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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.

Cyprus
in International Tax Planning

Contents

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Cyprus in International Tax Planning

Introduction

Cyprus implemented a series of important changes to its fiscal regime to harmonise its tax legislation with the EU Directives and the EU Code of conduct of business.

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

The low tax rate coupled with a long 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 fiscal regime and their use in international tax planning through Cyprus.

Key features of the Cyprus fiscal policy

The fiscal regime 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
- 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

Legal references

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

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

The legislation governing legal entities is the Companies law CAP113, and the legislation governing the formation and management of Cyprus International Trusts is the International Trust law 1992 and the Trustees law CAP193 of 1955.

A number of other tax laws have secondary importance in corporate tax planning, as they address the assessment and collection of taxes, capital gains on the sale of immovable property in Cyprus, the social cohesion fund and stamp duty.

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The income tax law

Scope of income tax

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 management and control is exercised in Cyprus. Although there is no concrete definition, it is suggested that "management and control" is present in the case where the majority of the directors are Cyprus residents or in the case where the board of directors holds its meetings in Cyprus.

An **individual** is tax resident if present in the Republic of Cyprus for periods exceeding a total of 183 days per calendar year.

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

The uniform corporate tax rate

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
- Royalties
- Rent from property
- Any consideration for the trading of goodwill

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

The Special Contribution For Defence Tax law

The Special Contribution for Defence Tax law (The SCDT Law) incorporates the EU parent-subsidiary directive into the 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.

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Taxation on dividends

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.

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

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 i.e. 5%

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

Dividends derived directly or indirectly from profits arising from operating a Cyprus flag ship in the course of shipping activities or from the provision of ship management services

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

	Dividend income	**Impact on a tax-resident company**	**Impact on a non-resident company**
1	From a resident company to a resident company	0% income tax 0% SCDT	N/A
2	From a resident company to a non-resident company or individual	N/A	Exempt
3	From a non-resident company to a resident company	0% income tax 0% SCDT*	N/A
4	From a non-resident company to a resident individual	0% income tax 15% SCDT	N/A
5	From a non-resident company to a non-resident company or individual	N/A	Exempt

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

There are **no** withholding taxes on dividends paid to non-resident individuals or companies.

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Taxation on interest

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.

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. Nevertheless the Cyprus tax authorities have clarified in a circular that the ordinary operation of a business is deemed to include banking activities, companies with a primary objective 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 on the interest income is summarised in the table below:

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

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

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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.

Profits arising from the disposal or trading of securities

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 thereon.

Losses

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 where both the surrendering and claimant company are part of the same group for the entire tax year.

Definition of a group

For group relief purposes, two companies are deemed to be a group 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 no less than 75% of the subsidiary's:

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

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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.

Group reorganisation rules

The Cyprus Income Tax law 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 trans-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 which 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.
- Where 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 which were exchanged prior to the reorganisation.

Relief from double taxation

Cyprus has a vast network of double tax treaties which apply to over 40 countries. A table summarizing these double tax treaties is included in the appendix of this report.

In the case of a treaty partner of Cyprus, tax paid in the treaty partner's country is allowed as a **credit** against tax payable in Cyprus for the same income. The tax credit can by utilised against any tax liability arising from the provisions of the income tax and the SCDT law.

In cases where there is no tax treaty in force, or the subsidiary of the Cyprus company does not qualify for relief under the EU parent-subsidiary directive, Cyprus grants unilateral relief on taxes arising from both the Income Tax law and the SCDT law. This unilateral relief, however, cannot exceed the actual tax paid in the foreign country.

Deemed 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.

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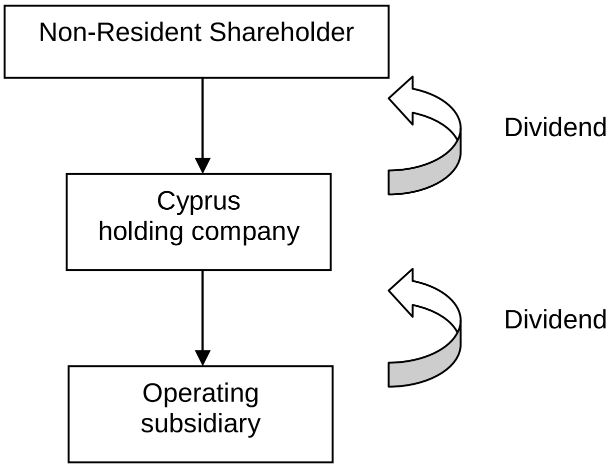
Tax Planning Opportunities

The Cyprus holding company

A Cyprus company can act as the holding company for effectively consolidating the ownership of a number of operating subsidiaries. Additionally, there are cases where a Cyprus company can act as an intermediate holding company to assist in the repatriation of dividends in a tax-efficient manner.

