

ELIMINATION OF DEEMED DIVIDEND DISTRIBUTION FOR COMPANIES ULTIMATELY HELD BY NON-CYPRUS TAX RESIDENTS



The Commissioner of Income Tax ("CIT") issued a Circular clarifying that Cyprus tax resident companies ultimately held by non-Cyprus tax resident shareholders will not come under the scope of the Deemed Dividend Distribution ("DDD") provisions.

This important development has confirmed the friendly attitude of Cyprus towards foreign investments and further enhances its attractiveness as a financial centre.

FOREIGN-HELD GROUPS EXEMPT FROM DDD

In accordance with the Circular issued by the CIT, the profits of a Cyprus tax resident company which are attributable either directly or indirectly to shareholders who are not Cyprus tax residents will not be subject to the DDD provisions.

Furthermore, in the case where such non-Cyprus tax resident shareholders constitute 100% of the ultimate shareholders of the company, the company is not required to submit a DDD return.

Instead, the company's directors and auditors are required to submit declarations confirming that 100% of the shareholder(s) of the company are directly and/or indirectly non-Cyprus tax residents.

THIS DEVELOPMENT ELIMINATES THE ADMINISTRATIVE BURDEN CAUSED BY:

- the need for actual distributions of dividends in two-tier (or more) Cyprus structures ultimately owned by non-Cyprus tax resident shareholders which would have been necessary in order to manage DDD implications as interpreted previously
- claims for refunds which would have been filed by the ultimate 100% non-Cyprus tax resident shareholders if Special Defence Contribution ("SDC") had previously been suffered on profits paid to them later as dividends.

It is noted that in the case where some or all of the ultimate and immediate shareholders of a company are tax resident in Cyprus, the DDD provisions still apply to the extent that the company does not distribute at least 70% of its profits (as adjusted for DDD purposes) to its immediate shareholder(s) within two years from the end of the year to which such profits relate.

FOR ANY FURTHER INFORMATION AND OR CLARIFICATION PLEASE FEEL FREE TO CONTACT US

KYRENIA HOUSE, 5 Skra Street, Agios Andreas, 1100 Nicosia, Cyprus
Mailing Address: P.O.Box 24300, CY-1703, Nicosia, Cyprus
T: +357 22 55 66 91 **F:** +357 22 55 67 52
E: info@intertaxaudit.com www.intertaxaudit.com