

#### ADVANTAGES OF CYPRUS TAX REGIME

Cyprus has many comparative advantages that have made the country a major international business centre:

- ✓ Member of the European Union and Euro Zone
- ✓ Business-friendly Administrative, Tax and Legal System
- ✓ Strategic location
- ✓ High quality of international business services (legal, tax, accounting, investment and brokerage)
- ✓ Advanced banking services sector, especially for corporates
- ✓ Attractive domicile for the registration & management of Investment Funds
- ✓ An active Stock Exchange and robust Securities and Exchange Commission
- ✓ Market-oriented economy
- ✓ Highly educated, multilingual and qualified talent
- ✓ Low setup and operating costs
- ✓ Advanced telecommunications and transport network
- ✓ Well-known international shipping centre
- ✓ High quality of life with Secure environment
- ✓ Stable political system

Cyprus' tax laws have been amended to incorporate all EU directives, including the Interest and Royalty directive, the Parent-Subsidiary directive, the directive on mergers and the directive on Administrative Cooperation.

- ✓ Competitive corporate tax rate of 12.5%
- ✓ A generous participation exemption regime
- ✓ Foreign capital gains are exempt
- ✓ No dividend, interest or royalty with holding tax on outgoing payments
- ✓ Any gains from trading in a wide range of securities is tax exempt
- ✓ A competitive new IP Tax Regime
- ✓ Foreign PE profits are tax exempt
- ✓ Foreign Exchange gains or losses are tax exempt
- ✓ An attractive individual tax regime for international professionals
- ✓ Tailor-made provisions for the fund industry
- ✓ Competitive Tonnage Tax for Shipping and an approved EU open registry
- ✓ Access to an extensive network of Double Tax Treaties and full access to EU Tax Directives

## 1. ONE OF THE LOWEST CORPORATE TAX RATES IN THE EU

- ✓ All trading profits of a Cyprus company are taxed at the flat rate of 12.5%, following the deduction of related expenses wholly and exclusively incurred in the production of this income.
- ✓ Foreign Exchange gains or losses will no longer affect the tax computation irrespective of the assets/liabilities creating these FX results or whether these are realised/unrealised.
- ✓ Notional Interest Deduction (NID), subject to conditions, on “New Capital” contributed and paid to Cypriot companies from 2015 onwards, to help deleverage Cyprus companies, and boost investment and productivity, has been introduced.
  - The NID will be calculated based on the “New Capital” and a “Reference Interest Rate”. The Reference Interest Rate will be based on the 10-year government bond yield of the Country in which the new equity is invested in, plus 3% (a minimum rate applies). The New Capital will be equity, contributed and paid in the company on or after January 1st, 2015, in the form of issued share capital and share premium (subject to conditions).
  - The NID granted in any tax year cannot exceed 80% of the taxable income of the company in that year. If the tax computation results in tax losses then the NID is restricted, and cannot create taxable losses to be carried forward.

## 2. A GENEROUS PARTICIPATION EXEMPTION REGIME

Foreign dividends received by a Cyprus company are not subject to income tax and may also be exempt from Special Defence Contribution<sup>1</sup>, if the following conditions are met:

- ✓ The paying company must not engage more than 50%, directly or indirectly, in activities that lead to passive income (non-trading income) or,
- ✓ The foreign tax burden on the income of the company paying the dividend is not substantially lower than the tax burden in Cyprus (a tax rate of 6.25% or more in the country paying the dividend satisfies this condition).

<sup>1</sup> Special contribution for defence is imposed on dividend income, “passive” interest income and “passive” rental income earned by Cyprus tax residents. Non-tax residents are exempt from special contribution for defence.

- ✓ No participation or holding threshold is required and the Cyprus participation exemption regime can be described as one of the most generous amongst those available.

### **3. FOREIGN CAPITAL GAINS ARE EXEMPT**

- ✓ As Cyprus' tax legislation clearly applies the separation of Income and Capital, capital gains are not included in the ordinary trading profits of a business but instead are taxed separately under the Capital Gains Tax Law (CGT).
- ✓ Capital gains tax is only imposed on the sale of immovable property situated in Cyprus as well as on the sale of shares in companies (other than quoted shares) in which the underlying asset is immovable property situated in Cyprus. Capital gains tax is imposed at a flat rate of 20% after allowing for indexation.
- ✓ What is critical for international businesses is that capital gains that arise from the disposal of immovable property held outside Cyprus, as well as shares in companies which may have as an underlying asset immovable property situated outside Cyprus and shares of non- Cyprus companies are completely exempt from capital gains tax.

