

# Cyprus Taxation

## Cyprus Companies as an investment vehicle from / to China

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MAY 2014

# Introduction

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## Benefits of Cyprus

Cyprus, with a business friendly environment, is strategically located between Europe, Middle East, Africa and Asia at the crossroads of global economy.

As a member of the European Union with a modern telecommunications network and tested infrastructure, Cyprus is a gateway to the world of international business.

- ▶ The attractiveness of Cyprus as a business and investment location is based on the following additional reasons:
- ▶ Democratic country with stable business environment, based on the free market philosophy
- ▶ Macroeconomic stability, as indicated by stable prices and currency
- ▶ Favourable tax policy, including a wide network of agreements for avoidance of double taxation
- ▶ Corporation tax rate for all companies is 12.5% as from 01/01/2013
- ▶ Highly skilled, educated and flexible workforce well acquainted with the use of modern technology. Competitive level of wages and other costs
- ▶ Compliance with the European Union Code of Conduct for Business Taxation and with the commitment to the elimination of harmful tax practices according to OECD regulations
- ▶ Uncomplicated administrative procedures
- ▶ Well developed commercial infrastructure
- ▶ Easy access to international markets
- ▶ Lowest crime rates in Europe
- ▶ Well developed market of professional service
- ▶ Competitive banking system

Cyprus offers a number of forms for doing business with the majority of International Business Companies (IBC) incorporated in Cyprus to be limited liability companies where the liability of the shareholders is limited to the amount of their share capital.

The Law in Cyprus governing limited liability companies is the Companies Law, Cap.113, which is based on the companies ACT 1948 of the United Kingdom.

Other forms of doing business in Cyprus is through Partnership (general or limited), Branch, Sole Proprietorship, Joint Venture, Public Limited Company and Trust.

# Introduction

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Cyprus Tax resident – A company is resident in Cyprus if its management and control is exercised in Cyprus.

We can provide hosting services such as local Directors, Secretary, nominee Shareholders and Register Office which will ensure and support the Company's management and control.

The local Directors act for the will of the Company and the beneficial shareholders for increasing their wealth.

Basis of taxation – Tax resident companies are taxed in Cyprus on their worldwide income.

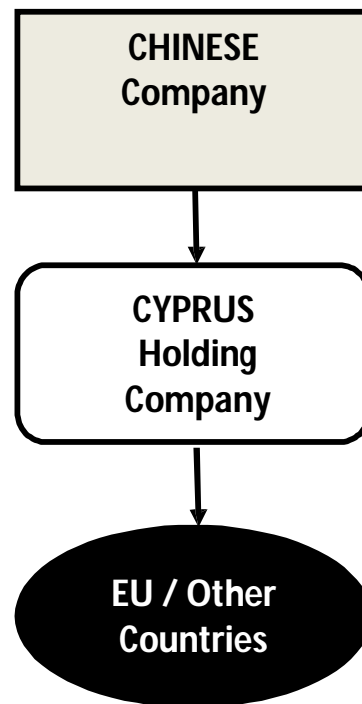
Non-resident companies are taxed only on income derived from sources within Cyprus.

Foreign taxes paid can be credited against the Cyprus tax liability of the same source of income.

# Cyprus Holding Company – Investment from China (structure 1)

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## STRUCTURING VIA CYPRUS – THE BASIC IDEA



### A. Plan:

1. Chinese Company establishes a Cyprus Holding Company
2. The Cyprus Holding Company holds the shares of an EU or Non - EU subsidiary

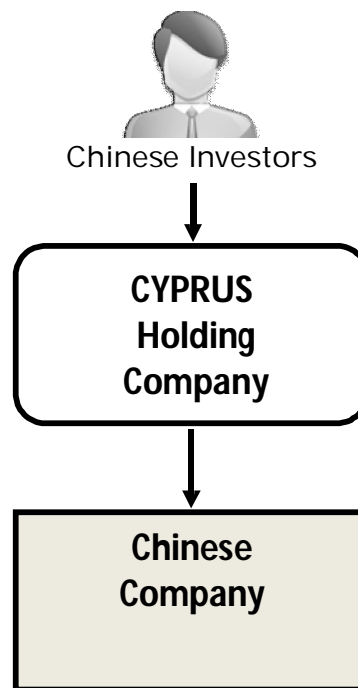
### B. Tax Benefits:

