



## Cyprus as a Hub to the Middle East and Africa

**Alecos Papalexandrou**  
**Partner - Tax Services**  
**Deloitte Cyprus**

**December 2015**

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## Ideal Jurisdiction



- **Strategic Location and time zone**
- **Political stability and well developed ties with ME, Africa and Central & Eastern European countries**
- **Advanced infrastructure – reliable telecommunication system, two international airports (Larnaca & Paphos) and two ports (Limassol & Larnaca).**
- **Robust Legal and Regulatory Framework with a well developed financial services sector**
- **Highly educated and multilingual human talent with tertiary education – (39,2% in age group 25 – 64) being higher than EU28 average and one of the highest in the world.**

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## **Ideal Jurisdiction**



- **High quality of professional services: Top quality accounting, auditing, tax, business administration, legal,.**
- **Good quality of life – A safe country to live and work – A Mediterranean country with an international business environment**
- **Investment incentives in a number of sectors, with huge potential for growth e.g. tourism, real estate, natural gas, infrastructure, privatisations, etc.**



## Profile of Companies

- The majority of new registrations relate to companies owned by non Cyprus residents (International Business Companies – “IBCs”)
- Common activities of IBCs in Cyprus include:
  - Trading
  - Holding of investments
  - Consultancy and services
  - Financing
  - Royalty
  - Real estate investments
  - Shipping and ship management
  - Insurance
  - Trustee & Fiduciary services
  - Funds and Fund Management



## Imposition of Tax

### *Resident in the Republic*

**Tax is imposed on income derived or arising from sources both within and outside Cyprus.**

### *Non-resident in the Republic*

**Tax is imposed only on income derived or arising from sources within Cyprus.**

## Taxation of individuals

**The Income tax rates for individuals for 2015 are:**

- **Up to €19.500** **0%**
- **From €19.501 to €28.000** **20%**
- **From €28.001 to €36.300** **25%**
- **From €36.301 to €60.000** **30%**
- **Above €60.000** **35%**

## Taxation of individuals

### Other useful provisions are:

- Interest income subject to SDC 30%
- Dividend income subject to SDC 17%
- Pension income from services rendered abroad 5%
- Remuneration from salaried services to a non-resident employer for an aggregated period of more than 90 days exempt
- For a non-Cyprus tax resident individual who becomes tax resident and is employed in Cyprus and his annual salary exceeds €100.000, 50% of that salary is exempt for 5 years (expected to be extended to 10 years) from the date of his first employment.



## **Tax Advantages of Cyprus**



- Well developed and attractive tax system, one of the most favourable in the EU
- Simplified, effective, transparent and fully compliant with EU laws and regulations.
- Corporate tax rate at 12,5%
- Dividend income, overseas PE profits and profits or gains from the disposal of securities are exempt from taxation.
- Favourable IP, Royalty & financing structures regime
- Extensive network of double tax treaties (currently 58)
- Ability to use the EU Directives
- Unilateral credit relief
- Low or zero withholding taxes.
- New incentives in 2015

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## Corporate Tax Rates

- Companies – 12,5%
- Shipping (Owning, Chartering & Management) -  
(Exempt, 12,5%, or Tonnage tax)





## Taxation of Dividends

- Dividends are exempt from corporation tax
- Dividends received by a person (individual or corporate) resident in the Republic are subject to Special Defence Contribution (SDC) at 17%.
- However, for companies there are exemptions:
  - Dividends received by a resident company from an investment held abroad
  - Dividends paid by a resident company to another resident company, are exempt from SDC, excluding dividends paid indirectly after 4 years from the year the profits which are distributed arose.

are exempt from SDC

## Taxation of Dividends

The exemption for dividends received from a foreign investment does not apply if the non-resident company paying the dividend:

- engages *directly or indirectly* by more than 50% in activities that lead to *investment income*
- and
- the overseas tax burden on its income is *significantly lower* than the *Cyprus tax burden* (in practice less than 6,25%)



## Taxation of Interest

- **Interest earned from financing activities is taxed as ordinary business income at a rate of 12,5%**
- **If interest does not qualify as business income, then the gross amount of interest received is subject to SDC at a rate of 30%**

