

Basic information for Cyprus resident companies
September 2008
Taxation

According to the new tax regime which applies in Cyprus since the 1st of January 2003, a company is a resident for tax purposes in Cyprus if the management and control of the company is carried out in or from Cyprus. Management and control is taken to mean the 'effective management' of the company (e.g. that all important decisions regarding the Company are taken in Cyprus, all Board meetings take place in Cyprus – which would easily be facilitated if the majority of the Board of Directors are Cyprus residents).

Tax resident companies pay annual corporate income tax on their annual taxable profit. This taxable profit is arrived at after deduction of business related expenses and other relevant tax adjustments.

The tax rates are as follows:

Companies which at 31.12.01 were and still are generating income from sources exclusively outside Cyprus (or were expecting income which have not resulted due to the nature of their businesses), have the option to elect to continue to be taxed at the rate of 4.25% until 31.12.2005 and 10% as from 1.1.2006.

For companies incorporated during 2002 the tax rate is 4.25% for the profits of 2002 and 10% as from 1.1.2003. For companies incorporated after 1.1.2003 the corporate income tax rate is 12.5%.

For companies being taxed under the new tax regime (i.e. at the rate of 12.5%) there are certain favourable tax provisions available, such as exemption system for dividend income, tax exemption from gain resulting from disposal of shares and group relief.

Audit

Companies need to be audited every year and to:

- Submit financial statements Registrar of Cyprus Companies.
- Submit an annual company income tax return to the Inland Revenue. The Inland Revenue has the right to request the actual audited financial statements and tax computations of the company.

The audit must be carried out by a Cypriot firm of auditors in accordance with the International Accounting and Auditing Standards.

Exchange Control

Companies are under no exchange control. Bank accounts may be kept anywhere in the world and in any currency. Bank accounts kept in Cyprus may be operated freely without any prior approval.

Work and Residence Permit

Expatriate personnel of companies can be employed and obtain a temporary residence permit relatively easy.

The permit is issued and renewed every five years, on the condition that the terms of the permit, as issued by the Ministry of Interior, Immigration Department and/or the Labour Office are not violated by the company and the expatriate personnel.

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.