



KAZAKH GROUPS

Holding and financing structures,
the Cyprus–Kazakhstan tax treaty,
and how the Cyprus tax system
can benefit Kazakh groups



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Both countries rewrote their tax codes with effect from 1 January 2026.

Cyprus raised corporate income tax to 15% and cut the tax cost of distributions. Kazakhstan replaced its Tax Code in full. Structures that were designed under the old rules on either side should be reviewed — several outcomes have moved, and not all of them in the same direction.

WHY GROUPS USE A CYPRUS HOLDING COMPANY

Cyprus is an EU member state with a company law derived from the English Companies Act, an English-language business environment, IFRS accounting, and a treaty network covering more than 65 jurisdictions. For a Kazakh group, the attraction is rarely the headline rate alone. It is that the holding layer itself is close to tax-neutral, so profits can be pooled, reinvested and eventually extracted without an extra layer of tax accumulating on the way through.

Feature	Cyprus position (2026)
Dividends received	Exempt from corporate income tax. The participation exemption is denied only where the paying company is engaged more than 50% in investment activity and bears a tax burden below 7.5% — both conditions must be met. Where it is denied, special defence contribution applies at 5%. No minimum holding percentage or period.
Gains on share disposals	Profits from the disposal of titles (shares, bonds, debentures, units) are exempt, irrespective of holding period or percentage. Narrow exception for companies rich in Cyprus immovable property.
Outbound payments	No withholding tax on dividends, interest, or royalties for rights used outside Cyprus, paid to non-residents — regardless of whether a treaty exists. Defensive withholding applies to EU-blacklisted related recipients at 17% and to certain low-taxed related recipients at 5%.
Corporate income tax	15% on trading profits (12.5% until 31 December 2025). Losses carry forward seven years.
Foreign tax relief	Unilateral credit for foreign tax suffered, whether or not a treaty applies — so Kazakh withholding tax is not stranded.
Other	No net wealth tax. Reorganisation reliefs for mergers, divisions and share exchanges. Group loss relief. Redomiciliation into and out of Cyprus permitted.

WHAT THE 2026 CYPRUS REFORM CHANGED

The reform package was approved on 22 December 2025, published on 31 December 2025 and applies from 1 January 2026. The headline rate went up; most of the structural advantages were deliberately left intact.

- **Rate.** Corporate income tax increased from 12.5% to 15%, aligning Cyprus with the OECD global minimum rate.
- **Distributions cheaper.** Special defence contribution on dividends to Cyprus tax resident and domiciled individuals fell from 17% to 5% on profits earned from 2026. Distributions out of earlier profits remain at 17%. Non-domiciled individuals remain at 0%.
- **Deemed dividend distribution abolished.** Profits earned from 2026 can be retained in the company indefinitely without a deemed distribution charge. Transitional rules continue to apply to 2024 and 2025 profits.
- **Incorporation test added.** A company incorporated in Cyprus is now tax resident here unless a double tax treaty provides otherwise, in addition to the management and control test.
- **Preserved.** The participation exemption, the exemption on gains from titles, the IP Box and the Notional Interest Deduction all survived unchanged. Stamp duty on most instruments was repealed.

THE CYPRUS-KAZAKHSTAN DOUBLE TAX TREATY

Signed in 2019 and effective from 1 January 2021, the treaty follows the 2017 OECD Model closely. It gives Kazakh-source income routed to Cyprus a defined and predictable ceiling, and in the case of dividends it is materially better than Kazakhstan's domestic rules.

Income type	Treaty ceiling	Conditions and comparison
Dividends	5% / 15%	5% where the beneficial owner is a company (not a partnership) holding directly at least 10% of the payer's capital; 15% otherwise. Kazakhstan's domestic reduced rate requires a 25% holding and is capped at 230,000 MCI, with 15% above; the treaty rate has no such threshold or cap.
Interest	10%	Subject to beneficial ownership. Kazakhstan's domestic rate on interest to non-residents was reduced to 10% from 2026, so the treaty and domestic outcomes now converge.
Royalties	10%	Against a domestic Kazakh rate of 15% (20% for recipients in listed preferential jurisdictions). Cyprus levies no withholding on royalties paid out for rights used outside Cyprus.
Branch profits	5%	The treaty caps Kazakhstan's branch profits tax on the net income of a permanent establishment at 5%, against a domestic 15%.
Capital gains on shares	Residence state	Kazakhstan may tax only where the shares derive more than 50% of their value from immovable property situated there, or from specified subsoil and seabed rights. Otherwise the gain is taxable only in Cyprus — where gains on titles are exempt.
Permanent establishment	6 months / 183 days	Construction sites create a PE after six months in any twelve; services after 183 days in any twelve-month period. Kazakhstan's domestic PE definition is wider than the treaty's — worth checking before deploying people.

