

Tax Briefing



DASON'S
Business Services Limited

Accounting & Consulting Services

A member of the Leading Edge Alliance



Further developments enhancing Cyprus' position in the international tax planning arena.

Cyprus is established as an international business and financial centre and became the country with the lowest corporation tax rate of 10% in the EU. A significant number of Double Tax Treaties have been concluded thus avoiding the double taxation of income earned in any of the countries Cyprus has an agreement with. The usage of Treaties has greatly prevented double taxation resulting in a reduction of the tax payable. The existence of such treaties combined with the low Corporate Income Tax in Cyprus offer tremendous possibilities for tax planning through Cyprus.

The aim has always been to establish Cyprus as a tax incentive country and not as a tax haven. A Cyprus Holding Company can be effectively used for international tax planning purposes. Besides the extensive Double Tax Treaties and the 10% corporate tax rate, Cyprus offers the ability to pull profits from the country of the subsidiary (if it holds at least 1% of its share capital) with very low withholding tax, provided a DTT is in existence. A Cyprus Holding Company can benefit from the EU Parent-Subsidiary Directive whereby dividends paid between associated enterprises that are both situated in the EU (if holds 15% of its share capital as of 1st January 2009) are made without any withholding taxes. Beyond this the fact that under Cyprus legislation neither withholding tax on dividends distribution to the non resident shareholders of the Cyprus Holding company nor capital gains tax on the disposal of shares are levied, offer Cyprus a further additional incentive.

The Cyprus special contribution to the defense fund received special clarifications and more specifically dividend exemption from abroad constituting an additional tax incentive for the island. The non-applicable exemption relates to the charge of foreign tax on the income of the paying dividend company which is 'substantially lower' than the tax charge of the company which is a Resident in the Republic or not and has permanent establishment on the island. The Inland Revenue Department proceeded into offering a determination, clarifying that substantially lower foreign tax means below 5%.

Tax treatment of exchange differences arising directly or indirectly by trading in shares constitute

a new change in the Cyprus tax regime. Any relevant profits deriving from such exchange differences are tax relieved and the relevant exchange losses are not allowed to be deducted from the taxable income, however, this change will be applicable for 2003 tax year and onwards.

Never ending tax-privileged legislation extended to include interests attributable to intangible costs of fixed assets in terms of considering goodwill, trade or business name etc as part of the assets used by the company. The expenses for the acquisition of the intangible costs of fixed assets should take place from independent third parties otherwise the new treatment available cannot take place. As a result, the related company paying interests are deductible from the taxable income.

Any gains arising from disposal of securities is exempted from tax under the Cyprus jurisdiction. The term 'securities' was retaining a limited definition until recently where the term 'securities' expanded in order to include more instruments within the meaning of the law for example: *Founder's shares, preference shares, options on titles, debentures, bonds, units, options etc.* The evolution of the list of instruments defined as 'securities' increase significantly the competitiveness of the Cypriot jurisdiction in terms of tax planning.

The continuous changes regarding the tax sector establish the Cypriot jurisdiction among the best tax planning and structuring jurisdictions worldwide.

Nicosia, Cyprus
Atho street 3B-C
1087 Nicosia, Cyprus

Tel: +357 22 699 111
Fax: +357 22 699 003

Greece :
5 Victoria Square
3rd Floor
Athens 10434

Tel. + 30 210 825 70 10
Fax. + 30 210 8235 488

Bulgaria:
36 Alabin str
(entrance from Lavele str)
Sofia 1000

Tel. + 359 2 988 4989
Fax. + 359 2 988 58 90

Romania:
22 Lugoj str, District 1,
Bucharest

Tel. + 4021 318 22 62-99
Fax. + 4021 318 22 64

Serbia :
31/4 Beogradska str.
Belgrade 11000

Tel. + 381 11 3241 484
Fax. + 381 11 3038 848

Montenegro :
Rimski trg A1-40
Podgorica 81000

Tel.: +382 20 234 545
Fax.: +382 20 234 709

Albania :
Rruga Dëshmoret e 4
shkurtit Pallati i ri 1/1

Tel: +355 42 248 548
Fax. +355 42 248 548

FYR Macedonia
Bul. "Jane Sandanski"
No. 78/2, lok. 7
P.O. Box 234,
Skopje 1001

Tel. +389 2 2465 919
Fax +389 2 2465 919

email: info@dasons.eu
website: www.dasons.eu

Issue 2009/3

Your complete resource for professional accounting and business consulting services.

Delivering distinctive service is our business