



International Tax Planning using Cyprus

Cyprus is consistently voted as the most attractive European tax regime by major business organizations and tax professionals across Europe. Cyprus has been commended for the stability of its tax law, the consistency in interpreting its tax legislation and its low tax and VAT rates.

In summary, Cyprus is the lowest-tax EU onshore jurisdiction. The standard corporate tax rate of 10% is the lowest in the European Union, and the lowest “non-offshore jurisdiction corporate tax rate” in the world. Cyprus is now a premier holding, finance, royalty and trading company jurisdiction.

Quick reference guide of the most favorable Cyprus double tax treaties: (for payments received in Cyprus from foreign jurisdictions)

<i>Treaties with other countries</i>	<i>Dividends %</i>	<i>Interest %</i>	<i>Royalties %</i>
South Africa	0	0	0
India	10	10	15
Bulgaria	5	7	10
Poland	10	10	5
Romania	10	10	5
Hungary	5	10	0
Czech Republic	0	0	10
Norway	0	0	0
Qatar	0	0	5
Syria	0	10	15
Mauritius	0	0	0

<i>Treaties with CIS countries</i>	<i>Dividends %</i>	<i>Interest %</i>	<i>Royalties %</i>
Russia	5	0	0
Ukraine	0	0	0
Armenia	0	0	0
Kyrgyzstan	0	0	0
Moldova	5	5	5
Tadzhikistan	0	0	0
Turkmenistan	0	0	0
Belarus	5	5	5

<i>Treaties with all EU countries</i>	<i>Dividends %</i>	<i>Interest %</i>	<i>Royalties %</i>
All EU countries (general)	0 *	0 **	0 **

* 0% withholding possible via EU Parent-Subsidiary Directive.

** 0% withholding possible via EU Interest and Royalties Directive.

To summarize, Cyprus is the preferred jurisdiction for routing investment into:

- **Russia:** Cyprus is statistically the top foreign investor in Russia.
- **CIS Countries:** Most CIS countries apply the USSR/Cyprus treaty of 29 October 1982 (0% withholding on payments of dividend, interest and royalties).
- **India:** The Cyprus tax treaty with India is one of only three allowing for exemption from Indian capital gains tax upon sale of shares in an Indian company (the only other treaties with such favorable treatment are Mauritius and Singapore).
- **South Africa:** 0% withholding on dividend, interest and royalty payments.
- **Poland:** The Cypriot Fund (International Collective Investment Scheme) is the most efficient method for structuring investment into Poland, particularly for real estate development projects, energy projects, and generally any project that will derive ongoing taxable income in Poland.
- **Eastern Europe:** Cyprus has historically been the primary choice for routing investment in Eastern Europe, namely Romania, Bulgaria, Hungary and the Czech Republic.
- **EU in general:** Cyprus is commonly referred to as the gateway to doing business in the EU. It is chosen by investors in the U.S., Canada, China, Russia, and other jurisdictions for structuring investment into the EU. Through use of the EU Parent-Subsidiary Directive and the EU Interest and Royalties Directive, a Cyprus Holding or Trading company is the most effective vehicle for doing business in the EU.
- **China:** Cyprus is commonly used in the international tax strategies of globalizing Chinese companies and companies looking to expand into China.
- **Other jurisdictions:** Cyprus is commonly used to route foreign investment into the Near and Far East, as well as Africa.

INTERNATIONAL TAX PLANNING USING CYPRUS

The following is a summary of the withholding tax rates provided by the treaties for the avoidance of double taxation entered into by Cyprus:

