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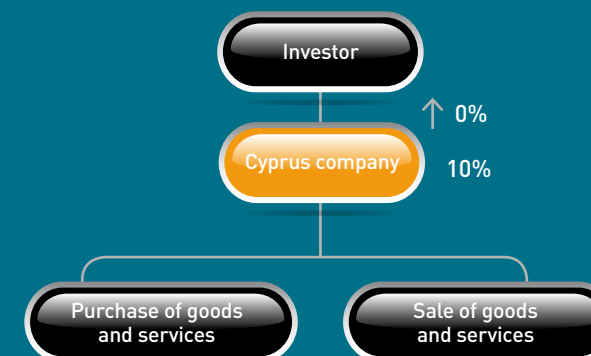


Cyprus: Tax Planning Ideas

Cyprus offers an extensive Double Tax Treaty (DTT) network with currently 47 treaties in force. This, coupled with the low corporate tax rate, the participation exemption and other taxation advantages, create numerous opportunities for using Cyprus companies and other vehicles for tax optimization in the course of international tax structures.

Trading company structure

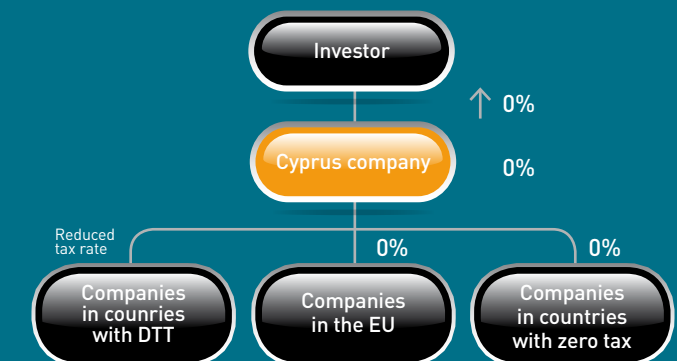
A corporate tax rate of 10% is applied to all companies. This is the lowest corporate tax rate in Europe and gives tremendous advantages to trading companies carrying out their trading activities via Cyprus.



- 10% tax on the profit margin after deducting all expenses incurred wholly and exclusively for the production of income
- No withholding tax on the distribution of profits irrespective of the country of residence of the recipient or the existence of a double tax treaty
- Profits may be re-invested by the Cyprus company

Holding company structure

Cyprus has emerged into one of the most successful holding company jurisdictions in the world. There are major tax advantages which enable the use of a Cyprus company for investing into companies within the European Union (EU) as well as DTT and non-DTT jurisdictions.

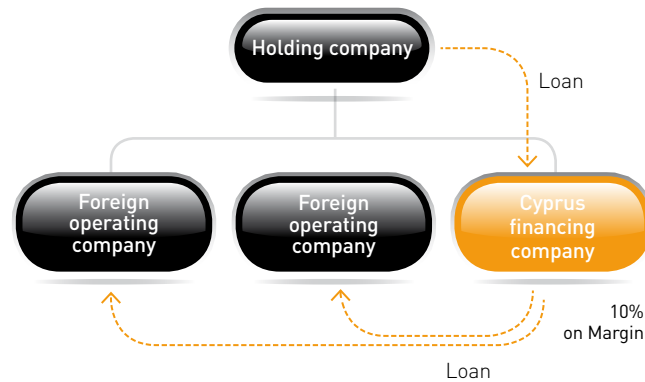


- Eligibility to an exemption from tax on dividend income received from subsidiary companies (subject to easy-to-meet conditions)
- No withholding tax on the distribution of profits irrespective of the country of residence of the recipient or the existence of a double tax treaty
- Full exemption from capital gains tax and income tax on the disposal of the shares in the subsidiary
- No capital gains tax or income tax on the disposal of the shares (or liquidation) of the Cyprus holding company
- No net worth taxes during the life of the Cyprus company
- Access to EC Directives including the Parent/Subsidiary Directive, which provides for tax exempt receipts (and distributions) of dividends between EU countries
- No substance requirements, no minimum holding period and no CFC rules

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Financing company structure

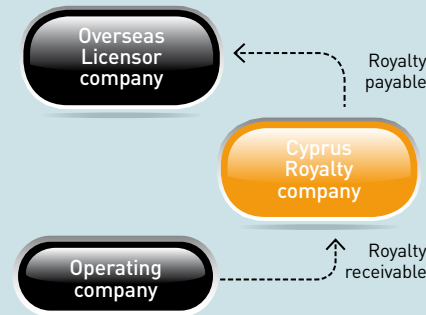
Cyprus companies can be used very efficiently for group financing purposes. A Cyprus company can act as an intermediary between a holding and an operating company resulting in zero/minimum withholding taxes, creating tax deductible expenses in high tax jurisdictions (operating companies) and low taxability on the interest margin at the Cyprus company level. The Cyprus tax legislation does not include any thin capitalization rules or a minimum debt/equity ratio.



