

DOING BUSINESS IN CYPRUS

Preface

Cyprus is established as an international business and financial center. Due to the incentives available, the good infrastructure and the existence of double tax treaties with both Western and Eastern European countries, the establishment of Cyprus internationally has been growing rapidly.

Along with its double tax treaties, Cyprus maintains excellent relations with all Eastern European countries. As a result, Cyprus is considered as a unique place for basing a legal structure to do business in those countries and not only.

Cyprus became a full member of the E.U. on 1st May in 2004.

The Cyprus tax legislation of 2002 enables Cyprus to become the country with one of the lowest corporation tax rate in the EU. Cyprus is now in a unique position to be used as a stepping-stone for both European Investments in North America and Asia, as well as for in-bound investments into Europe.

Investors are advised to ask for professional assistance, since this booklet is not intended to be comprehensive. Our Firm will be happy to assist you in any way.

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Introduction

Geography

The Republic of Cyprus lies in the eastern part of the Mediterranean Sea, at the meeting point of Europe, Africa and Asia. The Island's total area is 9.251 km. (3.572 sq. miles). This strategic location has been a major factor in shaping the Island's history through the centuries, and in its development into an international business and professional center in recent years.

Climate

Cyprus has a healthy and pleasant climate with dry summers and mild winters. Temperatures range, on the average, from 5-38C throughout the year. Several long sandy beaches punctuate the coastline along with many luxury hotels, restaurants, and taverns. Life in the Island is quite comfortable and inexpensive.

Population

The Island's population is about 900.000 people of which 80% Greek Cypriots, 18% Turkish Cypriots and 2% minorities.

Government

Cyprus is an independent and sovereign Republic with a Presidential system of government. The President is the head of the State and he appoints the Council of Ministers that is responsible for initiating legislation. The judiciary that is a separate and independent body exercises the administration of justice in Cyprus. The legal system is based on the same principles as that of the United Kingdom and all regulating business matters and procedures are based essentially on English Law.

Language

The official languages in Cyprus are Greek and Turkish, but English is used extensively in business and government, and by the majority of the population as a second language. Other languages such as Russian, Arabic, French etc are also in use by persons engaged in business.

Education

Primary and secondary (state) education is free and universal. Most elementary schools are state owned. Moreover, there is a thriving private sector in education offering specialized courses leading to USA and UK universities, external degrees or professional examinations. International statistics show Cyprus ranking third after USA and Canada in terms of university degrees per capita. Several English language schools, colleges and privately owned universities operate in the Island as well. There are also two state universities in Nicosia and Limassol.

Economy

International trade is very important to the economy, which relies on imports of raw materials, energy resources and capital goods, and exports of manufactured and agricultural products. The value of total exports, including re-exports has grown. The UK is Cyprus' major trading partner, while the European Union (EU) as a whole is responsible for more than 36.5% of the trade.

The economy of Cyprus is based on free enterprise, with all economic activity taking place in the private sector. The service sector, which dominates the Cypriot economy accounts for about half the employment and almost two-thirds of its Gross Domestic Product. The average rate of inflation is 4.9% with the unemployment rate only at 3.9%. The standard of living compared with other Middle East countries is very high. Living conditions are very pleasant and the annual per capita income is about €24,000 which currently stands at 90% of the respective EU average. Highly developed, fast, efficient and flexible banking system is operating in Cyprus.

Financial institutions

Financial institutions comprise local commercial banks, international banking units, specialized institutions, and various hire-purchase companies. Banks in Cyprus are linked to the SWIFT service system that now has a membership over 4000 banks in 180 countries.

Currency

The Island's currency was the Cyprus pound (CY£) until 31st December, 2007. As from 1st January, 2008 the Euro is the official currency of Cyprus.

Tourism

Tourism is an important source of income. Tourist arrivals and tourism earnings have exceeded €5 million and €3,5 billion respectively in the recent years.

Business regulations and accounting

Business entities

The following are the principal forms of business organizations in Cyprus:

- the limited-liability company
- the general partnership
- the limited partnership
- the branch of a foreign entity

All limited-liability companies must be registered with the Registrar of Companies, where they are obliged to submit the following documents for the issuance of the Certificate of Incorporation:

- memorandum and articles of association
- statutory declaration for the compliance with the requirements of the law.
- particulars of the company's registered office
- particulars of the directors and secretary
- the name of the company, with "Limited" as the last word
- the objectives of the company
- the amount of capital in Euro or in any other currency
- the liability limits
- an agreement by subscribers to take the shares indicated

Formation cost

Total formation cost for a local company with an authorized share capital of €10,000 is around €1,400.

Investment and tax incentives

Most of them have been abolished following the accession of Cyprus into the EU. Of those remaining, the most important are:

- no income tax is payable on the profits earned by the owner of a Cyprus ship operating in international waters.

- allowances for expenditure on scientific research, reduced tax rates for royalties and fees, and an annual wear and tear allowance.

The Cyprus Stock Exchange (CSE) and Athens Stock Exchange (ASE)

The Cyprus Stock Exchange started its operations as a legal entity on the 29th of March of 1996

The Cyprus Stock Exchange (CSE) is a regulated Exchange where all transactions concerning corporate and public securities are carried out. Such securities include stocks, bonds and warrants. The main participants in the market are the Members of the Stock Exchange (stock brokerage firms), the listed issuers and the investors.

The Cyprus Stock Exchange (CSE) and Athens Stock Exchange (ASE) they have the same trading rules on a common platform since October, 2006.

