Cyprus Holding Company

The aftermath of the recent global economic turmoil has left no room for ignorance of tax and legal risks in the corporate finance market. Therefore, multiple European and international legislation impose increased scrutiny and compliance supervision on Nations tax authorities.

Cyprus Holding Company Advantages: If entrepreneurs wish to derive the optimum results from their business activities and also minimize the incidence of taxation, they need to implement tax efficient structures as well as restructuring options for existing ones. Nevertheless, the selection of the appropriate jurisdiction for the best implementation of such structures, shall not always be a tax driven exercise. The most appropriate approach on this matter is a thoughtful, case-specific and tailor-made decision. As an old apothegm states: ‘The best choice is to be prudent and to take proactive action’.

Cyprus – an ideal gateway to Stability, Security, Prosperity and Success:
Transparent legal and regulatory environment, high standards of transparency, excellent accounting/legal/banking professional services infrastructure...

Cyprus scores high on all the aforementioned incentives. It is considered as a reputable, competitive, trust-worthy financial business center for the worldwide operations of multinational corporations. Additionally, it is complemented as being one of the most prime international competitors in the field of holding regimes.

The island is proudly a member of the White list of O.E.C.D. and it is in full compliance with the code of Conduct for Business Taxation and against harmful tax competition. Furthermore, the island is always in line with the latest EU standards. It will be a missed opportunity not to invest in this international investment hub.
Plethora of Benefits from many different tax scenarios

Tax residency
A company is considered to be tax resident in Cyprus if the management and control function is exercised in Cyprus.

Corporate tax
Trading profits are taxed at the rate of 12.5%, one of the lowest corporate income tax rates in Europe.

Notional interest deduction (NID)
The NID is available on new qualifying equity issued by a Cyprus company on or after 1st January 2015 and used in the business for the purpose of generating taxable income. It is calculated by multiplying the new qualifying equity amount by a reference interest rate. The reference interest rate is equal to the yield of the 10-year Governmental bond of the country in which the new capital is invested, plus 3%. The NID is deductible against the company’s taxable profits that arise as a result of the newly introduced capital and cannot exceed 80% of the taxable profit as calculated before allowing for this deduction.

Interest Income
Active interest income (interest income effectively connected with the carrying on of a trade or business) is subject to the corporate income tax rate of 12.5%, as regular trading income.

Passive interest income, (income not connected to a trade or business), is exempt from corporate income tax and taxed separately at the Special Contribution for Defence (SCD) at the rate of 30% on a gross basis.

Dividends Inter-company dividends
A Cyprus tax resident company is exempt from tax when receiving dividends from another Cyprus tax resident company, provided the dividend is not indirectly received after the expiry of a four year period, from the end of the year to which the profits giving rise to the dividend relate. Dividends received from abroad As of January 2016, dividends received from abroad by a Cyprus tax resident company are exempt from corporate income tax, provided they are not allowed as a tax deduction in the jurisdiction of the foreign paying company.

Dividends received from abroad are also exempt from Special Defense Contribution (SDC) if one of the following conditions is satisfied:
(1) The company paying the dividend must not engage more than 50% directly or indirectly in activities which lead to passive income (active vs passive test) OR
(2) The foreign tax burden on the income of the company paying the dividend is not substantially lower than the tax burden in Cyprus (effective tax test).
If neither of the above conditions is satisfied, then dividends received from abroad are taxed at the SDC level at the rate of seventeen percent (17%).

Tax credit availability
A tax credit will be afforded according to the Double Taxation Agreements (DTAs) concluded by Cyprus. In the absence of a DTA, Cyprus unilaterally affords a credit for the foreign tax paid up to the amount of tax that would have been payable in Cyprus on the same income. For dividends received from EU Member States the underlying tax credit is also available.
Royalties
If the intangible property right is granted to a Cyprus company for use outside Cyprus, then there is no withholding tax and the corporate rate of 12.5% is applied only on the royalty income left in the Cyprus Company. Gross amounts of royalties from sources within Cyprus, by a company which is not a tax resident of Cyprus are liable to 10% withholding tax at source.

Intellectual property rights (IPR)
An 80% exemption on qualifying net IP income and capital gains upon disposal of the IP assets is available for Cyprus tax resident companies. Amortization provisions over a 5 year period (for IP rights acquired or developed post 1st January 2012) are available.

