

# **BUSINESS & INVESTMENT OPPORTUNITIES IN CYPRUS**

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## **1. INTRODUCTION**

Cyprus' strategic geographic location, excellent commercial infrastructure, political stability, favourable tax incentives and European-level standard of living are among the factors which have contributed towards the development of the island as an important financial centre.

The encouragement of foreign participation in the island's economy is a policy which is strongly endorsed by all official bodies and authorities as well as by the Cypriot people themselves. This open and liberal approach has successfully generated a growing awareness among foreign corporations and individuals of the unique advantages of using Cyprus as a business base.

The fact that Cyprus today is a booming regional financial centre is also due in no small part to the island's system of administration and its European tradition. To a large extent these were inherited from the British who controlled Cyprus before it became an independent sovereign republic in 1960.

The Turkish invasion of 1974, which left some 37% of the northern part of the island under Turkish occupation, did little to interrupt the unparalleled period of growth, prosperity and commercial expansion which followed independence. However, due to the authorities' expansionary economic policy and the initiative and enterprising spirit of the private sector, social and political security continue to form the cornerstone of Cypriot society. Indeed, although the Cyprus problem has not yet been solved, the rule of law and political stability in the Republic of Cyprus are guaranteed by the efficient functioning of democratic institutions and by dynamic economic development.

Today the authorities are demonstrating more clearly than ever before that they are seriously committed to refining and expanding the legislation and regulations in terms of which foreign involvement in the island's economy is secured. Therefore, an extremely favourable environment for all forms of inward business activity and international foreign investment has been created to ensure that they enjoy an infrastructure which has the maximum potential for success and growth.

## **2. POLICY AND PROSPECTS**

The idea of promoting Cyprus as an international business base first developed after the Turkish invasion of 1974, when the island's authorities decided that an expansionary economic policy should be followed to encourage the inflow of foreign investment. An amendment to the Income Tax Laws in 1975 put these aspirations into practice and since then the way has been clear for Cyprus to assert itself as an international business centre.

From these early beginnings the Cypriot authorities have shaped economic policies to attract foreign investments of a high quality and to ensure that international business entities enjoy an existence which is as beneficial as possible. The aim has also been to increase incentives and to create an environment which lends itself to tax planning on a

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world-wide level. Consequently, applications for the registration of international companies have always been handled with speed and efficiency by all relevant authorities. In 1977 the existing tax incentives were refined and extended by measures which further improved the tax rates enjoyed by international business entities and their employees.

Thereafter the number of international business companies being registered annually in Cyprus grew by leaps and bounds as did the volume of companies incorporated abroad and registering a place of business on the island. Today there are more than 40,000 international entities registered in Cyprus and a significant number of them maintain fully-fledged offices on the island.

Accordingly, it is anticipated that the status of the island as a major international business centre will continue to expand and flourish.

### **3. CYPRUS AS AN IDEAL LOCATION**

Cyprus compares extremely favourably with similar jurisdictions because of the numerous advantages which it offers. Many of these advantages are inherent in the country's geographical position, while others have been tailored to suit the demands of foreign investors and international entities. The result is a most attractive package of incentives which covers every facet of business life.

Prominent among these incentives are straightforward registration procedures, constructive administrative measures, an impressive range of double taxation treaties and favourable tax benefits. However, the authorities have successfully maintained a balance so that the creation of a favourable commercial environment has not disturbed the impeccable reputation enjoyed by all international businesses on the island. Clearly, the fact that the island is a low-tax jurisdiction and not a tax haven is material and ensures that these businesses do not attract the suspicion of foreign revenue or tax authorities.

The tremendous growth in the number of foreigners participating in the Cypriot economy is ample testimony to the enormous appeal which Cyprus has to international investors. Certainly, there are few locations which are able to offer the same extensive and wide-ranging incentives that are offered in Cyprus with warmth, hospitality and pride.

The following advantages are perhaps the most appealing:

#### **3.1 Stability**

Though located in the often volatile Eastern Mediterranean area, Cyprus is a centre of democracy and stability where businessmen from all nations are able to conduct their affairs in a harmonious and friendly environment. The rule of law is a well-entrenched principle which is endorsed by free elections and a European-style parliamentary system. In addition, the authorities' desire to assist foreign businesses is strengthened by the friendly and enterprising spirit of the Cypriot people themselves.

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### **3.2 Geographical Location**

Cyprus is privileged to enjoy what is possibly one of the most strategic geographical locations in the world. The island is situated at the crossroads of Europe, Asia and Africa and also forms a gateway to the oil-rich Arab states and the rest of the Middle East. It is, therefore, a convenient springboard for business activities in any of the trade centres located in these areas.

In addition, the island shares the same time zone as other major centres in the area and is also within easy travelling distance of the rest of Europe and the Middle East. The international airports at Larnaca and Paphos offer daily flights to all major destinations in these areas.

### **3.3 Taxation**

All Cyprus international business entities may take advantage of the many tax benefits which the authorities have designed specifically to provide maximum profit potential. Chief among these benefits are the low tax rate of 4.25% applicable to the net profits earned by international business companies and the total tax exemption for international partnerships. Foreign personnel enjoy equally favourable tax rates. In addition tax incentives have been introduced to attract foreign investment in respect of certain local companies and projects. The various tax benefits are examined in more detail in sections 4 and 9.

### **3.4 Double Taxation Treaties**

Cyprus has concluded double taxation agreements with more than 40 countries which provide important tax advantages. Cyprus' double taxation treaties with the Central and Eastern European countries, China and India contain no anti-avoidance provisions and Cyprus international business companies may therefore be used beneficially as holding, licensing and finance investment vehicles in those countries.

Of the treaties now in force, only Belgium, Canada, Denmark, Germany, France, Sweden, the UK and the USA contain "limitation of benefits" articles. With the exception of Canada and the USA which exclude Cyprus international business companies from all the provisions of the relevant treaties, in all other treaties Cyprus international business companies, albeit denied the reduced rates of withholding taxes, may still claim the benefit of other treaty provisions such as the permanent establishment clause or tax sparing credits. The "limitation of benefits" article contained in the above treaties only affects the flow of income from those countries to Cyprus and not income flows from Cyprus to other countries. The treaties and some of the ways in which they can be put to beneficial use from a tax planning point of view are discussed in section 21.