Objectives

- To protect the investors
- To provide a vehicle for public companies, in Cyprus and Greece, in order to raise the capital required to finance their development plans.
- To promote investment in securities.
- To provide liquidity and "depth" in the capital market in Cyprus and Greece.
- To attract foreign investors through the use of the appropriate promotional campaigns.
- To create a flexible, competitive and advanced stock exchange, based on robust accountability and transparency concerning transactions.
- To upgrade both the quality and the quantity of the services available to the investors and all those participating in the CSE and ASE, through the use of state of the art technology.

- To promote the listing of titles issued by local and FOREIGN companies on the CSE.
- To introduce new financial instruments in the capital market.

Auditing and Accounting requirements

All companies are required to keep books and records which are necessary to give a true and fair view of the company's affairs. The Commissioner of Income Tax requires records of all businesses to be stored and kept for a period of at least seven years. Companies are required to file an annual return with the Commissioner of Income Tax.

In addition, all companies must file with the Registrar of Companies an annual return together with a copy of its audited financial statements in accordance with International Standards of Auditing.

The auditors must be independent and they are appointed every year by the annual general meeting of the shareholders. They cannot be officers or employees of the company they audit.

The majority of auditors on the Island are qualified either in England or U.S.A., and they are licensed by the Government of the Republic of Cyprus.

International Financial Reporting Standards (IFRS) and the requirements of the Cyprus Companies Law, Cap 113 are widely used by all companies and Cypriot accountants on a daily basis.

Taxation

The principal taxes currently in force in Cyprus are:

- corporation tax
- value-added tax (VAT)
- special contribution for the defence fund
- personal tax
- capital gains tax
- immovable property tax
- stamp duty
- withholding tax
- contribution to the cohesion fund

Corporation tax

Resident companies are taxed on their worldwide income at the rate of 10% on net profits. International Business partnerships and International Business branches of foreign companies managed and controlled from abroad are not taxed. As from 1st January 2006 all companies in Cyprus are taxed at 10% corporation tax only.

Income tax is assessed in the year in which the income is earned or realized on a current year basis. All expenses incurred wholly and exclusively for the production of income, annual depreciation and other allowances, as well as allowances deriving from special tax incentives, are permitted as deductions. As far as depreciation allowances are concerned, they are calculated on a straight-line basis and the depreciation period depends on the type of the capital asset. Losses are in the first instance set off against the income from other sources and any balance left is carried forward for an indefinite period.

A company resident in Cyprus is taxed on its worldwide income. Nevertheless, if a bilateral tax agreement is in existence with the country from where the income is derived, double taxation is avoided. If there is no such agreement, then unilateral tax relief is provided.

Local partnerships are not subject to tax as separate entities. Instead, each partner (whether individual or company) is taxed separately on the profits of the entity apportioned to him.

Collection of taxes is made on the basis of estimated declarations and it is payable in three installments during the year concerned (August 1, September 30 and December 31).

Value-Added Tax-VAT

This tax was first introduced on the 1st of July 1992. Every legal person or individual who supplies goods or provides services which are subject to VAT, must be registered for VAT purposes if its turnover exceeds €15,400 per annum. The tax is levied on the supply of goods at two rates, 0% and 15%. This tax conforms with the 6th directive of the European Union.

On 1st May, 2004, Cyprus became a member of EU, so special treatment on VAT with EU countries is needed.

Zero-rated goods or services include exports to countries other than Europe, as well as food and medicine. Exempted items, goods or services, include medical services, postal services, education, rent, etc.

After May, 2004, there is a tax of 15% on buying property such as flats and houses.

Defence fund

Defence fund contribution is levied on the following types of income:

- 10% on interest received, unless the interest is derived in the normal course of business of the company or is closely connected with the normal course of business of the company.
- 3% on 75% of rental income from property.
- 15% on dividends received from abroad by the company, unless dividends are received from a company abroad, in which the recipient company holds at least 1% of the share capital and the paying company does not derive more than 50% of its profits from investment activities, or from a jurisdiction in which the company is taxed at substantially less than the Cypriot corporation tax rate.
- 15% on dividends paid. This does not apply to the payment of dividends to a Cypriot company or to a non-resident shareholder.
- 15% on deemed dividend distribution on 70% of distributable accounting profits of the company.
- There is an obvious tax incentive here to attract multi-nationals and other international businesses to base their holding companies in Cyprus. This will enable them to pull out dividends, from their ventures across the continent using Cyprus' low withholding rates provided in the treaties it has signed and then re-distribute these profits to its shareholders with zero withholding tax. The only tax to be levied is the 10% corporation tax if not reduced or eliminated by the third country dividend tax withheld which is usually allowed as a credit in Cyprus.

Personal Tax

Resident individuals are subject to tax on their worldwide income. Tax is charged on income accruing in, derived from or received in Cyprus by any person in respect of gains or profits from any trade, business, profession or vocation or from any office or employment, including pensions or from interest, rents, annuities and royalties. In the case of salaried individuals "income" also includes benefits in kind. Expatriate employees of International Business enterprises are taxed only on income earned or generated in Cyprus, provided such employees stay in Cyprus more than 183 days in any year. Those expatriates living and working outside Cyprus are exempt from income tax.

