



Legal Guide

HOLDING COMPANIES IN CYPRUS

1 Introduction.

Because of its favourable tax regime, compliance with EU regulations and strict anti-money laundering regulations, Cyprus is considered as a very attractive holding company jurisdiction. For the purposes of this publication, a “Cyprus Holding Company” is defined as a limited liability company incorporated in Cyprus whose principal object is the holding and managing of participations in other companies.

2 Tax advantages in using a Cyprus Holding Company.

(a) Corporation tax:

Taxable profit of a Cyprus Holding Company is taxed at a flat rate of 12.5%.

(b) Taxation of dividend income:

- (i) Dividends and other profit distributions received by a Cyprus Holding Company from another Cyprus tax resident company are exempt from corporation tax. They are also exempt from Special Defense Contribution unless they are indirectly declared after the lapse of four years from the end of the year in which the profits were generated in which case they may be subject to Special Defense Contribution at the rate of 17%.
- (ii) Dividends and other profit distributions received by a Cyprus Holding Company from a foreign company are exempt from corporation tax. Such income is also exempt from Special Defence Contribution.

The only instances where this exemption does not apply are if:

- (1) more than 50% of the overseas paying company's activities result whether directly or indirectly to investment income. (However, dividends are not considered investment income if they are derived directly or indirectly from trading subsidiaries); and
- (2) the foreign tax burden on the income of the paying company is significantly lower than the Cyprus tax burden

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of the Cyprus Holding Company receiving the dividend. ("Significantly lower" means less than 50% of the corporate tax rate applicable in Cyprus, i.e. less than 6.25%).

(c) Unilateral tax credit:

- (i) if income received by a Cyprus Holding Company from a foreign company has been subject to withholding tax on payment in the country of origin, then, if the same income is liable to tax in Cyprus, the tax paid abroad will be credited against the tax payable in Cyprus.
- (ii) This relief is given unilaterally irrespective of the existence of a double tax treaty. Where however a treaty is in force the treaty provisions (if more beneficial) will apply.

(d) Withholding tax.

- (i) There is no withholding tax to payments of dividends to non-residents irrespective of whether the recipient is a body corporate or individual, the country of residence or the existence of a double tax treaty.
- (ii) As Cyprus is a member of the European Union, provided that the required conditions are satisfied under the local legislation of the relevant EU member state, any payment of dividend from any other member state will be free of withholding tax based on the provisions of the Parent-Subsidiary Directive.

(e) Tax exemption on disposal of securities.

- (i) Full tax exemption is granted on the gains from the disposal of securities irrespective of whether the gain is considered to be of capital or revenue nature.

The term "securities" includes shares, debentures, government bonds, founder shares, or other securities of companies or other legal persons which have been incorporated in Cyprus or abroad and options or rights thereon.

- (ii) The disposal of the shares of the Cyprus Holding Company will not result in any taxes in Cyprus irrespective of the provisions of any applicable double tax treaty.
- (iii) The only exemption to the above is that Capital Gains Tax at the rate of 20% is imposed on gains from the disposal of shares in unlisted companies which own immovable property

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(f) Deduction of costs.

Under Cyprus law, all expenses incurred wholly and exclusively for the production of income are deducted before arriving at the taxable income.

(g) Cessation of business.

(i) The liquidation of participations held by the Cyprus Holding Company does not give rise to any taxes in Cyprus.

(ii) No capital gains tax or any other taxes arise on the liquidation of a Cyprus Holding Company owned by non-residents, irrespective of the method of liquidation. (However, if the Cyprus company holds immovable property in Cyprus, its disposal at the time of ceasing operations will result in capital gains tax.)

(h) Re-organisations.

Cyprus has adopted the EC Merger Directive, therefore where a transaction falls within the definition of a “reorganization”, it is exempt from corporation tax, capital gains tax and transfer fees.

“Reorganization” means a merger, division, transfer of assets and exchange of shares, involving companies which are resident in Cyprus and/or companies which are not resident in Cyprus.

(i) Double tax treaty network.

Cyprus has a wide network of double taxation treaties, including all main Western countries as well as most Eastern European and former CIS countries. More specific advice regarding any particular double taxation treaty is available on request.

(j) Other tax advantages.

(i) A loss making company can surrender its losses to the other group companies.

(ii) No capital taxes or net worth taxes are payable throughout the life of the Cyprus Holding Company.

(iii) There are no debt–equity restrictions in Cyprus and a company may therefore be financed in any proportion of debt–equity.

(iv) There is no minimum period of holding participations in order to be eligible for either a tax exemption on dividend income or the tax exemption on the disposal of shares.

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The information contained in this Legal Guide is correct as at the date hereof. This Legal Guide is only intended as a brief introduction to the particular subject. Detailed specialist advice should be taken prior to taking or refraining from taking any action as a result of the information contained in this publication.

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