### **3.5 Respectability**

While the policy of the authorities has been in favour of assisting and promoting all business sectors in Cyprus, this has not operated to affect adversely their respectability or good standing in the eyes of the international business community.

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The framework of control placed on most business activities serves to boost the reputation of all Cyprus-based entities while also allowing them to operate in an environment which is as free from onerous bureaucratic restrictions as possible.

In many sectors no specific legislation has been passed to give international business entities special advantages or benefits. For this reason, international business companies, international banking units (IBUs), captive insurance companies and international trusts are subject to the same laws and regulations as those pertaining to their local counterparts and so there can be no suggestion that they operate in accordance with inferior standards or in an unprofessional manner.

### **3.6 Registration Procedures**

The procedure for the incorporation of a Cyprus legal entity can be completed within a period of two weeks at the most and enables the legal entity to start business forthwith. Applications for registration of captive insurance companies, international banking units and shipping companies as well as all other forms of international business entities are favourably considered. In certain instances, these companies may also be exempt from many of the regulations applying to their local onshore counterparts, although not to an extent which will endanger their respectability.

### **3.7 Commercial Infrastructure**

The commercial infrastructure of Cyprus is well developed. It offers a civilized and respectable environment in which pleasant working and accommodation conditions are combined with low operational costs and living expenses.

Not only are there many well qualified lawyers who are experienced in company law and tax planning but also a number of international accounting firms are represented in Cyprus as well as many engineering, insurance, trust and shipmanagement companies. Furthermore, there is an ample supply of university graduates who are available to work in all sectors of the economy.

The English legal system, practice and procedures which the island acquired during the period of British rule are firmly embodied in the fabric of almost every commercial sector. As these procedures are widely used in most English speaking countries and certainly in the majority of former British colonies, they are usually readily understood by foreigners who have registered Cypriot international companies or are engaged in international tax planning exercises on the island. Although the official languages of the Republic are Greek and Turkish, English is spoken by the majority of the population. It is also a language which is taught extensively in schools and is widely used in commerce, industry and administration.

Telecommunications in Cyprus are of a very high standard, and Cyprus prides itself as one of the most developed countries in the world as regards its telecommunications infrastructure. The incumbent operator's telephone network is 100 per cent digitalised. In addition, as part of its commitment to developing

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Cyprus as a prime location for e-commerce and Internet-based activities, the Cyprus Telecommunications Authority ("CYTA") is investing heavily in the further upgrading of the island's telecommunications capabilities. A public Asynchronous Transfer Mode Network for broadband telecommunications offering high-speed data, picture and voice transmission will be available from 2000. CYTA also continues with the installation of the Synchronous Digital Hierarchy Network and is set to offer Asynchronous Digital Subscriber Lines for high-speed Internet access in the near future. These technological developments are conducive to positioning Cyprus as a leading high-tech centre for low-cost (online) business.

Cyprus is served by two international airports situated near Larnaca and Paphos. They handle about 360 scheduled flights operated each week by 33 international airlines as well as flights operated by 28 charter airlines. The island is rapidly becoming a major international transit station for commercial air transportation with excellent conditions with the entire region. Seaborne traffic is served by the two multi-purpose ports of Limassol and Larnaca which are being used increasingly as regional warehouse, distribution and container transshipment centres. About 100 shipping lines include Cyprus in their regular schedules to and from six continents. More than 5,500 ships totalling 15 million net registered tons call at Cypriot ports every year.

### **3.8 International Relations**

The fostering and promotion of good international relations with neighbouring states and countries further abroad is an express policy of the Republic of Cyprus and every effort is made to ensure that good relations are maintained with all international organisations. Cyprus maintains extensive diplomatic relations and is a member of the United Nations, the Council of Europe, the Commonwealth, the World Bank, the International Monetary Fund, and the Non-Aligned Group. It is also a signatory to various international conventions and bilateral cooperation agreements.

An association agreement was signed in 1972 between Cyprus and the European Union which provided for the abolition of all barriers to trade and the establishment of a customs union in two stages; the first was completed in 1997 and the second is due to be completed by 2003, by which time the free and unrestricted movement of industrial and agricultural products between the member states of the E.U. and Cyprus, the abolition of all quantitative restrictions and the Common Customs Tariff will be fully effective. In July 1990 Cyprus applied for full membership of the E.U; the accession process began in March 1998 and Cyprus hopes to complete it by 2003.

### **3.9 Exchange Control**

Cyprus international business entities are all exempt from the prevailing exchange control regulations due to their non-resident classification. Accordingly, the island is an ideal location for the maintenance, transfer and conversion of funds which is facilitated by excellent telecommunication and efficient international banking

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services. For greater detail please refer to section 9.9.

### **3.10 Confidentiality**

Confidentiality in all business transactions is an element which the Cypriot authorities have perfected in respect of the activities of nearly all commercial sectors. Laws and procedures governing financial and business conduct have been specifically drafted to ensure that this element is carefully protected and maintained. Thus the registration of Cypriot international business entities can be effected through the appointment of nominees to hold shares on behalf of the beneficial owners, whose identity remains secret. The identity of the beneficial owners need only be disclosed to the Central Bank of Cyprus which holds this information in the strictest confidence. Privacy of the constitution and membership of trusts as well as their transactions and activities is secured through an absence of registration or reporting requirements and even the identity of a settlor may be protected if required. In Cyprus the safeguarding of the confidentiality of a bank's customers and their transactions is a cornerstone of banking policy.

### **3.11 Access to international markets**

Cyprus based entities have been increasingly expanding into international markets. There are already numerous multinational companies operating on the island and Cypriot businesses maintain good links with markets abroad. Naturally, the elements of respectability and confidentiality assist in foreign expansion and this is supported by the island's international relations.

### **3.12 Low costs**

The incorporation costs of all Cypriot entities are quite reasonable when compared with those of other jurisdictions. In addition, all other administrative and official fees and levies are inexpensive. While office and living accommodation is both plentiful and of a high standard, it is not expensive. The overheads of all businesses can therefore usually be kept at a conservatively low figure.