## Taxation of Royalties

### Intellectual Property Rights etc.

- **Royalties are taxed as ordinary business income at 12,5%**
- **Tax at 10% is withheld when the right is used in the Republic, provided:**
  - **There is no DTT in place which provides for a lower rate. and**
  - **The royalties are not paid to another EU resident (subject to the conditions of the EU Interest/Royalties Directive).**

## Taxation of Royalties

### Intellectual Property Rights etc.

- **As from 1 January 2012 it is more tax efficient for a Cypriot IP Company to be the owner of the IP since:**
  - **Cost of acquisition of IP can be amortised over 5 years.**  
**and**
  - **80% of the profits from royalties including the profit from the disposal of the IP are exempt from the 12,5% corporation tax in Cyprus**



## Profits from Disposal of Securities

**Profits or gains from the disposal of Securities are exempt from tax**

- **Irrespective of whether the profit or gain is of a revenue or capital nature**
- **"Securities" means shares, bonds, debentures, founder's shares and other securities of companies or other legal persons, incorporated under a law in the Republic or abroad and options thereon**





## Profits from Disposal of Securities

Based on interpretation Circulars issued by the Commissioner "**securities**" also include:

- short positions on titles
- futures/forwards on titles
- swaps on titles
- depositary receipts on titles such as ADRs and GDRs
- rights of claim on bonds and debentures but not including rights on interest
- index participations only if they represent titles
- repurchase agreements or Repos on titles
- units in open-end or closed-end collective investment schemes



## Use of Double Tax Treaties

**Cyprus has an extensive network of Treaties for the Avoidance of Double Taxation with more than 50 countries (currently 58)**

## Double tax treaties



\* Signed but not yet effective

- Armenia
- Austria
- Azerbaijan
- Bahrain
- Belarus
- Belgium
- Bosnia – Herzegovina
- Bulgaria
- Canada
- China
- Czech Republic
- Denmark
- Egypt
- Estonia
- Finland
- France
- Georgia\*
- Germany
- Greece
- Guernsey\*
- Hungary
- India
- Iceland
- Iran\*
- Ireland
- Italy
- Kuwait
- Kyrgyzstan
- Lebanon
- Lithuania
- Malta
- Mauritius
- Moldova
- Montenegro
- Norway
- Poland
- Portugal
- Qatar
- Romania
- Russia
- San Marino
- Serbia
- Seychelles
- Singapore
- Slovakia
- Slovenia
- South Africa
- Spain
- Sweden
- Switzerland\*
- Syria
- Tajikistan
- Thailand
- Ukraine
- UAE
- U.K.
- United States
- Uzbekistan



## Treaties with other countries concluded or currently under negotiation / renegotiation

### Concluded

- **Monaco#**

### Under Negotiation

- **Luxembourg**
- **Netherlands**
- **Latvia**
- **Hong Kong**
- **Israel**
- **Isle of Man**
- **Malaysia**
- **Morocco**
- **Sri Lanka**
- **Libya**

### Renegotiated

- **France**
- **Serbia**
- **India**
- **Bosnia & Herzegovina**

# Pending signature and ratification





## Cyprus' main DTTs with Africa and Middle East countries

Country:	WHT on dividends	WHT on interest	WHT on royalties
Egypt	15%	15%	10%
Kuwait	10%	10%	0% / 5%
Lebanon	5%	5%	0%
Iran	0% / 5% / 10%	5%	6%
Qatar	0%	0%	5%
South Africa	5% / 10%	0%	0%
Syria	0% / 15%	10%	10% / 15%
UAE	0%	0%	0%

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## Adoption of EU Directives

### *A. Parent/Subsidiary Directive*

- No withholding tax on dividends paid to non-residents
- No transitional period – immediate effect
- No minimum participation/shareholding
- No minimum holding period
- Tax credit for both the tax withheld abroad and the underlying tax

### *B. Interest/Royalties Directive*

- No withholding tax on interest paid to non-residents
- No transitional period – immediate effect
- 25% minimum participation/shareholding required in the case of royalties
- No minimum holding period
- Tax credit for Tax Withheld abroad