Treaty relief is conditional, not automatic

Kazakhstan applies its relief conditions strictly, and the tax agent making the payment carries the withholding obligation. In practice the following must all hold at the time of payment:

- A qualifying Cyprus tax residency certificate is in the hands of the Kazakh payer, in the required form and on time.
- The Cyprus company is the beneficial owner of the income — not a conduit obliged to pass it on.
- The Cyprus company does not create a permanent establishment in Kazakhstan.
- The arrangement survives the principal purpose test, which is written into the treaty as a BEPS.Action 6 minimum standard. Obtaining the treaty benefit must not be one of the principal purposes of the arrangement.

The practical consequence is that the treaty and substance are the same conversation.

A residency certificate is issued on the strength of where the company is genuinely managed; a beneficial ownership or PPT challenge is answered with the same evidence. The rate table above is only available to a company that can demonstrate it deserves the certificate.

CORE INCOME-GENERATING ACTIVITIES BY COMPANY TYPE

Substance is not only about where the board meets. Authorities also test whether the activities that actually generate the company's income are carried out in Cyprus by people competent to carry them out. What that means differs by business model:

Company type	Activities expected to be performed in Cyprus
Trading	Negotiating and concluding contracts, sourcing and supplier management, customer relationships, credit control — by staff with authority to bind the company.
Financing / treasury	Credit assessment, approval of loan terms, monitoring of repayment, management of interest-rate and currency exposure, supported by documented risk analysis.
IP holding	Development, enhancement, maintenance, protection and exploitation of the intangible, with evidence that strategic IP decisions are taken locally. Essential to any IP Box claim.
Holding	Oversight of subsidiary performance, dividend and capital-allocation decisions, acquisition and disposal approvals, exercise of shareholder rights, group compliance and risk oversight.
Shipping	Fleet management, chartering, voyage scheduling and crewing, performed by locally based maritime professionals.

A note on holding companies: passive does not mean substance-less

Cyprus holding structures remain highly effective — dividends from qualifying subsidiaries are exempt from corporate income tax, gains on the disposal of titles are exempt, there is no withholding tax on outbound dividends to non-residents, and the treaty network covers more than 65 jurisdictions. But a holding company that simply receives dividends into a Cyprus account while every instruction originates offshore will struggle. A holding company whose Cyprus directors review subsidiary financials, approve budgets, decide on distributions and execute disposals after documented analysis will not.

YOUR SUBSTANCE FILE: THE EVIDENCE CHECKLIST

Governance	Signed board minutes stating date, Cyprus location, attendees and their residency, agenda, discussion, decisions · attendance register · board packs circulated in advance · shareholder resolutions
Operational	Employment contracts with social insurance registration · payroll records and PAYE returns · activity logs for key personnel · supplier and customer contracts and invoices
Premises	Executed lease in the company's name with proof of payment · utility bills and premises insurance
Financial	Cyprus bank statements showing genuine local expenditure · invoices from Cyprus professional advisers · audited financial statements
Tax & regulatory	Income tax returns and provisional assessments · tax residency certificate application and questionnaire · UBO registration confirmation · transfer pricing documentation for related-party flows

Retention: as a general rule, keep the full file for at least six years. Records should be capable of reconstruction on demand for any year in which the structure claimed a Cyprus benefit.

THE NOTIONAL INTEREST DEDUCTION

The NID is the single most useful provision for a Kazakh group funding activity through Cyprus, and the one most often left unclaimed. A Cyprus company funded with equity rather than debt may deduct a notional interest expense against its taxable profit — with no loan, no counterparty and no actual payment.

Qualifying equity	Paid-up share capital and share premium introduced after 31 December 2014, in cash or in kind. Also available to Cyprus permanent establishments of foreign companies.
Reference rate	The 10-year government bond yield of the country in which the funds are employed, as at 31 December of the prior year, plus a 5% premium. Rates are published annually by the Cyprus Tax Department.
Cap	The deduction cannot exceed 80% of the taxable profit generated by the activities financed with that new equity, computed before the NID. Any restricted amount is lost — it cannot be carried forward.
Anti-avoidance	Specific and general anti-avoidance provisions apply to equity introduced without commercial substance, including equity recycled from existing group reserves.