## **4. DEFINITION OF "INTERNATIONAL BUSINESS"**

**4.1** In terms of the existing provisions of the Income Tax Laws, a company must comply with the following two requirements in order to enjoy international status:

**4.1.1** its shares must belong directly or indirectly exclusively to non-Cypriots;  
and

**4.1.2** its income must be derived from non-Cypriot based sources.

In other words, an international business entity, whether a company, a partnership or a branch of an overseas company, must be wholly owned by foreigners and it must be exclusively engaged in business carried on outside Cyprus.

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**4.2** Today international business entities in Cyprus can operate in the following legal forms, each of which is discussed in further detail below:

**4.2.1** limited company;

**4.2.2** branch of an overseas company; and

**4.2.3** partnership.

Section 28A of the Income Tax Laws defines the term "international" business broadly, as any business which is lawful, is carried out abroad and has income generated abroad.

**4.3** The numerous tax advantages enjoyed by international business companies are critical to their profit potential and it is of the utmost importance to ensure that their international business status is not jeopardised by conducting prohibited local business unintentionally. The result would be catastrophic for many reasons, not least because corporate tax would jump from 4.25 percent of net profit to the 20 percent (or the 25 percent as the case may be) rate paid by local companies. If the international status of a proposed business transaction is doubtful, it is recommended that the authorities be consulted before taking any action.

**4.4** For the purpose of clarification, the following are examples of local activities in which international business entities may safely engage:

**4.4.1** managing the affairs of the company, including employing staff and buying or leasing business or residential premises;

**4.4.2** dealing with and executing orders and payments in respect of foreign goods or customers, including arranging orders for local goods by foreign customers, provided this is done through a local exporter;

**4.4.3** drawing and designing plans and programmes in respect of construction activities taking place abroad;

**4.4.4** editing and printing publications for distribution abroad;

**4.4.5** engaging in the activities of international banking units or captive insurance companies; and

**4.4.6** acting as ships' agents or managers provided that no local shipping work is undertaken.

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## **5. LEGAL REQUIREMENTS FOR INTERNATIONAL BUSINESS LIMITED COMPANIES**

International business limited companies are by far the most popular legal entities.

The legal requirements for the registration of a limited company in Cyprus are based on the Companies Law Chapter 113, which is almost identical to the British Companies Act of 1948.

- 5.1** The registration procedure for such a company is similar to that applicable to a local limited company except that the prior approval of the Central Bank is required. As in the case of any other international business entity, there are certain requirements which must be satisfied before such approval is granted, namely:-
  - 5.1.1** Confidential bank or other references for the shareholders must be sent to the Central Bank;
  - 5.1.2** All the shares in the company must belong, directly or indirectly, to foreigners. However, residents can act as nominees for foreigners where anonymity is desired;
  - 5.1.3** If the company establishes an operational office in Cyprus, its minimum issued and paid-up share capital must be CYP10,000; and
  - 5.1.4** All other companies must have a minimum paid up share capital of CYP1,000.
- 5.2** The approval of the Central Bank is readily granted but the following conditions are usually imposed:
  - 5.2.1** The objects of the company must be confined solely to business outside Cyprus.
  - 5.2.2** All local expenses of the company must be covered from funds imported from external sources.
  - 5.2.3** The company may not obtain any finance from local sources.
  - 5.2.4** The company must undertake to submit to the Central Bank its annual accounts as at the end of its financial year, duly certified by accountants practising in the Republic and authorised by the Minister of Finance. The accounts should also bear a confirmation from the auditors that the company did not carry out any transactions with residents other than local payments for administrative purposes.
- 5.3** Before initiating the incorporation procedure it is advisable to ascertain that the proposed name of the company is acceptable to the Registrar of Companies. This

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will avoid complications if the proposed name is either not suitable or is already being used by another company. On applying to the Registrar for approval of a name it is recommended that two or three possible names be submitted as this may avoid unnecessary delays. Applicants should however bear in mind that a name is not likely to be authorised if:

- 5.3.1** it is similar to the name of an existing company;
  - 5.3.2** it is considered misleading or confusing;
  - 5.3.4** it implies links with royalty; or
  - 5.3.5** it includes the word "Imperial", "National", "Corporation", "Commonwealth" or "Co-operative".
- 5.4** Where a subsidiary company proposes to adopt the name of its parent company, the latter must furnish its written consent for the use of its name. Once the approval of the Central Bank has been obtained, the next step is the registration of the company. For a company to be registered, the following documents and information must be filed with the Registrar of Companies:
- 5.4.1** The Memorandum and Articles of Association. The Memorandum must state, among other things, the company's name and objects, and the number and the value of the shares authorised to be issued. The Articles of Association generally govern the company's internal procedures and functions.
  - 5.4.2** A list of the directors and the secretary's name. A minimum of one director is required but there is no maximum. Although there is no necessity to have local directors, this is advisable especially where the provisions of a double tax treaty are to be utilised and it is important to show that the company is effectively managed and controlled from Cyprus and that all company decisions are taken in Cyprus. Also, for practical reasons, it is recommended that the secretary is a Cyprus resident.
  - 5.4.3** The address of the company's registered office, which will be the place at which all official notices are served.

To avoid delays the company is usually registered through nominees pending receipt of the bank references for the beneficial shareholders and the permission of the Central Bank. Certain procedures are available to protect the anonymity of shareholders where this is desired. However, the Central Bank will require full disclosure of the true identity of shareholders although this information will be treated as strictly confidential.

Once all the required documents have been lodged with the Registrar of Companies and he has satisfied himself that they are in order, he will issue a Certificate of Incorporation. The formation and registration procedures, including printing of all official stationery and

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opening the necessary bank accounts, can usually be completed within a period of fourteen days whereupon the company can start operating immediately. In the event that a company is urgently required, there exists a special accelerated incorporation procedure at an extra cost whereby all relevant procedures are completed within a maximum time of two days.

Incorporation costs are reasonable and this assists in keeping corporate overheads as low as possible. Total formation costs, for a company with an authorised share capital of CY,5,000, including lawyers' and accountants' fees, stamp duty, printing and stationery costs and other miscellaneous expenses, are likely to be as little as CY,1,250. Stamp duty is paid on a sliding scale and is calculated on the amount of authorised share capital.

