Seize the advantage of our expertise

Technical Report

This publication should be used as a source of general information only. It is not intended to give a definitive statement of the law. For the specific applications of the law, professional advice should be sought. Our directors would be glad to address any questions you may have.

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In association with the Cyprus tax advisors

Members of:

The Cyprus Holding Company

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Seize the Aspen advantage

Introduction

Cyprus' fiscal regime offers a range of very attractive tax advantages for structuring business, including the lowest corporate tax rate in the European Union.

The low tax rate together with an extensive list of double tax treaties, an enviable time zone location and a mature legal, accounting and banking infrastructure, places Cyprus high on the list of preferred jurisdictions for international tax planners.

This report highlights the main provisions of the Cyprus fiscal regime and their implications on a Cyprus holding company.

Key features of the Cyprus fiscal regime

A. Key benefits offered

The fiscal regime, in place since 2003, offers the following benefits:

- Introduction of the concept of tax resident and non-resident companies.
- Taxation of worldwide income for tax residents and Cyprus sourced income for non-residents.
- A uniform corporate tax rate of 10%.
- Tax-exempt business profits of non-resident companies.
- Tax-exempt gains on the trading and disposal of securities.
- Tax-exempt dividend income (subject to applicable criteria).
- Tax-neutral group reorganisations.
- Tax-relief for group losses.
- Full adoption of the EU parent-subsidiary directive.
- Full adoption of the EU mergers directive.
- Full adoption of the EU directive on mutual assistance and cooperation.
- Full adoption of the EU royalty and interest directive.

B. Legal references

The fiscal regime is predominantly based on two key tax laws:

- The Income Tax Law of 2002
- The Special Contribution for Defence Law of 2002 (the SCDT Law)

There are a number of other tax laws of secondary importance in corporate tax planning which address the assessment and collection of taxes, capital gains on the sale of immovable property in Cyprus, the social cohesion fund and stamp duty.

C. The income tax law

Income tax is imposed on the worldwide income of all resident Cyprus persons (**individuals** and **corporations**). Non-resident persons are liable for tax on their Cyprus-sourced income only.

A **corporation** is tax resident when its effective management control is exercised in Cyprus. Although there is no concrete definition, it is suggested that "effective management control" is present in the case where the majority of the directors are residents of Cyprus, or in the case where the board of directors holds its meetings in Cyprus.

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An **individual** is tax resident if present in Cyprus for more than a total of 183 days in a calendar year.

A **permanent establishment** follows the definition of the OECD Model Tax Convention, with the exception of a building site, construction or installation project, which constitutes a permanent establishment only if it lasts more than three months.

The income tax law provides for a uniform corporate tax rate of 10% on the taxable profits of Cyprus tax-resident companies

The sources of income used in calculating the taxable income of tax-resident companies under the income tax law include:

- Business profits.
- Interest.
- Royalties.
- Rent from property.
- Any consideration for the trading of goodwill.

Ship management companies are taxable at 4.25%, and can chose to be taxed in accordance with their tonnage tax rates.

D. The SCDT Law

The Special Contribution for Defence Tax Law (The SCDT Law) incorporates the EU parent-subsidiary directive into Cyprus law. The main provision of this law is the imposition, in certain cases, of taxation at 15% on dividend income and 10% on interest income received by Cyprus residents. The specific circumstances under which the SCDT law is applicable are further discussed below.

A holding company regime criteria

The Cyprus fiscal regime does not introduce a holding company vehicle as such.

However, the provisions of the tax laws allow the consolidation of ownership of operating subsidiaries and other investments under a Cyprus company in a tax efficient way.

Although the decision to consolidate ownership of subsidiaries is driven by many factors, certain tax related criteria must be met for a country to be classed as an attractive holding company jurisdiction. These include primarily the following five criteria:

1. Tax treatment of dividend income

- Dividend income to be received with low or zero rate of foreign withholding tax.
- Dividend income to be subject to low or zero rate of local tax.

2. Tax treatment of dividend distribution

- Dividend to be distributed to the shareholders at a low or zero rate of local withholding tax.

3. Tax treatment of the disposal of subsidiaries

- Proceeds from the disposal of a subsidiary to be exempt from income and capital gains tax.