### **4. NO DIVIDEND, INTEREST OR ROYALTY WITHHOLDING TAX ON OUTGOING PAYMENTS**

- ✓ Cyprus imposes no withholding taxes on payments to non-tax resident persons (companies or individuals) in respect of dividends, interest and royalties used outside Cyprus, irrespective of whether the recipient of the payment resides in a treaty country or not.
- ✓ This provides for excellent profit repatriation opportunities and when combined with the tailor-made financing structures implemented through the use of Cyprus companies and the novel IP regime, allows Cyprus to pose as an ideal holding jurisdiction, minimising withholding tax exposure for international businesses and multinational groups.

### **5. TRADING IN SECURITIES**

- ✓ A unique feature of the Cyprus tax system relates to the Non-taxation of any gains or profits arising from the trading of an admittedly wide range of securities.

- ✓ Any income arising from trading in securities<sup>2</sup> is completely exempt from corporate tax.

#### **6. A COMPETITIVE INTELLECTUAL PROPERTY (IP) TAX REGIME**

- ✓ Added to the above, the beneficial provisions of the new IP regime provide for an 80% notional deduction on IP related income and capital gains from the disposal of IP rights and competitive amortisation provisions.

#### **7. FOREIGN PERMANENT ESTABLISHMENT (PE) PROFITS ARE TAX EXEMPT**

Subject to the criteria listed below, any profit of a foreign PE of a Cyprus company is exempt from corporate tax in Cyprus if:

- ✓ The PE does not engage more than 50%, directly or indirectly, in activities which lead to passive income, or
- ✓ The foreign tax burden imposed on the PE is not substantially lower than that in Cyprus.

#### **8. AN ATTRACTIVE INDIVIDUAL TAX REGIME FOR INTERNATIONAL PROFESSIONALS**

Cyprus has developed an attractive individual tax regime with low income tax rates and appropriate concessions for international and mobile professionals.

- ✓ An individual is considered resident in Cyprus for income tax purposes if they are present in Cyprus for a period exceeding 183 days in the tax year in question. If this condition is met, tax is imposed on income arising from sources within Cyprus and outside Cyprus.
- ✓ Effective from January 1st, 2012, 50% of the gross emoluments are allowed to be deducted from taxable income for individuals who were not tax residents of Cyprus prior to the commencement of their employment in Cyprus. This deduction applies

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<sup>2</sup> The term "Securities" includes but is not limited to: ordinary and preference shares, founder's shares, options on titles, debentures, bonds, short positions on titles, futures/forwards on titles, swaps on titles, depositary receipts on titles, rights of claims on bonds and debentures, index participations (only if they represent titles), repurchase agreements or Repos on titles, participations in companies, units in open-end or closed-end collective investment schemes such as Mutual Funds, International Collective Investment Schemes (ICIS) and Undertakings for Collective Investments in Transferable Securities (UCITS).

when income exceeds €100,000 p.a. and is allowed for a period of five years, commencing from the date of employment.

- ✓ The tax benefits available under the Cyprus income tax law for expatriates, includes a tax exemption of €8,550 or 20%, whichever is lower, of the gross emoluments of an individual who was not a tax resident of Cyprus prior to the commencement of his/ her employment in Cyprus. This exemption applies for a period of three years, commencing in the tax year following the year of taking up employment in Cyprus (for example, where an expatriated employee commences employment in Cyprus for the first time during the year 2013, the exemption will apply from 2014 to 2016).
- ✓ Exemption from taxation for personal investment income (dividends and interest) of non-domiciled individuals (non-doms) and personal tax exemption for high earners for ten years.
- ✓ Special Contribution for Defence on Income for non-domiciled individuals has also been abolished.

## 9. TAILOR-MADE PROVISIONS FOR THE FUND INDUSTRY

Cyprus tax laws have accommodated the tax needs of investment funds (both UCITS and alternatives) by offering a wide range of incentives for their set up and operation:

- ✓ Individual fund managers enjoy the low income tax rates and the readily available concessions, while fund management companies enjoy the low corporate income tax rates, exemptions and the absence of any withholding tax on dividends and interest to non-resident shareholders.
- ✓ Significantly lower operating costs without the quality of services delivered being compromised.
- ✓ Revenues of fund management companies in Cyprus are generally exempt from VAT<sup>3</sup>.
- ✓ Exemption from tax on any income arising from trading in securities and more specifically participations in companies, units in open-end or closed-end collective

<sup>3</sup> Cyprus' VAT Legislation provides specific guidance with respect to the meaning of "funds and management of mutual funds" that would benefit from this VAT exemption. In this respect "fund management services" that are offered to mutual funds include the following main categories of services: investment management, administration, and promotion/marketing.

investment schemes such as Mutual Funds, International Collective Investment Schemes (ICIS)/Alternative Investment Funds (AIFs) and UCITS.

