

## GUIDE TO THE CYPRUS HOLDING COMPANY

### GENERAL BACKGROUND

Governing Law	Companies Law, Cap 113 (Similar to UK Companies Act 1948)
Share Capital	Euro1000, Bearer shares not permitted, minimum shareholders-one
Directors	Minimum of one, can be corporate, no local director required, can be any nationality (but see tax notes below)
Secretary	Required (cannot be same as sole director)
Type of company	Limited Company
Local Registered Agent/ Office	Required
Accounts	Annual Accounts required, must be audited and filed. Accounting records can be maintained in foreign currency but Annual Accounts require translation into Euro. Accounts are filed with Central Bank of Cyprus. Accounts based upon International Accounting Standards Filing deadline is 15 months after Annual Shareholder Annual Meeting.
Company Name	Must end with Limited or Ltd
Dissolution Procedures	Final Accounts must be filed with Cyprus Inland Revenue Dept. Shareholders Resolution to dissolve the company. Submission to Company Registrar by company lawyer. Publication is made in Government Newspaper. Following above actual dissolution can take 3 to 6 months subject to no objection being made. Fees for dissolution are Euro 3,000 plus cost of final audited accounts and tax returns. It is suggested that sufficient funds are retained to cover the cost. A separate and more detailed guide is available upon request.
Annual Return	Filed annually
Formation	Approx 5 working days to get a name approved. Formation then takes a further 12 working days.
Currency Control	No restrictions
Double Tax Treaties	35
Beneficial Ownership	None , unless trading locally in Cyprus. Nominee Shareholders commonly used.
Distribution of Dividends	No withholding tax

FORMATION FEE €2,000

ANNUAL DOMICILIARY FEE €2,000

ADDITIONAL FEES: Accounts, Audit, Tax, Compliance, Administration

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## TAXATION OF CYPRUS HOLDING COMPANY

Income from Non Cypriot Investments	Dividends received from abroad are exempt from income tax (including defence tax providing Cyprus Company owns at least 1% of the capital of the foreign company. Exemption does not apply if the company paying the dividend engages directly or indirectly (more than 50%) in generating investment income and pays tax substantially lower than Cyprus (10%)
Gains on Sale of Participations	Gains on buying/selling shares are exempt from tax
Distributions to Non Resident Shareholders	Not subject to any withholding tax
Tax Return	The tax filing deadline is at the end of following calendar year. Interim tax is calculated during the year and is paid in 3 equal instalments in August, September and December of the current year. If this estimate is 75% of the actual tax due then no 10% additional penalty is charged on difference due. If no instalments have been paid then penalty is 10% of total tax due. Current late filing interest is 9%
Loan Interest	Interest on Shareholder Loans or Bank Loans cannot be offset against Interest Income for income tax and defence tax purposes.
Taxation of Exchange Gains where assets or liabilities are not in CYP	Realised Gains are taxed at rate of 10%. Unrealised Gains are deducted from calculation of taxable income.
Exchange of Information	Covered by EU Legislation
Loans to Shareholders	Where funds are borrowed by a Shareholder the Cyprus Inland Revenue assume an interest charge of 9% pa (income). 50% is exempt and balance of 50% is taxed at 10% income tax. Full sum is taxable to 10% Defence Tax
Interest Income	50% of income is exempt to Income Tax and balance is taxed at 10%. All income is subject to 10% Defence Tax. (We suggest professional advice is taken )
Control and Management	We recommend that a local resident director in Cyprus be appointed and that meeting and minutes are held and recorded in Cyprus. It is vital to demonstrate that control and management is being conducted in Cyprus. This should mean that the majority of the Members of the Board reside in Cyprus.
Corporate Tax Rates (locally managed)	The Corporation Tax rate is 10% for locally managed companies. Only locally managed companies can use Double Tax Treaties. There is an additional 10% Special Contribution Defence Tax on Interest Income from sources outside the Republic of Cyprus. A higher rate of 15% applies for profits over 1million euro.  Resident companies are taxed upon worldwide income for: <ul style="list-style-type: none"> <li>• Corporate Profits</li> <li>• Rental Income</li> <li>• Royalties</li> <li>• Profits on sale of Goodwill</li> </ul>

	<p>If a Cyprus Resident company does not distribute a dividend within two years from the end of the tax year then:</p> <ul style="list-style-type: none"><li>• 70 % of the accounting profits will be deemed to have been distributed.</li><li>• 15% Special Defence Contribution is imposed on the deemed dividend distribution applicable to shareholders who are resident in Cyprus.</li></ul> <p>Deemed distribution is reduced with payments of actual Dividend which have already been paid during the two years following the relevant year.</p>
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## **FURTHER NOTES ON MANAGEMENT AND CONTROL TESTS**

### **LEGAL BACKGROUND**

Under the new taxation laws that came into force on 1<sup>st</sup> January 2003 a company is tax resident in Cyprus when its "management and control are in the Republic.

Management and Control is not as yet defined in the income tax law however as the Cyprus legal system follows the UK in many ways it may be wise to follow the UK requirements.

Key questions are:

#### **Who exercises the management and control ?**

The composition of the Board of Directors is in the control of the Shareholders. The Board of Directors control the business of the company by its management. The key factor is the control of the business not control of the company. The shareholders need not be resident in Cyprus.

#### **Management and Control and Place of Business not in same jurisdiction?**

The control and management of the business can be distinguished from where the company's business takes place. The control and management is the overriding factor.

#### **What to do**

Clearly to **demonstrate Control and Management** are in Cyprus certain functions must take place in Cyprus in fact and in reality.

- The permanent residence of the Directors should be in Cyprus (at least by majority)
- All board meeting held in Cyprus and minuted.
- All contracts signed in Cyprus
- All invoices issued from Cyprus
- Cyprus company stationery with local phone /fax number
- Local Cyprus bank account controlled by local directors

#### **What not to do**

It is not recommended that non Cypriot directors be appointed, in particular any non Cypriot directors should not be in known "tax havens. Additionally such directors should not be located in any non Cypriot country where company trades or invests.

The issuing of general powers of attorney is not recommended. If specific acts are to be conducted on behalf of the company but , for example, non Cypriot professionals then a specific power of attorney with strict terms and conditions is suggested.

#### **More Practical Matters**

The Board should not blindly follow the instructions of shareholders or their professional advisors. The Board must be seen to consider and decide matters however they can consider ideas, concepts, opportunities and/or suggestions put forward. These should be presented with all relevant supporting information that any prudent and credible director would require. To be considered is the matter of remuneration paid to the local director