The personal tax rates applicable from 1/1/2003 are:

Tax Rate %	Taxable Income Euro€		
	2006	2007	2008
0	0 - 17,100	0 - 18,400	0 - 19,500
20	17,101 - 25,700	18,401 - 26,920	19,501 - 28,000
25	25,701 - 34,200	26,921 - 35,200	28,001 - 36,300
30	34,201 - over	35,201 - over	36,301 - over

Capital Gains Tax

Companies and individuals are liable to a 20% tax on gains from the disposal of immovable property or from the disposal of shares in companies the assets of which consist mainly of immovable property. Non-residents are also liable to this tax. The gain is the difference between the sale proceeds and the original cost of the property, adjusted for inflation. No capital gains tax is payable on gains from the disposal of any property outside Cyprus.

Transfer Fees

A transfer of real estate is subject to a transfer fee based on the sale price or on current market value of the property. These rates range from 3% on the first €85,500 of the sale price or market value, 5% from €85,500 - €170,900 and in excess of €170,900 the rate is 8%.

Immovable Property tax

Immovable property is also taxed on an annual basis on the market value of the property as at January 1, 1980. Nil rate up to €170,900, then 0.25% up to €427,150, 0.35% up to €854,300 and 0.40% thereafter.

Estate duty

As from 1/1/2000 Estate duty is not payable in Cyprus.

Stamp duty

Stamp duty at nominal rates is payable on a variety of legal documents. The applicable rates that are payable on contracts are 0.15% on sums up to €170,900 and 0.2 % on sums exceeding €170,900 but not exceeding €8.545.000.

On contracts in excess of €8.545.000 the stamp duty is restricted to only €17,100 in total.

Withholding tax

There is no withholding tax on payments to **non-residents** in respect of the following types of income:

Dividends paid from Cyprus

Interest paid from Cyprus

Royalties paid from Cyprus (unless royalties arising from the use of an asset in Cyprus, in which case 10% tax withholding applies).

International Business company dividends are paid without any withholding tax.

The withholding tax on dividends paid from a Cyprus resident company to a foreign company is fully refundable under Cyprus legislation.

Cohesion fund

As from 1st January 2003 every employer, including international business companies, are liable to a 2% contribution to a special fund called "cohesion fund", on salaries of all employees, both locals and expatriates.

International Business Company

The concept

The term International Business Company refers to any legal entity whose beneficial ownership and business activities lie outside the country of its registration. Such companies may also operate in Cyprus. Since the introduction of the first incentives, by the Cyprus Government in 1975, Cyprus has been welcoming an increasing number of such entities. Cyprus' entrepreneurial environment and supporting facilities compare favorably with those of the best-established centres in the world. The Island is considered to be a primary international business centre among approximately 50 countries offering facilities for these purposes.

Over 5.000 IBC enterprises, including many well known multinationals, maintain fully fledged administrative offices in the Island for the purpose of conducting their regional or worldwide affairs. These enterprises employ more than 5.000 expatriates and 6.000 locals.

The most important international business activities conducted by Cyprus' International Business entities are: Trade, Marketing and Distribution; Ship management and Maritime Services; Business and Engineering Consultancy; News Gathering, Distribution and Publishing; Commercial and Merchant Banking; General and Captive Insurance and finally, Third-Party Financial Services.

Available statistics show that commerce is by far the most important activity carried out from Cyprus. The rendering of professional services is the second most important activity whereas ship management and maritime services is the fastest growing activity conducted by international business enterprises from the Island.

Residence employment permits

Residence permits for foreigners wishing to live or work in Cyprus are granted by the Migration Officer under the Aliens and Immigration Laws and Regulations.

Citizens of the EU are excepted from this provision.

Other incentives

More persuasive than tax breaks however, Cyprus possesses clear advantages with regard to International Business Companies requiring an ideal location for their regional headquarters. The Island's strategic location, convenient accessibility by sea and by air (within 3 hours from the heart of Europe) and excellent infrastructure, combined with its well educated labour force, excellent professional and postal services, crime free environment, low cost of living and pleasant way of living, are among the factors that have contributed towards this outcome. In addition, Cyprus offers to the demanding businessman excellent telecommunication facilities ranked the world's fourth best after the United States, the United Kingdom, and Australia.

Real Estate

Acquisition of real estate property by aliens, other than those coming from EU countries, requires the approval of the Ministry of Interior and the whole process is completed in a period from one to four months.

International Banking Units

Since the Government's policy on International Business Union activity was formulated in early 1982, 33 International banking units (IBU) have been licensed and all of them are now in operation. Eight of these are subsidiaries, while the other 25 are branches of foreign banks. IBUs in Cyprus may carry out any type of banking business, provided that it is with non-residents and in foreign currency. A tax law which became effective on 1 January 1988 allows IBUs to carry on onshore banking business under certain circumstances. IBUs, although exempt from most monetary policy and credit regulations applicable to onshore banks, are subject to supervision and inspection by the Central Bank, except those coming from EU countries.

International Insurance Companies

Any company formed and registered under the Companies Law with a view to engaging in insurance business in any part of the world, is treated as an insurance company operating within the Republic. All insurance companies are required to apply to the Superintendent of

Insurance for a license, which is granted provided that the company satisfies the requirements of the Law. There are currently 11 International insurance companies registered in Cyprus, 8 of which are general and 3 are captive.

The Council of Ministers may exempt any insurance company registered in Cyprus from the application of the Insurance Companies Law or any of its provisions, if satisfied that these are inappropriate and unduly onerous.

International Business Companies operating from Cyprus also include a number of agents and brokers as well as a number of firms which provide a wide range of services to insurance companies without themselves engaging in insurance business for which an insurance license would be required.

