

The Cyprus Company in International Tax Structuring

November 2016

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

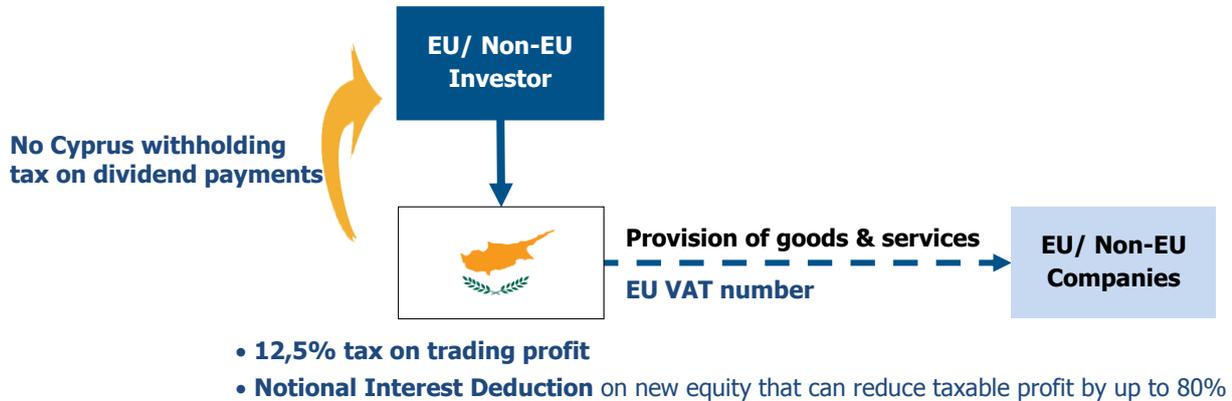
- Compliant with EU and OECD practices
- Full adoption of all relevant EU Directives
- Good double tax treaty network (beneficial treaties with Russia, Ukraine, India and South Africa)
- Basis of taxation: 'Management and Control'
- 12,5% uniform corporate income tax rate
- Effective tax lower because 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, Notional Interest Deduction (NID) on new equity used in the business
- 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

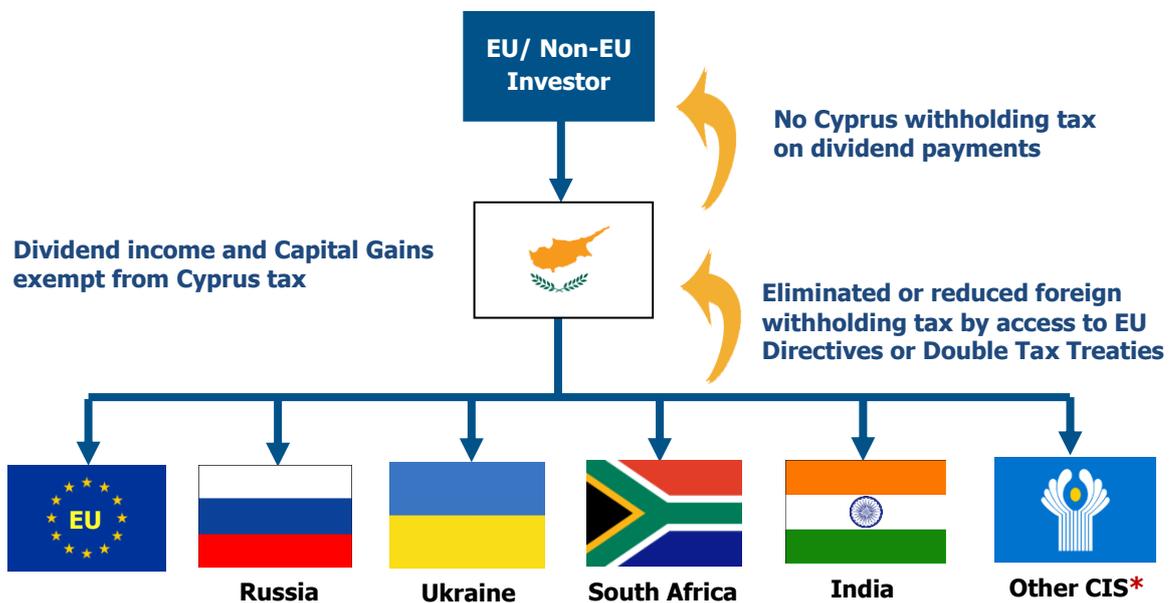
1. The Cyprus Trading Company



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 20% as from 1 April 2015)

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.

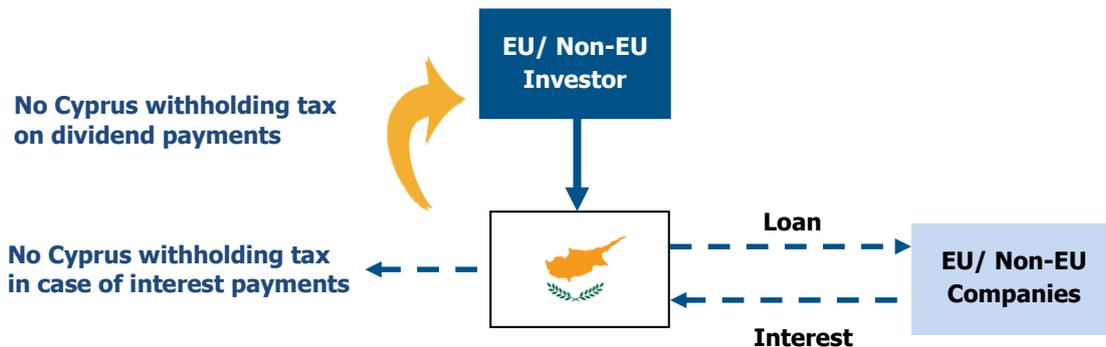


Reduction of foreign withholding tax by access to Cyprus DTT or EU Directives

Dividend	0%	15% → 5%	15% → 5%	15% → 5%	0% (local)	0% / 5%
Interest	0%	20% → 0%	15% → 2%	15% → 0%	20% → 10%	0% / 5%
Royalties	0%	20% → 0%	15% → 5% / 10%	15% → 0%	25% → 15%	0% / 5%

