Cyprus international business environment and tax favorable system

Cyprus

Cyprus is strategically located between Europe, Asia and Africa and is recognized as an international center of excellence for the provision of professional services. A combination of its low tax regime, double taxation treaties network and legal system makes Cyprus a desirable location for the formation of various types of companies. Since 2004, Cyprus joined the European Union (EU) resulting in a great number of advantages in the EU market. Cyprus has one of the most attractive tax systems in Europe which is effective, transparent and fully compliant with the EU laws and regulations. Cyprus's legal system is based on the principles of the United Kingdom (UK) which assists international business to be carried out through the country.

Other advantages

- High standard of living,
- English language is widely spoken and accepted language of business,
- Infrastructure that supports international business. The costs for incorporating and maintaining a Cyprus company are low compared to other EU countries,
- High standard of professional services provided by lawyers, accountants, auditors, tax advisors and bankers,
- High standard of education. The country has been ranked one of the top countries in EU in respect of its university graduates in proportion of its population,
- International airports serving a high number of international and European airlines,
- Sound banking sector (local and offshore bank corporations) offering online banking services,
- Excellent telecommunication systems with high end technology products and solutions.

Commonly used tax structures

Holding Company

- Dividends received from a company resident in the Republic are not taxable.

- Dividends received from a company non-resident in the Republic are not taxable (subject to certain conditions).

- Dividends received – withholding tax on foreign jurisdiction
    - Cyprus has signed an extensive number of Double Tax Treaties (DTTs). Based on these treaties a Cyprus company has the ability to extract dividends at a zero or low tax rates of foreign withholding tax.

- Dividends paid to non-resident in the Republic shareholders (whether companies or individuals) are not subject to any withholding tax in Cyprus.

- Dividends paid by a Cyprus tax resident Company to another Cyprus tax resident Company are exempt from tax, provided that the dividend is not indirectly distributed after the expiry of a four year period from the end of the year to which the profits giving rise to the dividend relate. This provision is in force as of 1st January 2012.

- No withholding taxes on outgoing dividends, interest and royalties (with some exceptions).

- No capital gains tax on the sale or transfer of securities and the gains are exempt from the Income Tax provisions (except gains from disposal of shares in companies owing immovable property situated in Cyprus).

- Tax losses can be carried forward against taxable income over a period of five years from the end of the tax year in which they were incurred.

- Profits from a Permanent Establishment (PE) outside Cyprus are tax–exempt and its losses can be set off against Cyprus Income (under certain conditions). However, such losses are recaptured when the overseas permanent establishment becomes profitable.

- Unilateral tax relief is granted to all Cyprus Companies for foreign tax suffered irrespective of the absence of a double tax treaty.

- No obligation for the Holding Company (or right) for VAT registration & compliance provided that there will be no Vatable activities.

- Tax free liquidation.

- There are no inheritance or estate taxes.

- Cyprus imposes no tax on wealth.

Financing Company

The use of a Cyprus company for group finance is extremely attractive. Cyprus finance companies can fulfill intra-company financial management functions, such as granting of loans for project financing or working capital requirements.

Cyprus companies can be used for group financing activities as Cyprus has no thin capitalization rules or withholding tax on interest. However, 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 expenses are disallowed for tax purposes.

A Cyprus financing company can provide subsidiaries interest bearing loans using the wide tax treaty network of Cyprus. This can result in a double dip effect provided the financing is undertaken from a tax efficient location i.e., the interest will be tax deductible in the operating location and will be tax free in the recipient jurisdiction. Any margin remaining in the Cyprus company will be subject to income tax at the rate of 12.5%.

Intellectual Property (IP) owning Company

Cyprus “IP Box” regime

On 24 May 2012, following amendments to the Income Tax Law, Cyprus enacted a favorable tax regime for companies owning Intellectual Property (IP) falling within the below categories as defined in the relevant laws:

- Patents
- Copyrights
- Trademarks

The purpose of the above regime is to make Cyprus an attractive jurisdiction and also to provide incentives for research and development activities as well as to promote innovation and investment in new technology. The effective tax applicable for companies owning IP as from 1 January 2012 will not be higher than 2,5% (for tax year 2012, 2%).

