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# Cyprus as an investment and asset holding jurisdiction

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## The Jurisdiction

Cyprus is a member of the European Union and the Eurozone. It features on the *white list* of the OECD and has committed to the highest standards of transparency, assuming an early-adopter status for the automatic exchange of information on tax matters.

Cyprus provides an established, stable and solid legislative framework under which Cyprus companies can be formed for intermediary or ultimate holding purposes within corporate groups.

Use of the Cyprus holding company is widespread in project finance, cross-border transactions and global investment management.

## Double-Tax Avoidance

Amongst other advantages, a Cyprus holding company can achieve low or zero withholding tax rates when extracting

dividends from underlying subsidiaries by relying on either:

- ▶ an applicable double tax treaty, or
- ▶ the provisions of the EU Parent Subsidiary Directive.

Cyprus has concluded over 50 agreements for the avoidance of double taxation, and has one of the largest collections of treaties globally, including the USA, Canada, India, China, Switzerland, the UAE and Russia.

## Outgoing Dividends

There are no withholding taxes on dividend payments from Cyprus companies to persons not resident in Cyprus, irrespective of where they reside or whether a double tax treaty is in place with the jurisdiction of residence.

## Notional interest deduction (NID)

The NID is deductible against the company's taxable profits that

arise as a result of the newly introduced capital and cannot exceed 80% of the taxable profit as calculated before allowing for this deduction.

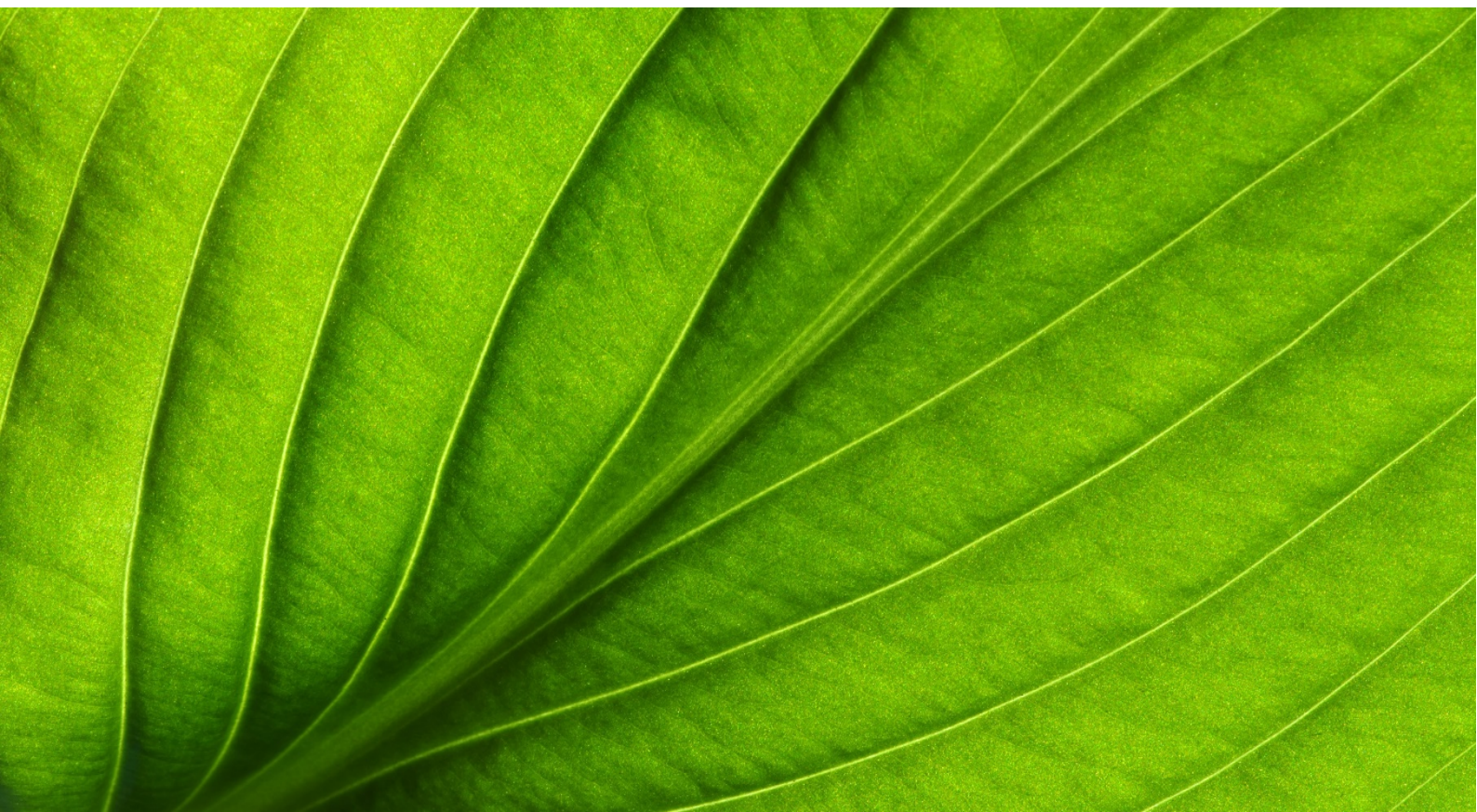
The NID is available on new qualifying equity issued by a Cyprus company. It is calculated by multiplying the new qualifying equity amount by a reference interest rate.