1. No Tax on Dividends received in Cyprus – 0% Tax
2. Profit from disposal of shares is exempt from taxes in Cyprus – 0% Tax
3. No Capital Gains Tax in Cyprus on disposal of property situated outside Cyprus
4. No Withholding Tax on Dividends paid from Cyprus to Chinese Company – no minimum holding percentage or period
5. No Withholding Tax on Dividends paid to Cyprus from EU country (EU Parent – Subsidiary Directive)
6. No Transfer Pricing rules in Cyprus
7. No Thin Capitalization rules in Cyprus

# Cyprus Holding Company – Investment from China (structure 2)

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## STRUCTURING VIA CYPRUS – THE BASIC IDEA



### A. Plan:

1. Chinese individual establishes a Cyprus Holding Company
2. The Cyprus Holding Company holds the shares of a Chinese subsidiary company

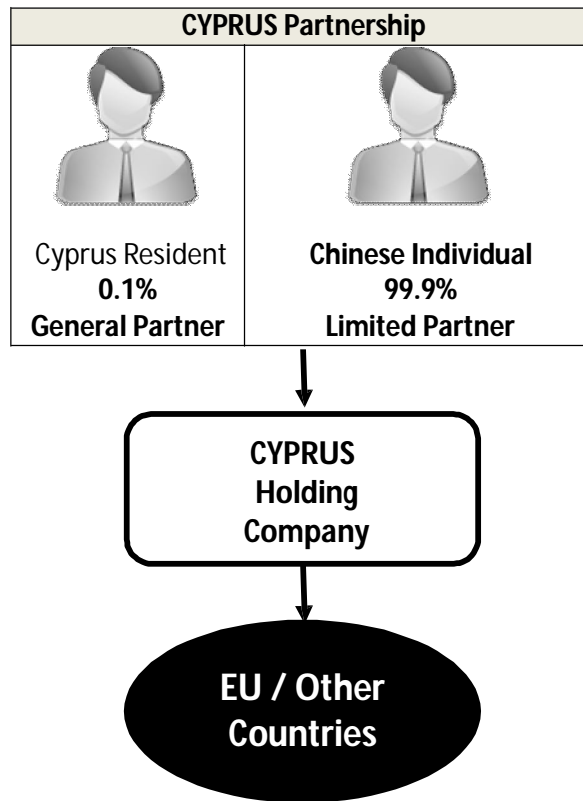
### B. Tax Benefits:

1. No Tax on Dividends received in Cyprus - 0% Tax
2. 10% withholding tax in China, on dividends paid by a Chinese subsidiary to the Cyprus Holding Company (Double Tax Treaty)
3. Profit from disposal of shares is exempt from taxes in Cyprus - 0% Tax
4. No Capital Gains Tax in Cyprus on disposal of property situated outside Cyprus
5. No withholding Tax on Dividends paid from Cyprus to Chinese Individual or Company - no minimum percentage holding or period
6. No Transfer Pricing rules in Cyprus
7. No Thin Capitalization rules in Cyprus
8. Consolidation exemptions are available in Cyprus

# Cyprus Holding Company – Investment from China (structure 3)

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## STRUCTURING VIA CYPRUS – THE BASIC IDEA



### A. Plan:

1. Chinese individual acting as Limited Partner and a Cyprus resident person acting as General Partner are forming a Cyprus partnership
2. The Cyprus Partnership holds the shares of a Cyprus Holding Company
3. The Cyprus Holding Company holds the shares of an EU or non EU Subsidiary

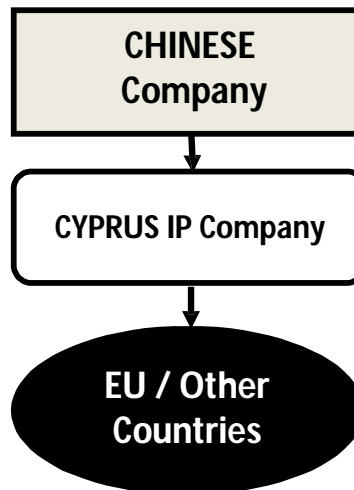
### B. Tax Benefits:

1. No Tax on Dividends received in Cyprus – 0% Tax
2. Profit from disposal of shares is exempt from taxes in Cyprus – 0% Tax
3. No Withholding Tax on Dividends paid to Cyprus from EU country (EU Parent – Subsidiary Directive)
4. Distribution of profits to partners – Taxation of Chinese individual in China (need to get advice from a Chinese tax expert)

# Cyprus Intellectual Property (IP) Company

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## STRUCTURING VIA CYPRUS – THE BASIC IDEA



### A. Plan:

1. Recent changes to the Cyprus Income Tax Law on Royalties may allow the Cyprus Company to have 80% exemption of Royalties income after deducting direct expenses which effectively taxed under Corporation tax the 20% of the Royalty income.
2. Chinese Company establishes a Cyprus Royalties Company to collect royalties from the operating company in EU or Other Countries for the use or the right to use the IP.
3. The Cyprus Company may be the owner of the Intellectual Property / Royalties.

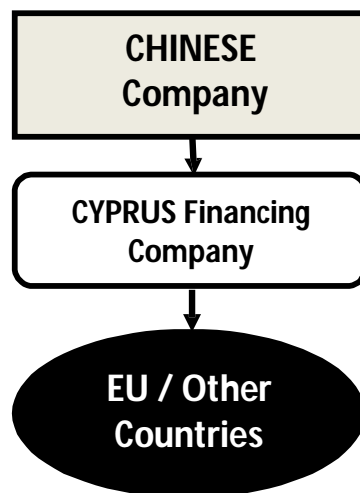
### B. Tax Benefits:

1. 80% of royalty income after direct expenses is exempt from tax
2. IP is amortized over a period of 5 years
3. 12.5% Corporation Tax on net profit. Maximum effective tax 2.5% (20 x 12.5%)
4. Royalties paid may be considered as tax deductible expense  
Other expenses incurred wholly, exclusively and necessarily for the production of income can be deducted for tax purposes
5. No Withholding Tax on royalties paid from Cyprus
6. Withholding tax on Royalties received in Cyprus can be reduced to zero using the provisions of the EU Interest and Royalties Directive
7. 10% Withholding Tax on royalties paid from China based on the Double Tax Treaty
8. No VAT cost implications in Cyprus (Business to Business)
9. 80% exemption on profit from the future sale of IP rights
10. Profit from disposal of shares is exempted from taxes in Cyprus

# Cyprus Financing Company (structure 1)

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## STRUCTURING VIA CYPRUS – THE BASIC IDEA



### A. Plan:

1. The Cyprus Financing Company is commonly used in International Tax structuring
2. A Cyprus Company can be established to operate as the group finance company of EU and Non – EU activities
3. The Cyprus Financing Company may be capitalized through equity or debt

### B. Tax Benefits:

1. Interest income may be considered as part of trading income subject to Corporation Tax – 12.5% on net profit i.e. after deducting expenses
2. 0.125% - 0.35% margin on back to back loans

Loan amount	Minimum Interest Margin
Up to €50,000,000	0.35%
From €50,000,000 – 200,000,000	0.25%
Over €200,000,000	0.125%

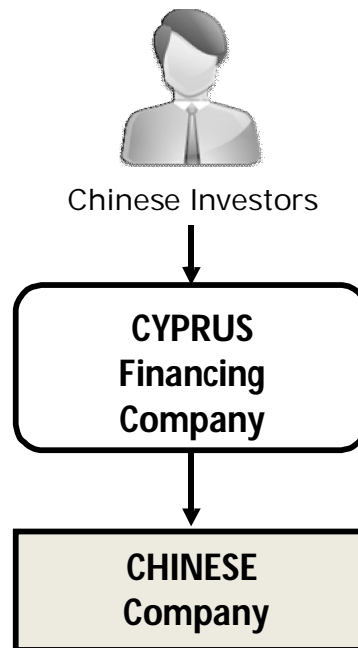
3. No thin capitalization rules in Cyprus
4. Interest deductibility in borrowing company
5. Use of EU Interest and Royalties Directive and Double Tax Treaties network to eliminate or reduce any withholding tax on interest received in Cyprus
6. No Withholding Tax on interest paid from Cyprus – 0% Tax
7. No Withholding Tax on dividends paid from Cyprus – 0% Tax