The above tax incentives cover a wide range of qualifying IP rights and the resulting effective tax rate is always 2.5% or less. In the event of a loss, only 20% of that loss can be offset against income from other sources or be carried forward to be offset against income of following tax years.

Note: The Cyprus tax legislation will be fully aligned with the modified nexus approach in accordance with the OECD guidelines.

Withholding taxes
There are no withholding taxes on payments to non tax resident persons (companies or individuals) in respect of dividends and interest.

Offshore drilling activities
As from 1st January 2016, a 5% withholding tax is levied on the remuneration derived by a non tax resident person, with no permanent establishment in Cyprus, as a result of the provision of services within Cyprus in relation to the extraction, exploration or use of the continental shelf as well as the establishment and use of pipelines and other installations on the ground, on the seabed and on the surface of the sea.

Foreign permanent establishments (PE’s)
The profit of a foreign PE of a Cyprus holding company is exempt from corporate tax in Cyprus, if one of the following two conditions is satisfied: (1) The PE must not engage more than 50%, directly or indirectly, in activities which lead to passive income, OR (2) The foreign tax burden imposed at the level of the PE is not substantially lower than the tax burden in Cyprus.

Trading in securities
Any income arising from trading in “securities” is completely exempt from tax. The term securities includes but is not limited to: ordinary and preference shares, founder’s shares, options on titles, debentures, bonds, short positions on titles, futures/forwards on titles, swaps on titles, depositary receipts on titles, rights of claims on bonds and debentures, index participations (only if they result in titles), repurchase agreements or Repos on titles, participations in companies, units in open-end or closed-end collective investment schemes such as Mutual Funds, International Collective Investment Schemes (ICIS) and Undertakings for Collective Investments in Transferable Securities (UCITS).
Plethora of Benefits from many different tax scenarios

**Tax losses Group** relief is allowed for at least seventy-five percent (75%) group holdings and is applicable only on current year’s results assuming claimants are Cyprus tax resident companies and members of the same group for the whole tax year.

As of January 1st 2015, cross border group relief is allowed under the assumption that the subsidiary company surrendering the losses, is resident in the EU and that all other possibilities for utilising such losses in the country of residency or in the member state of any intermediary holding company, have been exhausted.

Also from the above date, intermediary companies that are not tax residents of Cyprus will be ignored for Group relief purposes, assuming they are tax residents within the EU or in a country with which Cyprus has a double tax treaty in place or an agreement for the exchange of information.

Losses incurred by a Cyprus company in relation to business carried outside Cyprus, are allowed as a deduction against taxable profits generated by that Cyprus company in the current year and any balance can be setoff against profits of other group companies for the same year. Losses that cannot be utilised in the current year, are carried forward for a period of five (5) years, commencing from the end of the year to which the losses relate.

Losses arising from a foreign Permanent Establishment (PE) can be deducted against the profits of the Cyprus company. Future profits of the foreign PE however, will be taxed at the level of the Cyprus company up to the amount of the losses previously relieved.

**Business entertainment Expenses** incurred in the course of business entertainment are generally tax deductible whilst being subject to a cap at the rate of 1% of gross income with a maximum amount of €17,086.

Expenses related to innovation companies All expenses related to research and development undertaken by innovation companies as well as all expenses incurred for the purchase of shares in innovation companies will be treated as a deduction from taxable income.

**Forex differences**
As from January 1st 2015, foreign exchange (FX) gains or losses will be tax exempt/not tax allowable irrespective of whether they are realised or unrealised. The exemption will not apply to companies that are trading in currencies and currency derivatives.
The Cyprus Alternative Investment Funds (AIFs) and Undertakings for Collective Investment in Transferable Securities (UCITS)

Law 124(I)/2018, to the extent amended (hereinafter, the ‘AIF Law’), defines alternative investment funds as any collective investment undertakings, including investment compartments thereof, which, collectively:

- raise capital from a number of investors, with a view to investing it in accordance with a defined investment policy for the benefit of those investors, and
- do not require authorisation pursuant to section 9 of Law 78(I)/2012, as amended (hereinafter, the ‘UCI Law’), or pursuant to the legislation of another member state that harmonises the provisions of Article 5 of the Directive 2009/65/EC, as amended.

