

TAX PLANNING IDEAS USING A CYPRIOT LIMITED LIABILITY COMPANY

Introduction

Cyprus, by virtue of its exceptionally advantageous tax system, is emerging into the most favoured jurisdiction in Europe to conduct international business from. This coupled with the added advantages of EU Membership rightly justify The World Bank's characterization of Cyprus as the region's "Miracle". Cyprus is now a premier holding, finance, royalty and trading company jurisdiction and it is also utilized in other types of tax structures e.g. employment structures, shipping structures and foreign permanent establishment structures.

Corporate tax rate

A uniform corporate tax rate of 10% is applicable to all companies. This is the lowest corporate tax rate in Europe and gives tremendous advantages to trading companies carrying out their activities via Cyprus.

Holding company regime

Cyprus is emerging into one of the most successful Holding Company jurisdictions in the world. The main characteristics of the Cypriot holding company regime are as follows:

- Full participation exemption for resident companies¹ for dividend income received from subsidiary companies assuming a minimum 1% shareholding in the subsidiary and subject to non-stringent conditions;
- No withholding tax on the distribution of profits (i.e., dividends, interest and royalties²) irrespective of the country of residence of the recipient or the existence of a double tax treaty;
- Full exemption from capital gains tax and income tax on the disposal of the shares in the subsidiary;
- No capital gains tax or income tax on the disposal of the shares (or liquidation) of the Cyprus holding company³;
- No net worth taxes during the life of the Cyprus Company;
- Access to EU Directives including, the Parent/Subsidiary Directive which provides for tax exempt receipts (and distributions) of dividends between EU countries;
- There are no substance requirements, no minimum holding period and no CFC rules.

Financing companies

Cyprus companies can be used very efficiently for group financing purposes. A Cyprus company, by acting as an intermediary between a holding and an operating company, can finance the latter via interest bearing loans using Cyprus' wide treaty network, resulting (provided the financing is from a tax efficient location) in a double dip effect i.e. the interest would be tax deductible in the operating location and would be tax free in the recipient's jurisdiction. Any margin remaining in the Cyprus company will be subject to income tax at the rate of 10%. The Cyprus tax legislation does not include any thin capitalization rules or a minimum debt/equity ratio.

¹ A company managed and controlled in Cyprus.

² Royalties are exempt provided that the intellectual property rights are not used in Cyprus.

³ This does not apply to gains arising from the transfer of Cypriot real estate and shares in non-listed companies that hold Cypriot real estate.

Royalty companies

A Cyprus company acting as an intermediary between a foreign licensor and an operating foreign company in a treaty location can reduce the taxable profits in the operating location and achieve a double dip effect i.e. the royalties would be tax deductible in the operating location and would be tax free in the ultimate licensor's jurisdiction (provided he is located in a tax efficient jurisdiction). Any margin remaining in the Cyprus company will be subject to income tax at the rate of 10%.

Employment companies

A Cyprus company can be used tax efficiently as an employment company. It can employ staff on overseas assignments and charge operating companies at a cost plus. The profits will be taxable in Cyprus at the rate of 10% and the taxable profits of the operating companies will be reduced accordingly. In addition, the salary costs for the operating companies will be significantly reduced as the Social Insurance and other employer contributions are much lower in Cyprus than most of other EU countries. Lastly, the employees will not be subject to tax in Cyprus.

Companies trading in securities

Any profit from the disposal of securities, irrespective of whether the profits arise from the company's trading activities or is of a capital nature, is exempt from tax in Cyprus. In accordance with the tax legislation "Securities" are defined as shares, debentures, Government Bonds, founder's shares or other shares of companies or other legal entities which have been incorporated in Cyprus or abroad and any kind of options thereon.

Companies used to hold real estate

Cypriot companies can be used to hold real estate. The disposal of the real estate property could give rise to a 10% tax corporate tax provided that the profit arises from the ordinary trading activities of the company i.e. the company's business activity is to trade in real estate. Alternatively, any profits from disposing the real estate would be taxed at the rate of 20%. Any rental income derived by the Cypriot company would be taxed at 10% after deducting any property expenses incurred. Additionally, rental income would be subject to defence tax at the rate of 3% after deducting a 25% allowance for wear and tear of the real estate.