## Incoming dividends

Dividends received into a Cyprus company are taxed at 17%, however an exemption mechanism (satisfied in the majority of cases) results in zero taxation of incoming foreign dividends.

## Innovating Companies

All expenses related to research and development undertaken by innovating companies, together with expenses incurred for the purchase of shares in such companies, are treated as deductible from taxable income.



## Capital Gains

There is no taxation on capital gains other than on gains accruing from the disposal of immovable property held in Cyprus or shares in companies the property of which consists of immovable property held in Cyprus.

## Intellectual Property Royalties

Cyprus affords a regime under which 80% of qualifying profits generated from qualifying assets will be deemed to be tax deductible expenses. Qualifying assets are those:

- ▶ acquired, developed or exploited by a person in the course of its business
- ▶ that relate to intellectual property,
- ▶ that result from research and development expenditure, and
- ▶ for which the person is the economic owner, excluding any rights relating to marketing.

## Interest Income

Interest income connected with the carrying on of a trade or business of the company is subject to the corporate tax rate of 12.5%.

Interest income not connected to the company's business is exempt from corporate income tax and taxed separately at the Special Contribution for Defence rate.

## Intra-EU Transactions

In instances where the transaction in relation to which a Cyprus holding company is used is purely intra-EU, the provisions of the Parent/Subsidiary Directive operate to effectively eliminate taxation on the transaction entirely.

## Group Relief

Tax relief at a corporate group level is allowed for at least seventy-five percent (75%) of the relevant group holdings and is applicable only on the results of the current financial year.

Losses incurred by a Cyprus company in relation to business carried on outside Cyprus, can be deemed as deductible against taxable profits generated by that company in the current year.

Losses that cannot be utilised in the current year, are carried forward for a period of five (5) years, commencing from the end of the year to which the losses relate.

## Shareholders Agreements

Private shareholder agreements can be concluded to regulate the relationship between shareholders in a Cyprus holding company and their respective rights.

Shareholders agreements do not need to be disclosed to any authority or third party and can

regulate any matters the contracting parties decide, including:

- ▶ dividend policy
- ▶ company financing
- ▶ management
- ▶ class rights
- ▶ dispute resolution
- ▶ transfers of shares and valuation
- ▶ shareholder exits

The terms of shareholder agreements can be reflected in the company's Articles of Association. Cyprus, being a common law jurisdiction, affords legal certainty regarding shareholder relationships and the accountability of management.

## Intra-Group Loans

All related-party financing transactions must be supported by a transfer pricing study as of 1 July 2017.

Transfer pricing studies will be required both for the purpose of issuing tax rulings and for corporate tax calculations and must be based on the relevant OECD transfer pricing guidelines.

This summary of the advantages of the Cyprus holding company, illustrates how it is the optimal vehicle for use in corporate structuring and cross-border transactions, as well as for managing and holding assets and investments worldwide.

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