General provisions

- 80% of the net profit generated from the exploitation of the IP is exempt from taxation. For the purpose of determining the net profit, the law allows the deduction from the resulting IP income of all expenses incurred wholly and exclusively for the production of IP income as well as a proportion of indirect expenses incurred.

- Income falling within the above provision
    - Income from the exploitation of IPs
    - Income from the disposal of IPs
    - Compensations received from any illegal use of IPs

- Direct expenses falling within the above provision
    - Amortisation of capital expenditure made on the acquisition or development of IPs in the year incurred and in the following 4 years. The company will be able to receive capital allowances of 20% straight line starting from the first year of the use of the asset as well as the subsequent four years of usage.
    - Interest incurred for the acquisition or development of IPs
    - Direct expenses not capitalized
    - Other expenses directly related to IP activities (such as consulting expenses)

  The above provisions are applicable if the following conditions are met:

- The taxable person must be the owner of the intellectual property which should be registered either in Cyprus or abroad
- The IPs must be used for the production of taxable income
- The IPs must fall within the definitions of the relevant laws:
    - Patent Law
    - Trademarks Law
    - Protection of Intellectual Property Law

Ship Owning and Management Company

There are specific exemptions for ship management companies, ship owning companies and companies managing and employing crews working in international waters. Cyprus has a very competitive tonnage tax regime which in brief includes the following advantages:

- No income tax on shipping profits including profits from the sale of ships,
- No tax on dividends paid from shipping profits,
- No estate duty or capital gains tax,
- No income tax in Cyprus for foreign crew,
- No stamp duty on documents or mortgage deeds.

Other considerations

Corporation tax

Cyprus corporation tax is 12.5% which is one of the lowest in the EU.

Tax Residency

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

Tax losses and group relief

Tax losses incurred in any one year and which cannot be set off against other profits of the same year, can be carried forward and set off against future profits for an indefinite period of time. This provision applies for all unutilised tax losses for the years 1997 and after*****.
Relief in respect of group trading losses is allowed among Cyprus tax resident companies which are members of the same group for the whole year*****.

Group is defined as either:

- One company holding directly or indirectly 75% of the shares of another company or
- One company holding directly or indirectly at least 75% of the voting shares of two or more companies

Only current year group trading losses can be surrendered from one company of the group to another.

Losses of a sole trader or a partnership business converted into a limited liability company can be set off against future profits of the company.

Losses from a permanent establishment abroad can be set off with profits of the company in Cyprus. Subsequent profits of an exempt permanent establishment abroad are taxable up to the amount of losses allowed.

*On 24 May 2012, following amendments to the Income Tax Law, as from 1st January 2012, where a subsidiary company is incorporated by parent company during a specific tax year, the subsidiary company will be considered as being member of the group for the whole tax year and therefore will be able to claim group relief for that tax year.

As from tax year 2012, tax losses may be carried forward and be set-off against taxable income for a period of 5 years.

Acquisition costs

As from 1 January 2012, 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 directly or indirectly acquired subsidiary do not include any assets that are not used in the business.

Extensive network of tax treaties

Cyprus has an extensive network of tax treaties with more than 50 countries, including European countries, the United States of America, Canada, India, China, Russia and the C.I.S countries. Most of the treaties provide reduced or nil rates of withholding tax on dividends, interest and royalties paid from the treaty country as well as the avoidance of double taxation.

EU Directives

Cyprus has fully adopted all EU Directives including the Parent-Subsidiary, the Interest and Royalties, the Merger Directive, and the Savings Directive among others.

Advance rulings

The Cyprus tax authorities provide advance interpretations of the law under a ruling system.

Re-domiciliation of companies

Re-domiciliation and change of tax residency are not subject to tax.

Cross borders mergers and Reorganizations

Reorganizations are exempted from corporation tax, capital gains tax, stamp duties and property transfer fees.

Cyprus has fully adopted the provisions of the EU Merger Directive to cover the domestic and trans-border reorganisations

Covers

- Mergers
- Divisions
- Transfer of business
- Exchange of shares

CONTACT

NZ Audit Limited will be at your disposal should you require an independent tax advice.

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