Double tax treaties

Introduction

As we are about to see, Cyprus has concluded a great number of Double Tax Treaties. The main purpose of these treaties is the avoidance of double taxation on income earned in any of the countries that Cyprus has entered into agreement with. Double Tax Treaties, in conjunction with the other tax advantages, prevent double taxation and tax payable can be reduced to a minimum.

Under these agreements, a tax credit is usually allowed against the tax paid to the country the taxpayer has his permanent residence. Normally, the effect of these arrangements is that the taxpayer pays no more than the higher of the two rates. However the existence of these treaties combined with the low Corporation Tax of Cyprus offer tremendous possibilities for tax planning through Cyprus.

In the following paragraphs we have attempted to highlight the main characteristics of each treaty and the most important aspects of the Cyprus model treaty in order to be used by Cyprus registered, non-resident entities to avoid double taxation.

List of Cyprus double tax treaties

<i>In Force</i>	<i>Under negotiation</i>
Armenia	Algeria
Austria	Estonia
Belarus	Latvia
Belgium	Lithuania
Bulgaria	Bangladesh
Canada	Finland
China	Indonesia
Czech Republic	Iran
Denmark	Kazakstan
Egypt	Libya
France	Malaysia
FYROM (Ex Yugosl.-Cyp. DTT)	Marocco
Germany	Moldova
Greece	Portugal
Hungary	
India	
Ireland	
Italy	
Kuwait	
Kyrgystan	
Lebanon	
Malta	
Marino Saint	
Mauritius	
Montenegro(Ex Yugosl.-Cyp. DTT)	
Norway	
Poland	
Romania	
Russia	
San Marino	
Serbia (Ex Yugosl.-Cyp. DTT)	
Seychelles	
Singapore	
Slovakia	
Slovenia	
South Africa	
Sweden	
Syria	

In
Force

Under
negotiation

Tajikistan
Thailand
Ukraine
United Kingdom
USA
Uzbekistan

Format of Cyprus' tax treaties and important articles

The majority of Cyprus' tax treaties follow closely the treaty developed by the Organization of Economic Cooperation and Development (OECD). Changes are made only to reflect the different tax systems of Cyprus and each treaty partner individually.

Articles

Article 1 of the Cyprus treaties defines the persons that each as "an individual, a company or any other body of persons" and a **resident of a contracting state**, under **article 4** is defined as any person who under the law of that state is liable to taxation based on the place of management, permanent residence or any other similar criterion.

In accordance, with the above facts, the treaties apply to Cyprus International Business companies as well, unless a certain treaty excludes International Business companies either completely (USA, Canada) or from some of the benefits (UK, France, Germany). However, Cyprus International Business companies can be of great importance to US interest without the benefits of the treaty. Cyprus is one of the countries where a US foreign sales corporation (FSC) may be set up and, in view of Cyprus' geographical position, and excellent infrastructure and tax benefits, it appears to be an ideal place to be used as a base for doing business in the Middle East and Gulf States, as well as in Europe. Although no benefits of the treaty will apply, the FSC rules and the low tax Cyprus compared with other countries in the area makes this a very attractive proposition from a tax planning point of view.

Article 5 defines what constitutes **permanent establishment**. The article provides the exclusions to what constitutes permanent establishment in order to allow a Cyprus company to carry out certain activities in a contracting state without being subject to taxation in that state. Exclusions include a place of business that is used exclusively for storing, displaying, delivering goods, purchasing goods, advertising, collecting or supplying of information, scientific research and other similar activities carried out on behalf of the Cyprus company. It also states that if one company owns another which is resident in the other state, does not constitute permanent establishment in the other state simply because of this.

In light of the above mentioned activities we can establish the importance of a Cyprus company that enables a resident of another contracting country to avoid tax by managing and controlling its operations from Cyprus.

Article 8 of the standard Cyprus treaty prevents another treaty country to tax a Cyprus company (including International Business Company) unless it has a permanent establishment in the other contracting country and carries out business through that establishment. This means that a company can avoid taxation in another contracting state by having its permanent establishment in Cyprus.

Article 10 deals with **shipping and air transport profits** and provides that such profits are only taxable in the state in which the place of effective management is situated. Some treaties call for residence rather than management. In any case both of the above are easy to establish. However, we should keep in mind that the profits from the operations of a Cyprus registered vessel are not taxable in Cyprus as it is explained in detail in another section of this booklet along with other benefits.

All double tax treaties that Cyprus has entered into include articles that explain the right of a contracting state to tax dividends, interest received and royalties. The rates of those taxes are shown on the following table.

Withholding and other tax payable in the source country in the absence of a permanent establishment:

Double Tax Treaties between Cyprus and...

