

## ● CYPRUS HOLDING COMPANIES

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Cyprus has become one of the most ideal business locations worldwide due to the islands favourable tax system which establishes Cyprus as one most powerful holding company regimes.

A Cyprus holding company is a limited liability Company that has the purpose of holding shares in other companies.

In essence, holding companies are set up as an effective means of consolidating ownership of operating subsidiaries. When deciding on a jurisdiction of a holding company, both tax and non- tax factors must be carefully taken into consideration.

The main reasons that Cyprus companies are used as holdings companies are as follows:

- Cyprus has the lowest **corporate tax rate** in Europe at 12,5%;
- There is an exemption from tax on **dividends** when they are received from overseas. The exemption will not apply if i) the foreign company paying the dividend receives, directly or indirectly, more than 50% of its income from investment activities and ii) the foreign company tax rate due is substantially lower (meaning less than 5%) than the Cyprus rate;
- Exemption from **withholding tax** on payment of **Dividends, Interest and Royalties**;
- Profit from dealing of securities is not subject to tax (**Capital Gains tax** of 20% is only imposed on the sale of immovable property situated in Cyprus or of shares of unlisted companies that own such property in Cyprus, subject to certain exemptions and reliefs);
- Cyprus has entered a beneficial network of **double tax treaties** and is in negotiation with many more countries. These treaties have the advantage of lowering or eliminating the withholding tax on dividends, interest or royalties at source;
- As a full member of the **European Union**, Cyprus offers the benefits from the provisions of the EU directives;

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- **Re-organisations:** When profits and/or gains are developed by re-organisation reasons (which means a merger, division, transfer of assets and exchange of shares that involve companies which are resident in Cyprus and/or non-resident in Cyprus) they are exempt from corporation tax, capital gains tax and transfer fees;
- No debt-equity restrictions, no substance requirements, no minimum holdings period and no thin cap rules apply to deduction of interest;

### Tax losses:

- The tax losses from the year 1997 can be carried forward indefinitely and can be used against future profits;
- Any losses incurred abroad by a permanent establishment of the Cyprus Company they can also be offset against profits of the Cyprus Company.

### Group losses relief

- Losses of one company in the group can be set-off against the profits of another company if the companies are tax resident in Cyprus and if they belong to the same group for the whole year appraisal;
- Group relief applies when the holding company owns at least 75% of the share capital of the subsidiary or among companies which belong to the same group for the whole year with 75% each directly or indirect in the other company;
- Losses brought forward will not be available for group relief, only the current year losses can be transferred.

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### **Tax Relief for holders of intellectual property rights**

Expenses for the acquisition or development of intangible assets (intellectual property rights) is amortised in equal instalments over a five year period.

Moreover, 80% of the revenue arising from the exploitation of the intangible assets (including compensation for improper use of the rights) as well as out of any gains which may arise from their sale, will be deemed as an expense, hence only the remaining 20% will be subject to tax. This 80% deduction will apply on the profit after deduction of the amortization and any other direct expenses incurred in earning the profit.

*The above is intended to provide a brief guide only. It is essential that appropriate professional advice is obtained.*