Example 1



(a) Dividends paid by the operating subsidiary

EU operating subsidiary

Dividends will be received in Cyprus with no withholding tax as per the provisions of the EU Parent-Subsidiary Directive.

Non-EU operating subsidiary

Dividends will be paid to the Cyprus holding company net of the withholding tax. The level of the withholding tax is subject to the double tax treaty between Cyprus and the country of residence of the subsidiary.

For example, assume that the operating subsidiary is resident in Russia. The withholding tax on dividends from Russia to a country like the UK is 10%, Japan is 15% and to Cyprus is 5%.

Hence a British or Japanese investor can set up an intermediary Cyprus holding company, thereby reducing the tax burden on the distributed dividends to 5%.

Similarly, direct investment into an EU country by a non-EU investor may lead to a withholding tax imposed on the dividend. The use of Cyprus as an intermediary eliminates the burden of this withholding tax.

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(b) Dividend received by the Cyprus holding company

Dividend income is exempt from income tax in the books of the Cyprus holding company.

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 i.e. 5%

(c) Dividend paid to the non-resident shareholder

There is no withholding tax on dividend paid by the Cyprus company to the non-resident shareholder, regardless of whether this shareholder is a company or an individual either based in the EU or outside the EU.

(d) Disposal of the operating subsidiary

The gains arising from the disposal of the shares of the operating subsidiary are not subject to any tax in Cyprus, provided that the operating subsidiary does not own any immovable property in Cyprus.

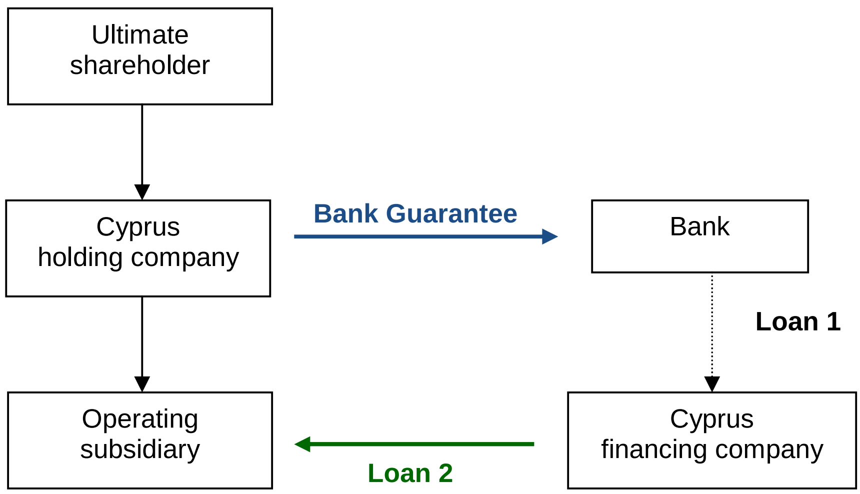
The Cyprus financing company

When structuring a multinational group, the borrowing capacity of the group can be utilised to achieve an overall tax reduction.

This can be achieved by structuring the group in such a way so that the tax-exempt dividend is received in the hands of the ultimate shareholder or the holding company while at the level of the subsidiary the taxable profits are reduced by deductible interest payments.

An efficient way of achieving this is by the use of a Cyprus financing company.

Example 2



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1. The holding company guarantees the granting of a loan to the Cyprus financing company by a commercial bank. The use of a Cyprus holding company avoids triggering off the thin capitalization rules that exist in countries like Germany, UK and the Netherlands.

2. The Cyprus financing company grants a loan to the operating subsidiary.

3. Interest payable by the operating subsidiary reduces its taxable profits.

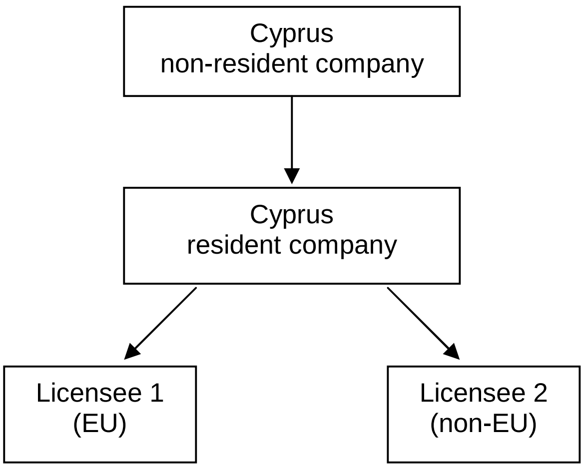
4. Interest received in Cyprus is subject to tax at 10%. Any withholding tax suffered in the country of the operating subsidiary is credited against tax payable in Cyprus.

