

CYPRUS

by Christakis Pittas

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Introduction

2004 is historic for Cyprus because of its accession to the EU from 1 May 2004. Cyprus has aligned its practices and harmonised its laws with the EU *aquis communautaire*, and complied with international standards of transparency, exchange of information and tax competition. As a result Cyprus has adopted a new tax regime and liberalised the Exchange Control Law by abolishing the exchange control restrictions for investments in Cyprus.

Corporate tax

Under the new income tax regime the corporation tax is 10% for taxable profits up to C€1million and 15% thereafter. Taxable losses are carried forward without limitation for the year 1997 onwards. Taxable losses cannot be carried forward if there is a change in ownership of the company, and if submission of financial statements is delayed more than six years from the due date of submission. Group relief for taxable losses is allowed between companies within the same group.

There is no withholding tax under the income tax law on the payment of dividends, but there is withholding tax of 15% under the defence tax law. There is a withholding tax of 10% for royalty payments made to non-residents, if the royalty is used within Cyprus. If used outside Cyprus then is no withholding tax.

Assets and liabilities transferred under a reorganisation plan do not give rise to profits liable to tax for the transferring company. A reorganisation plan means merger, division, and transfer of assets and exchange of shares involving companies resident or non-resident. Any taxable losses of the transferring company are carried over to the receiving company.

International business

International business companies (IBCs) or foreign branches registered before 31 May 2001 may continue to be taxed for the years to 2005 at 4.25% if they generated income in 2001 from outside Cyprus or expected to generate income in 2001 from outside Cyprus, but actually generated it in 2002.

No corporation tax is payable on the profits earned or dividends paid by a Cyprus shipping company that owns ships under the Cyprus flag and operates in international waters. International or local shipmanagement and crew management businesses have the option to be taxed at either 4.25% or 25% of the rates used to calculate the tonnage tax of vessels under management registered outside Cyprus.

Profits of insurance companies are liable to corporation tax like all other companies except where

the corporation tax payable on taxable profit of life insurance business is less than 1.5% of gross premium. In this case the difference is paid as prepayment of corporation tax.

International collective investment schemes

The sole object of an International Collective Investment Scheme (ICIS) is the collective investment of funds provided by the unit holders. An ICIS can be an international investments limited partnership, an international unit trust scheme, an international variable capital company, or an international fixed capital company.

ICISs are liable to corporation tax like all other companies or legal entities.

International trusts

The International Trusts Law of Cyprus governs international trusts, which enjoy important tax advantages, providing tax planning possibilities. Trusts in Cyprus are created and used by wealthy individuals to protect their assets from inheritance or capital gains taxes in their home country. Trusts can also be used by expatriates before repatriating, settling into a trust assets acquired while working abroad.

Value added tax

The VAT Law No. 95(I) /2000 effective as from 1 February 2002 includes the following provisions for IBCs:

- in principle their activities are carried out outside Cyprus and outside the scope of VAT and thus no obligation arises for registration;
- because IBCs are subject to the same registration rules as any other local person, there are cases in which there is a right for registration and cases in which there is an obligation for registration.

The provisions of the reverse charge are applied for services received from abroad in accordance with the third schedule of the VAT Law for an IBC that maintains a business in Cyprus or has its usual place of residence in Cyprus but does not have the right or obligation to register for VAT.

Conclusion

The existing favourable double tax treaties between Cyprus and many countries attracts business and investors from all over the world including North America and West Europe. The island is without doubt the holding company regime of choice and the natural springboard through which non-EU companies can gain access to the recently enlarged EU market.

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