

Cyprus Holding Company: The Ultimate Tax Vehicle



By Christodoulos G Vassiliades, Managing Director, Christodoulos G Vassiliades & Co LLC, and Honorary Consul of Belize to Cyprus

CYPRUS, BY VIRTUE OF ITS EXCEPTIONALLY ADVANTAGEOUS TAX SYSTEM,

has emerged as one of the most attractive jurisdictions for holding companies worldwide.

While offering the lowest corporate tax rate in the EU at 10 per cent, Cyprus' membership in the EU also ensures its compliance with EU directives, as well as its commitment to abiding by the Organisation for Economic Co-operation and Development's (OECD) requirements against harmful tax practice.

Bolstered by an impressive network of 44 double tax treaties, and nurtured within one of the most business-friendly legislative frameworks, Cyprus has positioned itself as an ideal destination for international investment.

Cyprus has created the perfect environment within which to incorporate a holding company, either as an intermediate holding entity or as an ultimate holding company. Benefits to note include the fact profit from the disposal of securities is exempt from Cyprus tax, irrespective of whether this profit forms part of a company's trading activity or is of a capital nature. There is no capital gains tax on disposal of real estate or other assets situated

outside Cyprus and no time restrictions on carrying forward tax losses and the existence of group relief for utilisation of tax losses.

Tax credit for any taxes paid abroad is given unilaterally irrespective of the existence of a double tax treaty. There is no withholding tax (WHT) on dividends paid to non-resident shareholders and on payments of interest and royalties outside Cyprus, irrespective of the existence of a double tax treaty.

Dividends received by a Cyprus Holding Company from overseas are tax-exempt. This exemption does not apply if both (i) the overseas tax burden of the paying company is significantly lower than the Cyprus tax burden (practically interpreted by the Tax Authorities meaning less than five per cent) and (ii) the non-resident company paying the dividend carries on, directly or indirectly, more than 50 per cent of investment activities.

Foreign-held groups are exempt from Deemed Dividend Distribution (DDD). The profits of a Cyprus tax resident company, which are attributable either directly or indirectly to shareholders who are not Cyprus tax residents will not be subject to the DDD provisions. Furthermore, in the case where such non-Cyprus tax resident shareholders

constitute 100 per cent of the ultimate shareholders of the company, the company is not required to submit a DDD return.

Also profits earned from a Cyprus company's permanent establishment (PE) abroad are exempt from taxation in Cyprus provided that: (i) more than 50 per cent of the income of the PE derives from trading activities, or (ii) the tax rate abroad is not significantly lower than the rate applicable in Cyprus (lower than five per cent).

Network of Double Tax Treaties

A backdrop to Cyprus' undeniably beneficial tax structure is the 44 Double Tax Treaty Network to which the island-nation is a signatory. A majority of these treaties follow the OECD Model Tax Convention and all of them have the impact of eliminating or greatly reducing the WHT rates on the dividends, interest and royalty payments which are normally imposed by the contracting states. In addition, these treaties protect against the phenomenon of double taxation in cases where a resident in one of the treaty countries derives income from the other treaty country.

The following table details the WHT rates as defined in the terms of each of the 44 double tax treaties.

