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# Cyprus A Major Holding Companies Regime



Associated with **BDO** Philippides Biz Services Ltd





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BUSINESS AND FIDUCIARY

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The background is a low-angle, blue-tinted photograph of modern skyscrapers. In the foreground, a large, circular clock tower is visible, with its face partially obscured by the text. The overall scene conveys a sense of urban business and time.

Cyprus  
A Major Holding  
Companies Regime



# Foreword



Cyprus is a long established reputable financial and commercial centre offering international investors many opportunities. The number of holding and international business companies established in and operating from the island benefiting from its tax and other advantages, runs into thousands.

The accession of Cyprus into the EU in 2004 has further enhanced the island's advantages. It is now finally established as a gateway for EU inbound and outbound investments. The strategic position of the island, its excellent climate, well developed infrastructure, plentiful supply of high quality, well trained labour are some of the advantages Cyprus offers.

Oneworld ltd is a prominent and established practice based in Cyprus, providing corporate and trust, financial advisory, business advisory, tax and legal and compliance services across a wide spectrum of clients, corporate and individuals.

There are no typical Oneworld clients: from dynamic young enterprises to iconic global corporations, from high worth individuals to their families and consultants. We serve them all. We are not just looking after their fortunes but their futures. Whichever corner of the world they are in, whatever they want to achieve. We are not just their advisors, we are their partners. Which is why we are prominent in financial, business and advisory services.

A handwritten signature in black ink that reads "GA Philippides". The signature is written in a cursive style and is underlined with a single horizontal stroke.

George Philippides  
Chief Executive

March 2009

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# 1 Cyprus as an International Financial Centre







In recent years, capital is becoming ever more mobile and responsive to changes in economic and social conditions. Barriers to capital movements are fast disappearing, leading to a worldwide trend towards lower tax rates. Efficient tax planning has thus become a very significant factor in commercial decisions and this has led to the development of numerous financial centres in the world.

Cyprus has succeeded in differentiating itself from other financial centres. It has established a favourable tax system with a wide network of double tax treaties. It also subscribes fully to all the EU Directives. As a result, Cyprus today is firmly established as a reputable international business, financial and commercial regime.

## Favourable Location

Cyprus is situated in the north-eastern basin of the Mediterranean Sea at the crossroads of Europe, Asia and Africa. It is 65 km south of Turkey, 96 km west of Syria, 385 km north of Egypt, 980 km south-east of Athens and 328 km west of Israel. The strategic location of the island has played an important role in its continuing development into a financial centre.

Comprising an area of 9.251 sq km Cyprus is the third largest island in the Mediterranean after Sicily and Sardinia. Cyprus enjoys perhaps the best type of Mediterranean climate with about 340 warm and sunny days a year. The light rainy season is confined to the period between November and March.

Cypriots are highly educated. In fact, Cyprus has the highest percentage of university graduates per capita in the EU. This ensures an adequate supply of skilled and qualified personnel. Although the native language is Greek, English is commonly used as the business language.

The Cyprus economy is based on services. An EU member state since May 2004, Cyprus offers a unique experience to investors and trading partners. The strong pro-business environment, the multi-lingual and highly skilled human capital, the plentiful supply of well-trained human capital, the state of the art telecommunications infrastructure have made the island one of the most progressive and efficient business locations in Europe. In addition to these, the favourable tax regime makes Cyprus an ideal location for service industry activities.

## Investment Companies

Cyprus companies are suitable both for EU inbound or outbound investments. There are no investment activities that are not appropriate for the Cypriot tax environment. However, there are investment activities which are ideally suited to Cypriot tax environment such as:

- Holding companies
- Finance companies
- Royalty companies
- Investment funds
- South Europe, Middle East, central and eastern Europe head office operations

The tax climate offers many advantages to investors setting up in Cyprus, which include:

- low taxation, the lowest rate in the EU
- extensive double tax treaties network
- exemption from tax on dividends received, in most cases
- exemption of capital gains on shares and securities
- exemption from withholding tax on the repatriation of income as dividends, interest and royalties
- access to EU directives
- security and certainty of operating within the EU regulatory environment





## Foreign Investment

Foreign investment has long been considered as one of the most important elements of the country's economic prosperity. Considerable effort has been made to facilitate and enhance the attraction of foreign investments and create a friendly environment for foreigners to establish their business in the island.

In this context, the government has liberalised its Foreign Direct Investments (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.