Fixed annual running expenses in respect of directors' and secretarial fees, registered office fees, trustee company fees and other miscellaneous expenses are extremely competitive and range between CY,500 and CY,2,000 depending on the type of services required and the nature of operations.

## **6. TYPES OF INTERNATIONAL BUSINESS COMPANIES**

Apart from international banking units, international captive insurance companies, shipping companies etc, which are discussed below, other types of international companies that can be registered in Cyprus are the following, although the list is not exhaustive:

### **6.1 Construction and Engineering Companies**

These are used extensively for construction operations in the Middle Eastern and CIS countries, and are particularly popular with Dutch, British, American, Greek and Yugoslavian interests. Cyprus not only affords a greater degree of stability than most other Middle Eastern states, but by sensible use of the double taxation treaties, maximum profit potential is ensured.

### **6.2 Employment Companies**

These companies can be established with their main object being the provision or recruitment of labour for contract or other work carried on outside Cyprus. This can be particularly advantageous to nationals of countries whose own tax laws provide that, wherever tax is paid in another country, their salaries can be remitted to their home countries without payment of any further local income tax. Belgian, Australian, Austrian and French residents all fall within this category.

### **6.3 Headquarter Companies**

These companies are often used by multinational companies wishing to have centralised regional management control. Cyprus has become a popular base for centralising the activities of American, European and Far Eastern multinational entities, and is also attractive to companies incorporated in distant tax haven states but having interests in the Gulf, Middle Eastern and Central and East European

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regions.

#### **6.4 Invoicing Companies**

Such companies may be used for the re-invoicing of materials, goods and services from any country and to any destination. Administration is relatively easy as all that is required is an office base with a competent manager to arrange transactions. Trade and transit depot activities may be facilitated by use of a bonded warehouse and the Cyprus Chamber of Commerce is always available to assist with the issue of the necessary certificates.

#### **6.5 General Trading Companies**

These companies represent the majority of all international business entities incorporated in Cyprus. Such companies may be used for transit trade activities. Again the Cyprus Chamber of Commerce will help with the issue or legalisation of any required certificates of origin.

#### **6.6 Trust Companies**

These companies may be used for managing trust funds held outside Cyprus or for the administration of pension funds. There is no fixed minimum capital requirement. Please see section 15.

#### **6.7 Holding and Investment Companies**

These companies provide for centralisation of a group's investments through a central overseas company whose management has the expertise to monitor and manage subsidiary companies in other countries. With effective tax planning they may be beneficially used in other countries with which Cyprus has concluded double taxation treaties. Such companies are mostly used to hold participations in joint ventures particularly in Central, Eastern European and Middle Eastern countries, N. Africa, China and India so that dividend withholding taxes are reduced to a minimum and excess foreign tax credits are avoided and are not therefore lost to the group. Moreover, overseas dividends may be trapped by such companies and utilised for reinvestment in further subsidiaries without the ultimate parent incurring domestic tax liabilities.

#### **6.8 Shipping and Ship Management Companies**

The shipping industry on the island is growing steadily and this kind of company is therefore becoming popular along with crew management companies. German, Dutch, Greek, Scandinavian, British, Japanese and Russian companies are particularly prominent in this field. Please see section 19.

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### **6.9 Finance Companies**

These companies are particularly active in financing joint ventures or other acquisitions in countries with which Cyprus either has a double taxation treaty or where either no, or very low, withholding tax is levied. They are also used to reduce subsidiaries' taxable profits by means of interest charges made on loans receivable or to on-lend funds to entities within the same group or to non-related third parties at arm's length. Entities from Denmark, Ireland, Germany, Greece, Britain, the Netherlands, the United States and Australia are particularly active in this field.

### **6.10 Printing and Publishing Companies**

The low cost of local printing and an extensive telecommunications system are just two of the factors which make Cyprus an ideal location for this type of company. Printing and type setting of publications and books locally is permitted provided that they are distributed abroad. This type of entity is being increasingly used by American and Middle Eastern interests.

### **6.11 Royalty Companies**

Cyprus' domestic tax system and laws coupled with the network of double taxation treaties, provide opportunities for effective tax planning involving the crossborder routing of royalties, which is the usual income derived from the transfer or exploitation of intellectual and industrial property rights. A Cyprus intermediary royalty or licensing company can centralise a group's control over the intellectual property rights of its member companies and can cause the reduction or avoidance of foreign taxation on royalty income by receiving tax deductible royalty payments from high tax countries subject to nil or reduced royalty withholding tax rates through applicable double taxation treaties. There is no Cypriot withholding tax on the payment of royalties by international business companies to any non-resident and according to Cyprus Revenue practice, only a 10% spread of the total royalties receivable will be taxable at the 4.25% rate applicable to Cyprus international companies.

### **6.12 Real Estate Companies**

These companies are used both for dealing in property and for investment purposes and they can benefit greatly from the effective application of the relevant double taxation treaty. Middle Eastern, Danish, Swedish, French and British interests are particularly active in this sphere.

### **6.13 Internet and E-Commerce Companies**

The advent of the computer age, and in particular the Internet, has created a radical change on how business is done. An increasing number of companies are employing the capabilities of the web to increase their sales and reduce their overall costs thus maximising their profitability. There is a growing number of companies

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who choose to host their e-commerce site or venture in Cyprus to take advantage of the beneficial tax regime, excellent telecommunications infrastructure and intellectual property protection laws. Electronic commerce business companies cannot only operate from Cyprus with minimum tax charges but may also take advantage of Cyprus' wide network of double taxation treaties which may be extremely useful in the context of the internet server as a permanent establishment.

## **7. INTERNATIONAL BUSINESS BRANCHES**

**7.1** Under the Companies Law, Chapter 113, foreign companies may register a branch in Cyprus, provided that the approval of the Central Bank is obtained. Such approval is readily granted following receipt of satisfactory bank references for the foreign company. Once permission has been obtained, the following documents translated into Greek must be filed with the Registrar of Companies:-

- § Certified copy of the Memorandum and Articles of Association, or the charter or other instrument defining the constitution of the company.
- § Particulars of directors and secretary of the company.
- § Name and address of at least one person resident in Cyprus who is authorised to accept service of notices on behalf of the company.

