

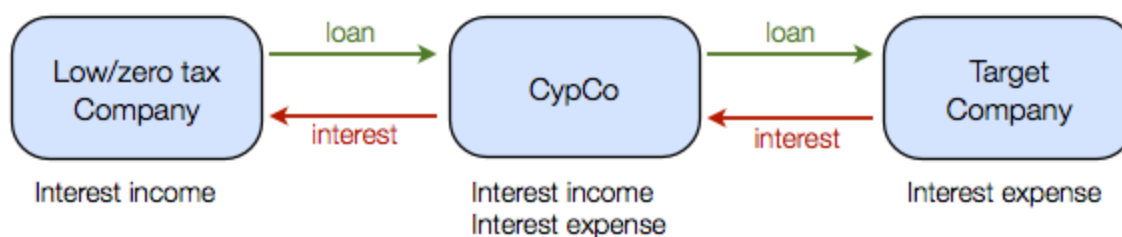


CYPRUS FINANCING COMPANY

The term Cyprus Financing Company is a description of the activities of a Cyprus company and does not refer to specific company features. Therefore, a Cyprus Private Company can be incorporated and be used for financing activities i.e. receive and grant loans.

Such companies may take advantage of the Cyprus Double Tax Treaties by providing loans in countries where withholding tax on interest is low or nil.

The use of Cyprus companies for group finance is extremely attractive. Interest payments to the Cyprus Financing Company are tax deductible in the country of the borrower reducing the overall corporation tax liability. Choosing the right international jurisdiction for the use of double tax treaties can reduce or eliminate withholding taxes on interest payments.



These structures are particularly attractive for investment into high-tax countries where, local rules permitting, high debt structures are widely used.

Important features of the tax system beneficial to Cyprus (Group) Finance are the following:

- Interest income taxed in Cyprus at low corporation tax rate of 12,5%.
- Absence (under a Double Tax Treaty or the Interest and Royalty Directive) of interest withholding tax. If a Cyprus holding company is financed in the form of loans by its non-resident parent company, or by its non-resident individual shareholder, it will make the interest payments to the non-resident individual or company gross, without any tax deducted.
- Low overall tax burden.
- Cyprus has transposed into Cypriot Law the EU Interest & Royalties Directive. Cyprus has a wide treaty network with over 44 countries.
- Absence of interest withholding tax in connection with interest paid on loan financing, irrespective of jurisdiction or the absence of a DTT (even for interest payments to offshore jurisdictions).



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- Low level of "margin" required by tax authorities. The Cyprus tax authorities will accept the below mentioned interest margins:

Loan amount	Interest margin
Up to Euro- 50 million	0,35%
Between Euro 50-200 million	0,25%
In excess of Euro 200million	0,125%

Conditions to be met for the use of Cyprus companies for group finance:

- The loans must be made between associated parties.
- Back-to-back financing - the above spreads are applied by the Cyprus Tax Authorities only in cases where a back-to-back relationship can be demonstrated. In other words, the above tax advantages apply when full matching of the amounts borrowed and granted.
- The ultimate shareholders of all companies involved must be non-tax residents in the Republic.
- The loans borrowed and lent can be either interest free or interest bearing.
- The time interval between the date the company receives a loan and the date it grants a loan must not exceed six months.
- If the loan received by a company is settled or written off before settlement of the loan granted or vice versa, the transaction is considered as being outside the scope of these provisions as from the date of settlement or write off.

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