The AIF Law allows for three types of AIFs to be registered in Cyprus:

- Alternative Investment Funds with Limited Number of Persons (50) (AIFLNP)s.
- Alternative Investment Funds with Unlimited Number of Persons (AIFs).
- Registered AIFs (RAIFs).

The various legal forms in which either type of AIFs can manifest are as follows:

**AIFLNP:**
- Variable capital investment company (VCIC).
- Fixed capital investment company (FCIC).
- Limited partnership (LP).

**AIF/RAIF:**
- VCIC.
- FCIC.
- LP.
- Common fund (CF).

**UCITS:**
The UCI Law defines UCITS as undertakings the sole object of which is the collective investment in transferable securities and/or other liquid financial instruments as referred to in section 40 (1) of the UCI Law, of capital raised from the public, which operate on the principle of risk-spreading, and the units of which are, at the request of investors, redeemed or repurchased, directly or indirectly, out of these undertakings’ assets.

UCITS can take the following legal forms:
- VCIC.
- CF.
Funds that are opaque for tax purposes and managed and controlled in Cyprus are tax resident in Cyprus and are subject to the general provisions of the Cyprus tax framework.

In the case of funds that have compartments, each compartment is assessed separately for tax purposes, subject to the provisions of the law.

Under circumstances and depending on the legal form of the fund, some funds may be transparent for tax purposes.

Additional key provisions that are relevant to funds are set out below:

**Sale of fund units**
There is no CGT on the gains arising from the disposal or redemption of units in funds unless the fund owns immovable property in Cyprus.

However, even if it owns immovable property in Cyprus, no CGT arises if the fund is listed on a recognised stock exchange.

**Stamp duty**
The subscription, redemption, conversion, or transfer of a fund’s units should be exempt from Cyprus stamp duty.

**No creation of a permanent establishment (PE)**
Based on the Cyprus tax legislation, no PE will be deemed to arise in Cyprus in cases of:

- investment into Cyprus tax-transparent investment funds by non-resident investors, and
- management from Cyprus of non-Cyprus investment funds.

**Management services**
The management fee charged for the provision of collective management services to investment funds is exempted from VAT, provided certain conditions are met.
Capital gains tax (CGT)
Capital gains are not included in the ordinary trading profits of a business but instead are taxed separately under the Capital Gains Tax Law. CGT is only imposed on the sale of immovable property situated in Cyprus as well as on the sale of shares directly or indirectly held in companies (other than listed shares) in which the underlying asset is immovable property situated in Cyprus. Capital gains tax is imposed at a flat rate of twenty percent (20%) after allowing for indexation. Capital Gains that arise from the disposal of immovable property held outside Cyprus or shares in companies which may have as an underlying asset immovable property situated outside Cyprus, are completely exempt from capital gains tax.

A full CGT exemption applies for immovable property consisting of land or land with a building or buildings if acquired from 16/7/2015 up to and including December 31st, 2016.

Inheritance or estate taxes
There are no inheritance or estate taxes.

Wealth taxes
Cyprus imposes no tax on wealth
Other Considerations

**Thin capitalisation rules**
There are no thin capitalisation rules in the Cyprus tax legislation. Special caution must be exercised in relation to interest deductions in respect of loans used for the purchase of assets not used in the business, as such interest expense is disallowed for tax purposes.

**Acquisition costs**
Any interest expense incurred for the direct or indirect 100% acquisition of shares in a company, will be deductible for tax purposes, provided that the assets of the company acquired do not include any assets that are not used in the business.

**Transfer pricing**
There is no specific transfer pricing legislation in Cyprus, other than a provision in the Income Tax Law which requires transactions between ‘related parties’ to be in accordance with the ‘arm’s length principle’. The Cyprus tax legislation adopted the OECD model commentary and guidelines to determine whether a transaction is at arm’s length.

**Exit route**
The Cyprus company offers an ideal exit route since there are no exit taxes on the sale of shares or at the liquidation of the company and no withholding tax upon the repatriation of profits / proceeds to the non-resident shareholders.

**Double tax agreements (DTA’s)**
Cyprus has currently concluded over 50 agreements for the avoidance of double taxation covering the overwhelming majority of the European countries, the United States of America, Canada, India, China, Russia and the C.I.S. countries.

**EU directives**
Cyprus has fully adopted all EU Tax related Directives including the Parent Subsidiary, the Interest and Royalties, the Merger Directive, and the Directive on Administrative Cooperation in the field of Direct Taxation.

