

The Cyprus Company in International Tax Structuring

February 2014

Introduction

Cyprus is a long established and tested International Business Centre with a simple, competitive and attractive tax regime for foreign investors. Combined with the island's strategic geographical location as well as its advanced infrastructure, business oriented environment and high level of professional services, the use of Cyprus companies is efficient and practical not only for business activities within Cyprus but also for international transactions.

Despite the recent turbulence of the banking sector, the elements that constitute Cyprus a prime EU jurisdiction in international tax structuring remain intact. Furthermore, the banking sector is undergoing restructuring and moving into a stability phase. In any case, there is no requirement for a Cyprus resident company to maintain bank accounts in Cyprus.

Main Features of Cyprus Tax System

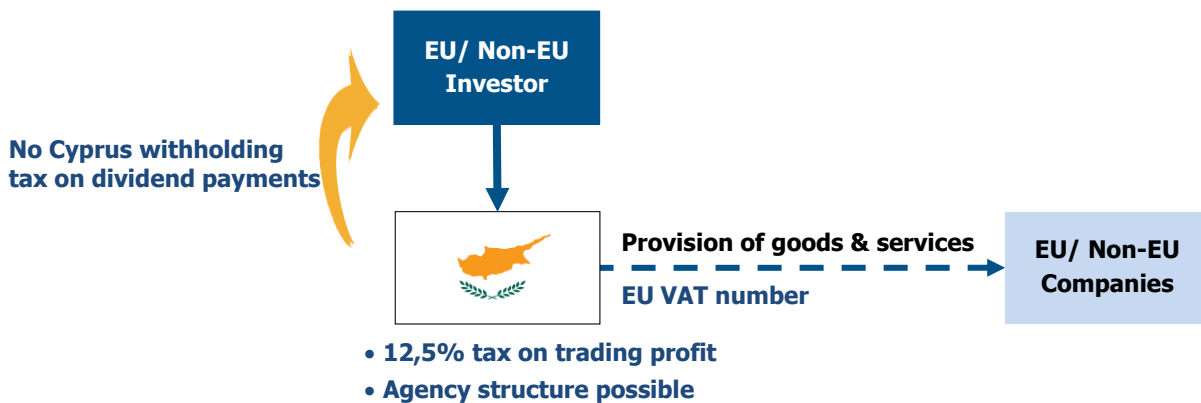
- Compliant with EU and OECD practices
- Full adoption of all relevant EU Directives
- Good double tax treaty network (beneficial treaties with Russia, Ukraine, India and South Africa)
- Basis of taxation: 'Management and Control'
- 12,5% uniform corporate income tax rate
- Effective tax lower because of favourable tax provisions as certain incomes are tax exempt, e.g. full tax exemption for dividends under easy to meet conditions, no tax on gains from sale of shares and other qualifying titles, no tax on profit from foreign permanent establishment, no capital gains tax on disposal of foreign assets of a capital nature, no tax on profit from qualifying shipping activities, 80% tax exemption on qualifying IP related profit
- No specific Transfer Pricing regulations; general application of arm's length principle
- No thin capitalisation rules nor any CFC provisions
- Standard rate of VAT is 19%
- Unilateral double tax relief
- No withholding taxes on outbound payments to non-residents
- No exit charges

Uses of the Cyprus Company

The main uses of the Cyprus company in international tax structuring are depicted below and include:

1. Trading company
2. Holding company
3. Financing company
4. Intellectual Property (IP) company
5. Real Estate company
6. Non-Resident Cyprus company

