

## CYPRUS – HOLDING COMPANIES

### One of the top jurisdiction for holding structures

Choosing a jurisdiction for a holding company is one of the most common issues in international tax planning. Cyprus is amongst the top jurisdictions for holding structures, with very stable and attractive legal & tax system, access to Parent-Subsidiary Directive (being a member of European Union) and having a network of Double Tax Treaties with more than 50 countries. These are only few factors which make Cyprus the preferred location for incorporation of holding companies.

### TAXATION OF HOLDING COMPANY

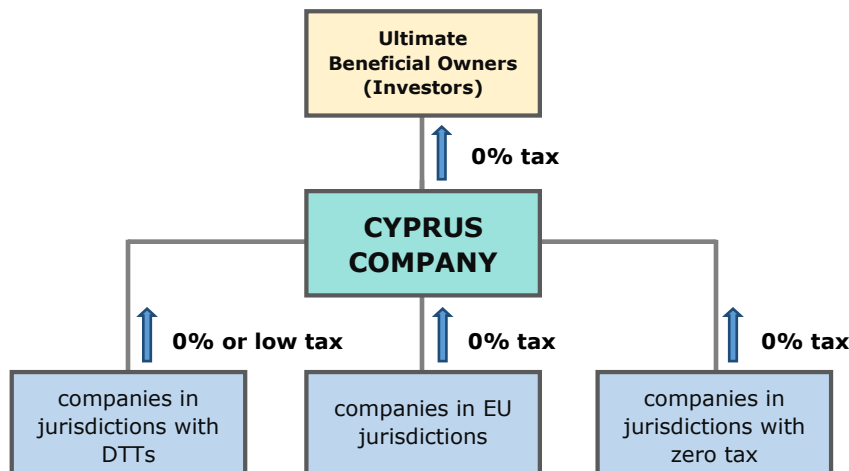
**Corporation Tax** – profits of holding companies are not covered by the Corporation Tax, unless other type of income will be generated which might be subject to 12.5% rate of CT.

Gains on sale of shares of companies are not subject to Corporation Tax.

**Capital Gains Tax** – income generated by sales of securities (including shares in companies) are exempt from CGT in Cyprus. Holding company can in effect sale the shares of subsidiaries and other companies with no tax in Cyprus.

**Withholding Tax on dividends** – there is no withholding tax on dividends paid by Cypriot company to non-residents (both individuals and corporations). Dividends received by Cyprus company can be tax-exempt (conditions apply). Dividends paid to Cyprus by companies located in the EU also can be fully exempt from tax (considering access to Parent-Subsidiary Directive).

### CHART: TAXATION OF DIVIDENDS OF CYPRUS COMPANY





## **SOLUTIONS AND PRACTICAL EXAMPLES**

1. **Sale of shares of companies:** Cyprus-resident company purchased shares in 4 foreign companies incorporated in Poland(1), Russia(2), United Kingdom(3) and Germany(4). The companies were purchased for 100,000 euros each. After 3 years, Cypriot company decided to sell the shares. The sale price for all four companies was 200,000. Profit: 400,000 euros.
2. **Sale of shares listed on stock exchange:** Cyprus-resident company purchased 9000 shares of GPZ S.A. (a newly listed company on Warsaw Stock Exchange) for 50 euros per share. In few months' time the price of the shares raised to 144 euros per share. The investor decided to sell the shares. Profit: 846,000 euros.
3. **Sale of property located outside Cyprus:** Cyprus-resident company received a building located in Poland, which was renovated and sold by the new owner for 2,000,000 euros. Profit: 2,000,000 euros.

### **Tax results for cases 1, 2, and 3:**

- NO Corporation Tax
- NO Capital Gains Tax
- NO Withholding Tax on dividends

## **ADDITIONAL USE OF HOLDING COMPANY**

Cypriot holding company is not limited to holding activities. Our model of Memorandum and Articles of Association is designed in the way that the company can be involved in almost any type of activities, including trade, providing services, financial activities and many others.

## **SUMMARY**

As shown above, if the companies are properly structured, the income generated from sale of securities, shares of companies, and various investments, as well as dividend income can be exempt from any taxation. Considering these benefits as well as low incorporation and maintenance costs of the companies, Cyprus still remains the preferable jurisdiction for holding companies.

## **OUR FIRM**

We can assist in setting up the relevant structures designed to optimize the tax costs of the business. We provide complex services from business planning, through incorporation and maintenance of structures, until their sales or liquidations.

**Note:** The figures and taxation described above have only informative purpose. Each case has to be examined accordingly in order to confirm whether there are any additional tax implications between Cyprus and other country. Please do not hesitate to contact us for any queries related to Double Tax Treaties implications.