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## **Adoption of EU Directives**

### ***C. Merger Directive***

- **Copied into local legislation**
- **Effective from 1 January 2003**
- **Applies to any reorganization**
  - **Merger**
  - **Division (including partial divisions)**
  - **Transfer of assets**
  - **Exchange of shares**
- **Involves companies resident and not resident**



## **Unilateral credit relief for tax withheld abroad**

**Irrespective of the existence of a DTT credit relief is granted**

- **for tax withheld abroad**
- **in respect of income derived from a foreign country, which is taxable in Cyprus**
- **against tax payable in Cyprus in respect of such income**

**The relief shall not exceed the tax withheld abroad**



## Other important provisions

- **Tax losses can be carried forward for 5 years and are set off against future taxable profits**
- **Group relief provisions:**
  - **Losses of a Group company can be surrendered to be offset against profits of another Group company of the same year.**





## New Incentives - July 2015

**Objective** : Improve Cyprus' competitiveness in attracting foreign investments and high net worth individuals.

➤ **Notional Interest Deduction on the introduction of new qualifying equity.**

- Introduced in the business on or after 1<sup>st</sup> January 2015.
- In the form of Cash, capitalisation of loans or contribution of assets.
- The deduction is calculated by reference to an interest rate based on the 10 year government bond yield (of the state in which investment made) plus a 3% premium.
- Cannot exceed 80% of taxable profit – can reduce ETR to 2,5%.



## New Incentives - July 2015

**Objective:** Improve Cyprus' competitiveness in attracting foreign investments and high net worth individuals.

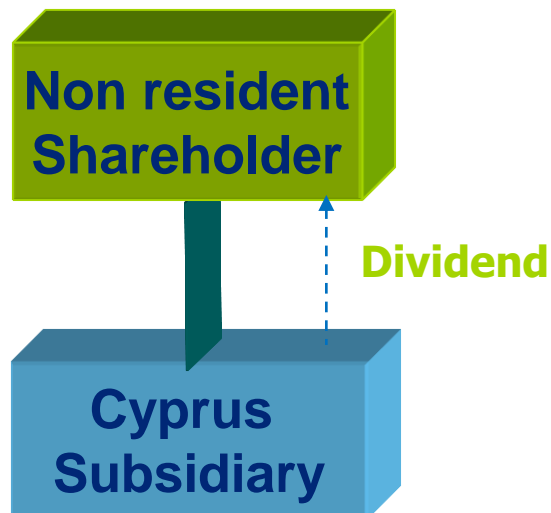
- Under the "Non- Domicile" rules, Cypriot tax resident individuals who are not domiciled in Cyprus and are relocating to Cyprus are exempt from SDC on dividend, interest and rental income. It effectively makes the holding of income generating investments in Cyprus more attractive to Non-Domicile individuals.
- No tax on gains arising from sale of real estate in Cyprus acquired between 16 July 2015 – 31 December 2016.
- A 50% reduction in immovable property transfer fees is offered for transfers up to 31<sup>st</sup> December 2016.