Non-resident companies

Companies managed and controlled outside Cyprus are not tax resident in Cyprus and will be taxable in Cyprus on their Cyprus source income only. Therefore, a company deriving income from sources outside Cyprus will escape taxation altogether and at the same time it will enjoy the credibility of an EU registered company and in the case of a trading company, an EU VAT registration number.

Permanent establishment abroad

Profits from a permanent establishment abroad are exempt from taxation in Cyprus. This, together with Cyprus' extensive treaty network can result in such profits escaping taxation altogether.

No withholding taxes

Withholding taxes are generally not applicable under the Cypriot tax legislation, with the exception of royalties payable in respect of intellectual property used in Cyprus. The nil withholding tax provision applies irrespective of the existence of a double tax treaty with the country of residence of the recipient.

Capital gains tax exemption

No capital gains tax is payable on disposals of any kind except those of immovable property situated in Cyprus or of shares in a company which owns immovable property in Cyprus. The capital gains tax rate, where applicable, is 20%.

Capitalization

A Cyprus company can be incorporate with any share capital required. There is no minimum level of capitalization but usually companies have at least 1000 shares. A company's authorized share capital is subject to stamp duty at the rate of 0.6%. No stamp duty is payable on share premium, hence where needed stamp duty can be mitigated by issuing shares at a premium.

Our Firm

Our firm has been established by a dynamic and highly talented team of UK qualified Chartered Accountants and aims to become the standard of excellence in the provision of professional services in Cyprus.

We transmit our expert knowledge to our clients by thinking outside the box and by applying the highest standards of professionalism. We provide services with a highly "personal touch" and make every member of our experts team easily accessible at all times.

At HMI we firmly believe that trust and confidentiality are the foundations of every successful professional relationship. We have, therefore, implemented confidentiality practices, supported by advanced IT systems, which ensure that our clients' business affairs are kept within our firm.

Our core services are auditing, tax planning and tax compliance, accounting and business consultancy.

Furthermore we can assist with company formation, management and administration. At HMI we have established a number of strong business alliances with lawyers, bankers and other consultants and have created a network of business advisers easily accesible to all our clients if and when required.

Our firm has invested heavily on IT. We use the latest accounting, financial reporting, taxation and company management software. In addition, we have installed hardware of the latest technology that assists in the efficient and effective carrying out of our operations.

Last but not least, we have developed a highly reliable Know-Your-Client procedure in order to safeguard the reputation of our clients and their stakeholders always in compliance with European Union and International Anti-Money Laundering Legislation.

Our Core Services

Auditing and Financial Reporting

- Auditing and Reporting compliance in accordance with International Accounting and Auditing Standards
- Preparation and submission of Statutory Accounts to the relevant Government Authorities
- Presentation of Financial Statements to the directors and shareholders

Accounting and Financial Management

- Preparing monthly management accounts
- Processing sales and purchase invoices
- Preparing and processing VAT returns
- Ensuring PAYE and NIC is accounted for correctly and up to date
- Preparation of year-end files for statutory accounts and audit
- Preparing cash-flow and profit projections
- On-site training of staff to use accounting packages
- Our value-added approach, which goes beyond the mere processing of information, sets us apart from our competitors. We identify your requirements and tailor the right solution for you.

Tax Planning

Our team of experienced tax professionals can assist you in providing tax efficient solutions for your international business operations. We would first study your existing structure and would suggest ideas to minimize taxation. This could involve the use of Cyprus Companies, International Trusts or other offshore tax vehicles. (SPVS).

Taxation and VAT Advisory Services

- Preparation of the annual tax computation and income tax return for a Cypriot company
- Preparation of the annual tax computation and income tax return for an individual (employee or self-employed)
- Provisional tax handling
- Tax reviews and advice on deductibility of expenses
- Dividend tax issues
- Tax residency and tax clearance procedures
- Representation at the tax office and many more
- help with VAT registration
- preparation and submission of VAT returns
- VAT health checks
- VAT planning
- representation at VAT inspections and tribunals
- VAT cross border advice
- VAT Reclaim Services

Company Formation and Administration Services

- Formation of companies and in Cyprus and abroad
- Nominee director services
- Nominee shareholder services
- Registered office facility
- Company secretary services
- Banking services

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