**7.2** For a branch to obtain international status and take advantage of the attendant benefits, it must comply with the following requirements:

**7.2.1** the shares in the company must belong, either directly or indirectly, to foreigners; and

**7.2.2** the business of both the company and the branch must be carried on outside Cyprus.

There is a distinct difference between international branches which have their management and control located in Cyprus and those which operate as brass-plate entities due to location of their management and control abroad. Although both are able to enjoy the usual benefits available to international entities, it is crucially important to distinguish the two as they are subject to entirely different tax rates and may even be subject to varying tax treatment in their home countries.

Whenever the management and control of the activities of an international branch is located outside the island, its net profits will be totally exempt from tax. However, where the management and control of the branch is based in Cyprus, tax will be levied on its net profits at a rate of 4.25 per cent. Experience has shown that it is this tax element, when combined with tax provisions in the country of origin, which determines whether it is advisable to locate branch management and control in Cyprus or not.

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The registration costs of international branches are relatively low and are likely to be in the region of CYP1,000, inclusive of the professional fees, stamp duty and other miscellaneous expenses.

## **8. INTERNATIONAL BUSINESS PARTNERSHIPS**

This form of legal entity is less popular for international operations, although in some cases it may have certain tax advantages and uses, especially for American interests.

Partnerships are governed by the Partnership and Business Names Law, Chapter 116 which is similar to the equivalent English Law. As in the case of limited companies or branches, the registration of an international partnership follows a procedure similar to that for a local partnership. As with all other international legal entities, the prior consent of the Central Bank is required and such approval will be granted upon receipt of satisfactory bank references for the partners.

Once the Central Bank has given its permission, the partnership will have to apply to be registered with the Registrar of Companies. The procedures for registration have been designed to make this process as simple as possible and it is effected by submission of the required return which must be written in Greek and must set out, *inter alia*, the following information:

- § the name of the partnership;
- § the objects of the partnership;
- § the proposed duration of the partnership;
- § the names and addresses of contemplated partners; and
- § the extent to which partners are authorised to bind the partnership.

When a non-resident partner intends to work in Cyprus, he is required to apply to the Department of Immigration for a work permit. This must be deposited with the Registrar before registration. Unregistered partnerships are not recognised by law and may be subject to penalties. After registration the Registrar must be informed of any subsequent changes in the constitution of the partnership.

In Cyprus a distinction is drawn between two types of partnerships, namely general partnerships and limited partnerships. In general partnerships, all partners have unlimited liability. In limited partnerships some of the partners have unlimited liability while the liability of the others is limited to the extent to which they have contributed to partnership capital.

The procedures for the formation of a partnership are relatively straightforward and consequently registration can be effected quickly. All formalities, including the opening of bank accounts, printing of stationery and finalisation of other miscellaneous matters, can

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usually be completed within one week. The Registrar of Companies will ensure that the required Certificate of Registration is issued without delay.

All the registration costs of an international business partnership, inclusive of professional fees, stamp duties and other miscellaneous expenses, are in the region of CYP750.

International business partnerships enjoy all the benefits available to other entities enjoying international business status. However, the partnership profits are not taxable in Cyprus either in the hands of the partners or the partnership.

## **9. TAX AND OTHER INCENTIVES FOR INTERNATIONAL BUSINESS ENTITIES**

### **9.1 Exemption or Reduced Income Tax Rates for International Business Entities**

International business entities are subject to payment of minimal corporate income tax, as follows:

**9.1.1** International companies, irrespective of where management and control is exercised, are taxed at 4.25%.

**9.1.2** International branches whose management and control is based in Cyprus are taxed at 4.25%, but pay no tax when management and control is located abroad.

**9.1.3** Partnerships, irrespective of where management and control is exercised, pay no income tax at all.

**9.1.4** There is no withholding tax payable on the dividends of international entities.

### **9.2 Reduced Income Tax Rates for Foreign Employees of International Business Entities**

Foreign employees of an international business company living and working in Cyprus are liable to income tax in respect of their emoluments which, in addition to the salary, include benefits in kind accruing to the employees from their office or employment. They are taxed at half the normal income tax rates applicable to individuals i.e. from 0% to 20% (at current tax rates) depending on the level of the income. Foreign employees of international business entities living and working outside Cyprus are taxed at 10% of the normal tax rates, i.e. from 0% to 4%, unless their remuneration is payable through any bank in Cyprus in which case it is completely exempt from tax. Employees who render services partly in Cyprus and partly abroad are taxed according to the aforesaid rates for income from services rendered in Cyprus and income from services rendered abroad respectively. The basis for establishing the income for services rendered in Cyprus is the employee's period of stay in Cyprus.

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Foreign employees are not allowed to claim tax credits but they may opt to be taxed in the normal way where the special mode of taxing their income results in increased tax.

**9.3 Exemption from payment of Income Tax on Foreign Capital Interest**

Income in respect of interest earned on foreign capital which is imported into Cyprus and deposited with any bank operating in the Republic is tax exempt. If it is considered to contribute to the economic development of the island, the Minister of Finance may exempt from tax interest earned on borrowed foreign capital invested in Cyprus.

**9.4 Reduced Income Tax Rates for Foreign Investment Income**

Foreign investment income remitted to Cyprus by foreign citizens or Cypriots previously resident abroad is tax exempt up to 2,000 per annum and any amount in excess thereof is taxed at a rate of 5%.

**9.5 Exemption from Estate Duty**

Property in Cyprus will be exempt from payment of estate duty if it belonged to a person who was domiciled in Cyprus at the date of his death provided it was purchased with foreign capital imported into the Republic and the deceased was permanently resident in a foreign country at any time before death.

**9.6 Exemption from Capital Gains Tax**

No gain accrues to international business companies from the disposal of immovable property outside Cyprus. Capital gains tax is imposed on an indexed basis, only on gains on immovable property, or shares in companies deriving value from immovable property in Cyprus. The tax is levied at the rate of 20% on the proceeds less the cost of acquisition as adjusted by reference to the monthly retail price index.

**9.7 Exemption from Stamp Duty**

The documents and transactions of all international business entities are exempt from payment of stamp duty.