Incentives for locating a business in Cyprus include:

- Favourable taxation which includes - inter alia - 10 percent corporation tax, low personal income tax and no capital gains tax on the sale of shares
- A prosperous and resilient economy enjoying long term stability and growth
- Member of the EU and a gateway for the movement of goods inside and outside the EU
- Skilled workforce, qualified and multilingual
- Excellent infrastructure providing easy access by air and sea
- Low set up and operating costs
- Simplified procedures for acquiring requisite permits
- A fine place to live and work in with pleasant climate and high quality of life



## 2 An Ideal Holding Company Location







Holding companies exist for legal, commercial and tax reasons.

Cyprus has always been an ideal location for holding companies, and in recent years, the island's attractiveness as a holding company location has been highly upgraded in comparison to other financial centres elsewhere in the world.

Offering the lowest tax rate in the EU, complying with the EU requirements as well as OECD requirements against harmful tax practice have made Cyprus an ideal IFC for both inbound and outbound EU investors.

### Use of Holding Companies

Cyprus is a long established reputable and tax efficient financial centre. Investors can reap the benefits of cross-border opportunities within the EU by selecting the island to host their investment holding and use it as a springboard to carry out business activities, raise funds or list their shares in EU capital markets of their choice.

Over the years, Cyprus has worked its way into the league of prominent, reputable financial centres. Cyprus is widely used by global companies to maximise after tax returns, increase their effectiveness and optimise use of capital and financial resources.

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

- For groups international or domestic investing outside Cyprus, aiming at dividend income streams. Such dividend in most cases will be tax exempt in Cyprus
- To hold subsidiaries that have scope for significant capital appreciation that may be spun off or sold in the future. Profits arising from disposals are not taxable in Cyprus
- To benefit from the favourable withholding tax provisions of the Cypriot double tax treaties network, the EU Parent Subsidiary Directive and the other directives
- Where a jurisdiction is required that does not have controlled foreign company legislation
- To avail of the favourable repatriation provisions under Cypriot tax law which allows payment of dividend, interest and royalties - in most cases without payment of withholding tax
- Suitable 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
- Where it may be important to achieve a tax free unwind of the holding company at some stage in the future

Cyprus can 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.

The location of a holding company is decided taking into consideration both tax and non tax issues. This publication focuses only on the tax aspects by taking into account the significant Cypriot tax issues relevant to a holding company, together with available exemptions, which have resulted in Cyprus becoming most attractive as a location for holding companies.



<b>Suitability of Cypriot Holding Companies</b>		
<b>Key criteria</b>	<b>Favourable (✓) or Not (X)</b>	<b>See note below</b>
Incoming Dividends	✓	1
Dividend Income	✓	2
Outgoing Dividends	✓	3
Capital Gains	✓	4
Reorganisation and Group Relief	✓	5
Controlled Foreign Company (CFC)	✓	6
Thin Capitalisation	✓	7
Re-domiciliation	✓	8
Listing in International Stock Exchanges	✓	9
Interest Income	✓	10
Interest and Royalties Withholding	✓	11
VAT Registration	✓	12
Liquidation	✓	13
Stamp Duty	✓	14

## **1 Incoming Dividends**

### Double Tax Treaties (DTT)

Cyprus has signed an extensive number of DTT. Applying these treaties, double taxation is avoided on the same profits in respect of the same person or entity.

DTT give relief to legal persons or individuals who are tax residents in one or in both contracting states.

### Relief within EU Parent Subsidiary Directive

The directive provides for the abolition of withholding taxes on dividends paid by a subsidiary to a parent company being resident of any member state.

The main condition that needs to be met is that the parent must be tax resident of a member state and must hold at least 25 percent of the share capital of the subsidiary.

### Unilateral tax relief

Even if the DTT or the EU Parent Subsidiary relief do not provide sufficient protection or if their criteria are not met for their implementation, Cyprus still applies unilateral tax credit relief in the form of tax credit by operation of its local tax Laws.

Tax credit is granted in Cyprus for any withholding tax or other tax paid on the particular income abroad. This credit applies both to corporation tax as well as any defence tax due on this income.

## 2 Dividend Income

Foreign dividend income received by a Cyprus tax resident company will not be taxed under the Income Tax Law but under the Special Contribution for the Defence Law.

### Income Tax

Dividends received by Cyprus companies from overseas entities do not bear any corporation tax.

### Special Defence Contribution

1. Dividends received from other Cyprus resident companies:

**There is no defence or other tax.**

2. Dividends received from non-resident companies:

There is no defence or other tax in this case provided that the Cyprus resident company holds at least 1 percent of the share capital of the non resident company which pays the dividends. This exemption is not granted if:

- a) the company paying the dividend is engaged directly or indirectly by more than 50 percent in activities which result in investment (passive) income, and
- b) the rate of the foreign taxation on the income of the company paying the dividend is substantially lower than the tax rate payable in Cyprus. Normally a tax rate threshold of 5 percent or less is deemed to be a substantially lower rate.