	Paid from Cyprus			Received in Cyprus		
	Dividends %	Interest %	Royalties %	Dividends %	Interest %	Royalties %
Non-treaty countries	0 (1)	0 (1)	0 (1, 2)	n/a	n/a	n/a
Armenia (20, 33)	0	0	0	0	0	0
Austria	10	0	0	10	0	0
Belarus	5 (18)	5	5	5 (18)	5	5
Belgium	10 (6)	10 (6, 19)	0	10 (8)	10 (6, 19)	0
Bosnia and Herzegovina (30)	10	10	10	10	10	10
Bulgaria	5 (23)	7 (6)	10	5 (23)	7 (6, 24)	10 (24)
Canada	15	15(5)	10 (6)	15	15(4)	10 (5)
China	10	10	10	10	10	10
Czech Republic	0 (29)	0	10 (32)	0 (29)	0	10 (32)
Denmark	10 (8)	10 (6)	0	10 (8)	10 (6)	0
Egypt	15	15	10	15	15	10
France	10 (9)	10 (10)	0 (3)	10 (9)	10 (10)	0 (3)
Germany	10 (8)	10 (6)	0 (3)	10 (8)	10 (6)	0 (3)
Greece	25	10	0 (12)	25 (11)	10	0 (12)
Hungary	0	10 (6)	0	5 (8)	10 (6)	0
India	10 (9)	10 (10)	10 (16)	10 (9)	10 (10)	15 (15)
Ireland	0	0	0 (12)	0	0	0 (12)
Italy	0	10	0	15	10	0
Kuwait	10	10 (6)	5 (7)	10	10 (6)	5 (7)
Kyrgyzstan (20)	0	0	0	0	0	0
Lebanon	5	5	0	5	5	0
Malta	15	10	10	0	10	10
Mauritius	0	0	0	0	0	0
Moldova (27)	5 (28)	5	5	5 (28)	5	5
Montenegro (26)	10	10	10	10	10	10
Norway	0	0	0	0 (13)	0	0
Poland	10	10 (6)	5	10	10 (6)	5
Qatar	0	0	5	0	0	5
Romania	10	10 (6)	5 (7)	10	10 (6)	5 (7)
Russia	5 (17)	0	0	5 (17)	0	0
San Marino	0	0	0	0	0	0
Serbia (26)	10	10	10	10	10	10
Seychelles	0	0	5	0	0	5
Singapore	0	10 (6, 25)	10	0	10 (6, 25)	10
Slovakia	10	10 (6)	5 (7)	10	10 (6)	5 (7)
Slovenia (26)	10	10	10	10	10	10
South Africa	0	0	0	0	0	0
Sweden	5 (8)	10 (6)	0	5 (8)	10 (6)	0
Syria	0 (8)	10	15 (31)	0 (8)	10 (4)	15 (31)
Tadzhikistan (20)	0	0	0	0	0	0

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	Paid from Cyprus			Received in Cyprus		
	Dividends %	Interest %	Royalties %	Dividends %	Interest %	Royalties %
Thailand	10	15 (21)	5 (22)	10	15 (21)	5 (22)
Ukraine (20)	0	0	0	0	0	0
United Kingdom	0	10	0 (3)	15 (14)	10	0 (3)
United States	0	10 (10)	0	5 (9)	10 (10)	0
Uzbekistan (20)	0	0	0	0	0	0

