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Cyprus Developments

Moore Stephens Cyprus

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The Cyprus government and Eurogroup together with the International Monetary Fund (IMF) on 25th of March 2013 reached an agreement on a package of measures aiming to restore the viability of the financial sector in Cyprus and ensuring sound public finances over the coming years.

Specifically the programme provides:

1. **Financial assistance and recapitalisation of the banks**

   - For financial assistance to Cyprus of up to €10bln in order to safeguard financial stability in Cyprus and the eurozone as a whole.

   - The agreement reached provides for the Laiki Bank (second largest bank in the country) to be resolved immediately using the bank resolution framework and the recapitalisation of Bank of Cyprus (the largest bank in the country) through a deposit/equity conversion of uninsured deposits with full contribution of equity shareholders and bond holders. The Governing Council of the European Central bank (ECB) is providing liquidity to Bank of Cyprus in line with applicable rules.

     The remaining banks operating in Cyprus both local and international have not been directly affected by the measures.

     Currently all the banks in Cyprus are operating under temporary restrictions on bank transactions introduced by the Central Bank of Cyprus, subject to strict monitoring in terms of scope and duration in line with the EU treaty.

2. **Tax measures**

   Other measures announced earlier, which are subject to the approval of the Cyprus parliament, are:
   - an increase in the corporate tax rate from 10% to 12,5% and
   - an increase in the Special Contribution levied on passive interest received by tax residents from 15% to up to 25%.

Cyprus remains an attractive international business centre

Despite the proposed changes in the tax system, Cyprus continues to be an attractive businesses centre for international companies.

Cyprus tax resident companies continue to enjoy:
- Dividends are unconditionally exempt from taxation whether received from Cyprus or abroad
- Full exemption of foreign permanent establishment profits,
- Thin spread of income on back-to-back financing transactions (net margin of 0,35% on principal amounts of loans of €50m up to 0,125% for loans over €200m),
- The IP regime which provides for 80% exemption on profits from the exploitation and/or disposal of intellectual property rights (effective tax rate as low as 2%),
- Zero withholding tax on dividend, interest and royalty (for royalty payments subject to conditions) payments to non-residents,
- Exemption on capital gains on the disposal of shares and other securities/financial instruments as well as in relation to immovable property situated outside Cyprus,
- No thin capitalisation rules etc.

As a result of all the above and taking into consideration the wide double tax treaty network (of over 40 countries), Cyprus continues to be one of the most attractive jurisdictions for setting up holding, trading, royalty, financing and shipping companies as well as for international tax planning in general.

Moore Stephens Cyprus is committed to working closely with all clients that have been affected by the above developments so as to overcome any problems that may have arisen. We encourage clients to contact one of our Partners, Directors or senior management who are available to support in any way they can and discuss any matters in light of the above developments.

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