	PAID FROM CYPRUS		
	DIVIDENDS % ⁽¹⁾	INTEREST % ⁽¹⁾	ROYALTIES %
NON-TREATY COUNTRIES	Nil	Nil	Nil ⁽²⁾

TREATY COUNTRIES	PAID FROM CYPRUS		
	DIVIDENDS % ⁽¹⁾	INTEREST % ⁽¹⁾	ROYALTIES %
ARMENIA	Nil ⁽³¹⁾	5	5
AUSTRIA	10	Nil	Nil
BELARUS	5 ⁽¹⁸⁾	5	5
BELGIUM	10 ⁽⁸⁾	10 ^(6; 19)	Nil
BULGARIA	5 ⁽²³⁾	7 ⁽⁶⁾	10
CANADA	15	15 ⁽⁴⁾	10 ⁽⁵⁾
CHINA	10	10	10
CZECH REPUBLIC	Nil ⁽²⁹⁾	Nil	Nil ⁽³⁰⁾
DENMARK	Nil ^(6; 34)	Nil	Nil
EGYPT	15	15	10
FRANCE	10 ⁽⁹⁾	10 ⁽¹⁰⁾	Nil ⁽³⁾
GERMANY ⁽³³⁾	5 ⁽³⁵⁾	Nil	Nil
GREECE	25	10	Nil ⁽¹²⁾
HUNGARY	Nil	10 ⁽⁶⁾	Nil
INDIA	10 ⁽⁹⁾	10 ⁽¹⁰⁾	10 ⁽¹⁶⁾
IRELAND	Nil	Nil	Nil ⁽¹²⁾
ITALY	Nil	10	Nil
KUWAIT	10	10 ⁽⁶⁾	5 ⁽⁷⁾
KYRGYZSTAN ⁽²⁰⁾	Nil	Nil	Nil
LEBANON	5	5	Nil
MALTA	15	10	10
MAURITIUS	Nil	Nil	Nil
MOLDOVA	5 ⁽²⁷⁾	5	5
MONTENEGRO ⁽²⁶⁾	10	10	10
NORWAY	Nil	Nil	Nil
POLAND ⁽³⁶⁾	10	10 ⁽⁶⁾	5
QATAR	Nil	Nil	Nil ⁽²⁸⁾
ROMANIA	10	10 ⁽⁶⁾	5 ⁽⁷⁾
RUSSIA ⁽³⁷⁾	5 ⁽¹⁷⁾	Nil	Nil
SAN MARINO	Nil	Nil	Nil
SERBIA ⁽²⁶⁾	10	10	10
SEYCHELLES	Nil	Nil	5
SINGAPORE	Nil	10 ^(6; 25)	10
SLOVAKIA	10	10 ⁽⁶⁾	5 ⁽⁷⁾
SLOVENIA	5 ⁽³²⁾	5	5
SOUTH AFRICA	Nil	Nil	Nil
SWEDEN	5 ⁽⁸⁾	10 ⁽⁶⁾	Nil
SYRIA	Nil ⁽⁸⁾	10	10
TADZHIKISTAN ⁽²⁰⁾	Nil	Nil	Nil
THAILAND	10	15 ⁽²¹⁾	5 ⁽²²⁾
UKRAINE ^(20; 38)	Nil	Nil	Nil
UNITED ARAB EMIRATES	Nil	Nil	Nil
UNITED KINGDOM	Nil	10	Nil ⁽³⁾
UNITED STATES OF AMERICA	Nil	10 ⁽¹⁰⁾	Nil

TREATY COUNTRIES	RECEIVED IN CYPRUS		
	DIVIDENDS %	INTEREST %	ROYALTIES %
ARMENIA	Nil	5	5
AUSTRIA	10	Nil	Nil
BELARUS	5 ⁽¹⁸⁾	5	5
BELGIUM	10 ⁽⁸⁾	10 ^(6; 19)	Nil
BULGARIA	5 ⁽²³⁾	7 ^(6; 24)	10 ⁽²⁴⁾
CANADA	15	15 ⁽⁴⁾	10 ⁽⁵⁾
CHINA	10	10	10
CZECH REPUBLIC	Nil ⁽²⁹⁾	Nil	Nil ⁽³⁰⁾
DENMARK	Nil ^(6; 34)	Nil	Nil
EGYPT	15	15	10
FRANCE	10 ⁽⁹⁾	10 ⁽¹⁰⁾	Nil ⁽³⁾
GERMANY ⁽³³⁾	5 ⁽³⁵⁾	Nil	Nil
GREECE	25 ⁽¹¹⁾	10	Nil ⁽¹²⁾
HUNGARY	5 ⁽⁸⁾	10 ⁽⁶⁾	Nil
INDIA	10 ⁽⁹⁾	10 ⁽¹⁰⁾	15 ⁽¹⁵⁾
IRELAND	Nil	Nil	Nil ⁽¹²⁾
ITALY	15	10	Nil
KUWAIT	10	10 ⁽⁶⁾	5 ⁽⁷⁾
KYRGYZSTAN ⁽²⁰⁾	Nil	Nil	Nil
LEBANON	5	5	Nil
MALTA	Nil	10	10
MAURITIUS	Nil	Nil	Nil
MOLDOVA	5 ⁽²⁷⁾	5	5
MONTENEGRO ⁽²⁶⁾	10	10	10
NORWAY	Nil ⁽¹³⁾	Nil	Nil
POLAND ⁽³⁶⁾	10	10 ⁽⁶⁾	5
QATAR	Nil	Nil	Nil ⁽²⁸⁾
ROMANIA	10	10 ⁽⁶⁾	5 ⁽⁷⁾
RUSSIA ⁽³⁷⁾	5 ⁽¹⁷⁾	Nil	Nil
SAN MARINO	Nil	Nil	Nil
SERBIA ⁽²⁶⁾	10	10	10
SEYCHELLES	Nil	Nil	5
SINGAPORE	Nil	10 ^(6; 25)	10
SLOVAKIA	10	10 ⁽⁶⁾	5
SLOVENIA	5 ⁽³²⁾	5	5
SOUTH AFRICA	Nil	Nil	Nil
SWEDEN	5 ⁽⁸⁾	10 ⁽⁶⁾	Nil
SYRIA	Nil ⁽⁸⁾	10 ⁽⁴⁾	10
TADZHIKISTAN ⁽²⁰⁾	Nil	Nil	Nil
THAILAND	10	15 ⁽²¹⁾	5 ⁽²²⁾
UKRAINE ^(20; 38)	Nil	Nil	Nil
UNITED ARAB EMIRATES	Nil	Nil	nil
UNITED KINGDOM	15 ⁽¹⁴⁾	10	Nil ⁽³⁾
UNITED STATES OF AMERICA	5 ⁽⁹⁾	10 ⁽¹⁰⁾	nil