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4. Taxation aspects of group reorganisation

- Group reorganisations to be effected in a tax neutral way.

5. Group loss relief

- Losses to be offset against taxable profits within the group and carried forward indefinitely.

The provisions of the Cyprus fiscal regime are analysed in terms of the below five key criteria for a holding company.

Tax treatment of dividend income in Cyprus

A. Foreign withholding tax

A subsidiary of a Cyprus company could be tax resident in the EU or outside the EU. Furthermore, the country of tax residence of this subsidiary might or might not have a double tax treaty with Cyprus.

Within the EU

Dividend paid by an EU subsidiary is received by the Cyprus holding company without any withholding tax on the basis of the EU parent-subsidiary directive.

The Cyprus double tax treaty, if one exists with the EU country in question, still applies if the EU parent-subsidiary directive requirements are not met.

Outside the EU

Dividends paid by a non-EU subsidiary which is tax resident in a country that has a double tax treaty with Cyprus, will be subject to the provisions of the double tax treaty.

Cyprus has a wide network of double tax treaties that provide for a low withholding tax on dividends.

However, although the tax law makes a distinction between treaty and non-treaty countries where withholding tax is deducted on the payment of the dividend to the Cyprus subsidiary, the Cyprus tax authorities will unilaterally give a tax credit equal to the amount of the foreign withholding tax. This minimises, in most cases, the effect of the foreign withholding tax on dividends paid to a Cyprus holding company to zero.

B. Taxation on dividend income

Dividend income is **not** taxable under the Cyprus income tax law.

Under the SCDT Law, dividend income received, or deemed to be received by one Cyprus tax-resident company from another tax-resident company is **not** taxable.

Under the SCDT Law, dividend income received by a Cyprus tax-resident company from a non-resident company is **exempt** from tax.

Similarly, the business profits of a resident Cyprus company derived directly or indirectly from a permanent establishment outside Cyprus are **exempt** both from SCDT and income tax.

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The exemption does **not** apply if:

(i) Directly or indirectly more than 50% of the activities of the paying company result in investment income, **AND**
(ii) The paying company is subject to tax at a rate which is significantly* lower than the Cyprus corporate rate.

*Significantly lower means 50% of the Cyprus tax rate that is, 5%

It is important to note that **both** conditions above must be present for the exemption to be withheld.

The tax treatment of dividend income is summarised in the table below:

	Dividend income	Tax impact
1	From a resident company to a resident company	0% income tax 0% SCDT
2	From a non-resident company to a resident company	0% income tax 0% SCDT*
3	From a non-resident company to a resident individual	0% income tax 15% SCDT

* 0% if the exemption applies. If the exemption does not apply there is a 15% special defense tax contribution on the amount of the dividend.

Provided that the two criteria are both present for the exemption to be waived, it is fairly easy to structure the holding in such a way where no SCD tax is payable.

However, in the case where the exemption is not given and SCD tax at 15% is payable, relief against the tax is given in accordance with the provisions of the applicable double tax treaty.

Cyprus has a number of double tax treaties that provide for tax credit against the Cyprus tax in respect of underlying tax paid on profits from which a dividend distribution is made to a Cyprus company.

Hence the tax liability arising where the SCDT exemption is not given is reduced or eliminated, subject to the provisions of the applicable double tax treaty.

Double tax treaties that Cyprus has concluded that allow for a relief from the underlying tax include, Ireland, Greece, Austria, Norway, Singapore, UK, Germany, France, Denmark, Sweden and Belgium.

The combination of the exemption on SCDT and tax credit as per the provisions of an applicable double tax treaty eliminates in most of the cases the local tax on dividend income.

There is **no** withholding tax on dividends paid to non-resident individuals or companies.

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Tax treatment of dividend distribution

Actual dividend distribution

Dividends paid by a Cyprus resident company to a Cyprus resident individual are subject to a withholding tax of 15% under the provisions of the SCDT law.

Dividends paid by a Cyprus resident company to a Cyprus resident company are not subject to any withholding tax.

Similarly, dividends paid by a Cyprus company to any non-residents of Cyprus (companies and individuals) are not subject to any withholding tax.

Deemed dividend distribution

A Cyprus tax-resident company is deemed to have made a distribution of 70% of its profits after tax, in the form of dividends, and must account for a 15% defence contribution thereon at the end of two years from the close of the tax year to which the profits relate.

