

CYPRUS – COMMERCIAL COMPANIES

One of the most attractive jurisdiction for companies involved in trading and services

Cyprus is one the top jurisdictions used for trading purposes and for the purposes of providing various types of services. The country offers very stable and attractive legal & tax system, Corporate Tax of only 12.5%, access to Parent-Subsidiary Directive (being a member of European Union) and the network of Double Tax Treaties with more than 50 countries. These are only few factors which make Cyprus the preferred location for incorporation of commercial companies.

TAXATION OF TRADING COMPANY

Corporation Tax – all profits from trading and services are subject to 12.5% rate of CT. It is one of the lowest corporate tax rates in the European Union. This is a fixed rate, not depending on the amount of generated income.

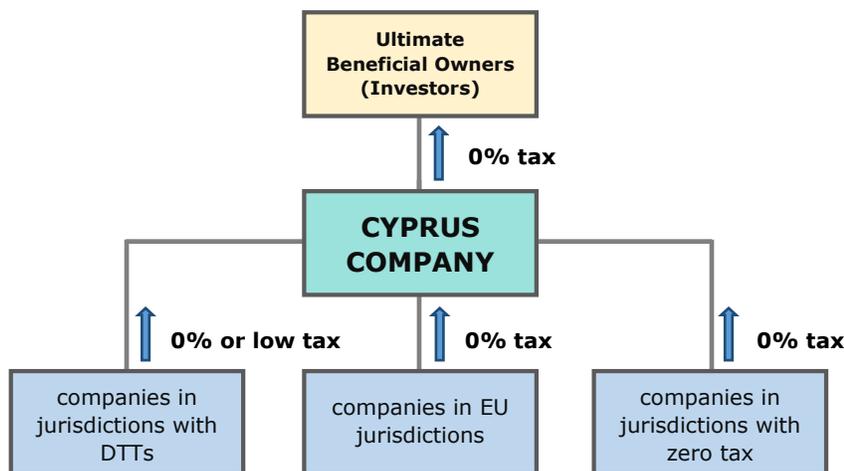
VAT & VIES: there is no obligation for a Cypriot company to register to VAT & VIES unless certain type of income is generated and unless it does not exceed the threshold of EUR 15,600 per year for VAT-taxable activities.

If trading is performed with non-EU countries, there is no obligation to register to VAT. However, in case trading is performed with EU-countries, the company must register to VAT & VIES.

Sales invoices from Cypriot company might have **0% VAT** when the trade/service is performed with EU countries. If the trade is done with any entities in Cyprus, the company must apply local VAT (of 19% in most of the cases).

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).

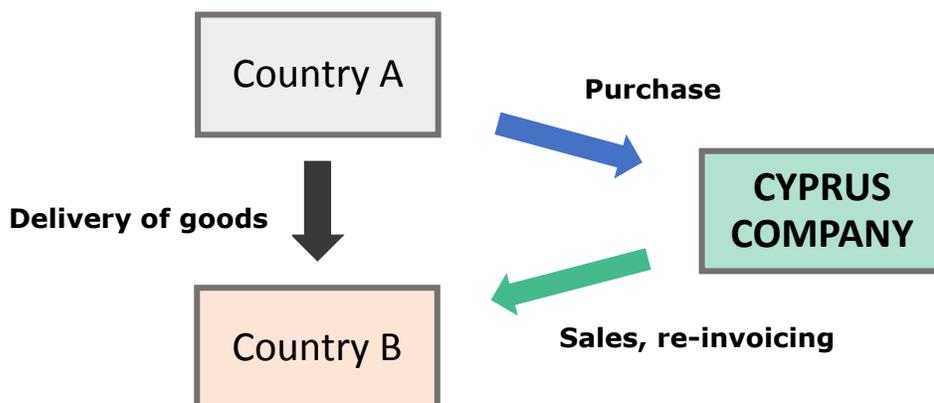
CHART 1: TAXATION OF DIVIDENDS OF CYPRUS COMPANY



SOLUTIONS AND PRACTICAL EXAMPLES

- Trading of goods with non-EU countries:** Cypriot company purchases goods in China and sells them to Ukraine. The purchase invoices are issued from China to Cyprus. The sales invoices are issued from Cyprus to Ukraine. The goods however do not reach Cyprus, but are transferred directly from China to Ukraine.
 - The total tax on profits of the company is only 12.5%.
 - There is no withholding tax on dividends paid from Cyprus company to the investor.
 - VAT: no VAT as the trade is performed outside the EU.
- Trading of goods with EU countries:** Cypriot company purchases goods in Italy and sells them to Polish companies. The purchase invoices are issued from Italy to Cyprus. The sales invoices are issued from Cyprus to Poland. The goods however do not reach Cyprus, but are transferred directly from Italy to Poland.
 - The total tax on profits of the company is only 12.5%.
 - There is no withholding tax on dividends paid from Cyprus company to the investor.
 - VAT: the company must register to VAT & VIES if it trades with Cyprus or other EU countries, however due to intra-EU trade, the VAT is 0%.

CHART 2: USE OF CYPRUS COMPANY FOR OPTIMIZING TRADING PROFITS



- Providing B2B consultancy services:** Cypriot company provides consultancy services to companies in various countries (both EU and non-EU). The sales invoices are issued from Cyprus.
 - ❖ The total tax on profits of the company is only 12.5%.
 - ❖ There is no withholding tax on dividends paid from Cyprus company to the investor.
 - ❖ VAT: if the services are performed to businesses which are out of Cyprus, there is exemption from VAT (in case of non-EU countries) or 0% VAT (in case of B2B trade to EU countries).



SUBSTANCE IN CYPRUS

In case of trading company it is recommended for the company to have a substance in Cyprus. The purpose of the substance is to show that the company is performing the factual operations in Cyprus. It is extremely important especially in case of consideration of the management and control of the company by local and foreign tax authorities. Some elements of substance include: involvement of local officers in management of the company, appointing a qualified director, rental of an office space, hiring local employee, establishing own phone & fax line, Cypriot e-mail address, webpage, and similar.

Our firm can advise what substance elements could be needed and provide the necessary services.

ENTRY TO THE EUROPEAN MARKETS

As Cyprus is a member of European Union, it allows investors coming from non-EU countries to trade or provide services with all countries on the globe including countries of European Union. This is a perfect opportunity for investors seeking for a jurisdiction which would allow them a possibility to enter EU markets and trade with EU companies with very low taxation (12.5% of Corporation Tax and 0% VAT rate in case of B2B trading within the EU).

ADDITIONAL USE OF TRADING COMPANY

Cypriot trading company is not limited to trading 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 investments, holding, providing services, financial activities and many others.

SUMMARY

As shown above, Cyprus offers very low Corporation Tax, no withholding tax on dividends, stable legal system and many other incentives such as possibility of foreign investors to enter EU markets. Considering these benefits as well as low incorporation and maintenance costs of the companies, Cyprus is a very attractive place for trading 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. In case of trading of goods, it is advised that the local tax advice is taken in order to confirm if there will be any implications regarding duties & customs. Please do not hesitate to contact us for any queries related to Cypriot companies.