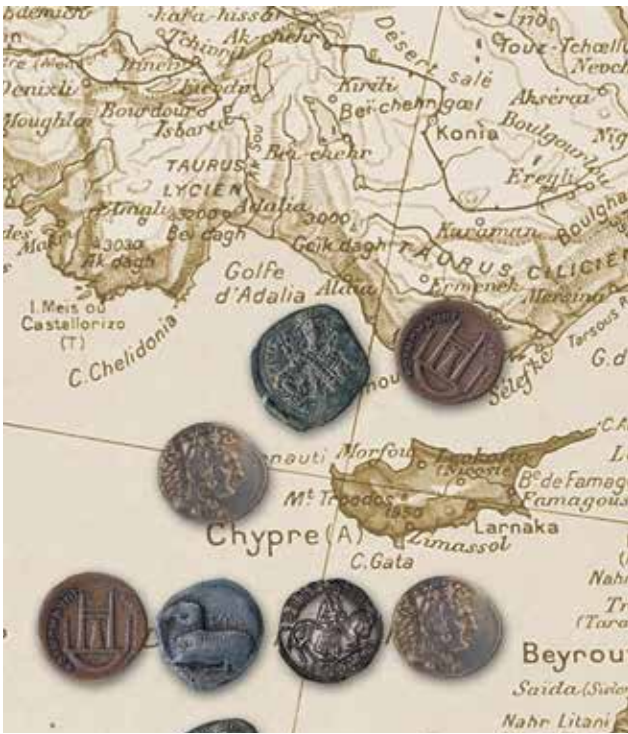


# Cyprus Tax Guide for Investors



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## CYPRUS: AN INTERNATIONAL BUSINESS & INVESTMENT CENTER

Cyprus has a number of comparative advantages that have contributed towards the country becoming an important international business and investment center:

- EU and European Monetary Union member state
- Business-friendly Tax and Legal System
- Strategic location
- Well developed socio-economic infrastructure
- Broad range of international financial and business services - legal, tax, accounting, investment and brokerage
- Advanced banking and financial services sector to suit all financial needs
- An emerging and attractive domicile for the registration and management of Investment Funds
- An active Stock Exchange and robust Securities and Exchange Commission
- Market-oriented economy
- Highly educated, qualified and multilingual talent

- Steady/pleasant business environment accompanied with simple administrative procedures
- Low setup and operating costs
- Advanced transport and telecommunications network
- Renowned international shipping centre
- Envious quality of life
- Stable political environment

Having considered the numerous challenges arising from increased competition, globalization and the recent global financial crisis, the Government of Cyprus is promoting numerous measures and initiatives to further establish the country's appeal as an investment destination. A number of measures related to "Better Regulation" are being implemented to facilitate the elimination of unnecessary red tape. Efforts are also being made to remove regulatory barriers for enterprises' establishment.





## TAX HIGHLIGHTS

The Cyprus tax, legal and regulatory system provides excellent (operational) opportunities for international businesses. Cyprus' (inclusion of a) 12.5% corporate tax rate and tax exempt status of gains, produced from the sale of overseas securities and dividends, underpins its advantageous position in the EU. When these benefits are coupled with affordable costs for high-level professional services, Cyprus stands out as an attractive investment destination for investors across the world.

Cyprus continues to emerge as a reputable and accredited onshore primary location for the business activities of multinational companies.

### Cyprus Tax Highlights

- One of the lowest corporate tax rates in the EU at 12.5%
- A generous participation exemption regime
- Foreign capital gains exemption
- No dividend, interest or royalty withholding tax on outgoing payments
- Gains from trading in a wide range of securities are tax exempt
- A competitive and new IP Regime
- Foreign PE profits are tax exempt
- Access to an extensive network of Double Tax Treaties and EU Tax Directives
- Individual tax regime attractive to international professionals
- Tailor made provisions for the investment fund industry

### 1. One of the lowest corporate tax rates in the EU

All trading profits of a Cyprus company are taxed at the flat rate of 12.5%, following the deduction of related expenses entirely incurred in the production of income.