WHY THE NID MATTERS PARTICULARLY FOR KAZAKHSTAN

Because the reference rate follows the government bond yield of the country where the funds are put to work, equity deployed into Kazakhstan attracts a materially higher notional rate than equity deployed within the euro area. The same structure therefore produces a larger deduction than it would for a group investing into Western Europe.

Illustration. A Cyprus company receives €10 million of new equity and on-lends it to fund Kazakh operations, earning €800,000 of interest. Assuming an applicable reference rate of 12%, the notional deduction is €1.2 million, restricted to 80% of the €800,000 profit, i.e. €640,000. Taxable profit becomes €160,000 and tax at 15% is €24,000 — an effective rate of 3% on the financing margin, against 15% without the claim.

Illustrative only. The actual rate depends on the published yield for the relevant year and on where the funds are genuinely employed.

FINANCING COMPANIES

Interest income of a Cyprus company is subject to corporate income tax at 15% from 2026, and is no longer within the special defence contribution. Back-to-back and intra-group lending must be priced at arm's length and supported by transfer pricing documentation; the taxable base is the margin, not the gross interest. Funding a Kazakh subsidiary from Cyprus with equity plus NID is frequently more efficient than debt, and avoids Kazakhstan's thin capitalisation and interest deduction restrictions on the borrower side.

IP HOLDING

The Cyprus IP Box gives an 80% deduction on qualifying profits from patents, copyrighted software and certain other non-marketing IP, producing an effective rate of approximately 3% at the 15% headline rate. Trademarks do not qualify. The deduction is scaled by the modified nexus fraction, so it rewards R&D actually undertaken by the Cyprus company — registering ownership in Cyprus without development activity does not work.

THE EXIT

For a group planning an eventual sale, the combination matters more than it did. Kazakhstan's domestic three-year holding exemption for gains on shares was repealed from 2026, so a disposal now falls to be taxed at 15% unless the treaty relieves it. The treaty allocates the gain to the residence state except where the shares derive more than half their value from Kazakh immovable property or specified subsoil and seabed rights — and Cyprus exempts gains on titles outright. The removal of the domestic route makes the treaty position, and the substance behind it, considerably more valuable than it was. A holding structure put in place before value accrues is worth considerably more than one assembled at the point of sale.

THE CONTROLLED FOREIGN COMPANY QUESTION

This should be one of the first questions asked by a Kazakh shareholder. A foreign company may be a CFC where a Kazakhstan resident owns at least 25%, or otherwise controls it, and the company's effective tax rate is below 10% or it is registered in a preferential-tax jurisdiction. The shareholder's attributable share of undistributed profit may then be taxed in Kazakhstan, with related reporting obligations.

Two exclusions are particularly relevant. First, a company is not treated as a CFC if it is registered in a treaty jurisdiction included in the list published by Kazakhstan's Ministry of Finance. The list covers jurisdictions whose nominal corporate tax rate exceeds 75% of Kazakhstan's rate. With Kazakhstan's rate currently at 20%, the foreign rate must exceed 15%. Cyprus's 15% rate does not meet this threshold and Cyprus is not currently included in the list.

Second, a de minimis exclusion may apply where the company is not registered in a preferential-tax jurisdiction and its aggregate income, according to its separate unconsolidated financial statements, is below 150,495 MCI—approximately KZT 650.9 million for 2026.

The analysis will therefore usually turn on the effective 10% rate. Exempt dividends, the Notional Interest Deduction and the IP Box can reduce a Cyprus company's effective rate below this threshold. The income profile and available reliefs should therefore be modelled before implementing the structure.

Separately, Kazakhstan's 2026 Tax Code removed the previous 15% taxation condition for related recipients claiming treaty relief under MLI-modified treaties. This removes an important obstacle for Cyprus recipients, although tax residence, beneficial ownership, permanent-establishment and principal-purpose requirements continue to apply.

SUBSTANCE

Treaty relief, beneficial ownership, the residency certificate and the CFC analysis all rest on the same foundation: that the Cyprus company is genuinely managed from Cyprus. That means Cyprus-resident directors who actually decide, board meetings held on the island with proper minutes, accounting maintained locally, Cyprus banking, and a documentary record built as the company operates rather than assembled when a question arrives.

HOW CFA AUDITORS CAN HELP

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Design	Structuring the holding or financing layer, and modelling the outcome before you commit
Formation	Company formation, registered office, secretarial and fiduciary services
Audit	Statutory audit under ISAs and the Companies Law, Cap. 113
Accounting	Bookkeeping, management accounts and payroll maintained in Cyprus
Tax	Corporate and VAT compliance, NID and IP Box claims, transfer pricing, residency certificates
Substance	Governance, board support and the evidence file behind your treaty position

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