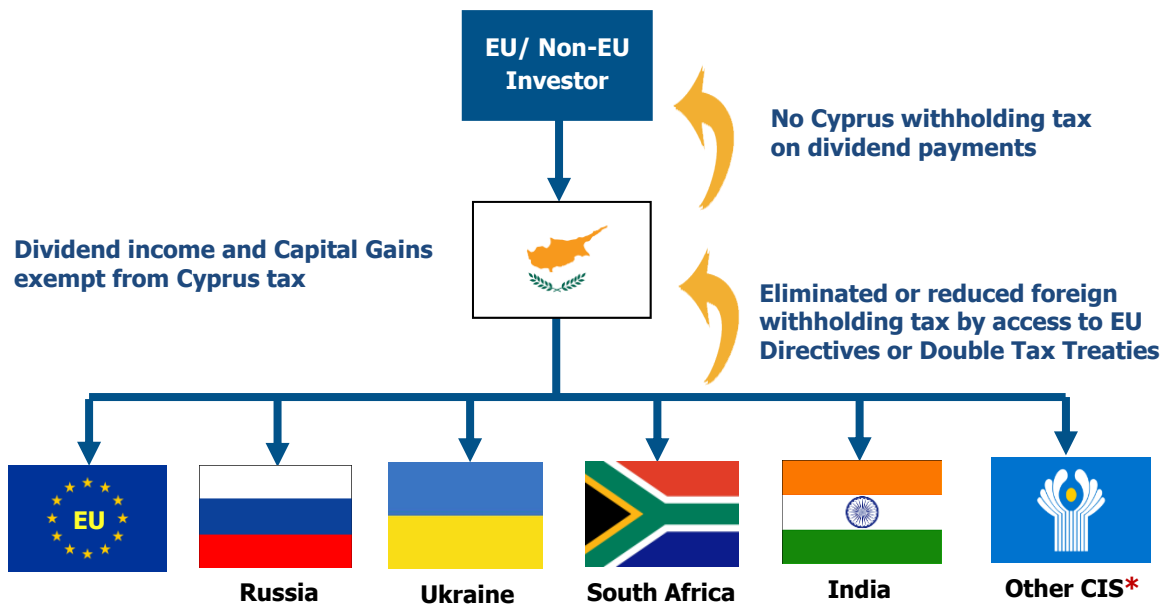
1. The Cyprus Trading Company



TAX PLANNING OPPORTUNITY WITH THE UK: UK registered companies engaged in international activities outside the UK can have their management and control in Cyprus. Such companies are taxed only in Cyprus (at 12,5%) and not in the UK (the tax rate of which is 21% / 20% as from 1 April 2014)

2. The Cyprus Holding Company

For pure holding companies, there are no Cyprus taxes on the flow of incomes through Cyprus, and at the same time there is a real tax saving by achieving eliminated or significantly reduced foreign withholding taxes. This is achieved by access to the EU Directives and the beneficial Cyprus double tax treaty network, especially with certain non-EU countries.



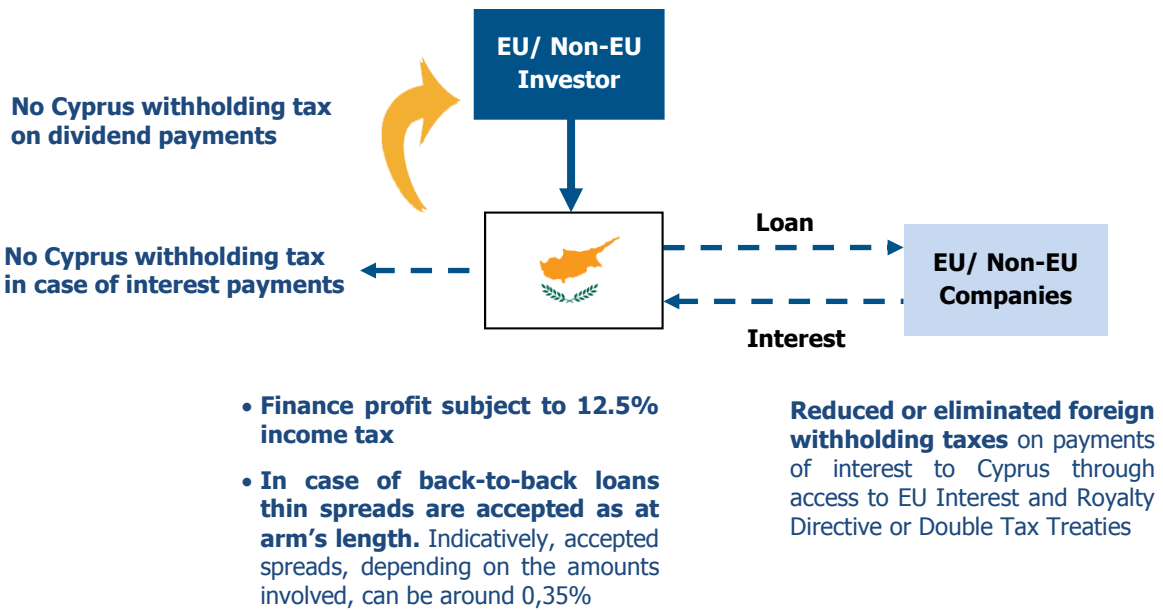
Reduction of foreign withholding tax by access to Cyprus DTT or EU Directives