The Cyprus royalty company

Royalty income arises from the license fees or commissions paid for the use of intellectual property such as patents, trademarks and copyrights.

A Cyprus royalty company can be used to receive the income created from this intellectual property in the most tax efficient manner.

Example 3



1. The owner of the intellectual property (IP) donates or sells the IP to a Cyprus non-resident Company. This is done at the early stages of the development when the IP has little or no value.

   The case in the European Court of Justice, Hughes de Lasteyrie Vs Ministry of the Economy, Finance and Industry (C-9/02) of 11 May 2004, suggests that an asset or business may be relocated from an EU country to Cyprus without any tax implications.

2. The Cyprus non-resident company licenses all the rights for the use of the IP to a Cyprus resident company. The Cyprus resident company subsequently licenses the IP rights for use to licensee 1 in the EU and licensee 2 in a non-EU country.

3. Royalty fees paid by the licensee 1 (EU) are received in Cyprus with no withholding tax based on the EU directive on interest and royalties.

   Royalty fees paid by licensee 2 (non-EU) may be subject to withholding tax in that country. This withholding tax will be reduced to the level provided in the double tax treaty with Cyprus, if a treaty exists.

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4. The Cyprus resident company receiving the royalty income pays royalty fees to the Cyprus non-resident company. Provided that the IP asset is not used in Cyprus, there is no withholding tax on these payments.

   The Cyprus resident company normally retains a 5% of the royalty income for its own profitability and pays 10% tax there on. The tax burden is hence reduced to 0.5%.

   Any withholding tax paid in the country of licensee 2 is credited against the tax liability of the Cyprus resident company, reducing the amount of tax to be paid in Cyprus.

5. The Cyprus non-resident company receiving the majority of the royalty income is **not** subject to tax.

International collective investment schemes (ICIS)

The International Collective Investment Schemes law 1999 provides the legal framework for the registration and regulation of operations and supervision of ICIS.

There are four main entities that are addressed by the law in ICIS law in Cyprus:

- Fixed Capital Companies
- Variable Capital Companies
- Unit Trusts
- Limited Partnerships

ICIS are approved and registered by the Central Bank of Cyprus.

ICIS are subject to taxation in accordance with the provisions of the tax laws outlined above.

The key tax benefits of an ICIS are the following:

- Exemption from tax on foreign dividends
- Exemption from tax on profits from the sale of securities
- No withholding tax on income repatriated by the ICIS

The Cyprus international trust

The concept of the Cyprus international trust is introduced by the International Trust law 1992, and the establishment and management of a trust in Cyprus is governed by the Trust Law 1955, which is similar to the English Trustee Act of 1925.

The traditional benefits offered by a trust structure, together with the possibilities of using an international trust in combination with a Cyprus company provide a whole new range of tax advantages:

- Cyprus international trusts are exempt from tax on income, capital or distributions.

- The income of a Cyprus international trust can include business profits, dividends, interest and royalties.

- A Cyprus international trust can be used to receive dividend income in a structure, which does not qualify for the tax exemption under the SCDT Law, thus avoiding the 15% tax charge.

- Cyprus trustees of a Cyprus international trust qualify for relief under the Cyprus network of double tax treaties.

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The Cyprus ship management company

Cyprus has a long solid experience in the provision of ship management services and has one of the largest vessel registers in the EU.

Cyprus ship management companies have the flexibility to be taxed under one of the following two options:

Income Tax law	Tax at 4.25% on their **net** earnings, or
Merchant Shipping law	Tax at 25% of the tonnage tax rates of all the vessels under management (i.e. Cyprus and foreign flag vessels). Special exemptions apply for Cyprus registered vessels whereby their technical and crew management is entirely controlled by a Cypriot ship management company.

There is **no** withholding tax on dividends paid by the ship management company, nor is there taxability on dividend income in the hands of the shareholders.

Conclusion

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 focused on harmonizing its tax laws to the requirements of the EU and the OECD, whilst maintaining its attractiveness to international tax planners.

The result of these changes is a sophisticated low tax jurisdiction that features highly in the international tax planning structures currently developed.

Cyprus is rapidly becoming the jurisdiction of choice of international businessmen, multinational corporations and their trusted tax advisors.

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Table of Cyprus network of double tax treaties

	Received in Cyprus			Paid from Cyprus*		
Treaty Countries	**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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