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Corporate Tax - Cyprus

Holding companies remain attractive despite bail-out tax rate increase

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Following the introduction of the bail-out package agreed between the European Union, the European Central Bank and the International Monetary Fund on the one hand and the Cyprus government on the other, the two largest banks in Cyprus will be merged and considerably downsized. The Eurogroup[1] considers that this solution is the best way to ensure the overall viability and stability of the Cyprus financial system and the Cyprus economy.

An increase in Cyprus's corporate tax rate from 10% to 12.5% has been proposed (and agreed with the Eurogroup), but this should not materially affect most holding companies. Furthermore, 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 the wide network of double tax treaties should remain intact. Even after the increase in the corporate tax rate, Cyprus will have by far the most attractive regime for IP taxation in the European Union, with an effective tax rate of less than 2.5%.

The decisions of the Eurogroup will affect only the holders of deposits with the two banks concerned - Laiki Bank and Bank of Cyprus. Cyprus corporate and trust structures will remain unaffected. The decisions do not detract from the favourable Cyprus holding company regime and 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.

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Endnotes

[1] The Eurogroup consists of the finance ministers of the EU member states that have adopted the euro.

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