## Structuring Ideas



## Structuring Ideas

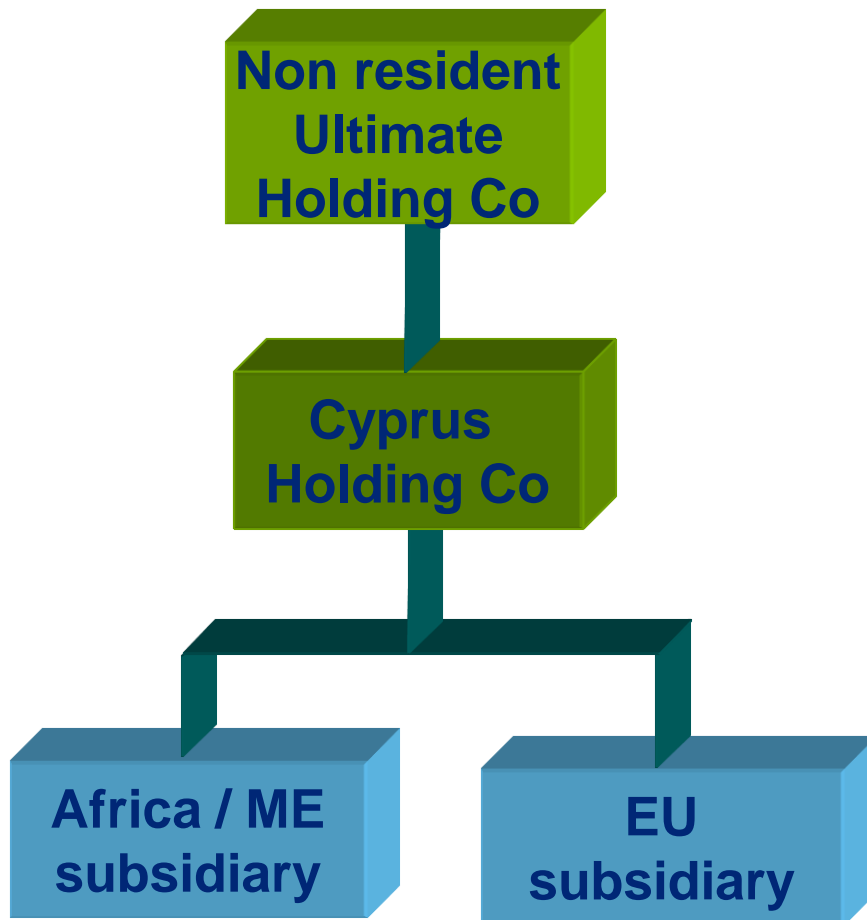
**Maximum Cyprus tax 12,5%**



**Nil withholding tax**

**Cyprus corporate tax 12,5%.**

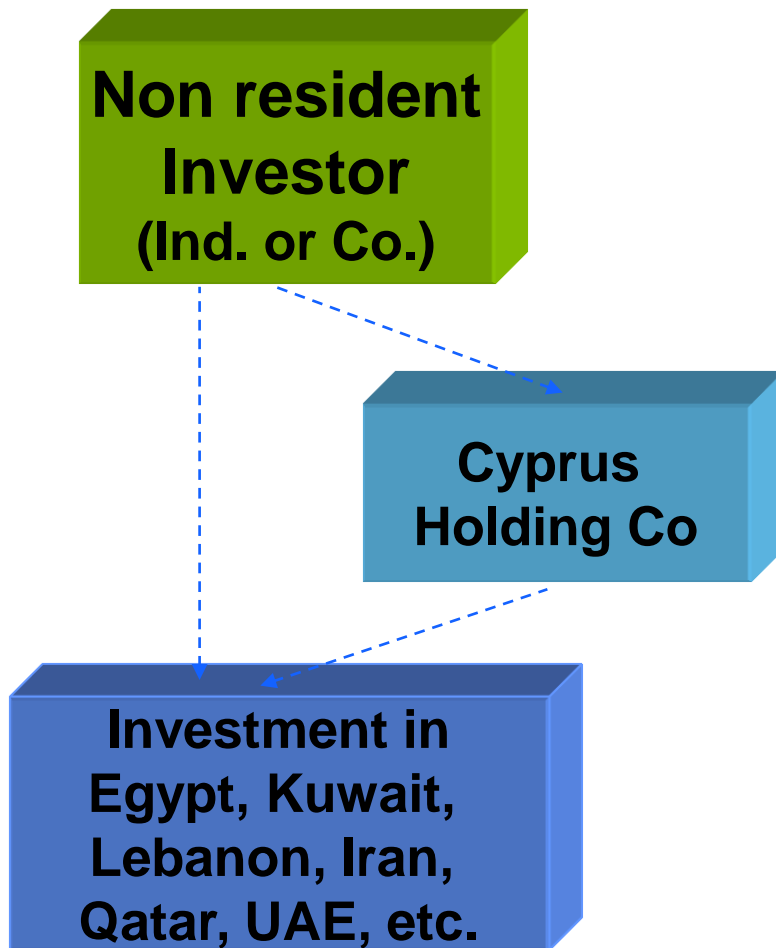
## Holding Company Structure



- Dividends exempt from tax (subject to conditions)
- No withholding tax on dividends to non resident shareholders
- Wide Cyprus DTT network
- EU Parent Subsidiary Directive
- Result = 0% tax in Cyprus

