



## N. XENOFONTOS LLC

### Incentives for corporate restructuring using a Cyprus company



Cyprus is an advantageous jurisdiction for businesses or individuals to have in mind when considering corporate restructuring and relocation. The island offers a steady and desirable legal and tax system, with a corporation tax of only 12,5% on profits and an extensive double tax treaty network.

There are many benefits to restructuring a private company into a Cyprus company, not only for benefiting from tax optimisation but also from the weather, infrastructure, and business advantages the island has to offer.

#### **Corporate Restructuring in the EU**

Restructuring is the corporate management term for the act of reorganising the legal, ownership, operational, or other structures of a company for the purpose of making it more profitable, or better organised for its business needs and future.

A new directive was adopted on the 18 November 2019 by the European Council for the purposes of facilitating cross-border conversions, mergers, and divisions of limited liability companies within the EU. The directive entered into force on the 1 January 2020 and must be implemented into national law by the 31 January 2023.

As companies look for ways to deal with the economic challenges brought on by the COVID-19 pandemic, corporate restructuring is an appealing option. Beyond cross-border mergers, corporate restructuring is available for existing companies to gain financial advantages such as tax optimisation, like those found when restructuring an established entity as a Cyprus company.

## Triggers prompting existing business to restructure or relocate

- **Tax Incentives**

Quite often, tax optimisation is one of the main reasons business decided to restructure or relocate. Jurisdictions with low – tax benefits and agreements with other countries to avoid double taxation attract existing and new businesses to choose that jurisdiction for its relocation or restructuring.

- **Economic Recovery**

Global recessions pressure businesses to reduce their costs of operation, leading to the consideration of restructuring or relocating their business to another jurisdiction. Financial burdens can be altered by consolidating different functions of the business via relocation, that will lead to more economic benefits.

- **Extensive Compliance**

Increasingly complex compliance regulations applied by nearly all jurisdictions can be tricky, costly, time consuming and controlling for businesses. On the other hand, some jurisdictions may have too little compliance regulations that in turn, lead to lower protection and exposure of the company, its business, data, and personnel. Cyprus, as an EU Member State, offers a chance to businesses to become a part of a regulated and unified market economy, with a low corporate tax rate, while ensuring that all compliance matters are adhered to and taken care of straightforwardly, without too much hassle, time and effort.

- **Globalisation**

Emerging and developing markets tend to still show disparities and businesses seek alternative stable and grown markets to relocate employees, set up new businesses and join ventures. Cyprus is one of these places that can make globalisation easier, acquiring capital, goods and other resources for growth.

- **Competitiveness**

Cyprus is a well-known business hub, with a number of competitive advantages to offer. Tax incentives and highly established infrastructures are such advantages.

- **Intellectual Property concerns**

Cyprus offers an extremely attractive IP Box Regime, not only for financial benefits but also for maintenance of IP portfolios and management. Other EU countries such as Germany and Greece do not have special IP regimes or advantageous tax benefits for IP income.

Choosing the jurisdiction for an IP holding vehicle requires careful consideration to make sure that there will be satisfactory asset protection, ideal environment for asset development, tax optimisation and flexibility in the legal framework that the structure will function in.

## The advantage of the Cyprus company in comparison with other jurisdictions

With one of the lowest corporate tax rates in the EU, Cyprus is one of the most appealing jurisdictions to consider for restructuring an existing business. In comparison, other sought-after jurisdictions such as Belgium (33.99%) and Malta (35%) have comparatively high taxation.

Notably, a Cyprus company does not have to pay capital gains or withholding taxes. The Netherlands, another favoured restructuring destination, does not have a capital gains tax but a domestic withholding tax of 15% is applied on domestic dividends.

As to ownership, a Cyprus company can be completely foreign owned. By way of comparison, in Switzerland, a limited liability company must have at least one Swiss resident board member or director.

Plenty non-EU companies invest in the country for its strategic geopolitical location, giving access to markets in Europe, Russia, Africa, and the Middle East.

### *In a nutshell:*

- Low corporate tax rate 12,5% on profits
- Dividend participation exemption
- Exemption on disposal of securities (e.g. shares, bonds, debentures)
- No withholding taxes on dividend, interest and royalty payments abroad
- No capital gains tax (except for disposal of real estate in Cyprus or shares of company holding real estate in Cyprus to the extent gains is attributable to the real estate holding)
- No succession/inheritance taxes
- Attractive IP regime
- Attractive Tonnage Tax system for shipping companies
- Notional interest deduction for investments into Cyprus companies
- Personal tax exemptions for new residents and non-domiciled individual
- More than 60 double tax treaties

### How we can help

- Guide you through the process
- Prepare the requisite paperwork
- Provide administrative support during and after the relocation/restructuring
- Provide nominee directorships and shareholders
- Provide registered office and secretarial services
- Assistance with accounting & tax matters
- Legal advice and support
- Advice on employment matters, drafting of employment contracts
- Advice on immigration matters, working and residence permits, applications

If you are looking to restructure or relocate your business, we happy to assist you in this regard.

### Connect with us

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