**9.8 Exemption from Value Added Taxation**

Transactions effected by Cyprus international business companies are by definition outside the Republic of Cyprus and therefore do not come within the ambit of VAT legislation. Consequently, international business entities have neither to register for VAT purposes nor to charge VAT when supplying goods or services. However, they have to pay VAT on their local expenditure except on their telephone bills.

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## **9.9 Exemption from Exchange Control**

International business entities, their foreign shareholders and their foreign employees are permitted to maintain freely convertible foreign currency bank accounts in any currency in Cyprus and abroad.

International business entities maintaining an office in Cyprus and their expatriate employees are obliged to open a local disbursement current account (LDCA) with a local bank out of which payments to residents and living expenses in Cyprus are to be made.

## **9.10 Exemption from Social Insurance Contributions**

International business entities and their foreign employees are fully exempt from payment of social insurance contributions. However, such contributions are payable in respect of local employees.

## **9.11 Duty-Free Facilities**

**9.11.1** Duty-free facilities are extended to international business entities and their expatriate personnel under item 0.1.18 of the Fourth Schedule to the Customs and Excise Duties Law, 1978. In accordance with this law, duty-free relief is granted, on request, in respect of the following items:

**9.11.1.1** motor vehicles e.g. saloon cars, sports cars, station wagons;

**9.11.1.2** office equipment of a durable nature (e.g. computers, fax machines, photocopiers) but not of a consumable nature; and

**9.11.1.3** household effects of a durable nature (e.g. television sets, video recorders, washing machines), but expressly excluding air-conditioning equipment and furniture.

An international business company is regarded as "any company or enterprise which is engaged exclusively in activities outside the Republic and maintains an office in the Republic."

Relief from duty is granted only in respect of reasonable quantities of office and household equipment. An international business enterprise may acquire a duty-free car provided that it is necessary for business purposes or is to be allocated to a full-time member of its expatriate personnel who is eligible for a duty-free car but has not yet acquired one.

**9.11.2** Entitled to relief are:

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- 9.11.2.1** International business companies, a term which applies not only to companies but also to partnerships, individuals and unincorporated associations, which are engaged exclusively in activities outside the Republic and which maintain a continuously proper office in distinct premises (i.e. not part of living accommodation) equipped with normal office facilities and full-time personnel, for use as an office; and
- 9.11.2.2** their full-time expatriate personnel, consisting of foreigners entitled to live and work in Cyprus under a temporary residence permit issued for that purpose. Expatriates earning an annual salary of CY,12,000 may initially be approved for eligibility and in order to continue to be eligible their expenditure in Cyprus should not be less than CY,12,000 per annum.

## **10. FINANCIAL REPORTING AND AUDITING REQUIREMENTS**

The Central Bank of Cyprus exercises a supervisory role in respect of all international business entities and ensures that they comply with the terms on which they were granted permission to operate from Cyprus. To facilitate the carrying out of this function and to assist international business entities in regulating their affairs in a proper and efficient fashion, accounts audited by independent Cypriot auditors must be submitted to the Central Bank.

- 10.1** All Cypriot companies, whether local or international, are required to maintain accurate books of accounts which should reflect the true and correct position of their affairs as well as give sufficient clarification of their activities. In particular, correct and proper records should be kept to reflect:
  - 10.1.1** all monies received and disbursed, together with details of the related transactions;
  - 10.1.2** all sales and purchases of stock by the company; and
  - 10.1.3** all company assets and liabilities.
- 10.2** In addition the Cypriot Company Law, which is closely modelled on its English counterpart, requires that company accounts must include the following:
  - 10.2.1** a directors' report, which should accompany the balance sheet and be submitted to the shareholders' annual general meeting;
  - 10.2.2** an auditor's report containing certain prescribed statutory information;
  - 10.2.3** a profit and loss account compiled by the company directors and

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containing prescribed information on the company's present financial standing and its transactions during the preceding twelve month period; and

- 10.2.4** a balance sheet reflecting company assets and liabilities and containing certain other information prescribed by law.

Furthermore, all companies with a share capital are required to submit an Annual Return to the Registrar of Companies. In the case of companies which have shareholders bodies corporate, the Annual Return must be accompanied by the audited financial statements of the company translated into the Greek language. It must contain information such as the company's registered address, a summary of shares issued for cash and non - cash considerations, shares discounted, forfeited or surrendered, the amount of any company mortgages, a list of the company's members and details of the company's directors and secretary.

Cyprus-registered branches of foreign companies are not legally bound to compile full separate branch accounts but, when taxed on the island, are obliged to do so for income tax purposes. They also have to submit accounts of the main company, translated into Greek, to the Registrar of Companies. Partnerships are exempt from any requirement to prepare audited accounts but they are legally bound to keep proper books of account which must be available for scrutiny by individual partners. However in all cases an independent auditor must be appointed to confirm to the Central Bank of Cyprus and to other authorities that no local business was carried out and that all local expenses were covered from external sources.

## **11. RESIDENCE AND WORK PERMITS**

The expatriate directors, executives and managers of all international business entities are able to obtain residence and work permits fairly easily and without delay. Provided that no suitably qualified Cypriots are available, administrative, clerical and non-executive expatriate employees may also secure such permits without difficulty.

The residence and work permits are usually received within one month of application. Thereafter the expatriate employee, and each member of his family holding a separate passport, should report to their local police immigration department where they will each be issued with an Alien Registration Certificate.

Residence and work permits are usually issued for an initial period of two years but will be readily extended for additional three-year periods subject to the general conduct of the business of the company. Eligible expatriate employees, accompanied by their family, may get a second duty-free car for the use of their family provided that the expenditure in Cyprus of the expatriate justifies the use of such second car. For the time being, where the annual salary of the expatriate is less than £20,000,00, this concession is not normally allowed.

## **12. INTERNATIONAL BANKING UNITS (IBUs)**

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The island is emerging as an international banking centre. A substantial number of foreign banks have been granted licences to set up international banking units and conduct international banking activities from the island.

It is the stated policy of the Central Bank of Cyprus to encourage the establishment of IBUs (preferably branches, as opposed to locally incorporated subsidiaries or associated companies) and the authorities are determined to attract reputable banks with an established track record of growth and profitable operation to participate in international banking activities on the island. The Government has shown that it is willing to interpret existing legislation as liberally as possible and even to introduce new legislation where necessary in order to enable IBUs to operate effectively while still adhering to sound banking principles.