### **3 Outgoing Dividends**

Dividends payable by a Cypriot resident company to its foreign shareholders, whether a company or individual, are not subject to any withholding tax in Cyprus.

In effect, Cyprus provides full exemption on the payment of dividends to its non-resident shareholders and has a real advantage over the other traditional holding jurisdictions.

### **4 Capital Gains**

The word “titles” as envisaged in the law means, shares, bonds, debentures, founders’ shares and other titles of companies or other legal persons incorporated in Cyprus or abroad and rights thereon.

#### **Income Tax**

There is full exemption from Corporation Tax on profits from the sale of titles.

#### **Capital Gains Tax**

There is also full exemption from any Capital Gains Tax from profits realised from the disposal of titles. In effect any profits from the disposal of titles as defined above are free from any taxation in Cyprus unless the company is the owner of immovable property in Cyprus.

### **5 Reorganisation and Group Relief**

The new tax legislation has provided extensively for flexible reorganisation rules and has also implemented the EU Merger Directive. The Cypriot legislation has interpreted this directive in a liberal manner, resulting in the Cyprus reorganisation rules becoming far more flexible than the EU Directive. Reorganisations include mergers, de-mergers and transfer of assets and exchange of shares between Cyprus resident companies and/or non-resident companies.

Losses can be carried forward and set off against future profits indefinitely. There is no time limit.

Group relief is allowed provided both companies of the group are tax resident in Cyprus.

Two companies are deemed to be members of a group if:

- one company is the 75 percent subsidiary of the other, or
- both are 75 percent subsidiaries of a third company

### **6 Controlled Foreign Company (CFC)**

Cyprus does not have Controlled Foreign Company (CFC) legislation. In effect no income may be imputed to a Cyprus parent even if the income arises in a tax haven country or in respect of passive activities.



### 7 Thin Capitalisation

Cyprus's tax legislation does not contain thin capitalisation provisions, namely there are no provisions in the Law requiring the companies to maintain a particular debt to equity ratio. In this respect, a Cyprus holding company may be capitalised with loans without any risk that interest paid at arms' length to the parent company will not be deductible.

### 8 Re-domiciliation

Cyprus has recently enacted a new law allowing re-domiciliation of foreign companies in Cyprus and Cyprus companies to be re-domiciled abroad.

### 9 Listing in International Stock Exchanges

A Cypriot holding company can be listed in the Cyprus Stock Exchange or in any other reputable international Stock Exchange. Its corporate structure, which is based on the UK Companies Law, renders it a suitable vehicle for such listing.

In order to proceed with such listing the following are required:

- converting into public company
- engaging an adviser/broker for the preparation of the admission document, the application for listing and the carrying out of the listing process including promotion
- proceed with the listing of the shares

### 10 Interest Income

Cypriot tax legislation distinguishes between trading interest income and passive interest income. The following criteria are applied to identify the nature of the interest income:

- is the particular interest income acquired from the ordinary activities of the company?
- is the particular interest income acquired from activities closely connected to the ordinary activities of the company?

If the answer to either of the above two questions is affirmative, then the interest is treated as trading income and not as passive income. This trading income would then be taxed at 10 percent.

If the answer to the above two conditions is negative, then the interest is treated as passive income and is taxed as follows: 50 percent will be exempt from corporate taxation; the other 50 percent of the passive interest income will be considered as trading income. In addition, the interest is subject to defence tax at the rate of 10 percent. Consequently, the effective rate becomes 15 percent.



## **11 Interest and Royalties Withholding**

There are no withholding taxes on payments of interest to non-residents. Any interest due to non-residents is paid free of withholding taxes from Cyprus.

No withholding tax is imposed on royalty payments when the right/asset is used outside of Cyprus. When the use of the right/asset is in Cyprus there is a 10 percent withholding tax.

## **12 VAT Registration**

Holding activities fall outside the scope for the VAT in Cyprus and the holding company engaged exclusively in holding activities is not obliged to register for VAT purposes.

## **13 Liquidation**

If a Cyprus holding company is liquidated and distributes its assets to its shareholders, if its shareholders are non-residents of Cyprus then the distribution is effected without any tax.

## **14 Stamp Duty**

Under the Stamp Duty legislation of Cyprus, stamp duty is imposed on documents, contracts and other printed instruments which refer to assets in Cyprus, or matters or transactions that will be carried out in Cyprus, irrespective of where the documents are signed. If there are no documents, no stamp duty arises.

