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Cyprus
Andreas Neocleous & Co

The Cyprus bailout and holding companies

Following the bailout package agreed between the so-called troika of the EU, European Central Bank and IMF on one hand and the Cyprus government on the other, the two largest banks in Cyprus will be merged and considerably downsized.

The Eurogroup and the Cyprus government consider that this solution is the best way forward for ensuring the overall viability and stability of the Cyprus financial system and the Cyprus economy.

It is important to note that the decisions of the Eurogroup affect only the holders of deposits with the two banks concerned, namely Laiki Bank and Bank of Cyprus. They do not directly affect any Cyprus corporate and trust structures, nor do they detract from the favourable Cyprus holding company regime. The advantages offered by other Cyprus structures, since there is no requirement for Cyprus companies, entities or trusts to open or maintain bank accounts in Cyprus.

The proposed increase in Cyprus's corporate tax rate from 10% to 12.5% which has been agreed with the Eurogroup should not materially affect most holding companies, and the other benefits of the Cyprus holding company regime such as the tax-free flow of dividends through Cyprus and the beneficial exit opportunities offered by Cyprus's favourable national tax legislation and wide network of double tax treaties remain intact. Furthermore, even after the increase in the corporate tax rate Cyprus has by far the most attractive regime for intellectual property taxation in the EU, with an effective tax rate of less than 2.5%.

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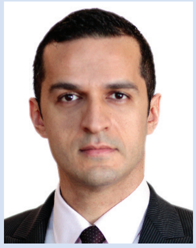

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