Cyprus an Ideal Holding Jurisdiction

The globalisation of investments is a growing trend as capital movements become more mobile and barriers to foreign investments are rapidly disappearing. As a result of it, investors and businessmen set up holding companies for the purpose of holding their participations around the world, in jurisdictions with low tax costs which enable them to maximize their after tax return on investment and help them to achieve efficient tax repatriation of profits.

Cyprus, a reputable and long established international business centre has become an ideal location for holding companies, as it provides

* an attractive tax system which includes favourable tax provisions with respect to the taxation of dividends and trading in securities,

* an extensive network of Double tax treaties which offers tax planning opportunities to investors using Cyprus company as a vehicle for investments

* excellent infrastructure facilities and high standard of professional services

* strategic location and a stable business environment in the European Union, in full conformity to European Law and in compliance to OECD Directives against harmful tax practices.

The main tax features which make Cyprus company an attractive holding company are outlined below:

Corporation tax:

Trading income is taxed at the rate of 10%, the lowest in Europe in line with Cyprus' longstanding commitment towards a steady, low tax fiscal regime

Generous deductibility rules:

Under Cypriot law all expenses incurred wholly and exclusively for the production of the income are deducted before arriving at the taxable income.

Tax exemption on disposal of securities:

The profit arising on the disposal of securities in a private or public company by a Cyprus tax resident company is tax exempt from any tax in Cyprus, provided that securities refer to shares, debentures, government bonds, founder's shares and other securities of companies or legal persons incorporated in Cyprus or abroad and rights there on.

* Full exemption from income tax on the liquidation of participations held by the Cyprus holding company or on the disposal of the shares of the holding company

Foreign Tax Credit on income Received by a Cyprus company:

Income received by a Cypriot company from abroad may have been liable to a withholding tax on payment in the country of origin. If this income is liable to tax in Cyprus, the tax paid abroad can be credited against the tax payable in Cyprus.

* Incoming Dividends. Full exemption from tax on dividend income received from subsidiaries and overseas participations.

Dividends and other profit distributions received by a Cyprus tax resident company from a foreign subsidiary are exempt from corporation tax and special contribution of Defence, provided a minimum of 1% of the share capital of the subsidiary is held by the Cyprus holding Company.

The only instance where the exemption does not apply is where both :

* The overseas company paying the dividend engages directly or indirectly by more that 50% in activities which give rise to investment income and

* The foreign tax burden on the income of the paying company is significantly lower than the Cyprus tax burden of the company receiving the dividend

The exemption from tax also applies to profits of a permanent establishment the Cypriot company has in another jurisdiction.

* Incoming Dividends. Zero or reduced withholding tax on incoming dividends.

The extensive network of double tax treaties that Cyprus has with more than 40 countries, lowers the withholding tax rates on dividends remitted to Cyprus from the subsidiary's jurisdiction, as the terms of the double tax treaty supercede the national law.
The wide treaty network includes main Western European countries as well as most Eastern European Countries.

However dividends between associated enterprises which are both situated in the European Union are paid without any within

Olding tax, based on the provisions of the Parent- Subsidiary EU Directive.

* Repatriation of dividends from Cyprus. No withholding tax on outgoing dividends Cyprus does not impose any withholding tax on dividends and other profit distributions paid by a Cyprus company to non resident shareholders including individuals and corporations
irrespective of country of residence.

<u>Losses:</u>

1. Losses can be carried forward indefinitely against future profits

2. Losses incurred abroad can be set off against the company’s profits

Companies part of a group (with minimum participation of 75% for the whole fiscal year) can consolidate their results, thus allowing losses of one company to be set off against the profit of another company.

* Full exemption from capital gains tax that arises from the disposal of immovable property held outside Cyprus or shares in companies which may include immovable property held outside Cyprus. Therefore, Cyprus companies can be used to hold real estate outside Cyprus with no capital gains tax implications in Cyprus on their disposal.

Conclusion

In the light of the above tax benefits, Cyprus company is most commonly used as an intermediate holding company in cases where investors invest in EU countries or in countries with which Cyprus has double tax treaty. Tax benefits arise to the investors who aim at dividend income as well as significant capital appreciation from the disposal of the shares.

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