# Double Tax Treaty between Cyprus and China (main provisions)

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## STRUCTURING VIA CYPRUS – THE BASIC IDEA



### A. Plan:

1. A Cyprus Company can be established to operate as the group finance company of Chinese activities
2. The Cyprus Financing Company may be capitalized through equity or debt

### B. Tax Benefits:

1. Please refer on tax benefits of the previous structure – Cyprus Financing Company (structure 1)
2. Interest income may be considered as part of trading income subject to Corporation Tax – 12.5% on net profit i.e. after deducting expenses
3. 10% withholding tax in China, on interest paid from Chinese subsidiary as per Double Tax Treaty.  
Chinese tax deducted at source is given as credit against Cyprus Corporation Tax

# Double Tax Treaty between Cyprus and China (main provisions)

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The Government of the Republic of Cyprus and the Government of the Republic of China, desiring to promote and strengthen their economic co-operation by concluding an agreement on 25 October 1990 for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income.

## Article 5 - Permanent Establishment

The term "permanent establishment" means a fixed place of business through which the business of an enterprise is wholly or partly carried on.

An enterprise of one of the Contracting States shall be deemed to have a permanent establishment in the other Contracting State if it carries on supervisory activities in that other Contracting State for more than twelve months in connection with a construction, installation or assembly project which is being undertaken in that other Contracting State.

## Article 7 - Business Profits

The profits of an enterprise of a Contracting State shall be taxable only in that State unless the enterprise carries on business in the other Contracting State through a permanent establishment.

## Article 10 - Dividends

The withholding tax rate on dividends is 10%.

As per local law in Cyprus no withholding tax on dividends.

## Article 11 - Interest

The withholding tax rate on interest shall not exceed 10%.

Under Cyprus law no withholding tax rate on interest paid to non-Cyprus tax residents.

## Article 12 - Royalties

The withholding tax rate on royalties shall not exceed 10%.

## Article 14 - Capital Gains

Gains derived by a resident of a Contracting State from the sale of immovable property in the other Contracting State may be taxed in the Contracting State in which such property is situated.

Gains from the alienation of any other property such as shares of which directly or indirectly consists principally of immovable property situated in a Contracting state may be taxed in that Contracting State.

Gains from the alienation of shares other than those mentioned in the above paragraph representing a participation of at least 25% in a company which is resident of a Contracting state may be taxed in that Contracting state.

# Tax opportunities through Cyprus

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## A. The main characteristics of the Cyprus tax system are the following:

1. 12.5% Corporation tax on Net Profit
2. Income from royalties is subject to Corporation Tax after allowing 80% as notional expense
3. Royalties paid may be considered as tax deductible expense. 0% withholding tax on payments of royalties
4. Salaries are tax deductible if incurred for the production of income
5. There is no obligation for Social Insurances in Cyprus if the employees are not working in Cyprus and have their permanent address outside Cyprus
6. Other expenses incurred wholly, exclusively and necessarily for the production of income can be deducted for tax purposes
7. Interest income from financing may be considered as part of trading profit taxed under Corporation tax
8. Dividends received are exempt from taxation – 0% Tax
9. Gain from sale of shares is not subject to tax in Cyprus – 0% Tax
10. 10.0% withholding tax on payment of dividends to Companies or Individuals non tax residents of Cyprus

## B. Value Added Tax – VAT

1. The EU rules for place of supply of services are applicable
2. According to the basic rule of VAT for Business to Business transactions, the place of supply of services is the place where the client is situated
3. No VAT within Companies registered in other EU countries. The reverse charge mechanism is applicable within Companies registered in EU.

# Contact Us

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Please contact us for a professional tax advice on your specific issues.

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