# 3 Features of the Tax System





## **Tax System**

The Cypriot tax system provides to investors:

- Only 10 percent corporation tax - the lowest standard rate in the EU
- Exemption from tax of dividend income, in most cases
- Participation exemption system on dividends from abroad
- Exemption from tax of profits from foreign permanent establishments (PE), in most cases
- Exemption from tax on profits generated from transactions in titles
- Exemption from withholding tax on the repatriation of income either in the form of dividends, interest and on almost all royalties
- Extensive double tax treaties network
- Access to EU directives
- No thin capitalisation rules
- Absence of Controlled Foreign Company (CFC) rules thus exempting foreign income received
- Flexible reorganisation rules and group relief provisions

Cyprus' tax system is in full compliance with EU requirements and also within the OECD requirements against harmful tax practices.

The main features of the tax system of Cyprus are as follows:

### **Scope of Tax**

Tax is imposed on all Cypriot resident persons, individuals and corporations, on their worldwide income.

A corporation is tax resident in Cyprus when its management and control is exercised in Cyprus.

An individual is tax resident in Cyprus when he/she spends more than 183 days in Cyprus, in a calendar year.

### **Corporation Tax**

The corporation tax rate is 10 percent, the lowest standard rate in the EU.

### **Tax Treatment of Incoming Dividends**

Cypriot law provides full international participation exemption from local taxation of dividends received by a holding company from a foreign subsidiary if the Cypriot company's holding in the foreign company exceeds 1 percent. A domestic participation is also available which does not involve any particular holding period or amount.

### **Tax Treatment of Capital Gains on the Sale of Shares**

The exemption from tax of trading and capital gains made by a Cypriot holding company from the sale of shares in a foreign subsidiary puts Cyprus on a par with the traditional European holding company regimes. No minimum participation threshold is required. Gains from local subsidiaries are also exempt. Only gains from shares in companies owning immovable property in Cyprus are subject to capital gains tax.

### **Withholding Tax on Outgoing Dividends**

Outgoing dividends remitted by a Cypriot holding company to its ultimate parent company or non resident individual shareholders are not subject to withholding tax in Cyprus.

### **Withholding Tax on Interest**

The EU Interest and Royalty Directive has been incorporated into Cyprus' domestic law. The result is exemption at source of interest whose beneficial owner is a non-resident of Cyprus and resident in an EU member state.

### **Interest Deduction for Borrowing Costs**

Generally, interest expenses payable by a Cypriot company are fully deductible.

### **Thin Capitalisation**

Cypriot tax legislation does not contain specific provisions relating to "thin capitalisation" of companies ie debt to equity/ratio restrictions. A Cypriot holding company may, therefore, be capitalised with loans without any risk that interest paid at arm's length to its parent company will not be deductible

### **Controlled Foreign Company (CFC)**

Compared with many other jurisdictions, Cypriot CFC legislation is rather limited, targeting only certain types of income that are not derived from real business activities to create a distinction between participation (active) and investment (passive) income. The CFC provisions will be triggered if more than 50 percent of the company's activities result directly or indirectly in investment income, and the foreign tax burden of the non-resident company paying the dividend is substantially lower than the tax burden of the Cypriot company.

### **Double Taxation Treaties**

Cyprus' double taxation treaty network ensures that dividends received by a Cypriot holding company from its foreign subsidiary are either exempt from or subject to low withholding tax in the subsidiary's place of residence.

## **Other Benefits of a Cyprus Holding Company**

Cypriot corporate tax on business profits is at the relatively low rate of 10 percent. Cyprus does not have any rules stating that holding companies cannot perform operating activities. Companies are allowed to carry forward losses and treat foreign taxes as expenses.

### **Interest Income**

Any interest received by a Cypriot holding company that is deemed not to be from or closely-related to its ordinary business activities is subject to 10 percent tax on half the interest received. It is also subject to a defence tax of 10 percent on the whole of the interest received, thus giving a total tax liability of 15 percent.

The absence of “thin capitalisation” rules, combined with the tax treatment of interest make it more favourable to finance Cypriot holding companies through debt and capitalise foreign companies by way of loans rather than through equity. The advantage is that borrowings will not be challenged under “thin capitalisation rules”. Cypriot double taxation treaties usually protect interest receipts from withholding taxes applicable in the source country and there is no withholding tax on interest payable to non-Cypriot residents.

### **Liquidation**

If a Cypriot holding company is liquidated, all the profits of the last five years which have not been distributed, are then deemed to have been distributed and are therefore subject to defence tax, if applicable. This does not apply to liquidation in the context of a reorganisation.