Notes

- 1 Under Cyprus domestic legislation there is no withholding tax on dividends, interests and royalties paid to non-residents of Cyprus.
- 2 In case where royalties are earned on rights used within Cyprus there is withholding tax of 10%.
- 3 5% on film and TV royalties.
- 4 0% if paid to a Government or for export guarantee.
- 5 0% on literary, dramatic, musical or artistic work.
- 6 0% if paid to the Government of the other state.
- 7 This rate applies for patents, trademarks, designs or models, plans, secret formulas or processes, or any industrial, commercial or scientific equipment, or for information concerning industrial, commercial or scientific experience.
- 8 15% if received by a company controlling less than 25% of the voting power or by an individual.
- 9 15% if received by a person controlling less than 10% of the voting power.
- 10 0% if paid to a Government, bank or financial institution.
- 11 The treaty provides for withholding taxes on dividends but Greece does not impose any withholding tax in accordance with its own legislation.
- 12 5% on film royalties (apart from films broadcasted on television).
- 13 5% if received by a person controlling less than 50% of the voting power.
- 14 This rate applies to individual shareholders regardless of their percentage of shareholding. Companies controlling less than 10% of the voting shares are also entitled to this rate.
- 15 10% for payments of a technical, managerial or consulting nature.
- 16 Treaty rate 15%, therefore restricted to Cyprus legislation rate.
- 17 10% if dividend paid by a company in which the beneficial owner has invested less than €100,000.
- 18 If investment is less than €200,000, dividends are subject to 15% withholding tax which is reduced to 10% if the recipient company controls 25% or more of the paying company.
- 19 No withholding tax for interest on deposits with banking institutions.
- 20 Armenia, Kyrgyzstan, Tadjikistan, Ukraine and Uzbekistan apply the USSR/Cyprus treaty.
- 21 10% on interest received by a financial institution or when it relates to sale on credit of any industrial, commercial or scientific equipment or of merchandise.
- 22 This rate applies for any copyright of literary, dramatic, musical, artistic or scientific work. 10% rate applies for industrial, commercial or scientific equipment. 15% rate applies for patents, trade marks, designs or models, plans, secret formulae or processes.
- 23 This rate applies to companies holding directly at least 25% of the share capital of the company paying the dividend. In all other cases the withholding tax is 10%.
- 24 This rate does not apply if the payment is made to a Cyprus international business entity by a resident of Bulgaria owning directly or indirectly at least 25% of the share capital of the Cyprus entity.
- 25 7% if paid to bank or financial institution.
- 26 Montenegro, Serbia and Slovenia apply the Yugoslavia/Cyprus treaty.
- 27 The treaty is effective from 1 January 2009.
- 28 This rate applies if received by a company (excluding partnership) which holds directly 25% of the shares. 10% rate applies in all other cases.
- 29 This rate applies if received by a company (excluding partnership) which holds directly at least 10% of the shares for an uninterrupted period of no less than one year. 5% applies in all other cases.
- 30 Cyprus continues to apply the Yugoslavia treaty of 29 June 1985 in relations with Bosnia and Herzegovina. In practice Bosnia and Herzegovina generally continues to apply the Yugoslavia treaty.
- 31 10% on literary, dramatic, musical, artistic work, films and TV royalties.
- 32 Pursuant to the protocol signed on 28 April 2009 between the Czech Republic and Cyprus, the former pledged that in the case that it signs with any other EU member State an agreement which will limit the taxation of royalties arising in the Czech Republic to a rate effectively lower than 10%, then that lower rate will automatically be applicable for the purposes of Article 12 of the New Treaty.
- 33 On 17 January 2011, Cyprus signed a tax treaty with Armenia to replace the existing treaty between the countries (namely the USSR treaty, which will continue in force until the respective internal ratification procedures are completed).

Cyprus Tax Sparing Provisions

A tax-sparing provision has the effect that if tax is 'spared' i.e. exempted in Cyprus, then it is credited against an investor's tax liability in his home country (the treaty counterpart) as if it had actually been paid in Cyprus. At the time of writing, there are tax-sparing provisions in the treaties with the following countries:

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|------------------|------------|------------------|
| ■ Canada | ■ Ireland | ■ Syria |
| ■ Czech Republic | ■ Italy | ■ United Kingdom |
| ■ Denmark | ■ Malta | ■ Yugoslavia |
| ■ Germany | ■ Romania | ■ Poland |
| ■ Greece | ■ Slovakia | |
| ■ India | ■ Sweden | |

The taxes all or partly spared are as follows:

- Tax on interest paid on loans for economic development in Cyprus (Canada, Denmark, Germany, France, UK).
- Tax relieved because of deductions in respect of investment in Cyprus (Canada, UK).
- Tax on interest or profits which is unpaid because of tax incentives, reliefs or exemptions in Cyprus (Czech Republic, Greece, Ireland, Romania, Slovakia, Yugoslavia).
- Tax not withheld on dividends (15%) if the exemption is given for the purposes of economic development in Cyprus (Denmark, Germany, France).
- 10% credit, automatically applied on all dividends, interest and royalties, irrespective of tax suffered (Poland).

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