



## CONTENTS

PREFACE .....	1
OUR ORGANIZATION .....	3
CONFIDENTIALITY .....	5
CYPRUS .....	7
CYPRUS HOLDING COMPANIES .....	8
DOUBLE TAX TREATIES .....	9
WITHHOLDING TAXES ON INCOMING DIVIDENDS .....	11
IMPORTANT ASPECTS OF CY TAX LAW DIVIDENDS .....	14
SETTING UP A CYPRUS HOLDING COMPANY .....	16

## PREFACE

This brief guide has been prepared to provide a general background to the legal framework regulating the incorporation, administration and tax liabilities of the Cyprus holding company. As explained in the brief guide, Cyprus is the most attractive jurisdiction in which to set up a holding company.

MAGNUMSERVE is your local & Global  
Partner for Corporate Services

*"We Globalize the World"*



## Our Organization

SOTERIS PITTAS & CO LLC with MAGNUMSERVE Group of Companies has been serving the needs of discerning international clients for many years. It was founded on the principles of providing a new platform for the international financial industry by offering a full spectrum of consulting and administrative services.

Our products and services are based on reduced risk. Through a series of private consultations we will ascertain the best strategy for your particular circumstances and work with investment advisors, lawyers and other key professionals to provide the most appropriate international structure for your needs.

We will ensure that you have greater control of your international investments through careful planning and corporate management techniques unique to international structures.

All communication and data is exchanged in complete confidence. While our offices and records are located in secure location, we advocate the use of data encryption software for client e-mail correspondence.

SOTERIS PITTAS & CO LLC with MAGNUMSERVE Group of Companies has all the expertise you require to place investments globally – a strategy used by investors seeking to develop structures to minimize taxes, protect their assets, better plan their estates and enhance the privacy of their financial affairs.

The many years of experience accumulated by MAGNUMSERVE'S Directors and Senior Officers will ensure that our clients will receive the high quality, responsive service required to meet their international financial needs on a worldwide basis.



## Confidentiality

Confidentiality and Security have become key issues in a world of constantly advancing global communications. Every investor should be concerned about possible incursion into their personal and financial affairs. MAGNUMSERVE employs state of the art technology in the secure areas of its Web Site and in all client communications.

While properly structuring your international financial affairs can go a long way to protecting against third party access, a great deal of extra protection is afforded if you incorporate and remain aware of a number of proven privacy strategies and methods. Please contact us to discuss your requirements in more detail.



## Cyprus

Cyprus is situated at the crossroads of Europe, Africa and Asia. The excellent infrastructure, the strategic geographic location, the highly skilled human capital, the strong pro-business attitude and the comprehensive treaty network with all the major countries of the world, have established Cyprus as an ideal reputable International Financial Centre.

The accession of Cyprus to the EU resulted in the reformation of its tax system and its legislation in order to become EU and OECD compatible. Cyprus is not anymore a tax heaven but rather a tax incentive country. Cyprus' corporate tax rate is the lowest in the EU, the tax regime secures many exceptions and the island's 34 double taxation treaties remain in force and continue to provide ample opportunities for international tax planning whilst also minimizing legally overall taxes for business and individuals.

The 2003 tax reform has made Cyprus one of the most progressive international businesses, financial and commercial centres in Europe.

European enlargement and the accession of Cyprus open up a new gate to investors. Cyprus is now firmly established as the ideal gateway for EU inbound and outbound investment. This supplements the traditional relationship which Cyprus had with Central and Eastern European countries as well as with Russia, Ukraine, China and India. The opportunities that will open up in the new environment will strengthen further the reputation of Cyprus as an ideal International Financial Centre.

## Cyprus Holding Companies

For a country to be an attractive location in which to set up a holding company four (4) criteria must be satisfied:

- **Incoming Dividends:** Incoming dividends remitted by the subsidiary to the holding company must either be exempted from or subject to low withholding tax rates in the subsidiary's jurisdiction.
- **Dividend Income Received:** Dividend income received by the holding company from the subsidiary must either be exempted from or subject to low corporate income tax rates in the holding company's jurisdiction.
- **Capital Gains Tax on Sale of Shares:** Profits realized by the holding company on the sale of shares in the subsidiary must either be exempted from or subject to a low rate of capital gains tax in the holding company's jurisdiction.
- **Outgoing Dividends:** Outgoing dividends paid by the holding company to the ultimate parent corporation must either be exempted from or subject to low withholding tax rates in the holding company's jurisdiction.

