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Cyprus brings tax advantages for EU entrepreneurs

24 Apr 2006 | Katalin Tóth



At present, medium-sized Hungarian enterprises are losing competitiveness by failing to take advantage of tax schemes as successfully as multinationals and SMEs in Western Europe, said Péter Rybaltovszki, CEO of corporate service provider **Crystal WorldWide Kft.**

Setting up an offshore company for tax purposes is a widely used method of mitigating tax burdens, and the fact that Hungary is now a member of the EU has opened up

some new doors for companies able to take advantage, the CEO said.

Offshore companies can be useful in several ways. For example, a Hungarian owner of a mid-size enterprise might want to withdraw capital from the company, but does not want to pay (or at least wants to postpone indefinitely) the 25% withholding tax levied on dividends in Hungary. In such a case, the owner of the firm could set up an offshore holding company in Cyprus.

Since joining the EU, Hungary has adopted several union directives regulating the relations between parent companies and their affiliates. Among these is a directive concerning company transformation, Rybaltovszki said.

According to this directive, tax cannot be levied on an equity swap between two companies (owned by the same owner) existing within the EU. Stakes in a Hungarian company can be swapped with stakes in another firm based somewhere else in the EU owned by the same individual, provided that the other EU-based company obtains a majority stake in the Hungarian firm or expands its already existing majority, he explained.

In favored offshore holding locations like Cyprus, the selling of stakes in such companies is much more favorable because there is no withholding tax, the CEO added.

In other words, stakes in a Hungarian firm can be swapped tax-free to a Cyprus-based firm set up and owned by the same Hungarian individual. After the swap, the stakes in the Hungarian company now owned by the Cyprus-based firm can be sold tax-free. Tax only has to be paid if the owner sells the Cyprus firm as a whole.

Hungarian owners of offshore companies – often retired entrepreneurs – do not typically spend money received for a recently sold enterprise on everyday expenses, but rather invest the money into real estate or the stock market.

Revenue from stock or bond transactions is also tax-free in Cyprus. This means that they do not necessarily want to repatriate the money to their Hungarian bank account, which would mean having to pay personal income tax on it in Hungary.

However, these individuals can always change their mind and repatriate the money some other time.

Worth looking into

