or Trading to effect a deemed distribution of dividends every two years .The deemed dividend which then will be taxed at a15% defence rate is the 70% of the yearly accounting profit .

Such practice though is applicable only to the Cyprus resident shareholders and not to the non – Cyprus resident.