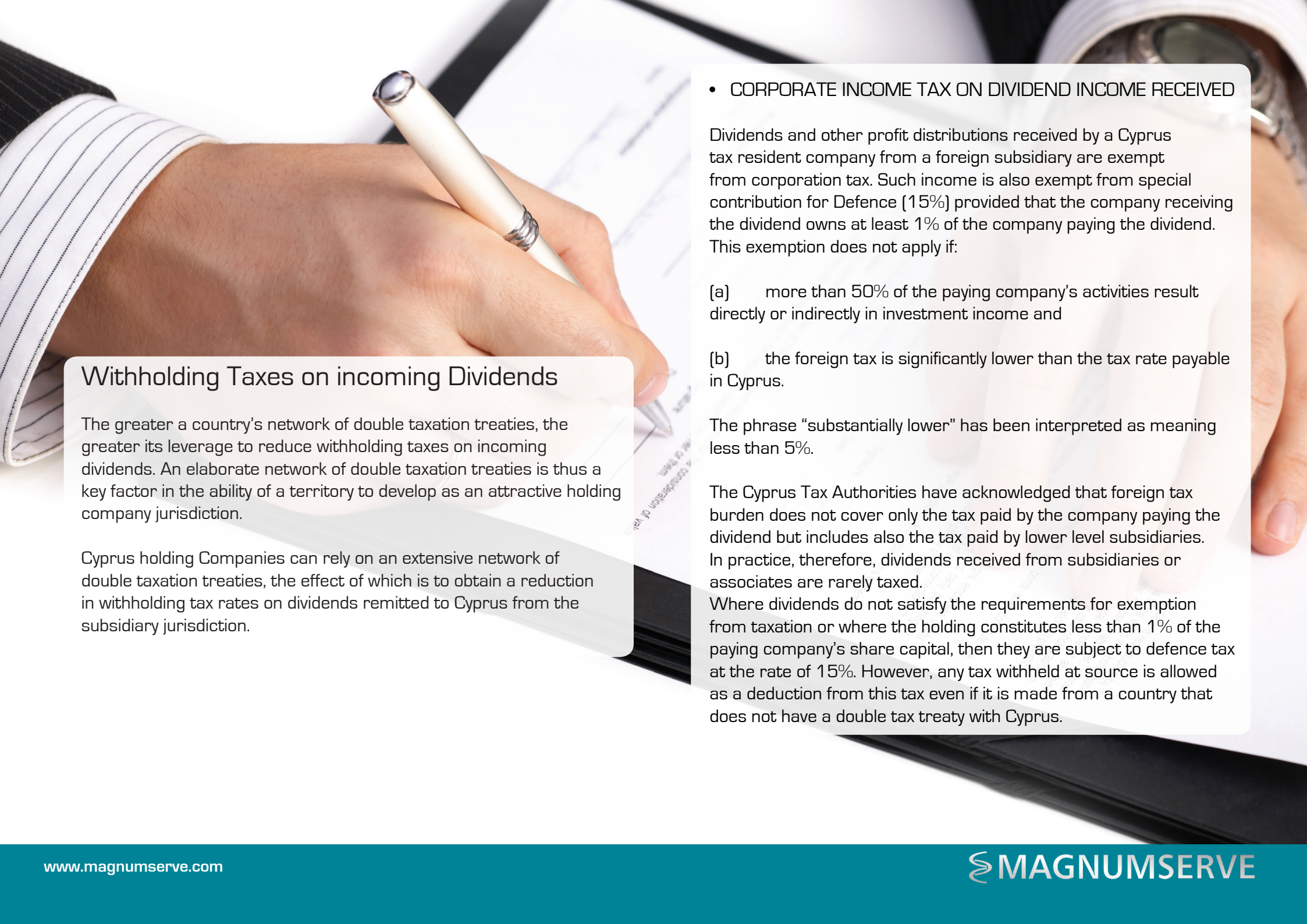
By these criteria, Cyprus as explained analytically herein below, is by no means the most attractive country in which to set up a holding company.