**12.1** IBUs establishing businesses in Cyprus must comply with the following provisions:

- 12.1.1** IBUs, whether branches of foreign banks or locally incorporated legal entities, must be licensed under the provisions of the Banking Law, 1997 (66(1)/97).
- 12.1.2** As a rule, only branches or subsidiaries of banks enjoying a good reputation internationally, and established in countries where there are adequate banking supervision and lenders of last resort facilities, will be considered as eligible for a licence.
- 12.1.3** Where an IBU is a subsidiary of a foreign bank, the parent bank is expected to provide an appropriate letter of comfort.
- 12.1.4** They are expected to operate as fully staffed units and not merely as "brass-plate" operations.
- 12.1.5** Except with special permission from the Central Bank, IBUs must operate wholly on an international basis and all their dealings must be with non-residents and denominated in currencies other than the Cyprus pound.
- 12.1.6** All IBUs are exempt from most of the monetary policy and credit regulations applicable to local banks, such as the minimum reserve requirement, adherence to maximum interest rates, restrictions on the holding of foreign assets or investments in shares and immovable property. Ratios such as liquidity and capital to risk assets are applicable only to locally incorporated IBUs, but all IBUs are required to supply to the Central Bank such information about their activities as might be requested, to satisfy the Central Bank of their ability to meet their obligations as they fall due and of their adherence generally to sound banking practices.
- 12.1.7** IBUs must pay an annual fee of US\$15,000 to the Central Bank as

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reimbursement to the latter of the cost of its supervisory function.

- 12.1.8** IBUs must submit to the Central Bank a 'Letter of Authorization' which enables the latter to exchange information with the applicant bank's home banking supervisory authorities.

## **12.2 Administered Banking Units (ABUs)**

Applicant banks which meet the Central Bank's eligibility rules may also be allowed to establish themselves as Administered Banking Units. ABUs are required to carry on banking business in their own name, but their day-to-day administration should be carried out, on their behalf, by another bank (the 'administering bank'), which must be already licensed by the Central Bank to operate in or from within Cyprus. They must submit to the Central Bank a 'Letter of Authorization' in the same way as IBUs.

ABUs must enter into a written management agreement with an administering bank.

They must pay an annual fee of US\$10,000 to the Central Bank.

## **12.3 Taxation**

If an IBU takes the form of a local branch of a foreign bank with management and control exercised outside Cyprus, no Cyprus tax will be payable; if management and control is exercised in Cyprus then tax is payable at a reduced rate of 4.25%.

If the IBU takes the form of a Cyprus incorporated subsidiary of a foreign bank, then it is liable to the reduced rate of 4.25% on its net income as are all other international business companies. From a tax planning point of view, IBUs may be of interest to financial companies in countries which either do not tax at all, or tax in full, active income (and banking is considered to be such an income) emanating from foreign branches. A Cyprus IBU may engage in financing joint venture activities in countries with which Cyprus has entered into a double taxation agreement. This would result in significant tax savings as the interest article of the relevant treaty would serve to eliminate or reduce the withholding tax on outgoing interest payments. Assuming that the IBU can claim the benefit of such double taxation treaties, the net result would be that tax exposure is minimised or eliminated.

## **12.4 Other Advantages**

All other benefits available to international business entities in Cyprus, such as duty-free concessions and exchange control exemption, also apply to IBUs and their expatriate employees.

In addition, the following advantages arising inter alia out of Cyprus' geographical position might be particularly useful to IBUs:-

- 12.4.1** the possibility of attracting international businesses relating to or

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connected with neighbouring Middle Eastern and other countries;

- 12.4.2. the possibility of servicing the transit trade now using the Cyprus ports en route to the Middle East and Africa;
- 12.4.3. the possibility of specialising in shipping and aviation finance;
- 12.4.4 the possibility of attracting business from the thriving international community on the island and expatriates as well as from international companies which maintain their international or regional headquarters in Cyprus;
- 12.4.5 the possibility of providing finance and related financial services such as leasing, asset finance, project finance, etc, to neighbouring countries, CIS, China, India and South Africa with whom Cyprus has concluded double taxation treaties;
- 12.4.6 the possibility of playing a role in the reconstruction of Lebanon and Palestine.

### **13. BANK REPRESENTATIVE OFFICES**

Such offices are not considered to be businesses as defined in the Banking Business (Temporary Restrictions) Law Chapter 124 and they do not need a licence from the Minister of Finance, although as non-residents they need exchange control permission and should also register their names with the Registrar of Companies. In granting its permission, the Central Bank of Cyprus requires the office to observe the following conditions:-

- 13.1 no banking business may be carried on;
- 13.2 the office must be used exclusively to facilitate contact between the bank represented and the rest of the world;
- 13.3 the Central Bank may at any time request information about the activities of the office; and
- 13.4 all expenses must be covered from external sources.

As with IBUs, only foreign banks enjoying a good reputation internationally and formed in countries where there is adequate banking supervision, including the facility of lending of last resort, will be authorised to establish bank representative offices on the island.

### **14. INTERNATIONAL FINANCIAL SERVICES COMPANIES (IFCs)**

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The term IFC is used to denote an international branch of an overseas company registered in Cyprus, or an international company incorporated in Cyprus or an international partnership registered in Cyprus whose main object is to provide international financial services.

The term "financial services" is widely defined and means dealing in investments, managing investments, providing investment advice and establishing and operating collective investment schemes while the term "investment" means shares, debentures, government and public securities, warrants, certificates representing securities, units in collective investment schemes, options, futures and contracts for differences.

The provision of international financial services from within Cyprus requires the prior authorisation of the Central Bank. A person, whether natural or legal, submitting an application to the Central Bank for the establishment of an IFC, must be a "fit and proper person" in the opinion of the Central Bank to be involved in the provision of such services. The "fitness and properness" of a person is determined by means of detailed questionnaires to be completed by all applicants and by personal interviews with the applicants by officials of the Central Bank. Applicants should also have soundly based and considered reasons for wishing to provide international financial services from within Cyprus. Depending on the form that the IFC will take and the nature of the international financial services to be provided by it, letters of comfort and guarantee, extracts from minutes and audited annual financial statements must be provided by the applicant to the Central Bank, in support of an IFC's operations from within Cyprus.