## Holding Company Structure

### Outbound Investment

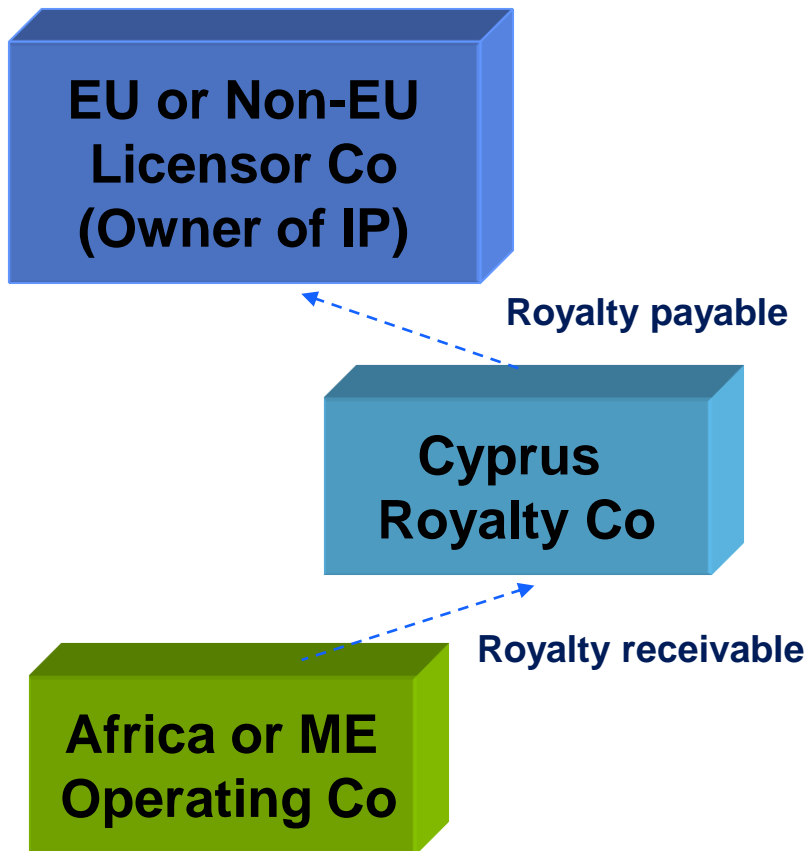


- Non resident investor in a country with no DTT with Egypt, Iran, Kuwait, Lebanon, Qatar, UAE, South Africa, etc. or better DTT with Cyprus structures his investment through Cyprus:
- Eliminate/minimise withholding tax in Africa or ME country on dividends
- Participation exemption on Dividends received by Cyprus holding Co - exempt from tax (subject to conditions) or credit relief
- No tax on gain/profit from disposal of Cyprus HoldCo or investments
- No withholding taxes on payments to non resident investor.



