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CORPORATE AND TRUST - TAX AND LEGAL - BUSINESS ADVISORY - ACCOUNTING - FINANCIAL MANAGEMENT

CYPRIT HOLDING COMPANIES

Cyprus is most commonly used as an intermediate holding company jurisdiction and is of particular interest in the following circumstances:

- for international or domestic groups investing outside Cyprus, aiming at dividend income streams. In most cases such dividends will be tax exempt in Cyprus
- to hold subsidiaries that have scope for significant capital appreciation and that may be spun off or sold in the future. Such disposals are not taxable in Cyprus
- to benefit from the favourable withholding tax provisions of the Cypriot double tax treaties network and the EU parent-subsidiary directive and other EU directives
- where a jurisdiction is required that does not have controlled foreign company legislation
- where it may be important to achieve a tax free unwind of the holding company at some stage in the future
- to avail of the easy exit strategy under Cypriot law which allows payment of dividend, interest and royalties (in most cases) without payment of withholding tax
- appropriate for any fund or investment vehicle, as there is no tax on transactions in securities as defined, even if this is the trading activity of the entity

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Cyprus can also be used as the location for the ultimate holding company, for instance in a group that is relocating to a new jurisdiction or on formation of a new publicly traded corporation with international operations.

■ Taxation Aspects

Taxation of Trading Income

Trading income is taxed at the rate of 10%.

Taxation of Dividend Income

Dividends and other profit distributions received by a Cypriot tax resident company from another Cypriot tax resident company are exempt from Corporation Tax.

Dividends and other profit distributions received by a Cypriot tax resident company from a foreign company are exempt from Corporation Tax. Such income is also exempt from Special Contribution for Defence (15%) provided that the company receiving the dividend own

at least 1% of the company paying the dividend. This exemption does not apply if:

- (a) more than 50% of the paying company's activities result directly or indirectly in investment income, **and**
- (b) the foreign tax is significantly lower than the tax rate payable in Cyprus

Foreign Tax Credit on Income Received by a Cypriot Company

Income received by a Cypriot company from abroad may have been liable to a withholding tax on payment in the country of origin. If this income is liable to tax in Cyprus, the tax paid abroad can be credited against the tax payable in Cyprus.

Foreign taxes are credited in Cyprus:

- (a) under unilateral provision of the Cypriot tax law and
- (b) under bilateral treaty provisions which, in some cases, provide for credit of the underlying tax as well

Repatriation of Dividends from Cyprus

Cyprus does not impose any withholding tax on dividends and other profit distributions paid by a Cypriot company to non tax resident shareholders, including both individuals and corporations.

Tax Exemption on Disposal of Shares

The profit arising by a Cypriot tax resident company on the disposal of shares in a company is exempt from any tax in Cyprus, provided the shares being disposed qualify as "titles" under the provisions of the Cypriot tax legislation. "Titles" are defined as Shares, Bonds, Debentures, Founder and other titles of companies or legal persons incorporated in Cyprus or abroad and rights therein.

Deduction of Costs

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

Group Loss Relief

A loss making company can surrender its losses to other

group companies as defined.

Controlled Foreign Corporation ("CFC") Legislation

Cyprus does not have controlled foreign corporation legislation. As a result, no income is imputed to a Cypriot parent even if the income arises in a tax haven or out of passive activities.

Thin Capitalisation

Cypriot tax legislation does not contain thin capitalisation provisions.

■ Setting-Up a Cypriot Holding

Although there are no restrictions on the legal form of the holding company in Cyprus, the most commonly used form is the private limited liability company.

There are no legal requirements as to the minimum or maximum share capital of the company. However, it is recommended that the authorised share capital be at least C£10.000 that may conveniently be divided into 10.000 shares of C£1 each. Not all of these shares have to be subscribed for, but it is recommended that at least 1.000 shares are issued and fully paid upon incorporation.

Under Cypriot law, every company limited by shares must have at least one shareholder.

Companies are managed and controlled by the board of directors. Under Cypriot Company Law, a Cypriot private company must have at least one director. In all other cases at least two directors are required.

