

# The Tax Differences among Company Types in Cyprus Apr 7, 2016

## *Preface*

During the last decades Cyprus has changed several articles of the so called “Company Law” (Cap 113) and various other pertinent directives that have transformed the island into a much appealing destination for companies that have expanded or wish to expand their business activities through different types of legal entities.

For the time being, a company in Cyprus can operate in one of the following corporate forms:

- as a Cyprus Company, which includes
  - Private Limited Companies;
  - Exempt Private Companies;
  - Public Companies;
  - Company Limited by guarantee.
- as a foreign company’s branch;
- as a foreign company’s re-domiciliation;
- as a “Societa Europea”.

There are also other legal entities through which a business can operate in Cyprus, for example:

- Trusts;
- Partnerships;
- Business names;
- Sole Proprietors Business.

Let us take a closer look to their special features and characteristics.

## *Private Limited Company*

Members in Private Limited Companies number from 1 to 50, and public invitations for acquiring shares or debentures are strictly prohibited. Thus, even a sole person can found and register a Private Limited Company.

It is the most common way of conducting business in Cyprus, mainly due to the following characteristics:

- Each member’s subscribed shares correspondingly limit his/ her liability.
- Issuance of Bearer shares is prohibited, in contrast with Nominee Services.

- Issuance of Preferential shares or of various classes of shares is allowed.
- The capability of share transfer is limited;
- No more than one Director is allowed, irrespective of nationality.
- Board Meetings can be conducted either in Cyprus or abroad.
- Company's registered address must be in Cyprus.
- The term "Limited" must always follow the Company's Name.
- The Company is obliged to have a secretary, whose responsibilities include
  - keeping the Members Register,
  - keeping the Minute Book, documenting the Board Meetings and Resolutions,
  - maintaining the Register of Charges and the Register of Directors,
  - preserving the Secretary's and Company's seals.
- Whatever charge is made against the company must be registered with the Company's Registrar, with the purpose of ensuring protection and priority against other creditors.

A rather significant feature of Cyprian Private Limited Companies is the possibility of maintaining the anonymity of all Beneficial Owners, provided that both the Company and its eventual Beneficial Owners are not liable for any kind of illegal activity.

#### ***Exempt Private Company***

An Exempt Private Company is incorporated by a Corporation and another Company. As many as 50 debenture holders can participate, provided that the Exempt Company retains its shares and provides the Director. These types of companies are not obliged to file accounts with their yearly return and are not subject to several statutory restrictions on loans to Directors.

#### ***Public Limited Company***

Public companies in Cyprus require at least 7 founding members and 2 Directors. The sum of 25, 630 € has been defined as the minimum Share Capital, which must be submitted before the issuance of the trading certificate. Public invitations for subscribing for shares or debentures are allowed and there is no restriction in share transferring.

#### ***Company Limited by Guarantee***

Each member's liability is limited to the amount agreed on the Memorandum of Association and will be given in case the Company is liquidated. Usually, such Companies are founded in a form of a non – profit, public – benefit organization, in accordance to section 20 of Cap 113.

### ***Foreign Company's Branch***

Companies founded abroad (also known as “overseas” companies) are able to establish a Branch in Cyprus.

The registration of a foreign Company's Branch requires the following documents to be translated in Greek before filling:

- Certified copy of the Company's constitutional documents, i. e.
- Memorandum and Articles of Association,
- Charter etc.
- Relevant information concerning the Directors and the Company's Secretary.
- Contact information of 1 or more persons that live permanently in Cyprus and are properly authorized to accept any notices on the Company's behalf.

All these documents must be filled in during the first month of the branch's establishment. In case the interested entity is a Bank, an Insurance Agency or an Investment Company, certain additional licenses are also required from corresponding regulatory authorities.

The “Company Law” modifications introduced in 2003 in accord with EU's accession process had a great impact on directives concerning branches. Since then, foreign entities that have branches in Cyprus are obliged, for each financial year, to submit copies of their financial statements as presented in its most recent AGM and published according to the country in which they are incorporated. However, there are some exemptions regarding European Union Corporations: they are not required to submit separate branch financial statements provided they publish their financial statements in the country they are registered and submit them to the Registrar of Companies.

### ***Societa Europea***

Cyprus has revised its “Company Law” so as to apply the provisions of the Council Regulation No. 2157/2001. All adjustments were implemented by the Amendment Law No. 98(I) (2006) and were enacted in the summer of 2006. Consequently, a Societa Europea is now able to relocate its office from a Member State to Cyprus (or the opposite) without having to dissolve the Company in the Member State.

The Incorporation of a Societa Europea can be conducted in 4 different ways:

- Through a “Merger”, that involves the merging of a Public Limited Company from two different Member States.
- Through a “Holding”, that involves the formation of a holding Company by a Public and a Private limited company from two different Member States.
- Through a “Subsidiary” which can be formed by any legal entities subject to Public or Private law from two different Member States, or by a Societa Europea itself.

- Conversion; a public limited liability company can convert into an SE if it had a subsidiary in another Member State for two years.

In addition, an already existing European Company can found an EC.

### ***Re-domiciliation of a Foreign Company***

Cyprus has amended its “Company Law”, Cap 113 in the summer of 2006, in order to facilitate the re-domiciliation of foreign companies in Cyprus. But, due to certain regulations that were required by the Council of Ministers, the law was actually implemented for the first time in the summer of 2007. These regulations prescribe the required procedure, forms and fees for any entity interested in the re-domiciliation of a foreign company.

Therefore, foreign companies can now be re-domiciled in Cyprus and proceed with all the pertaining applications.

An application for the re-domiciliation of a foreign company must be registered in a state that permits re-domiciliation and its Memorandum and Articles of Association allow the company to take such action.

### ***General Partnerships***

Partnerships in Cyprus are subject to the “Partnerships & Business Names Law” and are required to be registered with the Registrar of Partnerships within the first month of its formation, including its Name, Purposes and Place of business. Anyone can participate in General Partnerships, irrespective of nationality.

General partnerships must have at least 2 individual members and no more than 20, except in case of bank partnership, where the maximum number of members is reduced to 10. They are not obliged to file accounts or to be audited.

### ***Limited Partnership***

In a case of a Limited partnership, 1 or more general partners are required to hold unlimited liability, while the rest of the partners have limited liability. A Limited Partnership’s main advantage is certain benefits from tax flexibility.

### ***Sole Proprietorship***

Sole Proprietorships are subject to the “Partnership and Business Names Law”. Sole proprietors are businessmen that operate without any employees or partners, thus having unlimited liability for any debts or commitments.

### ***Trusts***

In Cyprus we can find 3 types of Trusts:

- Local Trusts: in this case, both settlor and beneficiaries live permanently in Cyprus.
- Offshore Trusts: in this case, the beneficiaries are foreigners and the Trust’s activities are exclusively conducted abroad.
- International Trusts: the settlor and the beneficiaries are non-residents, but at least one trustee is required to be Cypriot.