Information Sheet No. 45

Holding Company Comparison: Cyprus and Luxembourg

Introduction
Both Cyprus and Luxembourg are considered to be ideal jurisdictions for undertaking numerous business and finance-related activities. Given their strategic geographic position, attractive and stable tax and political regime and their extensive Double Tax Treaty networks, both countries are considered to be favourable for undertaking numerous financial activities. Whilst Luxembourg is a world leader in fund and asset management, Cyprus is world renowned for its reputable and attractive corporate regime.

General	**CYPRUS**	**LUXEMBOURG**
EU Member State	Yes	Yes
Currency	EURO	EURO
Corporate Characteristics	**CYPRUS**	**LUXEMBOURG**
Main types of company	Limited liability company	- The Société Anonyme (joint stock company) - The Société à responsabilité limité closed (limited liability company)
Possibility of nominee shareholders	Yes	Yes It is noted that for Société Anonyme companies there is no disclosure of shareholders in the public registers anyway Bearer shares are possible
Minimum share capital	There is no minimum amount of share capital. Share capital can be in any currency.	- EUR 31.000 for Société Anonyme companies - EUR 12.500 for limited liability companies
Capital Duty on share capital	Capital duty of around 0,6% on the nominal value (par value) of the authorized share capital No capital duty on share premium, hence it is easy to keep the capital duty	None

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	charge to a very minimum amount	
Tax Provisions	**CYPRUS**	**LUXEMBOURG**
Corporate tax rate	12.5% (Note: 2.5% on intellectual property income)	28,59% (Note: 5.7% on new intellectual property income)
Tax deductibility of expenses	Deductible to the extent they relate to the generation of taxable income	Deductible
Tax treatment of foreign dividends	Exempt This exemption does not apply if: - dividend derives directly or indirectly from passive operations AND - the foreign tax of the company paying the dividend is significantly less than that of Cyprus ('significantly' is taken to mean 6.25%). In the rare cases where this exemption does not apply the dividend is taxed at 17%.	Exempt if: - The recipient owns at least 10% of the share capital of the distributing company; or - the acquisition cost of the shareholding is at least €1.2 million; and - the recipient holds the minimum participation in the distributing company for at least 12 months (*NB: the 12-month period does not need to be completed at the time of the distribution of the dividends if the recipient commits itself to hold the minimum participation for the required period*); and - the distributing entity is a capital company subject to a tax comparable to Luxembourg corporate income tax (10%); or - the distributing entity is resident in another EU member state and is covered by Article 2 of the EC Parent-Subsidiary Directive
Profit from sale of shares	Exempt (on the basis that it does not involve immovable property situated in Cyprus)	Exempt if certain conditions are met (i.e. holding or commitment of holding of at least 12 months AND 10% holding or acquisition cost of at least EUR 6million AND fully taxable company or EU member)

Other capital nature gains	Exempt (on the basis that it does not involve immovable property situated in Cyprus)	Taxable
Interest income	- Active interest (including financing interest) is taxed at the rate of 12.5% after deduction of tax allowable expenses *NOTE: For back-to-back financing transactions small (thin) spreads are possible and accepted* - Passive interest (e.g. bank deposit interest) is taxed at the rate of 30% on the gross amount	Interest is taxable. Note that Luxembourg is often used in hybrid finance structures where the loans are structured such that for Luxembourg they are not considered taxable interest, but exempt dividends *NOTE: For back-to-back financing transactions small (thin) spreads are possible and accepted*
Credit on foreign tax suffered	Unilaterally provided. Any foreign tax (e.g. withholding tax) suffered on an income, may be credited against the Cyprus tax resulting from the same income. In the rare cases where dividend is taxable, underlying tax credit is also allowed unilaterally if dividend is received from another EU member state or through provisions of relevant double tax treaty if received from a third country.	In case income is part of the taxable base, without exemption, any foreign tax withheld is creditable against Luxembourg taxes
Thin capitalization rules (debt to equity limitations)	None	Officially 85:15, but easily stretched to 99:1

Withholding tax on dividend paid to EU parent company / EU resident individual	Nil	**General Rule**: all dividends subject to 15% dividend withholding tax. Possible elimination or reduction through access to benefits of EU Directive or applicable double tax treaty. **No Lux. dividend withholding tax if** the following requirements have been met: - Recipient company is tax resident in a country with which Luxembourg has concluded a tax treaty , or a EEA member state (or a branch in Luxembourg of any of these); and - Which company is subject to at least 10.5% tax **Important exception**: a liquidation bonus (of company or entire class of shares) does NOT constitute a dividend and is hence NEVER subject to dividend withholding tax
DTT's/EU Directives	**CYPRUS**	**LUXEMBOURG**
Double tax treaties in force	45	52 in force (69 agreed)
Foreign withholding tax on dividends from EU subsidiaries	Nil by access to benefits of EU Parent-Subsidiary Directive, ELSE in accordance with relevant double tax treaty benefit	Nil by access to benefits of EU Parent-Subsidiary Directive, ELSE in accordance with relevant double tax treaty benefit
Foreign withholding tax on dividends from non-EU subsidiaries	In accordance with benefits of relevant double tax treaty benefit	In accordance with benefits of relevant double tax treaty benefit
Through the double tax treaty network best used as a holding company for	EU Countries, South Africa, Russia, Ukraine and most CIS countries, India	EU and EFTA countries, China, Hong Kong, Mongolia, Singapore, Mexico, Malaysia, all countries with absence or low withholding tax on interest and royalties

NOTES:

The above is intended to provide a brief guide only. It is essential that appropriate professional advice is obtained. P.G. Economides & Co Ltd will be glad to assist you in this respect. Please do not hesitate to contact us.

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