## **The EU Parent Subsidiary Directive**

This directive, as amended, was transposed into Cypriot law in the form of the Income Tax Law and the Special Contribution for Defence Law. These laws establish a liberal system of double taxation avoidance. The new tax regime extends to non-EU countries, as the laws distinguish only between residents and non-residents of Cyprus.

On the taxation of dividends, the Cypriot tax laws are even more liberal than the directive. Foreign dividends are exempt when a Cypriot resident company holds at least 1 percent, where there may be a foreign tax credit available under a double taxation treaty or, if there is no treaty, unilateral relief at the discretion of the Inland Revenue Authority.

Concerning the holding period, the second derogation of the directive allows a member state not to apply the directive. This applies to parent companies in that country that have not maintained a “qualifying holding” in a subsidiary company in another member state for at least two years. It also applies to subsidiary companies in a country in which a parent company in another member state has not maintained such a holding for the same period, both in respect of incoming and outgoing dividends.



## Features of the Tax System

### Other Significant Provisions

Losses can be carried forward indefinitely.

Group tax loss relief is available for companies forming part of a group as defined under the law, thus allowing losses of one company to be set off against profit of another company.

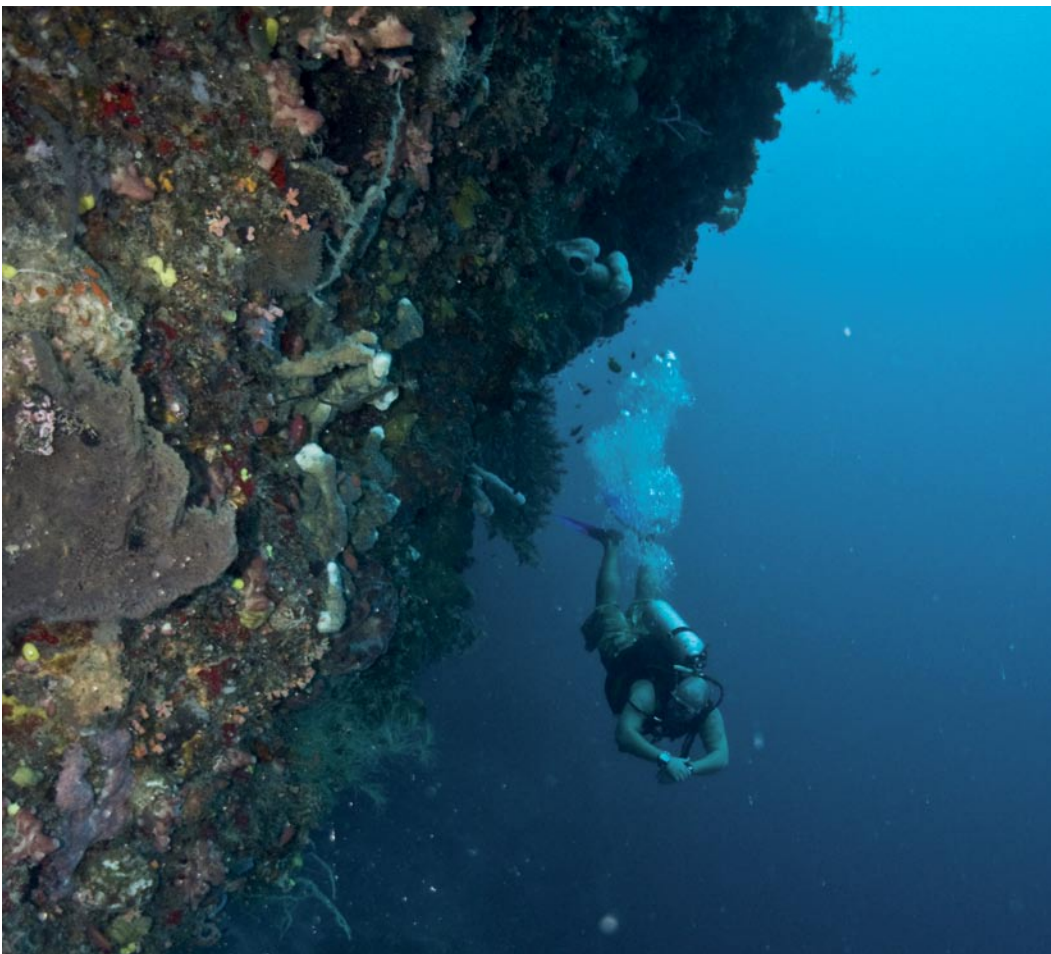
Mergers, acquisitions and spin-offs, with the same rules as the relevant EU directive, can be effected without tax cost.

