

The Cyprus Holding Company - Your Gateway to Europe, Asia, Africa and the Middle East

April 2021

The Republic of Cyprus has established itself as one of the most attractive jurisdictions within the EU and globally for holding companies. Its investor friendly environment, business-friendly and unique tax system, EU membership and OECD compliance made Cyprus an ideal location for holding company. Its strategic location between Europe and the Middle East makes Cyprus an ideal place for holding companies with interest in the wider region.

Provisions of Cyprus Holding Company

Tax Residency: A company is considered to be a tax resident of Cyprus if the management and control function is exercised in Cyprus.

Appointment of Directors: Companies are managed and controlled by the board of directors. Under the Cyprus Company Law, a Cypriot private company must have at least one director. In all other cases at least two directors are required. Management and control of a company determines under Cypriot tax legislation the tax status of the company. Therefore, the venue of its meetings is significant for tax purposes

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 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 equity amount by a so called “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 5%. 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 any other income. Passive interest income, (income not connected to a trade or business), is exempt from corporate income tax and instead it is taxed separately at the Special Contribution for Defence (SDC) 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:

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

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 tax rate (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 5% withholding tax on film royalties and 10% withholding tax on any other royalties, unless a lower rate applies under a DTA (for income received from qualifying IP assets, see below).

Intellectual property rights (IPR): A new IP regime is in place as from July 1st, 2016, fully aligned with BEPS Action 5 and the Nexus principle. Profits from qualifying intangible assets are entitled to an 80% deduction, calculated as per the statutory formula set in line with the Nexus principle. The resulting effective tax rate will always be 2,5% or less. A taxpayer may elect to claim all or part of the available deduction for a particular year. 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 the following tax years. Transitional arrangements have also been introduced, allowing the provisions of the old IP regime to continue to apply up and until the 30th June 2021.

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.

Withholding taxes: There are no withholding taxes on payments to non-tax resident persons, other than royalties derived from sources in Cyprus by a company which is not a tax resident of 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)

Other Considerations

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. There is 0% Capital gains tax on sale of shares, titles or property situated outside Cyprus. Specifically 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.

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

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:

- 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.

Transfer pricing: As from the 1st of July 2017 the arm's length principle must apply to all intra group back-to-back financing arrangements. An appropriate transfer pricing analysis must be carried out in order to determine the applicable arm's length remuneration. Under certain conditions, entities carrying out a purely intermediary activity may opt for a Simplification Measure (resulting to a minimum return of 2% after tax on assets).

Annual corporate levy: Every company registered in Cyprus is subject to an annual levy of €350.

Accounting Requirements & Filing: Under the Cyprus Companies Law Cap.113, financial statements of Cypriot companies are prepared in accordance with the International Financial Reporting Standards (IFRS's). These standards require the Cypriot holding companies to prepare consolidated audited financial statements on an annual basis. Consolidation is not required when the Cypriot holding company is an intermediary holding company and a holding company further up the ownership chain prepares consolidated financial statements under approved accounting standards. The audited financial statements of the entity must be prepared for company and tax law purposes and submitted to the Registrar of Companies with the annual return. A tax return is submitted to the Income Tax Office for each tax year. The tax year is the calendar year.

Double tax agreements (DTA's) Cyprus has currently concluded over 65 DTAs covering the overwhelming majority of the European countries, the United States of America, Canada, India, China, Russia, Switzerland and the C.I.S. countries. Double tax treaties are included in the appendix of the publication ("**Appendix – Double tax Treaties**").

How can dba assist you

- Assistance through the process of setting up the Cyprus company
- Registration of Company with Cyprus Registrar of Companies
- Various registrations if needed: Tax Registration, VAT Registration, VIES Registration, Registration with Cyprus Chamber of Commerce, EORI Registration, Social Insurance Registration
- Assistance with finding Directors and local office
- Assistance for compliance of the Company with the local requirements
- Accounting and Audit Services

What should you expect from dba

- *Continuous communication and discussions of the progress of setting up the Company*
- *Continuous support at all times*
- *Good relationships with the relevant authorities by our senior team*
- *Peace of mind*

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Appendix – Double tax Treaties

The following table and notes list the maximum withholding tax rates that may be deducted from income received by a Cyprus tax resident from a resident of a country that has signed a tax treaty with Cyprus. Withholding tax rates based on the agreements for the avoidance of double taxation.