- Profits reduced in the operating country
- Use of Double Tax Treaty network/EC Directive
- Small margin taxable in Cyprus at 10% (no tax in Cyprus in the case of loans granted by the Cyprus company's offshore branch)
- An indication (non-binding) of acceptable margins on back-to-back loans:
 - Loans < Euro 50m - 0.35%
 - Loans Euro 50m – 200m - 0.25%
 - Loans > Euro 200m – 0.125%
- Credit relief for withholding taxes suffered
- No withholding taxes on dividend/interest payments out of Cyprus

Royalty company structure

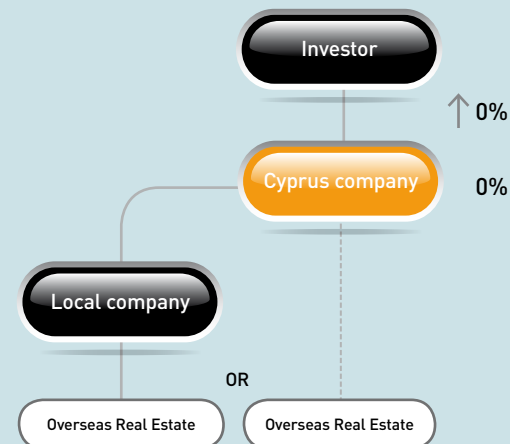
A Cyprus company acting as an intermediary between a foreign licensor and an operating foreign company in a treaty location can reduce the taxable profits in the operating location and achieve a double dip effect i.e. the royalties would be tax deductible in the operating location and would be tax free in the ultimate licensor's jurisdiction (provided the latter is located in a tax efficient jurisdiction). Any margin remaining in the Cyprus company will be subject to income tax at the rate of 10%.



- Profits reduced in the operating country
- Use of treaty network/EC Directives
- Small margin taxable in Cyprus at 10%
- Credit relief for withholding taxes
- No withholding taxes on dividend/royalty payments out of Cyprus

Real estate company structures

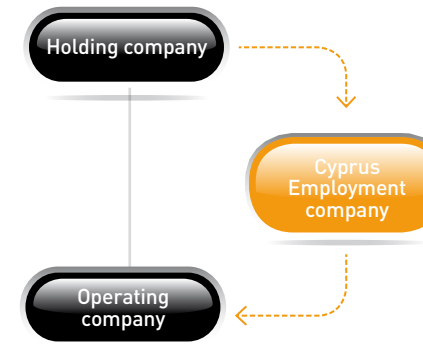
Cyprus companies can be used to hold real estate either directly or indirectly (where local legislation requires local entities to be the holding vehicles) either to effect a future disposal following a capital appreciation or to receive rental income.



- No tax on dividend income received in Cyprus
- No tax on disposing the shares in the local real estate holding company
- No capital gains on disposing the property directly
- No tax on rental income in Cyprus where a local real estate company holds the property
- Zero/reduced withholding tax on dividend payments from the real estate company to Cyprus
- No withholding taxes on other payments out of Cyprus
- Use of treaty network/EC Directives

Employment company structures

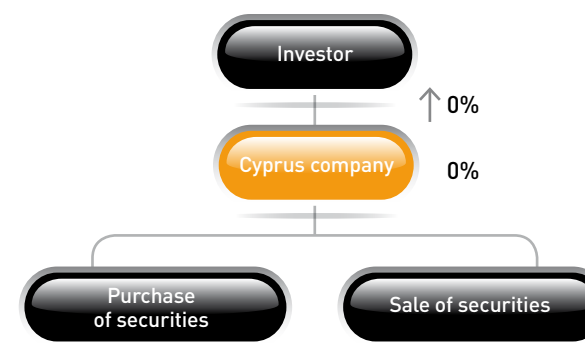
A Cyprus company can be used tax efficiently as an employment company. It can employ staff on overseas assignments and charge operating companies at cost plus. Tax and social security costs are minimal compared to other EU jurisdictions.



- Cyprus company employs staff
- Charges other group companies at cost plus
- Profits taxable in Cyprus at 10%
- Profits reduced in operating country
- Employee costs reduced as employers pay less tax and social security contributions
- Employees are exempt from tax in Cyprus

Trading in securities structure

Any profit from the disposal of securities is tax-exempt in Cyprus. "Securities" include a large variety of financial instruments amongst which shares, debentures, government bonds, founders' shares or other shares of companies or other legal entities which have been incorporated in Cyprus or abroad.



- Profit is exempt from tax
- Use of double tax treaties
- No withholding tax on payments out of Cyprus
- Overall 0% tax in Cyprus

Permanent establishment in Double Tax Treaty countries

A Cyprus company may establish a permanent establishment (e.g. a branch) abroad and take advantage of the non-taxability on profits from foreign permanent establishments in Cyprus as well as the potential of realizing profits which would escape taxation in both jurisdictions.



- The profits are tax exempt in the hands of the Cyprus company
- Tax may be eliminated in both jurisdictions by applying a favourable provision in the course of a Double Taxation Treaty i.e. where the taxing rights for the permanent establishment are attributed to Cyprus, which exempts its profits unconditionally.

Our Services

- Advice in respect to tax structure optimization and selection of appropriate vehicles
- Advice on the Cyprus tax implications and Double Tax Treaty application
- Obtaining "tax rulings" and liaising with the Cyprus tax authorities
- Advising on the establishment of substance and proper corporate governance
- Assisting with entity formation, tax and other registrations and compliance matters
- Any other assistance from a tax or legal perspective in arriving at and implementing an optimal structure