Any amount of actual dividend paid out in the two year period following the financial year reduces the amount of the deemed distribution.

The deemed distribution provisions do **not** apply to profits that are attributable to non-resident shareholders.

These provisions of the tax law for actual and deemed distribution indicate that dividends of a Cyprus company attributable to a non-resident of Cyprus are not subject to any withholding tax. This is regardless of the country of residence of the non-resident shareholder or the existence of a double tax treaty with Cyprus.

The following table shows the withholding tax rates for general application in the absence of a double tax treaty on dividend distribution imposed by a small selection of countries that are considered prime holding company jurisdictions:

Jurisdiction of source	Withholding tax rate on dividend distribution
Austria	25%
Belgium	15%
Cyprus	0%
Denmark	28%
France	25%
Netherlands	15%
Spain	18%
Switzerland	35%
United Kingdom	0%
United States of America	30%

Cyprus, together with the UK, compares favourably to the other holding company jurisdictions.

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Tax treatment of disposal of subsidiary

Profits arising from the disposal or trading of securities are **not** subject to income tax.

There is no capital gains tax liability on the disposal of securities unless the gain arises from the sale of shares of a company that owns immovable property in Cyprus.

The gain on the sale of shares in a company that owns immovable property in Cyprus is subject to a flat rate capital gains tax of 20%.

Securities include shares, debentures, government bonds, founder shares or other shares of legal entities in Cyprus or abroad, as well as options on those shares.

Most of the double tax treaties that Cyprus is a party to give the taxing rights on capital gains to the country of residence of the person disposing the capital asset.

The result is that no capital gains tax liability arises either in Cyprus or in the country where the capital asset is located.

This exemption from capital gains and the exemption on the profits from the trading of securities are the main factors behind the rapid development of the International Collective Investment Schemes (ICIS) in Cyprus.

An ICIS in Cyprus can trade in securities in any stock market without attracting any tax in Cyprus on the profits made.

The Cyprus double tax treaty network can be used to mitigate or eliminate any withholding tax suffered at the source of the dividend or interest income.

Taxation aspects of group reorganisation

The Cyprus income tax incorporates the provisions of the EU Merger Directive and extends the benefits of tax-neutral reorganisations to both EU and non-EU members. Furthermore, the provision of the tax is extended not only to cross-border transactions but also to domestic transactions and cover not only capital gains tax, but also stamp duty and VAT.

Reorganisation structures include:

- Mergers.
- Divisions.
- Asset Transfers.
- Shares Exchange.

Under the reorganisation rules:

- Assets and liabilities, including provisions and reserves that are transferred under a reorganisation, do not give rise to a tax-liability on gains or profits of the transferring company.
- Any accumulated losses of a company undergoing reorganisation may be transferred to the new company.
- If the receiving company has a holding in the transferring company, there is no tax liability on any gains accrued by the receiving company as a result of the cancellation of the holding because of the reorganisation.
- Share exchange is not subject to tax: the newly allotted shares have the same value as the shares that were exchanged before the reorganisation.

The provisions of the Cyprus tax laws for the tax neutral group reorganisations are more generous than the requirements of the EU merger directive.

Cyprus controlled groups can be restructured effectively with no tax consequences in Cyprus.

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Group loss relief provisions

Carry forward of losses

Losses from business operations can be carried forward **indefinitely** to be offset against the profits of future years.

Group relief

Group relief is available to offset the losses of one company against the profits of another. Group relief applies only for Cyprus tax-resident companies that are part of the same group, and is available only if both the surrendering and claimant company are part of the same group for the entire tax year.

Definition of a group

Two companies are deemed to be a group for group relief purposes if:

- One is 75% subsidiary of the other, **or**
- Both are 75% subsidiaries of a third company.

A company is deemed to be 75% controlled by another company if at least 75% of the ordinary share capital with voting rights is held either directly or indirectly, and the holding company is entitled to at least 75% of the subsidiary's:

- Distributable profits, **and**
- Assets of the subsidiary that would have been available for distribution to the shareholders upon liquidation.