Treaty Notes

1. Under Cypriot legislation, there is never any WHT on dividends and interest paid to non-residents of the island.
2. Royalties earned on rights used within Cyprus are subject to WHT of 10%.
3. A rate of 5% on film and TV royalties.
4. Nil if paid to a government or for export guarantee.
5. Nil on literary, dramatic, musical, or artistic work.
6. Nil if paid to the government of the other state.
7. This rate applies for patents, trademarks, designs or models, plans, secret formulas, or processes, or any industrial, commercial, or scientific equipment, or for information concerning industrial, commercial, or scientific experience.
8. A rate of 15% if received by a company controlling less than 25% of the voting power.
9. A rate of 15% if received by a person controlling less than 10% of the voting power.
10. Nil if paid to a government, bank, or financial institution.
11. The treaty provides for WHT on dividends but Greece does not impose any withholding tax in accordance with its own legislation.
12. A rate of 5% on film royalties.
13. A rate of 5% if received by a person controlling less than 50% of the voting power.
14. This rate applies to individual shareholders regardless of their shareholding percentage. Companies controlling less than 10% of the voting shares are also entitled to this rate.
15. A rate of 10% for payments of a technical, managerial, or consulting nature.
16. Treaty rate is 15%, therefore restricted to Cyprus legislation rate.
17. A rate of 10% if a dividend is paid by a company in which the beneficial owner has invested less than US\$100,000.
18. Where investment is less than €200,000, dividends are subject to 15% WHT which is reduced to 10% if the recipient company controls 25% or more of the paying company.
19. No WHT for interest on deposits with banking institutions.
20. Kyrgyzstan and Tajikistan apply the USSR/Cyprus treaty. Ukraine also applies the USSR/Cyprus treaty until the 1 January of the year following the ratification of the new Double Tax Treaty it signed with Cyprus in November 2012 (See also note 38 below).
21. A rate of 10% on interest received by a financial institution or where it relates to sale on credit of any industrial, commercial, or scientific equipment or of merchandise;
22. This rate applies for any copyright of literary, dramatic, musical, artistic, or scientific work. A 10% rate applies for industrial, commercial, or scientific equipment. A 15% rate applies for patents, trademarks, designs or models, plans, secret formulas, or processes.
23. This rate applies to companies directly holding at least 25% of the share capital of the company paying the dividend. In all other cases the WHT is 10%;
24. This rate does not apply if the payment is made to a Cyprus international business entity by a resident of Bulgaria owning, either directly or indirectly, at least 25% of the share capital of the Cyprus Entity.
25. A rate of 7% if paid to a bank or financial institution.
26. Serbia and Montenegro apply the Yugoslavia/Cyprus treaty.
27. This rate applies if received by a company (excluding partnerships) that directly holds 25% of the shares. A rate of 10% applies in all other cases.
28. Applies to any consideration for the use of, or the right to use, any copyright of literary, artistic or scientific work (including cinematograph films and films, tapes or discs for radio or television broadcasting), computer software, any patent,