Tax withholding rate (%)						
	Received in Cyprus			Paid from Cyprus		
Country	Dividends	Interest	Royalties	Dividends**	Interest	Royalties
Armenia	Nil	Nil	Nil	Nil	Nil	Nil
Austria	10	Nil	Nil	10	Nil	Nil
Belarus	5 ⁽¹⁾	5	5	5 ⁽¹⁾	5	5
Belgium	10 ⁽²⁾	10 ⁽³⁾	Nil	10 ⁽²⁾	10 ⁽³⁾	Nil
Bulgaria	5 ⁽⁴⁾	7 ⁽⁵⁾⁽⁶⁾	10 ⁽⁶⁾	5 ⁽⁴⁾	7 ⁽⁵⁾	10
Canada	15	15 ⁽³⁾	10 ⁽⁷⁾	Nil	15 ⁽³⁾	10 ⁽⁷⁾
China	10	10	10	10	10	10
Czech Republic	10	10 ⁽³⁾	5 ⁽⁸⁾	Nil	10 ⁽³⁾	5 ⁽⁸⁾
Denmark	10 ⁽²⁾	10 ⁽³⁾	Nil	10 ⁽²⁾	10 ⁽³⁾	Nil
Egypt	15	15	10	15	15	10
France	10 ⁽⁹⁾	10 ⁽³⁾	Nil ⁽¹⁰⁾	Nil	10 ⁽³⁾	Nil ⁽¹⁰⁾
FYRM Macedonia	10	10	10	10	10	10
Germany	15 ⁽¹¹⁾	10 ⁽³⁾	Nil ⁽¹⁰⁾	Nil	10 ⁽³⁾	Nil ⁽¹⁰⁾
Greece	25	10	Nil ⁽¹²⁾	25	10	Nil ⁽¹²⁾
Hungary	5 ⁽¹³⁾	10 ⁽³⁾	Nil	Nil	10 ⁽³⁾	Nil
India	10 ⁽⁹⁾	10 ⁽³⁾	15	10 ⁽⁹⁾	10 ⁽³⁾	15
Ireland	Nil	Nil	Nil ⁽¹²⁾	Nil	Nil	Nil ⁽¹²⁾
Italy	15	10	Nil	Nil	10	Nil
Kuwait	10	10 ⁽³⁾	5 ⁽⁸⁾	Nil	10 ⁽³⁾	5 ⁽⁸⁾
Kyrgystan	Nil	Nil	Nil	Nil	Nil	Nil
Lebanon	5	5	Nil	5	5	Nil
Malta	Nil	10 ⁽³⁾	10	15	10 ⁽³⁾	10
Mauritius	Nil	Nil	Nil	Nil	Nil	Nil
Montenegro	10	10	10	10	10	10
Norway	5 ⁽¹⁴⁾	Nil ⁽¹⁵⁾	Nil	Nil	25 ⁽¹⁶⁾	Nil
Poland	10	10 ⁽³⁾	5	10	10 ⁽³⁾	5
Romania	10	10 ⁽³⁾	5 ⁽⁸⁾	10	10 ⁽³⁾	5 ⁽⁸⁾
Russia	5 ⁽¹⁷⁾	Nil	Nil	5 ⁽¹⁷⁾	Nil	Nil
Serbia	10	10	10	10	10	10
Seychelles	Nil	Nil	5	Nil	Nil	5
Singapore	Nil	7 ⁽¹⁸⁾	10	Nil	7 ⁽¹⁸⁾	10
Slovakia	10	10 ⁽³⁾	5 ⁽⁸⁾	Nil	10 ⁽³⁾	5 ⁽⁸⁾
Slovenia	10	10	10	Nil	10	10
South Africa	Nil	Nil	Nil	Nil	Nil	Nil

Sweden	5 ⁽¹³⁾	10 ⁽³⁾	Nil	5 ⁽¹³⁾	10 ⁽³⁾	Nil
Syria	15 ⁽¹⁹⁾	10 ⁽³⁾	10 ⁽²⁰⁾	15 ⁽¹⁹⁾	10 ⁽³⁾	10 ⁽²⁰⁾
Tajikistan	Nil	Nil	Nil	Nil	Nil	Nil
Thailand	10	10 ⁽²¹⁾	5 ⁽²²⁾	10	10 ⁽²¹⁾	5 ⁽²²⁾
Ukraine	Nil	Nil	Nil	Nil	Nil	Nil
United Kingdom	15 ⁽²³⁾	10	Nil ⁽¹⁰⁾	Nil	10	Nil ⁽¹⁰⁾
U.S.A	5 ⁽²⁴⁾	10 ⁽³⁾	Nil	Nil	10 ⁽³⁾	Nil
Uzbekistan	Nil	Nil	Nil	Nil	Nil	Nil
All other countries	(12)	(12)	(12)	0-40 ⁽¹⁶⁾	0-40 ⁽¹⁶⁾	10 ⁽²⁵⁾

*(All the treaties refer to those, which have been ratified. There are 42 treaties. The numbers in the brackets refer to the explanatory notes here below.

**Under Cyprus tax law, dividends paid to non-resident companies are not subject to withholding tax.

Explanatory Notes

1. 5% of the gross amount if the beneficial owner has a holding in the share capital of the paying company of at least Euros 200.000; 10% if the beneficial owner holds directly at least 25% of the share capital of the paying company; 15% in all other cases.
2. 10% of the gross amount if recipient is a company with at least 25% direct (also indirect in the case of Belgium) share interest; 15% in all other cases.
3. Subject to certain exemptions.
4. 5% if beneficial owner is a company which holds directly at least 25% of the capital of the company paying the dividends; 10% in all other cases.
5. Nil if interest is paid or guaranteed by the government of the other state or a statutory body thereof or to the central bank of the other state.
6. These rates shall not apply if at least 25% of the capital of the Cypriot resident is owned directly or indirectly by the Bulgarian resident (either alone or with other related persons) that is paying the interest of royalties, except when the resident of Cyprus is not liable to tax which is lower than the usual tax rate.
7. Nil if royalties are copyright and other literary, dramatic, musical or artistic work not including film or videotape royalties.
8. Nil if royalties are on literary, artistic or scientific work including cinematography films and films or tapes for television or radio broadcasting.
9. 10% if recipient is a company with at least 10% direct share interest; 15% in all other cases.
10. 5% on cinematography films including television films.
11. 10% if recipient is a company with at least 25% direct share interest; 27% if recipient is a company with more than 25% direct or indirect share interest as long as the German corporate tax on distributed profits is lower than that on undistributed profits and the difference between the two rates is 15% or more; 15% in all other cases.
12. 5% on cinematography films not including television films.
13. 5% if recipient is a company with at least 25% direct share interest; 15% in all other cases.

