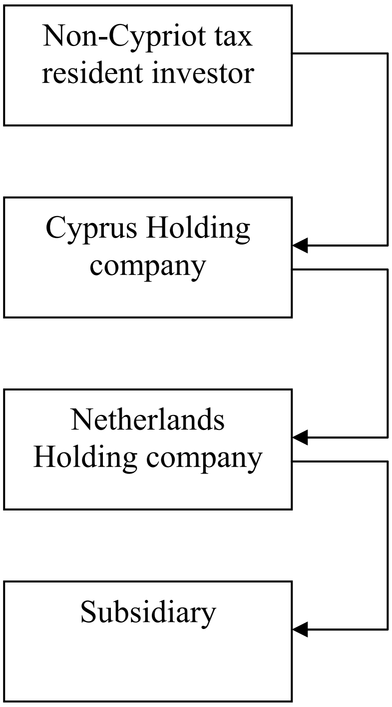
THE CYPRUS HOLDING OF NETHERLAND SUBSIDIARY HOLDING COMPANY

With Cyprus’ accession to the European Union, in 2004, the status of the Cypriot holding company has been enhanced considerably. Cyprus has a favorable domestic tax regime and since 2004, it also enjoys the reputation and privileges attached to a EU member country, and has become an effective international tax planning instrument.

<u>Tax structure involving a Netherland Subsidiary Holding company</u>



The route of a Cyprus Holding of Netherland Subsidiary Holding company starts with the application of the Dutch participation exemption for dividends and capital gains, in combination with the extensive Dutch bilateral tax treaty network.

Under the so-called participation exemption, Dutch companies are exempt from Dutch corporate income tax on all benefits from a **qualifying** subsidiary. Capital losses on this subsidiary are also tax exempt, hence not deductible, except in the case of a liquidation of the subsidiary.

Exempted gains include cash dividends, stock dividends, dividends in kind, hidden profit distributions as well as capital gains realised upon the disposal of the subsidiary.

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In order to qualify for the participation exemption there must be at least a 5% shareholding in a subsidiary with a capital divided into shares. Also, one of the following three tests should be satisfied:

(a) The motive test, ie. the shares in the subsidiary may not be held as inventory;

(b) The asset test, ie. the assets of the subsidiary held may not directly or indirectly consist of portfolio investments or passive group financing activities;

(c) The subject to tax test; ie. the subsidiary of which the shares are held is subject to an effective tax rate of 10% excluding any tax holidays or tax base erosions.

The route subsequently continues by applying the EU Parent-Subsidiary Directive under which the Dutch Holding company may pay dividends to a Cyprus Holding company without applying any withholding tax in case the Cyprus Holding owns at least 5% of the shares of the Dutch Holding.

At Cyprus level, the following apply:

(a) dividends paid by an overseas subsidiary are not taxable unless the paying company engages directly or indirectly more than 50% in activities which result in investment income and the foreign tax burden is substantially lower than the Cyprus tax burden (foreign tax paid can be credited against Cyprus tax payable), and

(b) capital gains deriving from the disposal of the shares in the Dutch Holding are not taxable.

Finally, a further dividend distribution by the Cyprus Holding to its non-Cypriot tax resident parent is not subject to any tax in Cyprus.