- ✓ Interest received by regulated investment funds will be considered “active” interest income and taxed at only 12.5% corporation tax.
- ✓ No minimum participation or holding threshold for exemption on inbound dividends.
- ✓ Liquidation of investment funds not taxable if the unit holders are not Cyprus tax residents.

## **10. COMPETITIVE TONNAGE TAX FOR SHIPPING AND AN APPROVED EU OPEN REGISTRY**

The shipping companies are taxed on the net tonnage of the fleet they operate (Tonnage Tax System – TTS), rather than corporate tax, which they would otherwise have to pay. Under certain conditions the TTS applies also to tug boats, dredgers and cable layers.

The main benefits of the new Tonnage Tax System – TTS, are:

- ✓ The Cyprus Registry is now an EU approved Open Registry.
- ✓ Lower taxation.
- ✓ For the first time ship chartering activities are included.

## **11. OTHER TAX INCENTIVES**

- ✓ Introduction of anti-avoidance provisions for postponement of deemed dividend distribution arising from artificial structures
- ✓ Extension of the Accelerated Annual Capital Allowances for fixed asset expenditure to tax years 2015 and 2016.
- ✓ Expansion of the definition of ‘Republic of Cyprus’ in the Income Tax legislation to include all activities carried out within its Exclusive Economic Zone (EEZ)
- ✓ Abolition of local authorities’ exemption from taxability of rental income

## 12. ACCESS TO AN EXTENSIVE NETWORK OF DOUBLE TAX TREATIES AND EU TAX DIRECTIVES

Cyprus has over the years developed an extensive network of Double Tax Treaties, facilitating international investment to and from Cyprus. Cyprus has managed to conclude and maintain over the years a number of treaties with exemplary beneficial provisions that when combined with the favourable aspects of Cyprus' tax system provide an invaluable tool for international businesses. The double Tax Treaty network is

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|------------------|----------------|----------------------------|
| ✓ Armenia        | ✓ India        | ✓ Singapore                |
| ✓ Austria        | ✓ Iran         | ✓ Slovenia                 |
| ✓ Azerbaijan     | ✓ Ireland      | ✓ Slovakia                 |
| ✓ Bahrain        | ✓ Italy        | ✓ Spain                    |
| ✓ Belarus        | ✓ Kuwait       | ✓ Syria                    |
| ✓ Belgium        | ✓ Kyrgyzstan   | ✓ Sweden                   |
| ✓ Bosnia         | ✓ Lebanon      | ✓ Tajikistan               |
| ✓ Bulgaria       | ✓ Lithuania    | ✓ Ukraine                  |
| ✓ Canada         | ✓ Malta        | ✓ United Arab Emirates     |
| ✓ China          | ✓ Mauritius    | ✓ United Kingdom           |
| ✓ Czech Republic | ✓ Moldova      | ✓ United States of America |
| ✓ Denmark        | ✓ Poland       | ✓ Uzbekistan               |
| ✓ Egypt          | ✓ Portugal     | ✓ The States of Guernsey   |
| ✓ Estonia        | ✓ Qatar        | ✓ France                   |
| ✓ Finland        | ✓ Romania      | ✓ Georgia                  |
| ✓ Germany        | ✓ Russia       | ✓ Montenegro               |
| ✓ Greece         | ✓ South Africa | ✓ Norway                   |
| ✓ Hungary        | ✓ San Marino   | ✓ Swiss Confederation      |
| ✓ Iceland        | ✓ Serbia       | ✓ Thailand                 |
|                  | ✓ Seychelles   |                            |

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### BKMS Limited

201 Strovolos Avenue, Off. 201-202  
2<sup>nd</sup> Floor, The Future Business Centre,  
2049 Nicosia, Cyprus

Tel. +357 – 22 265 360  
Fax. +357 – 22 265 361

info@bkmsgroup.com  
www.bkmsgroup.com