Resident in Cyprus			
Paid from:	Dividends %	Interest %	Royalties %
Andorra	0	0	0
Armenia	0 (32)	5 (33)	5
Austria	10	0	0
Bahrain	0	0	0
Barbados	0	0	0
Belarus	5 (4)	5	5
Belgium	10 (1)	10 (16)	0
Bulgaria	5 (19)	7 (25)	10 (20)
Canada	15	15 (8)	10 (11)
China	10	10	10
Czech Republic	0 (30)	0	10
Denmark	0 (34)	0	0
Egypt (46)	5 (46)	10	10
Ethiopia	5	5	5
Estonia	0	0	0
Finland	5 (37)	0	0
France	10 (7)	10 (9)	0
Georgia	0	0	0
Germany	5 (2)	0	0
Greece	25	10	0 (12)
Guernsey	0	0	0
Hungary	5 (1)	10 (8)	0
Iceland	5 (39)	0	5
India	10	10 (8)	10
Iran	5 (19)	5	6
Ireland	0	0	0 (12)
Italy	15	10	0
Jersey	0	0	0
Kazakhstan	5 (47)	0 (48)	10
Kuwait	10	10 (8)	5 (14)
Kyrgyzstan (27)	0	0	0
Latvia	0 (42)	0 (42)	0 (43)
Lebanon	5	5 (16)	0
Lithuania	0 (40)	0	5
Luxembourg	0 (35)	0	0
Malta	0 (22)	10 (8)	10
Mauritius	0	0	0
Moldova	5 (19)	5	5
Montenegro (28)	10	10	10
Netherlands	15	0	0
Norway	0 (3)	0	0
Poland	0 (36)	5 (8)	5
Portugal	10	10	10
Qatar	0	0	5
Romania	10	10 (8)	5 (14)
Russia (26)	15 (6)	15	0
San Marino	0	0	0
Saudi Arabia	0 (44)	0	5 (45)
Serbia (28)	10	10	10
Seychelles	0	0	5
Singapore	0	10 (23)	10
Slovakia (29)	10	10 (8)	5 (14)
Slovenia	5	5 (33)	5
South Africa	10 (41)	0	0
Spain	0 (35)	0	0
Sweden	5 (1)	10 (8)	0
Switzerland	0 (38)	0	0
Syria	0 (1)	10 (8)	15 (13)
Tajikistan (27)	0	0	0
Thailand	10	15 (17)	5 (18)

Ukraine	5 (21)	5	5 (15)
United Arab Emirates	0	0	0
United Kingdom	0 (24)	0	0
USA	5 (5)	10 (10)	0
Uzbekistan (27)	0	0	0

Payments of dividends and interest by Cyprus tax residents to non-Cyprus tax residents are exempt from withholding tax in Cyprus according to the Cyprus tax legislation. Royalties granted for use outside of Cyprus are also free of withholding tax in Cyprus.

The following table and accompanying notes list the maximum withholding tax rates provided in the relevant tax treaties.

Resident in Cyprus			
Paid to:	Dividends %	Interest %	Royalties %
Non-treaty countries	0	0	0*
Andorra	0	0	0
Armenia	0 (32)	5 (33)	5
Austria	10	0	0
Bahrain	0	0	0
Barbados	0	0	0
Belarus	5 (4)	5	5
Belgium	10 (1)	10 (16)	0
Bulgaria	5 (19)	7 (25)	10
Canada	15	15 (8)	10 (11)
China	10	10	10
Czech Republic	0 (30)	0	10
Denmark	0 (34)	0	0
Egypt (46)	5(46)	10	10
Ethiopia	5	5	5
Estonia	0	0	0
Finland	5 (37)	0	0
France	10 (7)	10 (9)	0
Georgia	0	0	0
Germany	5 (2)	0	0
Greece	25	10	0 (12)
Guernsey	0	0	0
Hungary	5 (1)	10 (8)	0
Iceland	5 (39)	0	5
India	10	10 (8)	10
Iran	5 (19)	5	6
Ireland	0	0	0 (12)
Italy	0	10	0
Jersey	0	0	0
Kazakhstan	5(47)	0(48)	10
Kuwait	10	10 (8)	5 (14)
Kyrgyzstan (27)	0	0	0
Latvia	0 (42)	0 (42)	0 (43)
Lebanon	5	5 (16)	0
Lithuania	0 (40)	0	5
Luxembourg	0 (35)	0	0
Malta	15	10 (8)	10
Mauritius	0	0	0
Moldova	5 (19)	5	5
Montenegro (28)	10	10	10
Netherlands	15	0	0
Norway	0 (3)	0	0
Poland	0 (36)	5 (8)	5
Portugal	10	10	10
Qatar	0	0	5
Romania	10	10 (8)	5 (14)
Russia	15 (6)	15(31)	0
San Marino	0	0	0
Saudi Arabia	0 (44)	0	5 (45)
Serbia (28)	10	10	10