Loss of a permanent establishment

Losses arising from the operation of a permanent establishment abroad can be offset against the profits arising in Cyprus. However, in subsequent periods, when the overseas permanent establishment is in a profit position, an amount equal to the losses which have been previously offset will be included in the taxable income of the Cyprus tax resident entity.

Taxation treatment of group transactions

A. Intergroup financing - tax on interest

Cyprus has implemented the EU interest and royalties directive and exempts all payments of interest and royalties from withholding tax.

There are no thin capitalisation rules placing any share capital requirements on a Cyprus company. A Cyprus company can be financed fully by loans from its ultimate owner say, and any interest payable to its lender, provided it meets the arm's length principle, would be fully deducted for tax purposes.

The income tax law and the SCDT law distinguish between interest income on deposits and interest received in the ordinary course of business.

Interest income on deposits

Under the income tax law, all interest income on deposits is exempt from income tax. However, interest income on deposits credited or received by a Cyprus tax-resident company or individual is subject to a 10% tax under the SCDT law.

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Interest income received in the ordinary course of business

The interest income received in the ordinary course of business, including interest closely connected to the normal trading activity of business, is fully included in the calculation of the taxable profits of a Cyprus tax-resident company. However, this type of interest is **exempt** from taxation under the SCDT Law. This suggests that the effective tax rate on interest received in the ordinary course of business is 10%.

The term "*ordinary course of business*" is not defined in the law. The Cyprus tax authorities have however clarified in a circular that the ordinary operation of a business is deemed to include banking activities, the provision of loans, business financing, and finance leasing. It further clarifies that " *closely connected to the normal trading activity of business*" is deemed to include interest from trade debtors, interest income of insurance companies, interest income on current accounts, and interest income of companies acting as intra-group financing companies.

The tax treatment of interest income is summarised in the table below:

	Interest paid	Impact on a tax-resident company
1	From a resident company to a Cyprus company as part of the normal course of business	10% Cyprus Income Tax 0% SCDT
2	From a resident company to a Cyprus company on deposits	0% Cyprus Income Tax 10% SCDT
3	From a non-resident company to a Cyprus company as part of the normal course of business	10% Cyprus Income Tax 0% SCDT
4	From a non-resident company to a Cyprus company on deposits	0% Cyprus Income Tax 10% SCDT

There is **no** withholding tax on the payment of interest from Cyprus.

B. Licensing of intellectual property - taxation on royalties

Income from royalties is included in the computation of the taxable profits of a Cyprus tax-resident company.

Royalty payments are deductible expenses in the computation of the taxable profits of a tax-resident company.

The gross amount of any royalty premiums payable for the use of the intellectual property within Cyprus are subject to a withholding tax of 10%. Royalty premiums for use of the intellectual property outside Cyprus are **not** subject to any withholding tax.

The gross income derived from the rental of cinema films by a non-resident person within Cyprus is subject to a 5% withholding tax.

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Our services

Our team has the necessary expertise and is in the position to offer an integrated range of professional services and advice on the formation of a structure that is tax efficient and tailored to your specific needs.

We excel on the implementation and management of practical tax solutions aimed at meeting your business objectives.

What we can do for you:

- We can source the tax advice and assist in the architecture of the optimal structure for your business needs.
- Implement the structure in accordance to the advice.
- Offer the day-to-day administration and back office support in line with the agreed advice.
- Liaise with third party auditors to ensure financial reporting and tax compliance in line with the tax advice.

Conclusion - Tax strategies increase returns

In the arena of global competition, companies find it increasingly difficult to create and sustain the growth rate required by their shareholders. International tax planning is becoming one of the most effective strategies to increase returns to shareholders.

Cyprus is a sophisticated low tax jurisdiction that is rapidly becoming the jurisdiction of choice for international business-people, multinational corporations and their trusted tax advisors.

The Cyprus holding company scores well on the criteria of what constitutes a tax efficient holding company and, in many cases, surpassing the benefits offered by traditional holding company jurisdictions.

The Cyprus option should be carefully considered by any tax planner who advises clients on their international tax structure.