## Intellectual Property Rights

### Back to back royalties

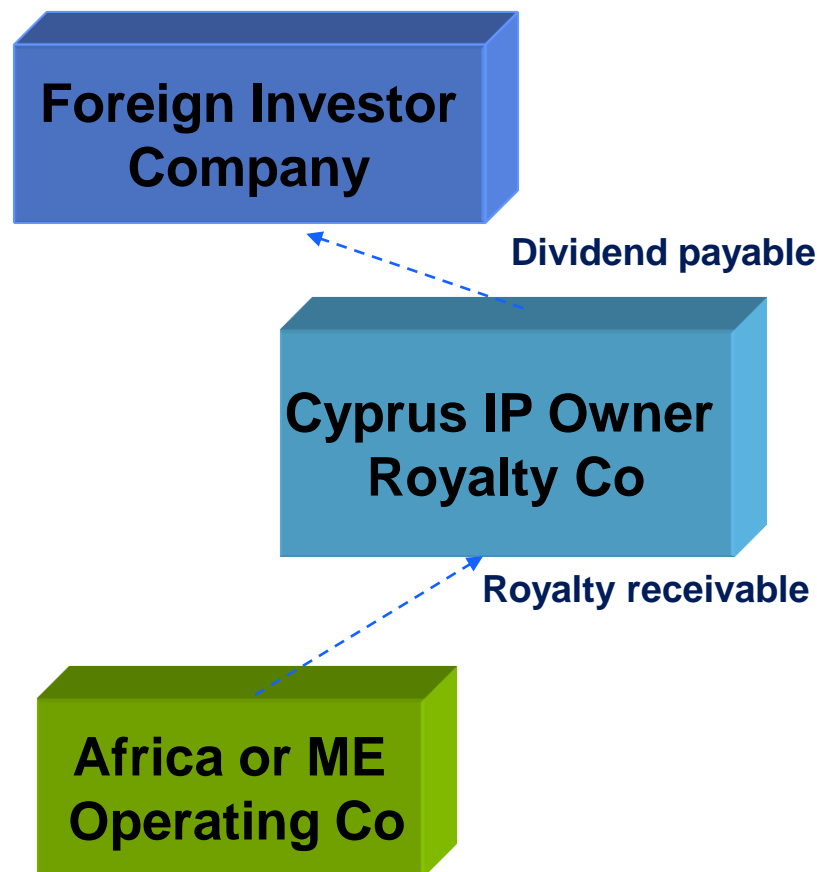


- **Profits reduced in operating company**
- **Use of treaty network to reduce or eliminate WHT**
- **Credit relief in Cyprus for WHT in operating country if any**
- **Small margin taxable in Cyprus at 12,5%**
- **No withholding taxes on payments out of Cyprus.**

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## Intellectual Property Rights

### Cypriot IP – Owner of the IP

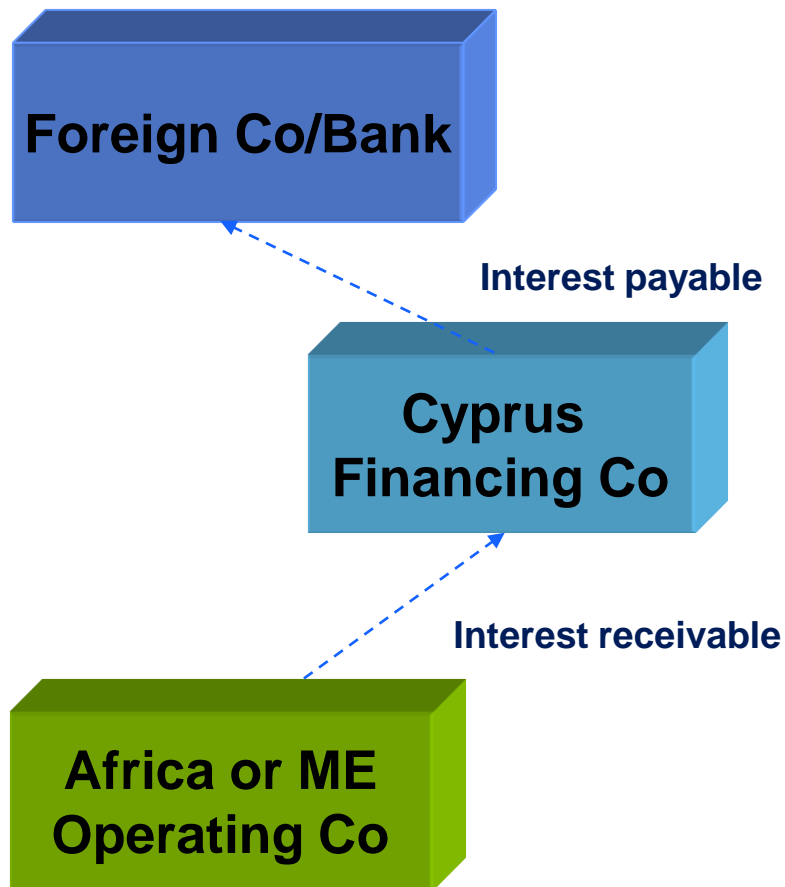


- Foreign investor forms Cyprus co. owner of IP Rights. Capitalisation with equity – contribution in exchange for shares
- Amortisation of cost of IP over 5 years
- Tax on 20% of the profits from royalties and from sale of IP at 12,5%, effectively at 2,5%
- Notional interest deduction on equity up to 80% of the taxable profits reduces further the effective tax rate
- Zero or low WHT on royalties receivable due to DTT network of Cyprus
- Royalty premiums are deductible in OpCo
- Credit relief in Cyprus for any WHT in Operating Country
- No withholding taxes on payment of dividends out of Cyprus.