### 2. A generous participation exemption regime

Foreign dividends received by a Cyprus company are not subject to income tax and may also be exempt from Special Defence Contribution, should the following conditions are met:

- A. The paying company must not directly or indirectly engage more than 50% into activities which lead to passive income (non-trading income) or;
- B. The foreign tax burden on the income of 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).
- C. No holding threshold is required and the Cyprus participation exemption regime can be described as one of the most generous amongst the available ones. This is witnessed by the fact that virtually all cases are exempt from any taxation in Cyprus, as the criteria listed above are easy to satisfy.

### 3. Foreign capital gains are exempt

As Cyprus tax legislation applies clear separation between income and capital, 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).

Capital Gains Tax is only imposed on the sale of immovable property situated in Cyprus as well as on the sale of shares in companies (other than quoted shares) in which the underlying asset is immovable property situated in Cyprus. Capital gains tax is imposed at a flat rate of 20% after allowing for indexation.

### 4. No dividend, interest or royalty withholding tax on outgoing payments

Cyprus does not impose withholding taxes on payments to non-tax resident persons (companies or individuals) in respect of dividends, interest and royalties used outside Cyprus, irrespective of whether the recipient of the payments resides in a treaty country or not.

This provides excellent profit repatriation opportunities combined with tailor made financing structures. These are implemented through the use of Cyprus companies and the novel IP regime which allow Cyprus to pose as an ideal holding jurisdiction, minimizing withholding tax exposure for international businesses and multinational groups.

### 5. Trading in Securities

A unique feature of the Cyprus tax system relates to the taxation of gains or profits arising from the trading of a wide range of securities.

Any income arising from trading in securities is completely exempt from corporate tax. The term 'Securities' includes but is not limited to: ordinary and preference shares, founders 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 represent 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).

#### **6. A competitive new IP Regime**

Added to the above, the beneficial provisions of the new IP regime provide an 80% notional deduction on IP related income and capital gains from the disposal of IP rights and competitive amortization provisions.

The new regime provides very attractive opportunities for structuring the exploitation of IP rights through Cyprus.

Taken in conjunction with the availability of an extensive network of double tax treaties, international businesses are able to arrange their IP operations in the most tax efficient manner.

#### **7. Foreign PE profits are tax exempt**

Subject to the criteria listed below, any foreign PE profit of a Cyprus company is exempt from corporate tax in Cyprus:

- A. The PE must not directly or indirectly engage more than 50% into activities which lead to passive income or
- B. The foreign tax burden imposed on the PE must not be substantially lower than in Cyprus.

This allows international businesses operating in a broad scope of sectors (such

as construction and trading) to organize their operations under Cyprus companies by optimizing their commercial and tax strategies.

#### **8. Access to an extensive network of Double Tax Treaties and EU Tax Directives**

Over the years, Cyprus has developed an extensive network of Double Tax Treaties which facilitate international investment to and from Cyprus. Cyprus has managed to maintain and complete a number of treaties with exemplary beneficial provisions that provide an invaluable tool for international businesses in combination with favourable aspects of the Cyprus tax system.

In the last three decades, multinational companies have used Cyprus extensively for international tax planning. Spanning

the world, the countries include the United States, India, Canada and numerous European countries such as Germany, Denmark, Sweden and the UK. Evidence demonstrates that most investment into Central and Eastern Europe (including Russia and Ukraine) is routed through Cyprus in line with the advantageous tax treaty network and local tax provisions. Cyprus has signed more than 50 double taxation agreements to facilitate international business. Negotiations are currently taking place for over 30 additional agreements, due for completion soon.

#### **- Full Access to EU Tax Directives**

Cyprus tax laws have been amended to incorporate all EU directives. These include the Interest and Royalty directive, the directive on mergers and the directive on Savings and Interest payments.

## CYPRUS DOUBLE TAX TREATY NETWORK

Armenia	Mauritius
Austria	Montenegro
Belarus	Moldova
Belgium	Norway
Bulgaria	Poland
Canada	Portugal
China	Qatar
Czech Republic	Romania
Denmark	Russia
Egypt	San Marino
Estonia	Serbia
Finland	Seychelles
France	Singapore
Germany	Slovak Republic
Greece	Slovenia
Guernsey*	South Africa
Hungary	Spain*
India	Sweden
Ireland	Switzerland*
Italy	Syria
Kuwait	Tajikistan
Kyrgyzstan	Thailand
Lebanon	Ukraine
Lithuania*	U.A.E
Malta	United Kingdom
Iceland	United States

\* Not yet in force

### 9. An attractive individual tax regime for international professionals

Cyprus has developed an attractive individual tax regime with low income tax rates and appropriate concessions for international and mobile professionals.

