<p>Following the Tax Reform effective 1st January 2003 Cyprus offers International investors:</p> low taxation � The lowest rate in the EU (10%). extensive double tax treaties network. exemption from tax in most cases on dividend received. exemption from tax of profit generated from transactions in securities as defined. exemption from withholding tax on the repatriation of income either of dividends, interest and on almost all royalties. Shipping Income is Tax exempt. access to EU directives. <h3>Tax system Reformed</h3> <p>Because of its EU accession Cyprus reformed its tax system to bring it in line with EU requirements and also within the OECD requirements against harmful tax practices.</p> <p>Thus the reformed tax system is in full compliance with EU and OECD.</p> <h3>Scope of tax</h3> <p>Tax is imposed on all Cyprus resident persons (individuals and corporations) on their worldwide income. Where a company is not tax resident in Cyprus, tax is imposed on income accruing or arising only from sources in Cyprus.</p> <p>A corporation is tax resident in Cyprus when it�s Management and Control is exercised in Cyprus.</p> <p>Exercise of Management & Control is not defined in the legislation but several key parameters have been taken to be deterministic in establishing Management & Control, including:</p> The majority of the composition of the Board of Directors should be Cyprus Residents To have regular Board Meetings and the entering and executing of major Agreements / Commitments / Strategy etc performed in Cyprus To have and operate Cyprus Bank Accounts To maintain proper books and records in Cyprus To have Cyprus Audited Financial Statements, payment of Cyprus Taxes, filings and Returns To create the appropriate office and operational base in Cyprus. <h3>Corporation Tax</h3> <p>As from 1 January 2003, all Cyprus companies are subject to tax at the rate of 10%, which is the lowest corporation tax rate in the European Union. The main advantages of a Cyprus company may be summarized as follows:</p> Taxable profits of all Cypriot companies are taxed at the rate of 10%. Gains from the disposal of securities are tax exempt Maritime Management Companies can elect to be taxed at 4.25% of their income or at rates equal to 25% of the rates used to calculate tonnage tax of vessels under management which are registered outside Cyprus and shipping income and dividends are tax-exempt. Profits earned from a permanent establishment abroad are fully exempt from corporation tax under certain conditions Dividend income received in Cyprus from a foreign corporation is wholly exempt from taxes in Cyprus, under certain conditions Interest income earned from trading activities, including interest which is closely related with trading activities, is subject to income tax at 10% Any other interest is effectively taxed at 15% No withholding tax on dividends and interest paid to non residents of Cyprus. Also no withholding tax on royalties arising from sources outside Cyprus No time restriction on carrying forward of tax losses Group relief provisions for companies resident in Cyprus Reorganizations, mergers, acquisitions and amalgamations of companies have no tax implications Capital gains are not subject to tax except on sale of immovable property situated in Cyprus Extensive double tax treaty network <h3>Dividend income</h3> <p>Corporations do not pay any tax on dividends received from other Cyprus resident companies.</p> <p>Dividends received by Cyprus resident corporations from foreign corporations are exempt from tax when the following requirements are met. The dividend receiving company must own at least 1% of the share capital of the paying company. The exemption will not be granted if:</p> Directly or indirectly more than 50% of the activities of the paying company result in investment income and The paying company

is subject to tax at a rate substantially lower than the Cyprus rate. <p>The exemption from tax, also applies to profits of a permanent establishment the Cyprus Company has, in another jurisdiction. The conditions to be satisfied are the same as the conditions for dividends.</p> <p>When dividend income is not exempt there is a 15% Defence tax contribution. Tax credits for taxes paid abroad are available.</p> <h3>Interest Income</h3> <p>When interest income is the result of the ordinary activities of the company or is closely connected to the ordinary activities of the company, it is subject to tax like any other �active� trading income. If the interest income fails the test of �active� trading income then it is subject to tax both for corporation tax and Defence tax contribution purposes (50% is tax exempt). The special provisions governing �passive� interest income result in a combined tax burden at a rate of 15%.</p> <p>Group finance income is considered as trading income.</p> <h3>Other significant provisions</h3> Losses can be carried forward indefinitely. Companies� part of a group, as defined under the law, can consolidate their results, thus allowing losses of one company to be set off against profit of another company. Mergers, acquisitions and spin offs, as per the same rules as the relevant EU directive, can be effected without tax cost. <h3>Withholding taxes</h3> <p>Cyprus does not impose any withholding tax on dividend, interest and royalty payments made to non-Cyprus resident recipients.</p> <p>In the case of royalties the exemption applies for royalty payments when the right / asset is used outside of Cyprus.</p> <p>When the royalties are connected with the use of the right / asset within Cyprus there is a 10% withholding tax, subject to treaty provisions.</p> <h3>Expense deductibility</h3> <p>Under Cyprus law all expenses incurred for the production of the income are deducted before arriving at the taxable income.</p> <h3>Network of Double Tax Treaties</h3> <p>Cyprus combines a low-tax regime with a network of double tax treaties. It has concluded 34 double tax treaties, which is considered one of the highest number compared to the number of treaties concluded by any other offshore jurisdiction, particularly with Central and Eastern European Countries and a number of Middle Eastern countries. Most of the Treaties follow the OECD model and all of them have the impact of reducing or eliminating the normal withholding taxes imposed by the Contracting states on dividends, interest and royalty payments. This is beneficial for trade with certain Eastern European Countries and Russia because foreign investors investing in Eastern Europe have the opportunity to channel their investments through a country, such as Cyprus, which has a treaty with the investment recipient country allowing for a reduction and in some cases elimination of the withholding taxes.</p> <h3>Conclusion</h3> <p>To come to a conclusion, Cyprus, one of the smallest European low tax jurisdictions, is a suitable place for locating an intermediary company due to the island�s combination of tax treaties and low-tax regime. Dividends can flow through the Cyprus company totally tax free and the company can be used to take advantage of the extensive network of double tax treaties.</p>