

A Closer Look at Cyprus Tax Structures



Fidelico

Harris Sharpe
+357 25 27 27 27
hsharpe@fidelico.com
www.fidelico.com

In recent years Cyprus has become a favoured location for international commerce as well as a legitimate tax efficient jurisdiction utilised by reputable multinationals, therefore raising Cyprus to a new level of international business.

With the lowest corporate tax rate (10%) in the European Union, Cyprus tax legislation and regulations predictable and straight forward in nature; relations between the business community and authorities are excellent and ensure the efficient administration and taxation of the commercial and financial sector.

By providing a transparent and efficient environment, the tax system enhances Cyprus' competitiveness and contributes to making Cyprus an attractive jurisdiction to structure international operations. This is exemplified by the inclusion of Cyprus in the OECD's 'white' report as a jurisdiction having implemented the international agreed standards. This shows that Cyprus is in full compliance with the international tax standards developed by the OECD and endorsed by G20 Finance Ministers.

Funds, investment vehicles and companies registered and maintained in Cyprus uniformly benefit from being tax residents of Cyprus as the sale of shares is tax free and in most cases dividend, interest and royalty payments to and from Cyprus carry no withholding tax.

Harris Sharpe from Fidelico outlined the corporate entities investors may register in order to take advantage of the many tax benefits Cyprus has to offer: "There are a number of structures, entities and strategies that investors can pursue in order to plan and mitigate their tax liabilities. Among these are funds, such as Open-Ended Undertaking for Collective Investments in Transferable Securities, which can be established in the form of either a Mutual Fund or a Variable Capital Investment corporation and International Collective Investment Schemes (ICIS). An ICIS may take the form of an International Fixed Capital Company, International Variable Capital Company, International Unit Trust Scheme or an International Investment Limited Partnership. The monitoring authority may classify the fund as either an ICIS marketed to the general public, an ICIS marketed to experienced investors or a Private ICIS."

Although Private Companies limited by shares are commonly used as investment vehicles in Cyprus, Public Companies and Private Companies may be incorporated as any of the following: limited by shares, limited by guaranty and not having a share capital. In addition to this, a Societas Europas may be registered. Private Companies as well as Public Companies may be structured in such a way that they function in the same way as international funds.

Cyprus has always been an excellent location for holding companies

not only due to its favourable tax regime and transparent legal system, but also due to the island's privileged position with excellent communications, transportation system and low operating costs. Mr Sharpe outlined the advantages a Cyprus holding company can utilise: "Aside from benefitting from the lowest and most competitive tax rate in the EU, a Cyprus holding company also benefits from no withholding tax on dividends, interest and royalties received in Cyprus (subject to restrictions) and no withholding tax on dividends, interest and royalties paid to non-residents (subject to restrictions). In addition, the sale of shares or other financial instruments is not subject to stamp duty (subject to restrictions) or considered to be capital gain hence tax free. As a member of the EU, investors in Cyprus may access the Parent/Subsidiary Directive, which is not available to non EU member jurisdictions. Furthermore Cypriot entities may utilise Cyprus's extensive double tax treaty network"

In reference to asset classes, Cyprus, being a commonwealth country as well as a member state of the European Union has modernised its legal system in order to reflect the needs of the local and international investor. Mr Sharpe said: "Three main asset classes may be found in Cyprus, namely equity, debentures and cash. However the rights attached to equity or debentures vary according to the commercial needs and expectation of the investors"

Cyprus has access to a broad double tax treaty network with countries such as Russia, Ukraine, India, Norway, Mauritius and others. More than 45 double tax treaties have been formed and more are to follow in the near future. Mr Sharpe said: "To utilise the Cyprus double taxation treaties a Cyprus corporate entity must prove that the management and control is taking place from Cyprus. To facilitate this, Fidelico offers corporate entity registration and administration services, nominee and domiciliation services, registered office and corporate secretarial services, tax registration and tax residence certificates, accounting and bookkeeping services and assistance with the opening of bank accounts with local and international banking institutions. Our team of accountants, lawyers and corporate managers provide their own perspective to any situation, thus enabling clients to reach tax efficient decisions always to their benefit."