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

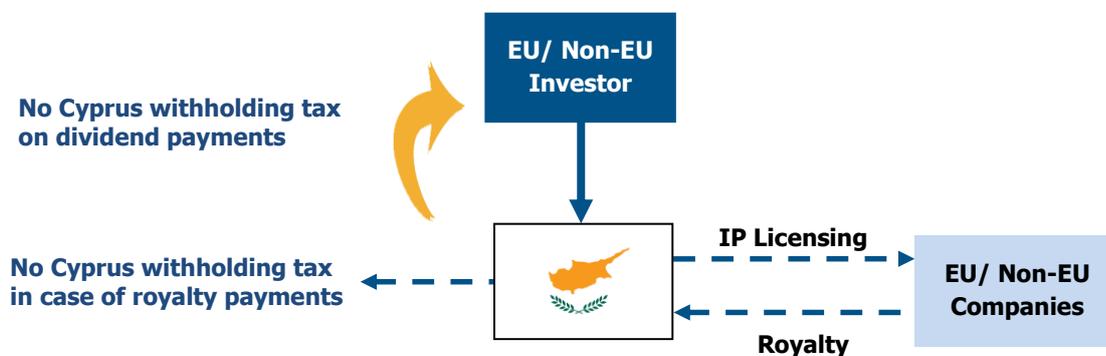
3. The Cyprus Financing Company



- Finance profit subject to 12.5% income tax
- In case of back-to-back loans thin spreads are accepted as at arm's length. Indicatively, accepted spreads, depending on the amounts involved, can be around 0,35%
- Notional Interest Deduction on new equity, which can reduce taxable profit by up to 80%

Reduced or eliminated foreign withholding taxes on payments of interest to Cyprus through access to EU Interest and Royalty Directive or Double Tax Treaties

4. The Cyprus IP Company

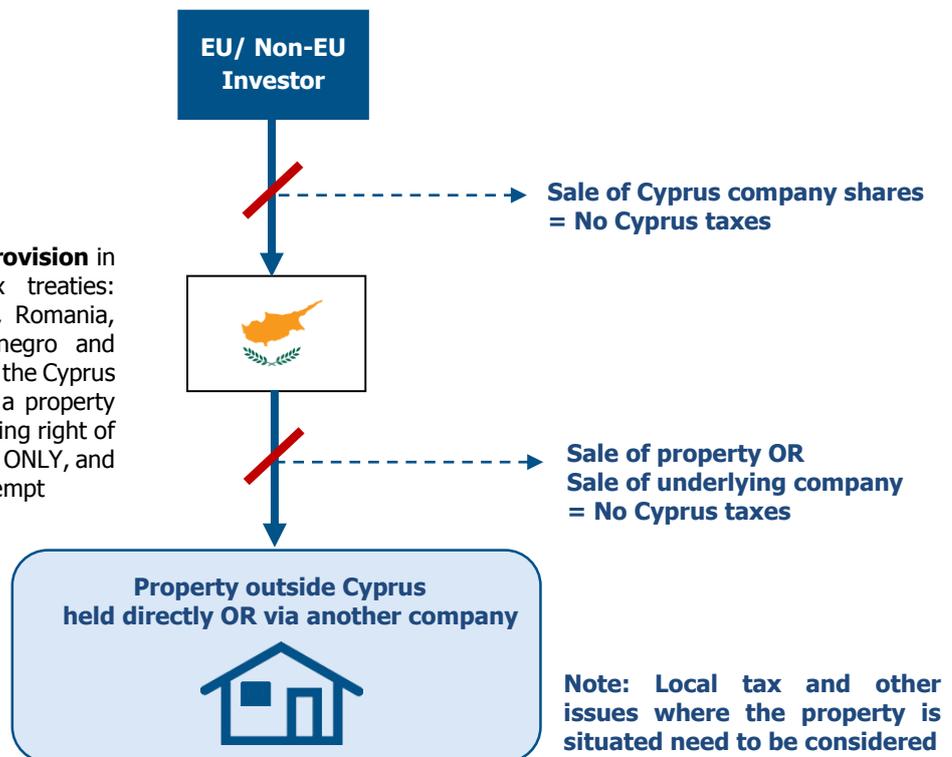


- Cyprus Company IP Owner: 80% tax exemption on IP related profit resulting to an effective income tax of less than 2,5%
- In case of a back-to-back licensing arrangement: Thin spreads possible and resulting profit subject to 12.5% income tax
- Notional Interest Deduction on new equity, which can reduce taxable profit by up to 80%

Reduced or eliminated foreign withholding taxes on payments of royalties to Cyprus through access to EU Interest and Royalty Directive or Double Tax Treaties

5. The Cyprus Real Estate Company

Beneficial Capital Gains provision in several Cyprus double tax treaties: Ukraine, Russia (until 2017), Romania, UK, Poland, Serbia, Montenegro and others. This means that when the Cyprus company sells the shares of a property rich foreign company, the taxing right of this transaction is with Cyprus ONLY, and in Cyprus such gain is tax exempt



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 certain 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 certain activities of a passive nature 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.