

New Tax Legislation in Cyprus

The Parliament of Cyprus has approved the changes in the tax legislation of Cyprus, which will be effective from 1 January 2003. The main goal of the changes was to harmonize the legislation of Cyprus with European Union law and to follow the OECD directives concerning the elimination of low taxes.

The main changes concerning the Cyprus companies are as follows:

- * The distinction between Cyprus local companies and Cyprus non-resident (i.e. offshore) companies will not exist any more. All Cyprus companies will be taxed at the profit tax rate of 10%. Non-resident Cyprus companies which started their activities before 31 December 2001 can choose between the old advantageous rate of 4,25% and the new 10% rate. The 4,25% tax rate may be used latest until the end of 2005.

- * Dividend income both from Cyprus and from abroad is wholly exempt from the profit tax.

- * The dividends, interest payments and royalties paid to non-residents of Cyprus are free from withholding tax.

- * Profits earned from the foreign branches of Cyprus companies are wholly exempt from profit tax.

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