### Expense Deductibility

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

### Double Tax Treaty Network and EU Directives

Cyprus has an extensive network of Double Taxation Treaties. Several other are under negotiation. Where there is no DTT, a Cyprus company can benefit from the EU Directives to eliminate withholding taxes when collecting income from the EU. Unilateral tax credit on foreign taxes withheld at source is also available.



## Double Tax Treaties

Paid to Cyprus	Dividends	Interest	Royalties
	%	%	%
Armenia	-	-	-
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
Kyrgyzstan	-	-	-
Lebanon	5	5	-
Malta	-	-/10	10
Mauritius	-	-	-
Moldova	-	-	-
Montenegro	10	10	10
Norway	-/5	-	-
Poland	10	-/10	5
Romania	10	-/10	-/5
Russia	5/10	-	-
San Marino	-	-	-
Serbia	10	10	10
Seychelles	-	-	5
Singapore	-	7/10	10
Slovakia	10	-/10	-/5
Slovenia	10	10	10
South Africa	-	-	-
Sweden	-/15	-/10	-
Syria	-/15	-/10	10/15
Tadjikistan	-	-	-
Thailand	10	10/15	5/10/15
Ukraine	-	-	-
United Kingdom	15	10	-/5
United States of America	5/15	-/10	-
Uzbekistan	-	-	-

### Paid from Cyprus

No withholding taxes exist for dividend, interest or royalty payments which are made to non tax residents of Cyprus. If not, the above rates apply.

### Tax Advantages

Cyprus offers the following tax advantages:

- Corporation tax of 10 percent for all entities - the lowest rate in the EU
- No tax on disposal of titles, whereby titles are defined as shares, bonds, debentures, founder and other titles of companies or legal persons and rights thereon
- Participation exemption system on dividends/profits from abroad
- No withholding taxes on payments of dividends, interest, and - in most cases - on royalties paid to non residents
- No holding period requirements for the participation exemption on dividends or for the exemption of tax on the disposal of titles
- Absence of any withholding taxes of interest payments made abroad
- Absence of withholding taxes on dividend payments from Cyprus
- No thin capitalisation rules
- Relative simplicity and certainty of Cypriot tax regime
- Favourable network of tax treaties with nearly 40 countries

## Other Advantages

- It is an EU member state and compliant with EU laws and regulations
- Recognition as a mature international business centre with developed infrastructure, a resilient economy, highly qualified professionals and minimum formalities
- Licensing in Cyprus and the existence of a regulatory framework improves transparency and legitimacy with regard to shareholders, authorities and others
- A public company in Cyprus can list easily on any stock exchange within the EU and benefit from “Single EU Passport” access to European Securities Markets
- Legislation has been put in place and is constantly under review to regulate and harmonise operations in the international business sector
- The island enjoys sound reputation
- Has a pool of highly educated and qualified professionals who can advise clients and provide expert support



# 4 Capital, Stamp Duties and VAT



## Capital Duty

Capital contribution is subject to capital duty under the Cypriot legislation on the authorised share capital and any further increases, as follows:

- upon incorporation of the company: €102.51 plus 0.6 percent on the authorised share capital
- upon subsequent increases: 0.6 percent on the additional share capital

The capital duty can be substantially reduced by having small authorised share capital and issuing the shares at high share premium. There is no capital duty payable on share premium. The capital duty is payable to the Registrar of Companies.

## Stamp Duty

Under Cyprus' Stamp Duty legislation, stamp duty is imposed on documents referring to assets in Cyprus, or matters or transaction that will be carried out in Cyprus irrespective of where the documents are signed. Therefore, if there is no document, no stamp duty arises. Stamp duty rates are as follows:

- Stamp duty on agreements that do not include values on which stamp duty can be calculated - €34,17. In cases where the Commissioner of Stamp Duty can determine the underlying value, stamp duty may still be applied
- Stamp duty on agreements (Contracts/loan agreements) is set between 0.15 percent – 0.20 percent with a maximum duty of €17.086

The duty is payable within 30 days after signing the agreement. A penalty charge of 10 percent applies for a delay in payment of up to 6 months. The penalty rises to 20 percent for a delay in payment of more than 6 months.

## VAT

If the holding company's activity is limited to the holding of shares, it will not be a taxable person under the VAT legislation. As such, it will fall outside the scope of the VAT legislation and will not be entitled or obliged to register for VAT purposes.

However, if the holding company is involved in activities in addition to the holding of shares, such as the provision of management services then it may have an obligation for registration or a right for a voluntary registration. In such a case it may be entitled to claim a refund VAT that it suffers on expenses incurred in Cyprus or self-charged under the reverse charge provisions.