Seychelles	0	0	5
Singapore	0	10 (23)	10
Slovakia (29)	10	10 (8)	5 (14)
Slovenia	5	5 (33)	5
South Africa	10 (41)	0	0
Spain	0 (35)	0	0
Sweden	5 (1)	10 (8)	0
Switzerland	0 (38)	0	0
Syria	0 (1)	10 (8)	15 (13)
Tajikistan (27)	0	0	0
Thailand	10	15 (17)	5 (18)
Ukraine	5 (21)	5	5 (15)
United Arab Emirates	0	0	0
United Kingdom (26)	0 (24)	0	0
USA	0	10 (10)	0
Uzbekistan (27)	0	0	0

Notes:

- * 10% in the case of royalties granted for use within the Republic. 5% on film and TV rights.
- (1) 15% if received by a company controlling less than 25% of the voting power.
- (2) 5% if received by a company controlling more than or equal to 10% of the capital. 15% in all other cases.
- (3) NIL if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the company paying the dividend. 15% in all other cases.
- (4) 5% if the amount invested by the beneficial owner is over €200,000 irrespective of the % of voting power acquired. 10% is imposed if received by a holder of at least 25% of the share capital of the paying company. Otherwise the rate is 15%.
- (5) 5% if received by a company controlling at least 10% of the voting power. 15% in all other cases.
- (6) 5% if the beneficial owner is an insurance undertaking or pension fund, the Government or a political subdivision or a local authority, the Central Bank, or a company whose shares are listed on a registered stock exchange provided that no less than 15% of the voting shares are in free float and which holds directly at least 15% of the dividend paying company throughout a period of 365 days, that includes the day of the dividend payment. 15% in all other cases.
- (7) 10% if received by a company controlling more than or equal to 10% of the capital. 15% in all other cases.
- (8) NIL if paid to the Government of the other State.
- (9) NIL if paid to the Government of the other State or in connection with the sale on credit of any industrial, commercial or scientific equipment or any merchandise by one enterprise to another or in relation to any form of loan granted by a bank or is guaranteed from government or other governmental organisation.
- (10) NIL if paid to the Government of the other State, to a bank or a financial institution or in respect to debt obligations arising in connection with sale of property or the provision of services.
- (11) NIL on literary, dramatic, musical or artistic work with the exception of films used for television programs.
- (12) 5% on film royalties (except films shown on TV).
- (13) 10% on literary, musical, artistic work, films and TV royalties.
- (14) NIL on literary, artistic or scientific work including films.