Under Cypriot tax legislation, the management and control of a company determines the tax status of the company. Therefore, where the board meets is significant for tax purposes.

The formation and registration procedures can normally be completed within a period of two weeks. These include various administrative functions such as printing of the company's letterheads, opening of statutory books and the opening of the required bank accounts, up to the time the certificate of incorporation is issued.





EU COMPARISON TABLE FOR KEY HOLDING JURISDICTIONS

Country	Austria	Belgium	Denmark	Ireland
Treaty Network	Good	Good	Good	Good
Treatment of foreign-dividends	Exempt if 25% holding for two years	95% exempt subject to 5% holding and CFC provisions	Exempt if 20% holding subject to CFC provisions and underlying trading activity	Taxable but foreign tax credits normally a complete relief from Irish taxation
Treatment of capital gains	Exempt if 25% holding for two years	Exempt	Exempt but three year holding requirement	Exempt subject to underlying trading activity
Withholding taxes on dividends paid to non-resident shareholders	Yes, up to 25%	Yes, up to 25%	Yes, up to 28% but treaty-protected entities exempt if they hold 20% for one year	Yes, up to 22%
Capital duty	1%	0,5%	Nil	1%
Minimum paid-up share capital	€17,500	€18,600	€16,800	0
Costs of incorporated annual statutory administration (low/Medium/High)	High	High	High	Medium

Country	Luxembourg	Netherlands	UK	Cyprus
Treaty Network	Good	Excellent	Excellent	Very good
Treatment of foreign-dividends	Exempt subject to 10% holding for one year and CFC provisions	Exempts if 5% holding for one year and other conditions	Taxable but foreign tax credits normally a complete relief from UK taxation provided foreign tax at subsidiary level greater than 30%	Exempt
Treatment of capital gains	Exempt subject to 25% holding and one year holding	Exempt subject to conditions	Exempt subject to 10% holding and trading subsidiary (or holding company of trading group)	Exempt except on property situated in Cyprus
Withholding taxes on dividends paid to non-resident shareholders	Yes, up to 25%	Yes, up to 25%	Nil	Nil
Capital duty	1%	0,55%	Nil	0,6%
Minimum paid-up share capital	€12,500	€18,000	0	0
Costs of incorporated annual statutory administration (low/Medium/High)	High	High	Low	Low

FDI – FOREIGN DIRECT INVESTMENT

Foreign investment has long been considered as one of the most important elements of the country's economic prosperity. All efforts have therefore been made to facilitate and further enhance the attraction of foreign investments, and create a friendly environment for foreigners to establish business on the island.

Within these lines, the Cypriot government has liberalised the Foreign Direct Investment (FDI) policy for both EU and non-EU nationals. Administrative procedures have been simplified and as far as the minimum level of investment and the percentage of foreign participation are concerned, no limitations apply in almost all sectors of the economy. Consequently, foreign companies may now invest and establish business in Cyprus on equal terms with local investors, no distinction is being made between foreign and Cypriot companies.

Cyprus offers a friendly environment to foreigners interested in establishing business on the island. Foreign investors have the opportunity of participating in almost all sectors of the economy with equity participation of up to 100 percent in any Cypriot enterprise without a minimum level of capital investment.

Moreover, foreign investors can register a company directly with the Registrar of Companies, and obtain any licence, if needed, from the appropriate authority according to the nature of investment. There are no exchange control regulations, hence residents and non-residents may hold and manage assets and liabilities in any foreign currency and in any foreign country, including freely convertible and transferable balances with banks on the island.

The FDI inflows for 2005 were over US\$1.1 billion continuing the upward trend for the third consecutive year, while the total FDI inflows during the period of 2000-2005 were in the region of US\$5.993 billion, based on the UNCTAD World Investment Report 2006. Cyprus' FDI originate mainly from European countries (94.23%), while the majority of FDI (85%) are directed towards the service sectors.

MOU BETWEEN CYPRUS AND JERSEY

The Jersey Financial Services Commission and the Central Bank of Cyprus, expressing their mutual interest and willingness in establishing and promoting bilateral ties in supervising credit institutions, signed a Memorandum of Understanding (MOU). The Jersey Financial Services Commission is the competent authority for the regulation, supervision and development of the financial services industry in the island of Jersey.