## 5 Cessation of Activities

A Cypriot holding company held by non-resident shareholders can cease operations in Cyprus and distribute assets to its shareholders in any form (dividends, proceeds on liquidation, etc) without any tax cost to the shareholders.

If the Cypriot holding company owns immovable property in Cyprus, then its disposal at the time of ceasing operations may be subject to capital gains tax.

# 6 Setting Up and Operating a Cypriot Holding Company

## **Filing of the Memorandum and Articles of Association**

To effect registration of a company the memorandum and articles of association must be submitted for filing with the Registrar of Companies

The memorandum must contain the following information:

- The name of the company with “limited” as the last word
- The physical location of the registered office
- The objects of the company, which should be as wide as possible to enable the company to engage in any kind of business or activity
- A statement that the liability of the members is limited by shares or by guarantee
- The amount of the share capital
- The subscribers to the memorandum together with the number of shares for which they have subscribed

The articles contain rules governing the internal management of the company and regulating the rights of its members among themselves. The articles may be altered or added to by means of a special resolution, which requires a majority vote of over 75 percent of the members. The articles deal with matters such as:

- General meetings of the company
- Voting rights of members
- Transfer of shares
- Appointment and powers of directors
- Dividends
- Accounts and audit

Specimen memorandum and articles of association which have been prepared by our lawyers can be made available. Care should be taken that the first few main object clauses are tailored to the specific circumstances and main business objects of the company.

## **Share Capital Requirements**

There is no legal requirement as to the minimum or maximum share capital of the company. It is recommended that the authorised share capital should be at least €1.000 which may conveniently be divided into 1.000 shares of €1 each.



## Shareholders

Under Cyprus law, every company limited by shares must have at least one shareholder. If anonymity is required, the shares may be held by nominee companies in trust for the beneficial owners without public disclosure of the owners' identity. Our trustee companies may be used by clients for this purpose.

## Appointment of Directors

The manner of appointment of directors is laid down in the articles of association. From a tax planning point of view, it is often required that the company is shown to be managed and controlled in Cyprus and, accordingly, it is recommended that the majority of the directors appointed are Cyprus residents. Board meetings should also be held in Cyprus.

## Appointment of Secretary

The appointment of the secretary is made by the directors and the articles of association should normally contain an appropriate provision to this effect. The existence of a secretary is a requirement of the law. For practical purposes, a corporate body may be appointed as secretary.

## Registered Office

Every company must have a registered office from the day it commences business or within fourteen days after its incorporation, whichever is earlier. The registered office is the place where writs, summonses, notices, orders and other official documents can be served upon the company. It is at the registered office where the company's register of members is kept, unless the company informs the Registrar of Companies of another place.

## Period to Incorporate

The formation and registration procedures, including various administrative needs 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, can normally be completed within a period of one to two weeks.

## Bankers, Currencies and Signatories

The company may open bank accounts with any bank and in any currency and money transfers can be effected without foreign exchange restrictions. Bank signatories can be provided locally, if required.

## Formation Costs

Total formation costs for a company with an authorised share capital of €1.000 including lawyers' and accountants' fees, and all other out of pocket expenses such as stamp duties etc, are estimated to be €2.700. Fees for services such as opening of bank accounts, issuing powers of attorney or



providing tax advice will be additional to the formation costs.

## Corporate Documents

Such corporate documents normally comprise:

- certificate of incorporation
- memorandum and articles of association
- certificate of registered office address
- certificates of directors, secretary and shareholders
- share certificates
- statutory and other necessary minutes of the meetings of the directors and shareholders
- letterheads, invoices and other company stationery
- any other documents pertaining to the company's activities up to the date of its establishment

## Administration Costs

### Fixed

The minimum annual fixed costs for keeping the company in good standing may be summarised as follows:

Directors' fees	€450
Secretarial fees	€300
Nominee fees	€300
Registered office address	€300
Minimum maintenance fees	Varies

## Management and Control

Under Cyprus tax law, a company is considered to be a Cyprus tax resident if its management and control is carried out from Cyprus. In general, the Cypriot tax authorities adopt a liberal attitude accepting that management and control is exercised from Cyprus unless residence is claimed by another country. It is therefore important, especially where a number of jurisdictions are involved, each with different requirements regarding substance, to ensure that the Cypriot companies are properly managed and controlled from Cyprus.