DOUBLE TAX TREATIES DIVIDENDS RECEIVED  
BY CYPRUS HOLDING COMPANY FROM THE SUBSIDIARY JURISDICTION

	DIVIDENDS %
ARMENIA	0/5 (1)
AUSTRIA	10
BAHRAIN (36)	0
BELARUS	5/10/15 (2)
BELGIUM	10/15 (3)
BOSNIA	10 (4)
BULGARIA	5/10 (5)
CANADA	15
CHINA	10
CZECH REPUBLIC	0/5 (6)
DENMARK	0/15 (7,8)
EGYPT	15
ESTONIA	0
FINLAND	5/15 (9)
FRANCE	10/15 (10)
GEORGIA (33)	0
GERMANY	5/15 (11)
GREECE	25
HUNGARY	5/15 (12)
INDIA	10/15 (13)
IRAN (31)	5/10 (32)
IRELAND	0
ITALY	15
KUWAIT	0
LEBANON	5
LITHUANIA (14)	0/5 (15)

	DIVIDENDS %
MALTA	0
MAURITIUS	0
MOLDOVA	5/10 (16)
MONTENEGRO (17)	10
NORWAY (18)	0/15 (19)
POLAND	0/5 (20)
PORTUGAL	10
QATAR	0
ROMANIA	10
RUSSIA	5/10 (21)
SAN MARINO	0
SERBIA (22)	10
SEYCHELLES	0
SINGAPORE	0
SLOVAKIA (23)	10
SLOVENIA	5
SOUTH AFRICA (34)	5/10 (35)
SPAIN (24)	0/5 (25)
SWEDEN	5/15 (26)
SYRIA	0/15 (27)
THAILAND	10
UKRAIN	5/15 (28)
UAE	0
UNITED KINGDOM	0/15 (29)
UNITED STATES	5/15 (30)



## Withholding Taxes on incoming Dividends

The greater a country's network of double taxation treaties, the greater its leverage to reduce withholding taxes on incoming dividends. An elaborate network of double taxation treaties is thus a key factor in the ability of a territory to develop as an attractive holding company jurisdiction.

Cyprus holding Companies can rely on an extensive network of double taxation treaties, the effect of which is to obtain a reduction in withholding tax rates on dividends remitted to Cyprus from the subsidiary jurisdiction.

### • CORPORATE INCOME TAX ON DIVIDEND INCOME RECEIVED

Dividends and other profit distributions received by a Cyprus tax resident company from a foreign subsidiary are exempt from corporation tax. Such income is also exempt from special contribution for Defence (15%) provided that the company receiving the dividend owns at least 1% of the company paying the dividend. This exemption does not apply if:

- (a) more than 50% of the paying company's activities result directly or indirectly in investment income and
- (b) the foreign tax is significantly lower than the tax rate payable in Cyprus.

The phrase "substantially lower" has been interpreted as meaning less than 5%.

The Cyprus Tax Authorities have acknowledged that foreign tax burden does not cover only the tax paid by the company paying the dividend but includes also the tax paid by lower level subsidiaries. In practice, therefore, dividends received from subsidiaries or associates are rarely taxed.

Where dividends do not satisfy the requirements for exemption from taxation or where the holding constitutes less than 1% of the paying company's share capital, then they are subject to defence tax at the rate of 15%. However, any tax withheld at source is allowed as a deduction from this tax even if it is made from a country that does not have a double tax treaty with Cyprus.



## OTHER IMPORTANT ASPECTS OF CYPRUS TAX LAW

### I) TAXABLE AND NON TAXABLE ENTITIES

A company is considered to be a tax resident in Cyprus if it's managed and controlled in Cyprus. Although no definition of "management and control" is provided in the tax law itself, its meaning was established by Court decisions in England. As a rule of thumb, it could be said that, if the majority of directors of the company are residents in Cyprus, board meetings are held in Cyprus and important management decisions are taken in Cyprus, management and control is likely to be held to be exercised in Cyprus.

A Company that it is incorporated in a foreign country is considered to be tax resident in Cyprus if managed and controlled in Cyprus.

### II) TAX RESIDENT INDIVIDUAL

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

### III) EU PARENT - SUBSIDIARY DIRECTIVE

Cyprus holding companies take benefit of the EU Parent-Subsidiary Directive. Dividends paid between associated enterprises which are both situated in the EU are made without any withholding taxes. A company is defined as an associate of another, if that company holds at least 10% of its share capital. [from January 2009]

### • CAPITAL GAINS TAX ON THE SALE OF SHARES

The profit arising on the disposal by a Cyprus tax resident company of shares in a company is exempt from any tax in Cyprus provided that the shares disposed qualify as "Titles" under the relevant provisions of the Cyprus Tax Legislation. "Titles" are defined as Shares, Bonds, Debentures Founder and other titles of companies or legal persons and rights thereon.