- (15) 5% on royalty payments in respect of any copyright of scientific work any patent, trade mark, secret formula, process or information concerning industrial, commercial or scientific experience. 10% in all other cases.
- (16) NIL if paid to the Government of the other State, a political subdivision or a local authority, the National Bank or any institution the capital of which is wholly owned by the State or a political subdivision or a local authority or in the form of interest income from bank deposits.
- (17) 10% on interest received by financial institutions, on interest paid in connection with industrial, commercial, scientific equipment or the sale or merchandise between two companies.
- (18) 10% on right to use industrial, commercial or scientific equipment or for information concerning industrial, commercial or scientific experience and 15% for patents, trademarks, designs, models, plans, secret formulas or processes.
- (19) 5% if the dividend is received by a company owning directly at least 25% of the capital of the company paying dividend. 10% in all other cases.
- (20) This rate does not apply, where 25% or more of the capital of the Cypriot resident is owned directly or indirectly by the Bulgarian resident paying the royalties and the Cyprus company pays less than the normal rate of tax.
- (21) 5% is applicable if the dividend is received by a company owning at least 20% of the capital of the dividend paying company and has invested in the acquisition of shares or other rights of the dividend paying company of at least €100,000. 15% in all other cases.
- (22) The treaty provides that the tax on the gross amount of the dividends shall not exceed that chargeable on the profits out of which the dividends are paid.
- (23) 7% if paid to a bank or similar financial institution. NIL if paid to the government.
- (24) 15% if dividends are paid out of income derived from immovable property by certain investment vehicles.
- (25) NIL if paid to or is guaranteed by the Government, statutory body, the Central Bank.
- (26) The additional Protocol signed on 8 September 2020 between Cyprus and Russia that amends the tax treaty is effective from 1 January 2021.
- (27) The treaty between the Republic of Cyprus and the United Soviet Socialist Republic still applies.
- (28) The treaty between the Republic of Cyprus and the Socialist Federal Republic of Yugoslavia still applies.
- (29) The treaty between the Republic of Cyprus and the Czechoslovak Socialist Republic still applies.
- (30) NIL if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the company paying the dividends where such holding is being possessed for an uninterrupted period of not less than one year. 5% in all other cases.
- (31) NIL if the beneficial owner is an insurance undertaking or pension fund, the Government or a political subdivision or a local authority, the Central Bank, or a bank or if it is paid in respect of government or corporate bonds or Eurobonds, all listed on a registered stock exchange.

5% if the beneficial owner is a company whose shares are listed on a registered stock exchange provided that no less than 15% of the voting shares are in free float and which holds directly at least 15% of the dividend paying company throughout a period of 365 days, that includes the day of the dividend payment.
- (32) 5% if the beneficial owner has invested in the capital of the company less than the equivalent of €150,000 at the time of the investment.
- (33) NIL if paid to the Government or to a local authority, or to the Central Bank.
- (34) NIL if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the company paying the dividends, where such holding is being possessed for an uninterrupted period of no less than 12 months.

NIL if the beneficial owner is the other Contracting State or the Central Bank of that other State, or any national agency or any other agency (including a financial institution) owned or controlled by the Government of that other State.

NIL if the beneficial owner is a pension fund or other similar institution providing pension schemes in which individuals may participate in order to secure retirement benefits, where such pension fund or other similar institution is established, recognized for tax purposes and controlled in accordance with the laws of that other State. 15% in all other cases.

- (35) NIL if the dividend is received by a company (other than a partnership) holding at least 10% of the capital of the dividend paying company. 5% in all other cases.
- (36) NIL if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the company paying the dividends, where such holding is being possessed for an uninterrupted period of no less than 24 months. 5% in all other cases.
- (37) 5% if the dividend is received by a company (other than a partnership) which controls directly at least 10% of the voting power in the company paying the dividends. 15% in all other cases.
- (38) NIL if the beneficial owner is:
 - (i) a company (other than a partnership) the capital of which is wholly or partly divided into shares and which holds directly at least 10% of the capital of the company paying the dividend for an uninterrupted period of at least one year, or
 - (ii) a pension fund or other similar institution recognised as such for tax purposes, or
 - (iii) the Government, a political subdivision, local authority or central bank of one of the two contracting states. 15% in all other cases.
- (39) 5% if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the company paying the dividends. 10% in all other cases.
- (40) NIL if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the company paying the dividends. 5% in all other cases.
- (41) 5% if the dividend is received by a company which holds at least 10% of the capital of the company paying the dividends. 10% in all other cases.
- (42) NIL if the beneficial owner is a company (other than a partnership). 10% in all other cases.
- (43) NIL if the beneficial owner is a company (other than a partnership). 5% in all other cases.
- (44) NIL if the beneficial owner is a company which holds directly or indirectly at least 25% of the capital of the company paying the dividends. 5% in all other cases.
- (45) 5% on royalties for the use of, or the right to use, industrial, commercial or scientific equipment. 8% in all other cases.
- (46) 5% if the beneficial owner is a company (other than a partnership) which holds directly at least 20% of the capital of the dividend paying company throughout a period of 365 days, that includes the day of payment of the dividend. 10% in all other cases.
- (47) 5% if the beneficial owner is a company which holds directly at least 10% of the capital of the dividend paying company. 15% in all other cases.
- (48) NIL if the beneficial owner is the Government of the other Contracting State, a political subdivision, a central or local authority, the Central Bank or any other financial institution wholly owned by the Government of the other Contracting State. 10% in all other cases.