A 35% cap is applied to personal income over EUR 60,000.

From January 1<sup>st</sup>, 2012, changes were made to allow 50% of gross emoluments to be deducted from taxable income for individuals not resident to Cyprus prior

to their commencement of employment in the country. This deduction applies when income exceeds €100,000 p.a. and is allowed for a period of five (5) years, commencing from the date of employment.

The tax benefits available under the Cyprus income tax law for expatriates include a tax exemption of €8,550 or (20%), or the lower of the two, of the gross emoluments of an individual who was not a tax resident of Cyprus prior to the commencement of employment in Cyprus. This exemption applies for a period of three years, commencing on the tax year following the year of taking up employment in Cyprus (starting the tax year after the first year of employment in Cyprus).

### 10. Tailor made provisions for the fund industry

As above, the combination of corporate and individual tax beneficial provisions finds clear application in the funds industry. Cyprus is developing into a selected destination for fund managers and fund management companies. Individual fund managers enjoy the low income tax rates and the readily available concessions, while fund management companies enjoy the low corporate income tax rates, exemptions and the absence of any withholding tax on dividends and interest to non-resident shareholders. Furthermore, they enjoy significantly lower operating costs without compromising the quality of service delivery.

It should be noted that the revenues of fund management companies in Cyprus are generally exempt from VAT. The Cyprus VAT Legislation provides specific guidance with respect to the meaning of "funds

and management of mutual funds" that would benefit from this VAT exemption. To this end, "fund management services" that are offered to mutual funds include the following main categories of services: investment management, administration, and promotion/marketing.

Cyprus tax laws have accommodated the tax needs of investment funds (both UCITS and alternatives) by offering a wide range of incentives for their set up and operation:

- Exemption from tax on any income arising from trading in securities and participations in companies more specifically ended or closed-ended collective investment schemes, such as Mutual Funds, International Collective Investment Schemes (ICIS)/ Alternative Investment Funds (AIFs) and Undertakings for Collective Investments in Transferable Securities (UCITS);
- Interest received by regulated investment funds will be considered 'active' interest income and taxed at only 12.5% corporate income tax;
- No minimum participation threshold for exemption on inbound dividends;
- Liquidation of investment funds are not taxable if the unit holders are not Cyprus tax residents.

## OTHER RELATED USEFULL INFORMATION

### Steps for business registration in Cyprus:

The first step is to send an application to the Registrar of Companies for approval of the company name. The business's relevant documents are then sent to the Registrar of Companies. Business registration documents such as articles of association can be submitted following verification from a member of the Cyprus Bar Association i.e. a registered Lawyer/Advocate. Items such as articles of association may be submitted in any European language alongside with a sworn statement confirming that it is an accurate translation of the Greek original. Following these steps, the company can be fully registered (in Cyprus).

### Other registrations required by Law for any business operating in Cyprus:

#### Social insurance registration

Any company employing one or more persons must be registered under the Cyprus National Insurance Scheme. Applications for Social Insurance registration must be submitted to National Insurance District Offices or Citizen Service Centres in the district in which the business is established within one month of a new employee's recruitment. Payments to the Social Insurance System are carried out at the end of the month following proof of labour.

#### Tax registration

Any company or person operating in Cyprus must register with the Taxpayers Register of the Inland Revenue Department

of Cyprus as soon as possible. Law requires such registration to occur within 30 days of a business's inclusion. This can take place through the submission of relevant forms to the Income Tax District Offices. The company will subsequently receive the relevant Cyprus Tax Identification Number (T.I.N).

#### VAT registration

With regards to VAT, anyone that is: supplying goods, providing services; involved in intra-community acquisitions or distance selling in Cyprus must enrol for the VAT Register by submitting the relevant application to the appropriate VAT District Office for the business.

#### Business Insurance

Every company that employs personnel in Cyprus is compelled by Cyprus Law to maintain Employer's Liability Insurance. Depending on the activities of the business, special purposes insurances may also be required to cohere to Cypriot Law. These insurances may include: Professional Negligence Insurance, Contractors All Risk Insurance, Public Liability Insurance, Medical Insurance, Marine Insurance (for ship-owning companies) etc.

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