14. Nil if received by a company which controls, directly or indirectly, at least 50% of the voting power.
15. At the rate applicable in accordance with domestic law.
16. There is a withholding tax of 20% on dividends and 25% on interest. The final tax liability is determined as follows:
 - a) Companies: in respect of dividends, no withholding tax, subject to Director's approval. For interest, on corporate tax rates.
 - b) Individuals: on objection, in accordance with personal tax rates. In both cases any excess tax withheld is refunded.

N.B. The agents or recipients of interest or dividends are liable for the payment of the due amount of tax on such income.
17. 5% if the beneficial owner has directly invested in the capital of the company more than the equivalent of US\$100,000; 10% in all other cases.
18. 7% if it is received by a bank or a similar financial institution; 10% in all other cases. Interest paid to the government of the other state, as defined, is exempt from tax.
19. Nil if shareholder is a company that holds directly at least 25% of the capital of the company paying the dividends; 15% in all other cases.
20. 15% for any patent trade mark, design or model, plan, secret formula or process or any industrial, commercial, or scientific equipment or for information concerning industrial, commercial or scientific experience.
21. 10% of the gross amount if it is received by any financial institution (including an insurance company) or in connection with the sale on credit of any industrial, commercial or scientific equipment, merchandise; 15% in all other cases. Interest paid to the government of the other state is exempt from tax.
22. 5% of the gross amount of the royalties for the use of or the right to use any copyright of literary, dramatic, musical, artistic or scientific work, including software, cinematography films, or films or tapes used for television or radio broadcasting; 10% of the gross amount of the royalties received as consideration for the use of, or the right to use industrial, commercial or scientific equipment or for information concerning industrial, commercial or scientific experience; 15% of the gross amount of the royalties received as consideration for the use of, or the right to use, any patent, trade mark, design or model, plan, secret formula or process.
23. A resident of Cyprus, other than a company which either alone or together with one or more associated companies controls directly or indirectly at least 10% of the voting power, is entitled to a tax credit in respect of the dividend. Where a resident of Cyprus is entitled to a tax credit, tax may also be charged on the aggregate of the cash dividend and the tax credit at a rate not exceeding 15%. In this case any excess tax credit is repayable. Where the recipient is not entitled to a tax credit, the cash dividend is exempt from any tax.
24. 5% if recipient is a company with at least 10% direct share interest; 15% in all other cases.
25. 5% on cinematography films

Tax Sparing Credits

The Cyprus treaties contain the following tax sparing credit provisions:

Canada

There are tax sparing credit provisions in Canada in respect of Cyprus tax which would have been payable or deductible in Cyprus on profits or interest but for certain tax incentive exemptions or reliefs in Cyprus.

Czech Republic and Slovakia

There are tax sparing credit provisions in respect of Cyprus tax which would have been payable on profits and interest in Cyprus but for tax incentive exemption or relief in Cyprus, and in respect of Cyprus tax which would have been deductible from any dividend paid out of profits granted such incentive exemption or relief in Cyprus but for such tax incentive exemption or relief.

Denmark

In Denmark, there are available tax sparing credits of 15% for dividends and 10% for interest from Cyprus, if for purposes of promoting the economic development of Cyprus there is an exemption from or reduction of tax below the above percentages.

Egypt

There are tax sparing provisions in respect of tax which would have been payable but reduced or waived under the legal provisions of either contracting State for tax incentives.

Germany

In Germany, tax sparing credits of 15% for dividends and 10% for interest are available, if there is an exemption from or reduction of tax below the above percentages as a result of incentives promoting economic development in Cyprus.

Greece

In both countries, tax sparing credits are available for the whole of any tax which would be payable in respect of any profits or interest for which relief or exemption from tax is allowed as a tax incentive, and in respect of any tax which would be withheld from any dividends from tax is allowed as a tax incentive, and in respect of any tax which would be withheld from any dividends paid out of profits for which relief or exemption from tax is allowed as a tax incentive.

India

In both countries, tax sparing credits are available for the whole of any tax which would be payable but for incentive relief designed to promote economic development. Withholding tax shall be deemed to have been paid on the gross amount of: dividends at 10% or 15%, as the case may be, interest at 10%, royalties and fees for included services at 15% and technical fees at 10%.

Ireland

In both countries, tax sparing credits are available for profits, interest and dividends which are exempt from tax or taxed at reduced rates due to tax incentive provisions or each state. In addition, in Ireland there are tax sparing provisions in respect of profits from the operation of ships under the Cyprus flag.

Italy

Tax wholly relieved or reduced for a limited period of time under the laws of either contracting State shall be deemed to have been paid for tax credit purposes in the other State. In the case of Italy, these would include the full tax exemption in the case of operation of ships under the Cyprus flag and Cyprus International Business companies.