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Table of Cyprus network of double tax treaties

Treaty Countries	Received in Cyprus			Paid from Cyprus*		
	Dividends	Interest	Royalties	Dividends	Interest	Royalties
	%	%	%	%	%	%
Armenia[27]	0	0	0	0	0	0
Austria	10	0	0	10	0	0
Belarus	5[4]	5	5	5[4]	5	5
Belgium	10[1]	10[16]	0	10[1]	10	0
Bulgaria	5[19]	7[25]	10[20]	5[19]	7[25]	10
Canada	15	15[7]	10[11]	15	15[7]	10[11]
China	10	10	10	10	10	10
Czech Republic	0[30]	0	10	0[30]	0	10
Denmark	10[1]	10[9]	0	10[1]	10[9]	0
Egypt	15	15	10	15	15	10
France	10[2]	10[9]	0[26]	10[2]	10[9]	0[26]
Germany	10[1]	10[8]	0[26]	10[1]	10[8]	0[26]
Greece	25[21]	10	0[12]	25	10	0[12]
Hungary	5[1]	10[8]	0	0	10[8]	0
India	10[2]	10[8]	15[15]	10[2]	10[8]	15[15]
Ireland	0	0	0[12]	0	0	0[12]
Italy	15	10	0	0	10	0
Kuwait	10	10[8]	5[14]	10	10[8]	5[14]
Kyrgyzstan[27]	0	0	0	0	0	0
Lebanon	5	5[16]	0	5	5[16]	0
Malta	0[22]	10[8]	10	15	10[8]	10
Mauritius	0	0	0	0	0	0
Moldova	5[19]	5	5	5[19]	5	5
Montenegro[28]	10	10	10	10	10	10
Norway	5[3]	0	0	0	0	0
Poland	10	10[8]	5	10	10[8]	5
Qatar[30]	0	0	5	0	0	5
Romania	10	10[8]	5[14]	10	10[8]	5[14]
Russia	5[6]	0	0	5[6]	0	0
San Marino	0	0	0	0	0	0
Serbia	10	10	10	10	10	10
Seychelles	0	0	5	0	0	5
Singapore	0	10[23]	10	0	10[23]	10
Slovakia[29]	10	10[8]	5[14]	10	10[8]	5[14]
Slovenia[28]	10	10	10	10	10	10
South Africa	0	0	0	0	0	0
Sweden	5[1]	10[8]	0	5[1]	10[8]	0
Syria	0[1]	10[8]	15[13]	0[1]	10[8]	15[13]
Tajikistan[27]	0	0	0	0	0	0
Thailand	10	15[17]	5[18]	10	15[17]	5[18]
Ukraine[27]	0	0	0	0	0	0
United Kingdom	0[24]	10	0[26]	0	10	0[26]
USA	15[5]	10[10]	0	0	10[10]	0
Uzbekistan[27]	0	0	0	0	0	0
Non Treaty Countries	N/A	N/A	N/A	0	0	0**

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Double Tax Treaties - notes

* Payments of dividends and interest to non-residents are exempt from withholding tax in Cyprus according to the Cyprus Legislation. Royalties granted for use outside of Cyprus are also free of withholding tax in Cyprus.

