

# CYPRUS HOLDING COMPANIES

Cyprus companies holding investments enjoy a preferential tax treatment under Cyprus tax law especially those owned by non-Cyprus domiciled or Non Cyprus tax resident individuals.

Cyprus government ambition to establish the country as an international financial center and headquartering hub has allowed for such taxation treatment which mainly exempts profit from sale of investments as well as dividend income.

More specifically profit from sale of the below titles is exempt from corporate and capital gains tax.

1. Ordinary shares
2. Founder's Shares
3. Preference Shares
4. Options on titles
5. Debentures
6. Bonds
7. Short positions on titles
8. Futures and forwards on titles
9. Swaps on titles
10. Depositary receipts on titles – ADR + GDR
11. Rights of claim on bonds and debentures
12. Index participations only if they (result on) represent titles
13. Repurchase agreements or Repos on titles \* extensive clarification

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14. Participations/ shares in companies like Russian OOO, OAO and ZAO, the American LLC provided (they are taxed on their profits) they are not transparent entities for the purposes of taxation of their income, the Romanian SA and SRL and the Bulgarian AD and OOD

15. Units in open end and closed end collective investment schemes that they have been founded, registered and operate according to the provisions of the specific and relevant legislation of the country in which they have been founded.

## Dividends

Dividends received by a Cyprus company from a foreign shareholding are also exempt from any taxation in Cyprus.

The exemption does not apply if 50% of the income of company paying the dividend arises from investment income **and** the foreign tax levied on that company's profit is significantly lower than the tax payable from the company receiving the dividend in Cyprus.

Furthermore, dividends paid by a Cyprus company to non-Cyprus tax resident and/ or non-domiciled are not subject to any withholding tax in Cyprus.

The above tax advantages coupled with generous (up to 50%) tax exemptions for foreign employees relocating to Cyprus have attracted the interest of numerous investors and entrepreneurs wishing to take advantage of this legislation. Even though moving to Cyprus will in most cases consider an individual as being Cyprus tax resident as well, as a non-domiciled resident the individual can still enjoy the exemption on the dividends and interest received. We will expand on the tax residency and domicile of individuals in our forthcoming newsletter dedicated to individuals relocating to Cyprus as well as the personal taxation in Cyprus.

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## **Substance requirements.**

Even though the Tax Law's and Cyprus Tax Department's current requirements for tax residency remain unchanged a move towards actual substance in the management and control of corporate entities is considered.

Currently the Cyprus tax department requires the management and control of the company to be in Cyprus. This is generally interpreted as being the majority of the board members to be residing in Cyprus without requiring a fully fledged office or employees in Cyprus. We will expand on company tax residency and substance in Cyprus in our next newsletter dedicated to tax residency of Cyprus companies.

## **Legal Benefits of Cyprus Company Incorporation**

Incorporating a company in Cyprus can be a wise decision for businesses looking to expand their operations and gain access to the European market. Cyprus is an attractive location for businesses due to its strategic location, excellent infrastructure, and high quality of life. It also offers several legal benefits that make it an ideal place to set up a company.

One of the most significant legal benefits of incorporating a company in Cyprus is limited liability protection. This means that shareholders are only liable for the company's debts to the extent of their shareholdings, providing them with peace of mind and protecting their personal assets. The country also has a modern and flexible regulatory framework that encourages business growth and development, making it an attractive location for companies in a range of industries.

Cyprus is a member of the European Union, providing companies with access to the EU market and the ability to establish branches in other EU countries. The country also has strong trade links with other countries in the Middle East, Europe, and North Africa, providing companies with access to a range of international markets.

An aerial photograph of a coastal city, likely Nicosia, Cyprus, showing a waterfront promenade, buildings, and greenery. The image is overlaid with a semi-transparent green filter.

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In summary, incorporating a company in Cyprus offers several legal benefits, including limited liability protection, favourable tax regime, ease of incorporation, access to EU markets, investment-friendly environment, strong protection of intellectual property, skilled workforce, favourable regulatory environment, access to international markets, attractive business environment, reduced bureaucracy, and strict confidentiality provisions. These advantages make Cyprus an ideal location for businesses looking to expand their operations and reduce their tax liabilities while benefiting from a business-friendly environment and strong legal framework for intellectual property protection.

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