Malta

In both countries tax sparing credits are available for the whole of any tax which would be payable but for incentive relief. Withholding tax shall be deemed to have been paid on the gross amount of: dividends at 15%, interest and royalties at 10%.

Poland

In both countries tax sparing credits are available for the whole of any tax which would have been payable but for incentive relief. Withholding tax shall be deemed to have been paid on the gross amount of: dividends and interest at 10%, and royalties at 5%.

Romania

In Romania, there are tax sparing credit provisions in respect of Cyprus tax which would have been payable in Cyprus on profits or interest but for tax incentive exemption or relief in Cyprus, and in respect of Cyprus tax which would have been deductible from any dividend paid out of profits granted tax incentive exemption or relief in Cyprus but for such tax incentive exemption or relief.

Syria

In both countries, tax sparing credits are available for the whole of any tax which would be payable but for incentive relief. Withholding tax shall be deemed to have been paid on the gross amount of: dividends and royalties at 15% and interest at 10%.

United Kingdom

In the UK tax sparing credits are available in respect of tax saved as result of tax incentives given in Cyprus on interest paid, provided the loan was made for the purpose of promoting development.

Serbia-Montenegro-FYR Macedonia

There are tax sparing credit provisions in respect of tax which would have been payable but reduced or waived under the legal provisions of either contracting State for tax incentives.

Anti Avoidance Provisions

The Cypriot treaties contain the following special anti - avoidance provisions:

Canada

International Business companies, branches and partnerships cannot enjoy the benefits of the treaty. This exclusion does not apply to Cyprus companies owning ships under the Cyprus flag and enjoying full tax exemption in Cyprus. However, the recent tax changes render this clause inapplicable in practice.

France

The articles of the treaty in respect to dividends, interest and royalties do not apply to Cyprus International Business companies or branches or partnerships, unless the shareholders of such companies are residents of Cyprus. Profits of a Cyprus ship owning company, of which more than 25% of the capital is owned by non-residents, are taxable in France, if the ship owning company has a permanent establishment in France. However, the recent tax changes render this clause inapplicable in practice.

Germany

A protocol to the treaty imposes restrictions on the provisions of the article on the elimination of the double taxation. As a result, dividends received in Germany from a Cyprus International Business company are taxable in Germany and a tax credit is given for the tax paid in Cyprus. However, the recent tax changes render this clause inapplicable in practice.

United Kingdom

International Business Companies are excluded from obtaining relief under the treaty in respect of dividends, interest and royalties received from the UK.

However, the recent tax changes render this clause inapplicable in practice.

United States

Relief under the treaty is not valuable where the recipient of income is subject to tax in Cyprus at substantially reduced rates as compared to the rates in the country of his residence.

This provision prevents Cyprus International Business Company and ship owning companies from availing themselves of any benefits under the Treaty.

Elimination of double taxation.

Basically, double taxation between Cyprus and its contacting partners is eliminated using one of the two following methods:

Exemption method

Under the treaties with Hungary, Norway, Sweden, Russia and Serbia-Montenegro-FYROM, any income will be completely exempt from tax in the first mentioned state.

In the case of these countries, it is possible to avoid any tax on business profits, by having the resident of the other country set up an International Business company through a permanent establishment in Cyprus. Profits will be taxed in Cyprus at a 10% rate, but will be exempt from tax in the other country. Especially the treaties with Eastern Europe are considered to be the most favorable of all because of the avoidance of tax not only on business profits but also on dividends and royalties.

Credit method

In all other treaties the credit method applies, which provides for a tax deduction for tax payable in one state against tax payable in the other state. However, because under the laws of Cyprus income is subject to very low rate of tax, in many cases tax payable in the other state is completely or partially eliminated through the use of tax sparing credits.

Tax sparing is a credit for national tax deemed to be payable, in Cyprus on certain types of income (dividends, interest, royalties), where Cyprus, for purposes of economic development, imposes a reduced tax. Those credits are usually available to residents of the other contracting state.

There are different positions with respect to exemptions from tax through tax sparing credits as follows:

1. **Under the treaties with Canada, France and the United Kingdom**, a credit is given in respect of any tax that would have been payable normally in respect of interest exempted under income tax laws.
2. **Under the treaties with Greece, Ireland Republic and Slovakia, Italy and Romania** the credit takes the form of relief of any tax that would have been payable on income subject to tax incentive exemption or relief in Cyprus, but it is not payable because of those exemptions or reliefs, and is allowed as a credit against any tax payable in the other state on the same income.
3. **In the case of Denmark**, the tax sparing credit is limited to 15% as regards dividends, and 10% as regards interest.
4. **Under the treaties with the USA and Kuwait**, no tax sparing is available.

Shipping in Cyprus

Cyprus today is considered as an ideal centre for the establishment of ship owning and ship management companies. Cyprus ranks in 3rd place in Europe and 10th among the top countries in the world with more over 2000 ships registered and with gross tonnage around 25 million tons.

Registration procedure

Maritime activities are governed by the Merchant Shipping laws which are based on British legislation. Cyprus has also ratified most of the International Maritime Organization which reflects the importance of the island in International shipping. A non-resident, may register a ship under the Cypriot flag, by transferring the

ownership to a Cypriot Company. Registration of a shipping company, is very simple, easy, and can be completed in few days.

Shipping companies which are owned by non-residents are completely exempt from exchange control restrictions.

The Department of Merchant shipping of the Ministry of Communications and Works is the appropriate authority for the registration under Cyprus flag. Ships must not exceed 15 years of age in order to be registered. Under certain conditions, vessels between 20 and 23 years of age may be registered.