- trademark, design or model, plan, secret formula or process, or for information concerning industrial, commercial, or scientific experience.
29. This rate applies if received by a company (excluding partnership) which holds directly at least 10% of the shares for an uninterrupted period of no less than one year. 5% applies in all other cases.
 30. 10% for patent, trademark, design or model, plan, secret formula or process, computer software or industrial, commercial, or scientific equipment, or for information concerning industrial, commercial, or scientific experience.
 31. A rate of 5% if a dividend is paid by a company in which the beneficial owner has invested less than €150.000.
 32. The provisions of the Parent-Subsidiary EU directive are applicable.
 33. A new treaty has been signed on 18 February 2011 which came into force on 1 January 2012.
 34. A rate of 15% if received by a company controlling less than 10% of the share capital of the paying company, or the duration of any holding is less than one uninterrupted year.
 35. A rate of 15% if received by a company holding less than 10% of the share capital of the company paying the dividend.
 36. Cyprus and Poland ratified a new protocol to their Double Tax Treaty on 17 August 2012. The protocol will enter into force beginning in 2013. The WHT on dividends will be reduced to 0% where the shareholder company owns at least 10% of the share capital of the company distributing the dividends. In the instance shareholding is below 10%, the WHT will be reduced to 5%. The WHT on interest will be reduced to 5%, while the WHT on royalties will remain at 5%.
 37. Cyprus and Russia ratified a new protocol to their Double Tax

Treaty on February 15, 2012. The protocol will enter into force beginning in 2013. Although the protocol does not make reduce the WHT on dividends, it does amend the condition for the eligibility of the 5% rate. Specifically, a direct investment of €100.000 or more in the capital of a Russian company, will be required.

38. On 8 November 2012, Cyprus and the Ukraine signed a new treaty, replacing the treaty that had been signed with the former USSR. The new treaty will enter into force on 1 January following the year of ratification. After that date, the WHT on dividends will be 5% if the beneficial owner holds at least 20% of the capital of the dividend paying company, or has invested in the acquisition of shares or other rights of the dividend paying company of at least €100.000. In all other cases, the WHT on dividends will be 15%. The WHT on interest will be 2% and the WHT on royalties will be 10% except with respect to the copyright of scientific work, any patent, trade mark, secret formula, process or information concerning industrial, commercial or scientific experience, in which case the WHT will be 5%.

CONCLUSION

Cyprus offers a uniquely enticing environment within which to set up holding and trading companies. Its legitimate standing in Europe as an EU member, coupled with its vast global network of Double Tax Treaties, has transformed the small island-nation of Cyprus into a sought-after holding company locale.

Undoubtedly, Cyprus' commitment to bolstering and maintaining its low-tax regime has ensured its position as a front runner in the global race for the most ideal location for holding companies.



CHRISTODOULOS G. VASSILIADES & Co. LLC

Advocates - Legal Consultants

ESTABLISHED IN 1984

Christodoulos G. Vassiliades established his law practice, Christodoulos G. Vassiliades & Co. LLC in 1984 in Nicosia, Cyprus. Swiftly developing a reputation of excellence and diligence in all legal and business matters, the Firm is internationally acknowledged as one of the leading law firms on the island.

A pioneer in the concept of offering comprehensive services to all of its clients, Christodoulos G. Vassiliades & Co. LLC offers the diverse professional skills of approximately 150 employees including qualified lawyers, legal and tax consultants, administrators, paralegals and accountants, all dedicated to the provision of timely, viable, and comprehensive solutions for all its clients. Our corporate network has a sizeable global reach with affiliated offices in Athens, Moscow, Belize City, Budapest, and Mahe.

The Firm advises corporate and private clients in the fields of corporate law, commercial law, trusts, intellectual property, and mergers and acquisitions. Beyond the legal services offered, it also provides a full range of corporate administration and trust services through its associated management and trust companies.

Christodoulos G. Vassiliades & Co. LLC recognises that each client's legal or commercial needs vary and that there is no template or fixed solution to their business demands. For this reason, the Firm sets uniformly high standards of personalized advice, aimed at meeting the individual needs of its diverse client base.

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