### • WITHHOLDING TAXES ON OUTGOING DIVIDENDS

Cyprus does not impose any withholding tax on dividends and other profit distributions paid by a Cyprus Company to non tax resident shareholders including both individuals and corporations



#### IV) GROUP RELIEF

The taxable losses of any company may be set-off against the taxable profits of another company in the same group provided that the two companies are members of the same group for the whole year and are both tax residents of Cyprus. For the purpose of group relief, a company is deemed to be a member of the same tax group if:

- (a) it is 75% subsidiary of another company, or
- (b) both are 75% subsidiaries of a third company.

#### V) REORGANIZATIONS

Any profits arising on the transfer of assets and liabilities between companies during a reorganisation plan are tax-free. A reorganisation plan includes mergers of companies, demergers, transfer of activities or exchange of shares.

#### VI) INHERITANCE OR ESTATE TAXES

There are no inheritances, estate or other taxes on shares held in a Cyprus Company.

#### VII) WEALTH TAXES

Cyprus imposes no taxes on wealth and it is not anticipated it shall do so in the years to come.

## SETTING UP A CYPRUS HOLDING COMPANY

The most commonly used form is the Cyprus limited liability company.

## CAPITAL

There are no legal requirements as to the minimum or maximum share capital of the company. It is recommended that the issued share capital should be 1.000 EURO divided into 1.000 shares of 1 EURO each.

## ARTICLES OF ASSOCIATION

The Articles of Association (CHARTER) should specifically:

- Restrict the number of members to less than 50.
- Restrict the right to transfer shares.
- Prohibit any invitation to the public to subscribe to shares or debentures.
- Prohibit the issue of bearer shares.

## MEMORANDUM OF ASSOCIATION

The Company's objects and powers are defined in the Company's Memorandum of Association which is normally drafted as widely as possible to enable the company to engage in any type of business.

## Shareholders

Shareholders of a Cyprus limited liability company can be any individual or legal entity. Under Cyprus law every company limited by shares must have at least one shareholder.

SOTERIS PITTAS & CO LLC and MAGNUMSERVE Group of Companies can provide nominee Shareholder(s) in order to secure the required confidentiality.

## DIRECTORS

Companies are managed and controlled by the board of directors. Under Cyprus Company Law, a Cyprus private company must have at least one director.

Management and control of a company determines under Cyprus tax legislation, the tax status of the company. Therefore, where the Board meets and where important management decisions are taken is significant for tax purposes.

SOTERIS PITTAS & CO LLC and MAGNUMSERVE Group of Companies can provide nominee director (s) in order your Company to be considered as tax resident in Cyprus and in order to take advantage of the Cyprus network of double tax treaties.

## SECRETARY

Under Cyprus Company Law, a company must have one secretary. A director may also be the secretary. From an administrative point of view, it is advisable for the Secretary to reside in Cyprus and be conversant in Greek as all communications and filings with the Registrar of Companies are required to be made in Greek language. SOTERIS PITTAS & CO LLC and MAGNUMSERVE Group of Companies can provide secretarial services to your company.

## REGISTERED OFFICE

Under Cyprus Company Law, a Company must have a registered office within the Republic in order all legal documents concerning the Company to be served to that declared address. SOTERIS PITTAS & CO LLC and MAGNUMSERVE Group of Companies can provide the registered office for your company.

## AUDITED ACCOUNTS

Under Cyprus Companies Law, the financial statements of Cyprus Companies are prepared in accordance with the International Reporting Standards (IFRS'S). These standards require the Cyprus holding Companies to prepare consolidated audited financial statements on an annual basis. Consolidation is not required when the Cyprus holding Company is an intermediary holding company and a holding company further up the ownership chain prepares consolidated financial statements under IFRS'S. SOTERIS PITTAS & CO LLC and MAGNUMSERVE Group of Companies can introduce to your company suitable auditors.





## CYPRUS HOLDING COMPANIES

### **Magnum House**

Chrysanthou Mylona 10

3030 Limassol - Cyprus

Tel: +357 25 028460

Fax: +357 25 028461

[www.magnumserve.com](http://www.magnumserve.com)