The permanent registration of any ship is effected at any place abroad where Cyprus has a diplomatic mission or a Consular Post, without the physical presence. The permanent registration takes place within 9 months, including a three month extension. The vessel must be surveyed and measured by a classification society that is recognized by the Cyprus government. Cyprus is also available for parallel registration for a fixed period of time through a bareboat charter. It is provided that the legislation of the foreign country (flag state) permits it and the mortgagees give their concession. Cyprus registered vessels which may be registered in foreign registry have the same exact right to the parallel registration of foreign ships in Cyprus.

Parallel registration

A vessel can be registered in parallel only if the other country allows parallel registration.

Parallel In-registration

Parallel In registration is for two years and renewable.

Characteristics of parallel In-registration:

- the foreign nationality is suspended
- the ship has to hoist the Cyprus flag
- on the stern of the ship, "Limassol" must be marked as the port of registry
- the vessel remains registered with the foreign registry that has the authority in respect.

Parallel Out-registration

Parallel Out registration is for three years and renewable.

Characteristics of parallel Out registration:

- the ship has to hoist the foreign flag.
- the port of registry marked on the stern of the ship must be the port of the foreign country.
- the vessel is registered in the Cyprus registry in respect to the ownership and encumbrances of the vessel, therefore the transfer of the ship mortgage and other encumbrances must comply with the law of Cyprus and notified to the foreign registry. All other matters are subject to the foreign law.

Fees And Taxes

Registration fees

Registered mortgages are fully protected and no transaction affecting the registry status of a ship is effected without the written consent of the mortgagees. Also no certificate of deletion from Cyprus Register is issued, unless, all registered encumbrances have been discharged.

The registration fees are calculated as follows:

For vessels other than passenger ships

TONS	€
Up to 5,000	0.17
5,001-10,000	0.14
Over 10,000	0.07
Minimum Fee	214.00
Maximum Fee	5126.00

For passenger ships

TONS	€
For each gross ton	0.26
Minimum fee	427.00

Tonnage tax

Non-Passenger ships

(Basic charge + gross tonnage Increment) x age multiplier

TONS	€
For each gross ton up to 1,600	0.44
For each additional gross ton between 1,601 - 10,000	0.27
For each additional gross ton between 10,001-50,000	0.10
Over 50,001	0.07
BASIC CHARGE	171.00

Age multiplier

The resulting figure from the above calculation is then multiplied by the corresponding rate shown below:

Age of the Ship	Rate
Up to 10 years	0.75
11 - 20 years	1.00
Over 25 years	1.30

Fiscal Incentives

- No taxation on the profits, distribution, sale of the vessel or other capital gains relating to the vessel.
- No taxes on the crew salaries.
- No stamp duties on mortgage documents.
- Simple procedure of registration and de-registration
- Low fees.
- No Cypriot certificate of competency. Acceptance of such certificate from more than forty countries.
- Double tax agreements with major countries in the world.
- Excellent professional services including ship management, insurance, legal and accounting.
- Modernised ports in Limassol and Larnaca.
- Substantial container handling facilities in Larnaca.
- No exchange control regulations.

- Strategic geographic location makes it easier to contact business
- Friendly relations with almost all countries
- Excellent banking facilities
- Bonded and warehouse facilities at reasonable prices
- Non discriminating legal system
- Easy accessibility by air and sea
- Low cost of living
- Qualified personnel readily available
- English used in business
- Crime free environment
- Pleasant climate

Telecommunications

Cyprus recognizes the importance of telecommunications and has invested heavily in the development of this sector. As a result, the Island may claim, in this respect, to be among the most developed countries in the world. This claim is justified by Cyprus' automatic telephone connection with 264 countries. Cardphones, paging, mobile telephones, packet switched data services, video conference, audiotext and videotext, telefax, telex, telegraph services are readily available and are widely used. Radio, telephone, telex and telegraph connections with ships at sea operate on a 24-hour basis.

Ship management companies

A positive factor in the recognition of Cyprus as a merchant shipping country is the development of its owned ship management companies. Limassol is now probably the largest centre in the world for third party ship management.

Dasons Business Cyprus Limited

Dasons Business Services Ltd is a professional services organisation specialising in the provision of accounting and consulting services. The Company offers a full range of technical services tailored made to our clients individual needs.

Dasons business services Ltd can be your complete resource for professional accounting and business consulting services. We can offer our clients short-term business advice to becoming their long-term consulting partner.

Our organisation is headquartered in the Republic of Cyprus and has a strong presence in South East Europe with fully fledged subsidiaries in Greece, Bulgaria, Romania, Serbia, FYR Macedonia, Albania, Montenegro, Moldova and Ukraine as well as a number of carefully selected and monitored associates in Bosnia, Kosovo and Turkey. Dasons achieved a complete geographic coverage of the Region.

All our offices maintain quality control standards at the highest attainable level. Our approach is tailored made to every engagement assigned depending on the environment and requirement of our client.

Dasons Business Services Limited is a member of the Leading Edge Alliance, an international network of over 100 independent CPA firms in more than 50 countries around the world. Through our membership we have access to a broad base of local resources worldwide. Our membership enables us to draw upon local experience in other markets so that we can provide our clients with the information they require without limitations restricting many other local and regional firms. Member firms have access to the best and brightest teams of business advisors – a peer-to-peer connection that provides the right business solutions for clients

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