The Central Bank of Cyprus, in addition to being the country's monetary authority, is also Cyprus' banking supervisory as well as licensing authority.

The Memorandum of Understanding defines a general framework of mutual cooperation between the two supervisory authorities with a view to facilitating the consolidated supervision of cross-border establishments and ensuring the safe and sound functioning of credit institutions in their respective countries, in accordance with their national laws and regulations. Currently, one bank incorporated in Jersey operates in Cyprus in the form of branch.

The Central Bank of Cyprus pursues an active policy of signing Memorandum of Understanding for cooperation and exchange of information with competent overseas authorities.





GDP PER CAPITA IN EU

GDP per capital in the EU member states ranged from 48% to 251% of the EU 25 average in 2005:

Cyprus' GDP per capital was 89% of the EU 25 average

GDP per capital in PPS, EU 25=100

	2003	2004	2005
EU 25	100	100	100
EU25+Bulgaria + Romania	96	96	96
Euro area	107	106	106
Belgium	119	119	118
Czech Republic	71	72	74
Denmark	120	120	122
Germany	112	111	110
Estonia	51	53	60
Greece	80	81	84
Spain	97	97	98
France	108	108	108
Ireland	134	136	139
Italy	106	103	100
Cyprus	85	88	89
Latvia	41	44	48
Lithuania	47	49	52
Luxembourg	237	241	251
Hungary	61	61	63
Malta	74	71	70
Netherlands	124	125	126
Austria	123	123	123
Poland	47	49	50
Portugal	73	72	71
Slovenia	77	80	82
Slovakia	53	54	57
Finland	109	111	111
Sweden	115	115	115
United Kingdom	116	118	117
Bulgaria	31	32	33
Romania	30	33	34
Croatia	46	47	48
FYROM	25	25	26
Turkey	26	27	28
Iceland	119	124	129
Norway	149	156	169
Switzerland	130	129	129
USA	146	148	150
Japan	108	108	110

GDP per capital in Luxembourg, expressed in terms of purchasing power standards (PPS), was more than twice the EU 25 average in 2005, while Ireland was about 40% above the average. The Netherlands, Austria, Denmark, Belgium, the United Kingdom and Sweden were between approximately 15% and 25% above the average. Finland, Germany and France recorded figures about 10% above the EU 25 average, while Italy and

Spain were around the average.

Cyprus was about 10% below the EU 25 average, while Greece and Slovenia were around 20% below. The Czech Republic, Portugal and Malta were around 30% below the EU 25 average, while Hungary, Estonia and Slovakia were about 40% below. Lithuania, Poland and Latvia were around half of the EU 25 average.



DOUBLE TAX TREATIES

Paid to Cyprus	Dividends	Interest	Royalties
	%	%	%
Austria	10	-	-
Belarus	10/5	5	5
Belgium	10/5	10	-
Bulgaria	5/10	-/7	10
Canada	15	-/15	-/10
China	10	10	10
Czech Republic	10	-/10	-/5
Denmark	10/15	-/10	-
Egypt	15	15	10
France	10/15	-/10	-/5
Germany	10/15	-/10	-/5
Greece	25	10	-/5
Hungary	5/15	-/10	-
India	10/15	-/10	10/15
Ireland	-	-	-/5
Italy	15	10	-
Kuwait	10	-/10	-/5
Lebanon	-/5	-/5	-
Malta	-	-/10	10
Mauritius	-	-	-
Norway	-/5	-	-
Poland	10	-/10	5
Romania	10	-/10	-/5
Russia	5/10	-	-
Singapore	-	7/10	10
Slovakia	10	-/10	-/5
South Africa	-	-	-
Sweden	-/15	-/10	-
Syria	-/15	-/10	10/15
Thailand	10	10/15	5/10/15
United Kingdom	15	10	-/5
United States	5/15	-/10	-
USSR	-	-	-
Yugoslavia	10	10	10

Paid from Cyprus

No withholding taxes exist for dividend, interest or royalty payments which are made to non tax residents of Cyprus

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