	EU	Russia	Ukraine	South Africa	India	Other CIS*
Dividend	0%	15% → 5%	15% → 5%	15% → 0%	0% (local)	0% / 5%
Interest	0%	20% → 0%	15% → 2%	15% # → 0%	20% → 10%	0% / 5%
Royalties	0%	20% → 0%	15% → 5%	15% # → 0%	25% → 15%	0% / 5%

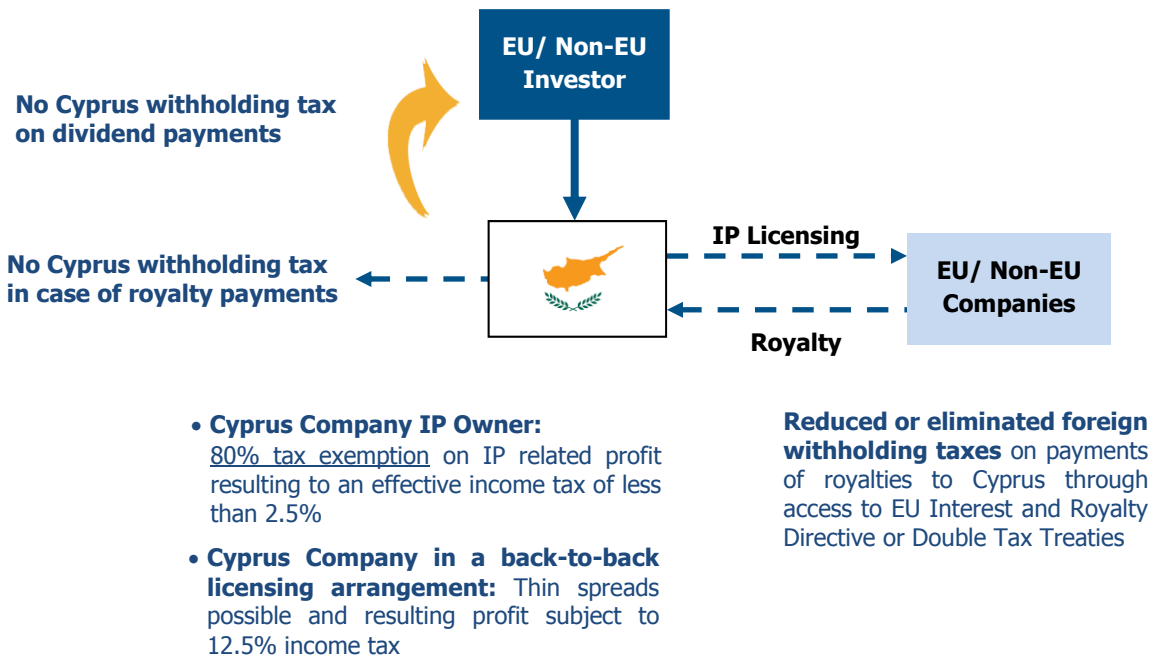
* Other CIS countries:
Armenia, Belarus, Kyrgyzstan, Moldova, Tajikistan

#: These rates apply as from 1 January 2015
For 2014, Interest: 0% / Royalties: 12%