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## Financing Company

### Inbound



- Interest is deductible in operating country
- Low or no WHT based on DTT
- Margin taxable in Cyprus at 12,5%
- No withholding taxes on payments out of Cyprus to the Foreign Company/Bank.

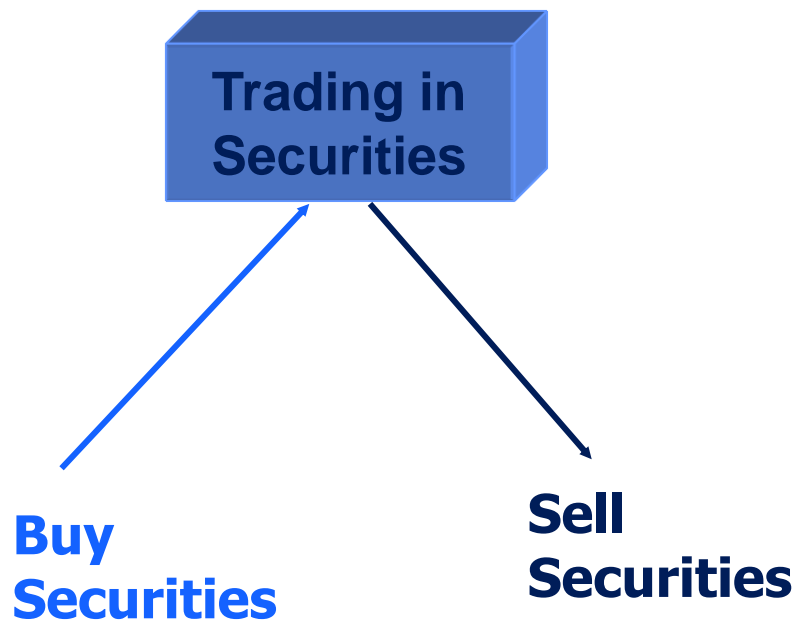
## Margins on Loans – back to back structures

**Transfer Pricing Considerations – Acceptable indicative profit margins where low financing risk retained in Cyprus**

➤ Up to EUR€50m	0.35%
➤ Between EUR€50m- EUR€200m	0.25%
➤ Above EUR€200m	0.125%

## Disposal of Securities

### Profits/Gains



- **Profit is exempt from tax**
- **Use of double tax treaties (taxing rights to Cyprus)**
- **No withholding tax on payments out of Cyprus**
- **Result = 0% tax in Cyprus**

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## Conclusion

- **A European Union member state**
- **Modern tax regime acceptable by EU and on the OECD “white list” of jurisdictions**
- **Lowest corporate tax rate in Europe**
- **Added commercial value and benefits due to ability to register for VAT**
- **Participation exemption for dividends and capital gains**
- **No CFC rules**
- **No thin capitalisation rules**
- **Extensive network of DTT**
- **EU tax directives apply**
- **Tax breaks for expatriates.**
- **Offers many opportunities for effective tax planning**







**For more information you may contact:**

**Alecos Papalexandrou**  
**Partner – Tax Services**

**Deloitte Ltd**

**Tel: + 357 25 868686**

**Fax: + 357 25 868600**

**Mob : + 357 99 694668**

**Email: [apapalexandrou@deloitte.com](mailto:apapalexandrou@deloitte.com)**

**Web: [www.deloitte.com/cy](http://www.deloitte.com/cy)**

**Deloitte.**

**Maximos Plaza, Tower 1, 3<sup>rd</sup> Floor**

**213, Arch. Makariou III Ave.**

**CY-3105 Limassol, Cyprus**

**P.O.Box 58466,**

**CY-3734 Limassol, Cyprus**



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