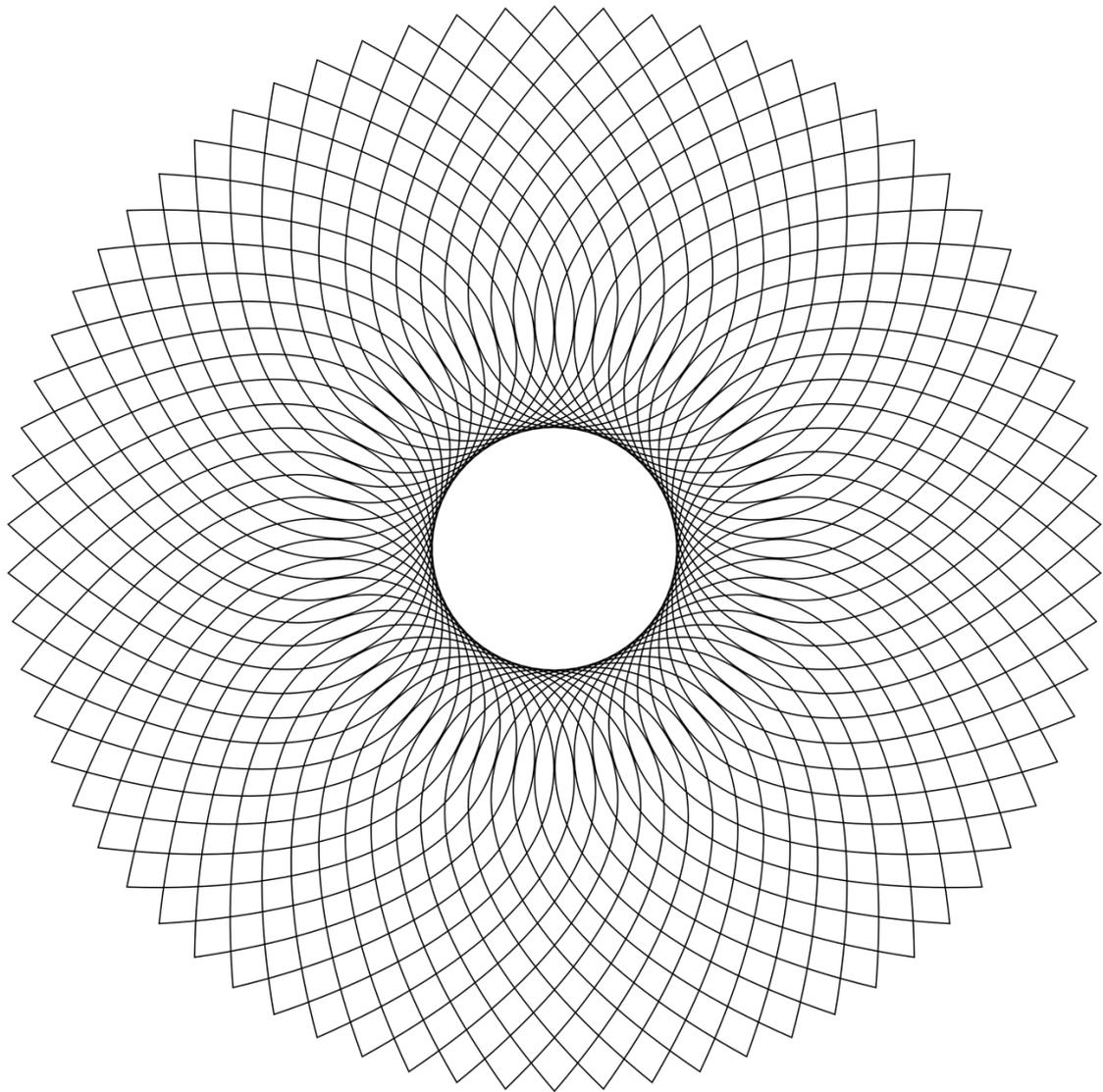


Cyprus Holding Company Structures and Tax Planning



The Cyprus holding company

Cyprus has one of the most preferential business environments and tax regimes of the European Union to set up a holding company.

Holding companies can be established with the ability to serve a number of different business and tax structures. The most common used are the following:

- Holding company owning shares in subsidiaries, associates and other investments (shares and equities)
- Holding company owning immovable properties
- Holding company owning intellectual property

Cyprus holding company benefits

A Cyprus holding company enjoys the following business and tax benefits:

Holding company owning shares or equities

- a. Exemption from the taxation of dividend income¹ (excluding, as from January 2016, dividends which are tax deductible for the paying company)
- b. No withholding tax on dividend paid to non-Cyprus tax resident individuals and non-domicile Cyprus tax residents
- c. Tax exemption on profits from the sale of shares or securities
- d. Notional Interest Deduction (NID) on new equity introduced to the business (new funds entering the business, either in cash or in the form of assets in kind (i.e. financial instruments) which creates new equity in the form of paid-up share capital or share premium, is eligible for the annual NID deduction)
- e. Exemption from the taxation of gains relating to foreign exchange differences, except if they arise from trading in foreign currencies and related derivatives
- f. Group² losses relief between group companies, subject to certain conditions:
 - a. Company's losses can be offset against another company's profits of the same year
 - b. Group losses can be relieved between Cyprus tax resident companies, and also between a Cyprus tax resident company and EU tax resident companies, provided that the EU tax resident company firstly utilized its losses in its country of residence.

Notes

1. *The exemption does not apply if:*
 - a. *the investing company is engaged directly or indirectly 50% in investment activities and*
 - b. *the foreign tax is significantly lower than the Cyprus tax.*

2. *Group is defined to be, a Cyprus tax resident company holding directly or indirectly at least 75% of the voting rights of another Cyprus tax resident company, or both companies voting rights are at least 75% (directly or indirectly) held by a third company.*

Holding company owning immovable property

- a. Rental income is taxed at the rate of 2,25% (special defence contribution) and at the rate of 12,5% (corporation tax) of the net chargeable income of the company
- b. Foreign taxes paid can be credit claimed against special defence contribution and corporation tax liability in Cyprus
- c. No capital gains tax (except on the disposal of immovable property situated in Cyprus, including gains from the disposal of shares in companies which directly own such immovable property)
- d. Immovable property rights/ownership can be transferred to the potential buyer by simply transferring the shares of the holding company owning the immovable property, and thus avoid transfer fees.

Holding company owning intellectual property

- a. Intellectual property (IP) special tax regime for Research & Development (R&D) expenditure incurred (tax deduction equaling 80% of qualifying profits resulting from the business use of the qualifying assets)

Qualifying assets are the assets acquired or developed by a person in the course of the business, and are result of R&D expenditure for which the person is the economic owner (excluding marketing IP, i.e. brands, trademarks, image rights, etc.)

Qualifying profits are calculated based on the R&D expenditure incurred to develop the qualifying asset. The following equation must be applied for calculating the qualifying profits:

$[(\text{Qualifying expenditure} + \text{Up-lift expenditure}) / \text{Total expenditure}] \times \text{Overall IP Income}$

Qualifying expenditure is the total R&D expenditure incurred for the qualifying assets

Up-lift expenditure is the lower between

- a. 30% of the qualifying expenditure and
- b. total acquisition costs and R&D expenditure outsourced to related parties.

Overall IP income is the gross profit which derives from qualifying assets (i.e. gross income less any direct costs)

- b. No withholding tax on Cyprus Company owning intangible property that is used outside Cyprus.