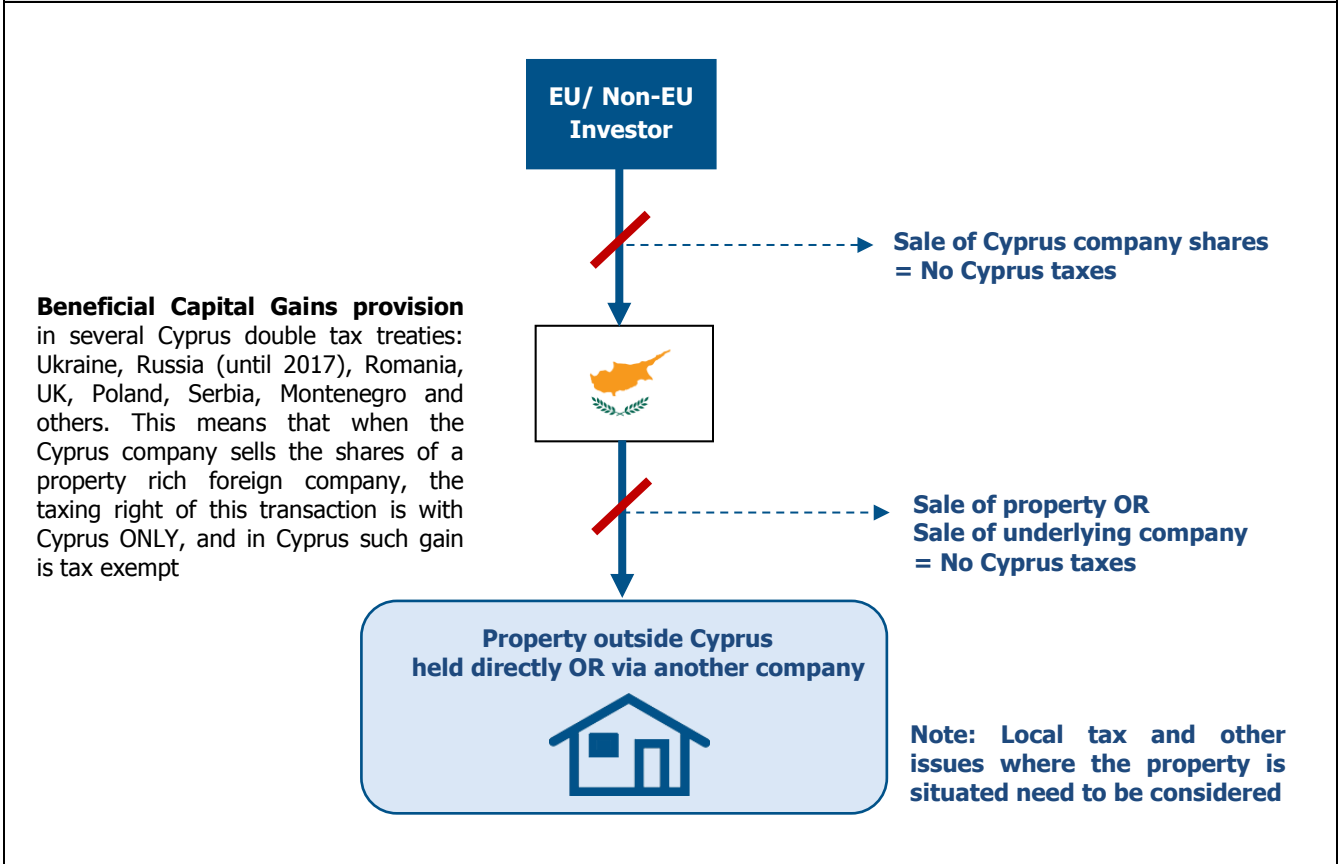
3. The Cyprus Financing Company



4. The Cyprus IP Company



5. The Cyprus Real Estate Company



6. The Cyprus Non-Resident Company

A Cyprus company having its management and control abroad is subject to Cyprus tax ONLY on Cyprus sourced income. This means that a Cyprus incorporated company with its management and control outside Cyprus may be used for trading purposes in Europe and elsewhere without any Cyprus taxes.

TAX PLANNING OPPORTUNITY WITH MALTA:

There is an interesting tax planning opportunity whereby a Cyprus incorporated company has its management and control in Malta. For Maltese tax purposes, such foreign companies (unlike local ones) are taxed in Malta only on remitted income in Malta.

This means that Cyprus incorporated companies having their effective management and control in Malta, with a use of foreign bank accounts without remitting income in Malta, may engage in international activities with no resulting corporate tax in Cyprus or Malta.

NOTES

The above is intended to provide a brief guide only. It is essential that appropriate professional advice is obtained. Totalserve Management Ltd will be glad to assist you in this respect. Please do not hesitate to contact us.