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Tax Planning

The use of Cyprus in International Tax Planning

Cyprus is a low tax jurisdiction with a wide network of double tax treaties. This combination is the reason for its success as an international business centre.

Cyprus currently has over 45 double tax treaties. The existing wide network of treaties is invaluable to international businesses, and the Cyprus Government is negotiating additional treaties to extend it still further.

Liability to Cyprus tax is based on residency. An individual is resident if he lives in Cyprus for one or more periods that together exceed 183 days per fiscal year. A company is resident if its management and control is in Cyprus. Incorporation in Cyprus is no longer sufficient to establish residence in Cyprus. Companies not having management and control in Cyprus will only be taxed on Cyprus sourced income and will not be able to take advantage of the Cyprus Double Tax Treaties. They can, however, take advantage of the exemption of foreign dividends, of income from permanent establishments abroad, and from offset of losses from abroad.

Losses can be carried forward for 5 years and losses of a company can be set off against the profits of another company of the same group (group of Cyprus tax-resident companies) and world-wide losses can be set off against taxable income of the same year, or carried forward.

Reorganisations and European Cross-Border Mergers - Cyprus Law adopted the Merger Directives of the European Union, while taking into account emerging EU policies, and covers domestic and foreign reorganizations, and reorganizations abroad that have effect in Cyprus; these are exempted from all taxes including Capital Gains Tax, VAT,. Stamp Duties and Land Transfer Fees.

Cyprus is a member of the European Union (EU). As a result, Cyprus holding companies can now receive tax-free dividends from their EU subsidiaries in cases where the Parent - Subsidiary Directive applies, subject to any anti-avoidance provisions in the jurisdiction of the paying company. Interest and Royalties can also be free of withholding taxes through the appliance of the Interest and Royalties Directive.

Taxation of intellectual property ship-owning and ship management companies is very favourable.

The tax regime offers excellent opportunities for tax planning. The principle benefits are outlined in the foregoing paragraphs, but there are others:

- There is no general Controlled Foreign Corporation (CFC) legislation.
- Interest paid to non-resident group companies is tax deductible.
- There are no thin capitalisation rules.
- Cyprus holding companies will, in the majority of cases, pay no taxes in Cyprus as there is no tax on gains from the sale of titles and, for the most part, there is no tax on dividends income received from overseas.