** 10% in the case of royalties granted for use within the Republic. 5% on films and TV rights.

1. 15% if received by a company controlling less than 25% of the voting power.
2. 15% if received by a company controlling less than 10% of the voting power.
3. NIL if paid to a company controlling at least 50% of the voting power.
4. This rate applies if the amount invested by the beneficial owner is over €200.000 irrespective of the percentage of voting power acquired. 10% is imposed if received by a holder of at least 25% of the share capital of the paying company. Otherwise the rate is 15%.
5. 5% if received by a company controlling at least 10% of the voting power.
6. 10% if received by company, which has invested less than $100.000. (The Protocol to the existing treaty, which at the time of printing this publication has yet to become effective, provides for a change in the amount invested from $100.000 to €100.000)
7. NIL if paid to the government or for export guarantee.
8. NIL if paid to the government of the other State or to a financial institution.
9. NIL if paid to government or in connection with the sale on credit of any industrial, commercial or scientific equipment or any merchandise by one enterprise to another or in relation to any form of loan granted by a bank or is guaranteed from government or other governmental organization.
10. NIL if paid to government, to a bank or a financial institution or in respect to debt obligations arising in connection with sale of property or in respect to debt guarantee, or insured by the government.
11. NIL on literary, dramatic, musical or artistic work with the exception of films used for television programs.
12. 5% on film royalties (except films shown on TV).
13. 10% on literary, dramatic, musical, artistic, scientific work and films.
14. NIL on literary, artistic or scientific work including films.
15. 10% on payment of technical fees, management fees and consultancy fees.
16. NIL if paid to government, a political subdivision or a local authority, the National Bank or any institution the capital of which is wholly owned by the State or a political subdivision or a local authority or in the form of interest income from bank deposits.
17. 10% on interest received from financial institutions, on interest paid in connection with industrial, commercial, scientific equipment or the sale or merchandise between two companies.
18. 10% on right to use industrial, commercial or scientific equipment or for information concerning industrial, commercial or scientific experience and 15% for patents, trademarks, designs, models, plans, secret formulas or processes.
19. This rate is applicable if received by a company owning directly at least 25% of the capital. In all other cases the withholding tax is 10%.
20. This rate does not apply, where 25% or more of the capital of the Cypriot resident is owned directly or indirectly by the Bulgarian resident paying the royalties and the Cyprus company pays less than the normal rate of tax.
21. The treaty provides for 25%, but the domestic rate of NIL applies since it is lower than the treaty rate.
22. The treaty provides that the tax on the gross amount of the dividends shall not exceed the tax charged on the profits out of which the dividends are paid.
23. 7% if paid to a bank or similar financial institution. NIL if paid to the government.
24. The treaty provides for 15% withholding tax, but domestic legislation provides for 0% withholding tax.
25. NIL if paid to or is guaranteed by the government, statutory body or the Central Bank.
26. 5% on film royalties, including films used for television programs.
27. The treaty between the Republic of Cyprus and the USSR still applies.
28. The treaty between the Republic of Cyprus and the Socialist Federal Republic of Yugoslavia still applies.
29. The treaty between the Republic of Cyprus and the Czechoslovak Socialist Republic still applies.
30. Nil if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the company paying the dividends where such holding is being possessed for an uninterrupted period of no less than one year. 5% in all other cases.

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Tax sparing credit provisions

When a tax is spared or exempted in Cyprus, a tax-sparing provision may allow it to be credited against an investor's liability in his home country (the double tax treaty counterpart) as if the tax had been paid in Cyprus.

Tax-sparing provisions exist in the double tax treaties with the following countries:

Canada

Tax payable in Cyprus by a resident of Canada, in respect of profits attributable to a trade or business carried on by it in Cyprus or in respect of interest received by it from a resident in Cyprus, shall be deemed to include any amount which would have been payable as Cyprus tax for any year but for an exemption from, or reduction of, tax granted for that year or any part under certain provisions.

Czech Republic

Under the new double tax treaty with the Czech Republic 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 is deductible from any divided paid out of profits granted by such incentive exemption or relief.

Denmark

There are available tax sparing credits where for the purpose of promoting economic development in Cyprus dividends are exempt from any tax in Cyprus. This is in addition to the tax chargeable on the profits or income of the company. Dividends are taxed in Cyprus at a rate not lower than 15% of the gross amount. The amount of Cyprus tax shall be deemed to be 15% of the gross amount for dividends and 10% for interest from Cyprus. In cases where the rate of Cyprus tax on interest is reduced below 10% of the gross amount , by virtue of special incentive measures designed to promote development activity in Cyprus, the amount of Cyprus tax shall be deemed to be 10% of the gross amount of such interest.

Egypt

For the purposes of deduction from the tax on income in a Contracting State, the tax paid in the other Contracting State, shall be deemed to include the tax which is otherwise payable in that other Contracting State, but has been reduced or waived by the Contracting State under its legal provisions for tax incentives.

Germany

There are available tax sparing credits where for the purpose of promoting economic development in Cyprus dividends are exempt from any tax in Cyprus. This is in addition to the tax chargeable on the profits or income of the company. Dividends are taxed in Cyprus at a rate not lower than 15% of the gross amount. The amount of Cyprus tax shall be deemed to be 15% of the gross amount of such dividends and 10% for interest from Cyprus. In cases where the rate of Cyprus tax on interest is reduced below 10% of the gross amount, by virtue of special incentive measures designed to promote development activity in Cyprus, the amount of Cyprus tax shall be deemed to be 10 per cent of the gross amount of such interest.

