

CYPRUS HOLDING COMPANY

Corporate Tax Provisions

Corporate Tax – Trading profits are subject to a corporate tax rate of ten percent 10% the lowest in Europe

Interest Income – Interest income effectively connected with a trade of business is subject to the corporate rate of 10% tax as regular trading income

Passive Interest Income not connected to a trade of business is 50% exempt for corporate tax purposed and the rest is taxed at 10% thus effectively reducing the corporate tax rate at 5 %. Passive interest Income is also taxed at the Special Contribution for Defense (SCD) at 10% leading to a combined overall effective tax rate of 15%

Dividend - There is no withholding tax on dividends received from other Cyprus resident companies. Dividends received from abroad are also tax exempt if the following two conditions are satisfied :-

- A) The company receiving the dividend must hold directly at least one percent 1% of the share capital of the company abroad paying the dividend and
- B) The company paying the dividend 1) must not engage more than fifty percent in activities which lead to passive income (non trading income) Or 2) The foreign tax burden on the income for the company paying the dividend is not substantially lower than the tax burden in Cyprus. (A tax rate of 5% or more in the country paying the dividend satisfies this condition)

If the above conditions are not satisfied then dividends will be taxed at the Special Contribution for Defense (SCD) at 15%. Credit however will be afforded according to Double Tax agreements (DTA). In the absence of a DTA Cyprus unilaterally affords a credit for the foreign withholding tax paid on such income.

Royalties – The taxation of gross amounts of royalties earned from sources within Cyprus by a company which is not a resident of Cyprus is liable to 10% withholding tax. If such right however is granted to a Cyprus company for used outside Cyprus, then there is no withholding tax and the corporate rates is applied only on the profit margin left in the Cyprus company.

Foreign Permanent Establishment – The profits from a foreign PE held by the Cyprus holding company are exempt from corporate tax

Trading in Securities – The income of investment funds and investment companies from trading in securities is completely exempt from corporate tax

Tax Losses – Group relief is allowed for at least 75% group structures and is applicable only on yearly results if both claimants are Cyprus tax resident companies. Tax losses that arose from the tax year 19897 onwards may be carried forward indefinitely and set off against any future profits until fully extinguished. Losses incurred from any business carried on outside Cyprus will be allowed as a deduction from the other profits generated by the Cyprus Company

Withholding Taxes - There are no withholding taxes on payments to non resident persons companies or individuals in respect of dividends and interest

There is unilateral tax credit afforded in Cyprus for taxes withheld or paid in other countries where there is no bilateral agreement of double tax treaty in force.

OTHER TAXES

Capital Gains Tax – Capital gains are not included in the ordinary trading profits of a business but instead are taxed separately under the capital gains Tax Law.

Capital gains from the sale of immovable property situated in Cyprus and or sale of shares in companies (other than quoted shares) that own immovable property situated in Cyprus are taxed at a flat rate of 20% after allowing for indexation

Capital gains that arise from the disposal of immovable property held outside Cyprus or shares in companies which may include immovable property held outside Cyprus are completely exempt from capital gains

Inheritance or Estate Taxes - There are no inheritance estate or other taxes on shares held in a Cyprus company

Wealth Taxes – Cyprus imposed no tax on wealth.

Transfer Pricing – There are no transfer pricing rules in Cyprus but a provision in the Tax Law requires transactions to be based on the arms length principle. Cyprus legislation incorporates the OECD model and guidelines to determine what arm's length is.