**VAT**
Where the exclusive purpose of a holding company is the acquisition and holding of interest in shares in other companies, with the intention of deriving dividend income, such a company is not considered to be performing an economic activity for VAT purposes and consequently it does not have the status of a taxable person.

Companies which are not performing economic activities have neither the obligation nor the right to register for VAT purposes and consequently they cannot claim input VAT.
However, holding companies may be liable to register for VAT where, in addition to the holding of investments, they also have taxable or exempt activities such as:

**Other considerations**
- The supply of management services for a consideration to subsidiaries;
- The provision of interest bearing financing to its subsidiaries (unless the financing is sourced from dividends distributed by the subsidiaries to which finance is granted);
- Trading in shares i.e. purchasing and selling shares on a frequent basis with the intention to profit from the fluctuations of the share price.

Where a holding company is registered for VAT purposes, it may claim input VAT on goods and services acquired in Cyprus and other EU Member States. The right to claim input VAT depends on the types of activities, besides the holding of investments, the company is involved in and where these activities take place.

**Capital duty** in Cyprus is estimated at a flat rate of €105 payable upon incorporation plus the amount of 0,6% duty on the initial authorized capital. Shares issued out of the initial authorized capital does not carry additional capital duty.

If a company needs to increase its authorized share capital, the 0,6% duty will be imposed on the amount of the increase. Capital duty can be minimized by issuing shares at a premium since share premium is not subject to capital duty tax.

**Annual corporate levy** Every company registered in Cyprus is subject to annual levy of €350. In case of corporate groups, the total payment is capped at €20.000 allocated to each Cyprus company.

**Stamp duty** is enforced on written documents addressing Cyprus situated property or cases where the subject matter of the transaction is in Cyprus, irrespective of where the agreement is signed. Agreements with a value of up to €5.000 are not subject to stamp duty tax. Stamp duty on agreements in excess of €5.000 and up to €170.000 are subject to stamp duty tax of 0,15%. Any amount in excess of €170.000 is subject to stamp duty tax at the rate of 0,20%. The maximum stamp duty tax per agreement is €20.000. The duty is payable within 30 days from the day of signing of the agreement.

**Advance tax rulings** An established Tax rulings practice exists. Tax rulings can be obtained from the Income Tax office upon the taxpayer’s request.

**Re-domiciliation** of companies in and out of Cyprus is possible.
Our Services

1. AUDIT & ASSURANCE SERVICES
   - Provision of Statutory Audits
   - Preparation of Financial Statements in accordance to IFRS’s and ISA’s for Private Public, Not-for-profit Organisations and Groups.
   - Corporate Finance Services and Transaction Support
   - Due Diligence Service

2. DIRECT & INDIRECT SERVICES
   - International Tax Planning
   - VAT Services
   - Communication with Tax and VAT Authorities for the Issuance of Certificates
   - TAX Advisory

3. FINANCIAL & REGULATION ADVISORY SERVICES
   - Cyprus Investment Firms and Regulated Funds
   - Electronic Money Institutions / Payment Institutions
   - Outsourcing of Internal Audit and AML functions
   - Risk Management and Capital Adequacy Reporting and Internal Capital Adequacy Assessment Processes
   - Gaming
   - Payroll Services
   - Preparation of Management Accounts

4. FIDUCIARY
   - Structure and Jurisdiction Advice
   - Incorporation and Registration of corporate entities in all major jurisdictions
   - Registered Address Facilities/ Agent Services
   - Directors and Company Officers
   - Nominee holders of shares or other assets
   - Maintenance of statutory records
   - Corporate structuring and administration of foundations and trustees
   - Administrations and day to day running of corporate entities

5. BANKING
   - Opening of corporate, trust and personal accounts
   - Administration and maintenance of bank accounts
   - Assistance with investments
   - Set-up of Escrow Accounts
   - International trade-letters of credit, guarantees and global banking services
   - Risk management: foreign exchange, interest rate
   - Financing

6. GRANTING OF CYPRUS CITIZENSHIP
   - Preparation of Immigration Permits
   - Preparation of Residence Permits
   - Second Passport
Contact us

Start a conversation with us today to find out how you can benefit from a relationship with FLEXI GROUP. Please get in contact with one of our partners.

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