Greece

Tax sparing credits are available on tax on interest or profits due to tax incentives, reliefs or exemptions.

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India

The tax payable in a Contracting State shall be deemed to include the tax which would have been payable but for the tax incentives granted under the laws of the Contracting State and which are designed to promote economic development.

- The amount of tax shall be deemed to be 10% or 15% as the case may be of the gross amount of dividend.
- The amount of tax shall be deemed to be 10% of the gross amount of interest.
- The amount of tax shall be deemed to be 15% of the gross amount of royalties and fees for included services.
- The amount of the tax shall be deemed to be 10% of the gross amount of technical fees.

Ireland

The Cyprus tax which would have been payable on any profits or interest granted tax incentive exemption or relief in Cyprus. The Cyprus tax which would have been deductible from any dividend paid out of profits granted tax incentive exemption or relief in Cyprus.

Italy

In the case of Italy, tax payable, directly or by deduction, in respect of income from sources within Italy shall be allowed as a credit against any Cyprus tax payable in respect of that income. Where under the laws of one of the Contracting States any tax to which the Convention of the Agreement applies has been wholly relieved or reduced for a limited period of time, then, for the purpose of calculating the deduction from the tax, such tax shall be deemed to have been paid.

Malta

The tax payable in a Contracting State shall be deemed to include the tax which would have been payable but for the legal provisions concerning tax reduction, exemption or other tax incentives granted under the laws of the Contracting State. In the case of dividends, interest or royalties any such tax which has been exempted or reduced shall be deemed to have been paid at 15% of the gross amount of the dividends, 10% of the gross amount of the interest and royalties.

Poland

The tax payable in a Contracting State shall be deemed to include the tax which would have been payable but for the legal provisions concerning tax reduction, exemption or other tax incentives granted under the laws of the Contracting State. In the case of dividends, interest any such tax which has been exempted or reduced shall be deemed to have been paid at 10% of the gross amount of dividend and interest, 5% of the gross amount of royalties.

Romania

Tax sparing credits are available on the Cyprus tax which would have been payable on any profits, interest, or dividend paid out of profits granted tax incentive exemption or relief in Cyprus.

Slovakia

Tax sparing credits are available on the Cyprus tax which would have been payable on any profits, interest, or dividend paid out of profits granted tax incentive exemption or relief in Cyprus.

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Syria

The tax payable in a Contracting State shall be deemed to include the tax which would have been payable but for the legal provisions concerning tax reduction, exemption of other tax incentives granted under the laws of the Contracting State.

- The amount of tax shall be deemed to be 15% of the gross amount of dividend.
- The amount of tax shall be deemed to be 10% of the gross amount of interest.
- The amount of tax shall be deemed to be 15% of the gross amount of royalties.

United Kingdom

In the double tax treatment with the UK the term ‘Cyprus tax payable’ shall be deemed to include, any amount which would have been payable as Cyprus tax for any tax year. Of course this is always in line with any exemption or reduction of tax granted for that year or any part thereof. Now in any case where the interest in question is certified by the competent authority of Cyprus as being payable in respect of a loan made for the purposes of promoting development in Cyprus, or in the case of any approved capital expenditure, any amount which would have been payable as Cyprus tax .This however is exempt in the case of an investment deduction allowed. The term ‘approved capital expenditure’ means the capital expenditure which is incurred on or after the date of signature of the double tax treaty and not later than 5 years after the commencement of the trade or business in question, by an enterprise wholly or mainly engaged in the hotel business or in activities falling within manufacturing, assembling, processing, construction, civil engineering, ship building, electricity, hydraulic power, gas or water supply and which is certified by the competent authority of Cyprus as incurred for the purposes of promoting development in Cyprus. Any amount which would have been payable as Cyprus tax for any year but for an exemption or reduction of tax granted for that year or any part thereof under any other provision which may be made after the date of signature of this Convention granting an exemption or reduction of tax which is agreed by the competent authorities of the Contracting States to be of a substantially similar character, if it has not been modified thereafter or has been modified only in minor respects so as not to affect its general character.

Yugoslavia

Tax sparing credits are available on tax on interest or profits due to tax incentives, reliefs or exemptions.

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