The following ensure that substance and management and control is achieved in Cyprus:

- majority of the board members are residents in Cyprus
- regular meetings to be held in Cyprus, say every 3-4 months and maybe more regularly if deemed necessary
- major decisions and contracts should be approved by the board in Cyprus



## Setting Up and Operating a Cypriot Holding Company

- major contracts should as far as possible be signed in Cyprus
- in certain circumstances, it is advisable that a company keeps an office or virtual office facilities

### **Our Business Centre**

Our offices in Nicosia - Oneworld Parkview House - include a stand-alone, dedicated business services centre equipped with state of the art IT and telecommunications infrastructure and facilities, including:

- virtual offices suited to each client
- experienced business services team
- meeting rooms and other business services including IT and telecoms suitably configured
- on-site utilities, office cleaning and maintenance
- access 24 hours a day, 7 days a week

### **Day to Day Management**

We, are capable of dealing with all day to day activities of any company, such as bank account monitoring, processing of bank transfers, payroll preparation, invoicing, preparation and review of agreements, book-keeping, preparation of management reports and statutory financial statements, company secretarial and administration, tax and financial advice and other accounting and business administration.

### **Audit Requirement**

All Cypriot registered entities are required to prepare financial statements taking into consideration subsidiaries in accordance with International Financial Reporting Standards (IFRS) as adopted in the EU and issued by the International Accounting Standards Board (IASB). Cyprus has no special local accounting rules but adherence to IFRS is mandatory.

IFRS have been the Generally Accepted Accounting Standards in Cyprus for over three decades and there is substantial local expertise in the area.

Auditors apply International Standards on Auditing (ISA) in carrying audits of financial statements. They include the examinations of financial statements and attesting to the truth and fairness for statutory audit purposes.





## Private and Public Companies

Cypriot companies can be either private or public.

A private company is a company which by its Articles of Association specifically:

- restricts the right to transfer its shares
- limits the number of its shareholders to 50
- prohibits any invitation to the public to subscribe for its shares or debentures
- prohibits the issue of bearer shares

A public company must adhere to the following:

- a minimum of 7 shareholders
- a minimum of 2 directors
- hold a statutory meeting and the directors make a statutory report to its shareholders
- may issue share warrants
- before issuing shares or debentures to the public it must issue a prospectus or a statement in lieu of a prospectus

The conversion from a private company into a public company can be done through a simple filing procedure prior to listing.

Furthermore, the new law on re-domiciliation opens new dimensions to the international investors and traders as non Cyprus companies can now be redomiciled in Cyprus and can benefit from the various provisions of the Cyprus legislation. It also provides for Cyprus registered companies which wish to be re-domiciled abroad.

At the same time re-domiciled companies will not lose their previous records, investments, trading history and connections.

- a Cypriot private company can be converted into a public company through a simple filing process
- a Cypriot public company can be listed in the Cyprus Stock Exchange or any Exchange Regulated Market in the EU
- “Single EU Passport” allows a company registered in Cyprus to conduct a public offer in another EU member state or have the shares admitted to trading on EU Exchange Regulated Markets
- the only requirement existing is that the prospectus must be approved by the CySEC the Cyprus member of the Committee of European Securities Regulators (CESR)

# 7 Oneworld



At Oneworld Ltd / BDO Philippides Biz Services Ltd we provide solutions to clients. A significant proportion of our business is trust and corporate registration and administration for private individuals. Many corporate clients come to us for a complete solution and for many we also set-up and administer their individualised tax efficient structures. We also render international tax advice, financial advisory, accounting and payroll, VAT and customs, corporate finance and other pertinent services.

Like our clients, we maintain the highest professional standards, code of conduct and integrity. Our due diligence procedures more than meet the requirements of the highly regulated jurisdictions in which we work. Our staff are trained comprehensively in anti - money laundering and “know your client” procedures. As one would expect, confidentiality is paramount in all our dealings, and our staff are bound by law to maintain professional confidences.

We are one of the leading corporate providers and we bring a depth of experience to our work and dealings with clients. Our personnel consists of chartered accountants, lawyers, financial advisors, tax specialists, administrators and company secretaries as well as a highly trained and knowledgeable corporate and support staff.

## **Our Services**

### **Corporate and Trust**

- Company and Trust Formation
- Domiciliary and Management
- International Structuring
- Registrar and Shareholders
- Intellectual Property
- Fund Administration

### **Financial Advisory**

- Corporate Finance
- Listings
- Financial Due Diligence
- Business Recovery
- Mergers and Acquisitions
- Venture Capital





## **Global Compliance**

- Accounting Services and Reporting
- VAT Registration
- HR and Payroll
- Fund Valuation Services

## **Business Advisory**

- Domiciliary and Management
- Internal Audit
- Regulatory Compliance
- Corporate Strategy
- Performance and Reward Management
- HR Management
- IT Services

## **Tax and Legal**

- International Tax
- EU Direct Tax
- Transfer Pricing
- Legal Services
- Legal Support



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