IFCs are currently widely used in dealing with the Russian securities market as well as the emerging markets of China and India. IFCs are subject to the normal international corporate tax rate of 4.25% and enjoy all the other incentives and benefits available to international entities.

## **15. INTERNATIONAL TRUSTEE SERVICES COMPANIES**

A corporate entity or partnership which intends to offer international trustee services to the public at large on a professional basis must obtain the prior authorisation of the Central Bank of Cyprus, under the Exchange Control Law.

In order to obtain such authorisation, an application must be submitted to the Central Bank containing the following information:-

- 15.1** a statement setting out the nature and scale of the intended trust business and the proposed arrangements for its operations;
- 15.2** completion by the applicant of certain detailed questionnaires about the applicant's professional expertise, current business affairs etc;
- 15.3** a 'Letter of Authorization' from the principal beneficial shareholders of the applicant, in the case of a legal person, enabling the Central Bank to seek and

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exchange information from and with third parties in general, as well as banking, supervisory or financial regulation authorities, on the content and purpose of the application.

The grant of a trust licence is at the discretion of the Central Bank which does not apply any rigid criteria for the purposes of processing each application but rather deals with it on its merits. Successful applicants are issued with a licence incorporating a number of conditions, the most common of which are that the trustee company shall submit annually to the Central Bank the number of trusts and total value of assets under trust administration and that the trustee company shall not act as a trustee of a collective investment scheme without the prior approval of the Central Bank.

## **16. INTERNATIONAL PUBLIC COMPANIES (IPCs)**

**16.1.** International public companies may now be registered in Cyprus provided that such companies are:

**16.1.1** associated with or form part of a collective investment scheme; and

**16.1.2** the promoter is a first class name in the international financial sector.

**16.2** International public companies in Cyprus will therefore be permitted to issue and transfer their shares freely without the prior approval of the Central Bank, provided that within a specified period of time such shares become quoted and thereafter remain listed on a recognised Stock Exchange. In addition, like ordinary international companies, IPCs will be expected to:-

**16.2.1** belong exclusively, directly or indirectly, to foreigners;

**16.2.2** realize their objects outside Cyprus, with the exception of their management, control or administration; and

**16.2.3.** cover all their financial requirements from external sources.

The Registrar of Companies has confirmed that IPCs may be registered with their capital denominated in foreign currency if it exceeds a certain minimum, now US\$ one million.

In view of the investment possibilities that exist in countries such as the CIS, China and India with which Cyprus has concluded double taxation treaties, the use of a Cyprus IPC managed by a promoter in an established financial market, either being single tier or two-tiered, can have significant advantages and reduce the overall tax burden imposed on the foreign investor, institutional or otherwise.

## **17. INTERNATIONAL COLLECTIVE INVESTMENT SCHEMES**

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The International Collective Investment Schemes Law No. 47(1)/99 ('the Law') was enacted in May 1999. Its intention is to create a legal and regulatory system which balances adequate investor protection against the necessary freedom to manage the underlying investments. Cyprus should become an important participant in the business of mutual funds and an attractive place for investors in the European Union, Japan and the United States.

#### **17.1 Definition and structures available.**

A Cypriot International Collective Investment Scheme (a 'Scheme') is defined as a scheme in the form of:

- § an International Fixed Capital Company
- § an International Variable Capital Company
- § an International Unit Trust Scheme, or
- § an International Investment Limited Partnership

whose sole purpose is the collective investment of funds of unitholders. The Schemes can only be established and operated by non-residents of Cyprus and no permanent residents of Cyprus may hold units in a Scheme.

The combination of the relevant Cyprus laws allows funds to be structured in a flexible manner, e.g. as umbrella funds, master or feeder funds, single or multi class funds, limited life or duration funds or funds of funds.

#### **17.2 Regulatory framework**

The Central Bank of Cyprus is the regulatory and supervisory authority of Schemes. It has stated that it wishes to create a user-friendly framework.

Schemes will be authorised by the Central Bank if they meet the following criteria:

- 17.2.1** The directors and promoters must be considered by the Central Bank to be competent and suitable in respect of matter related to such Schemes.
- 17.2.2** The managers and trustees must act independently of one another and must have sufficient financial and operational resources and skill to conduct their business efficiently. Their officers must be persons of integrity, with an appropriate level of knowledge and experience.
- 17.2.3** Only licensed banking and bank institutions may act as trustees of Schemes.
- 17.2.4** The managers and trustees of a Scheme must have a place of business in Cyprus unless the Central Bank decides otherwise.

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**17.2.5** An applicant must submit to the Central Bank for approval documents and information relating to the Scheme, including its proposed constituent documents, offering circular and third-party service providers agreements.

The Law distinguishes between:

- § Schemes designed to be marketed on a retail basis to the public at large.
- § Schemes designed to be marketed solely to experienced and professional investors.
- § Private Schemes whose number of unitholders is limited to 100 and which impose restrictions on the transferability of units.

The restrictions to be imposed by the Central Bank will reflect the different standards of investment protection which should be provided by each category.

### **17.3 Confidentiality**

Any information relating to a Scheme, its business, promoters, trustees or managers which is acquired by the Central Bank for the purpose of exercising its regulatory and supervisory authority is to be held in confidence and not released to any person except by court order.

No officer, employee, manager, trustee etc. of a Scheme shall disclose or use for his own benefit any information relating to the affairs of a Scheme unless he is obliged by law to do so, e.g. where the Scheme is declared bankrupt or is in the process of being wound up.

### **17.4 Managers and trustees**

The previous consent of the Central Bank is required for the replacement of a manager or trustee of a Scheme, any substantial change in the ownership or shareholding structure, any new appointment of a director and any delegation of duties to a third party.

The Central Bank has the discretionary power to remove or replace a manager or trustee. A manager of a Scheme is liable to its unitholders for any loss suffered by them as a result of the manager's improper performance of its duties, regardless of the fact that it may have entrusted some or all of the assets in its safekeeping to a third party.

### **17.5 Taxation**

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Amendments to the Cypriot Tax Laws of 1961 to 1998 were introduced in May 1999 with the enactment of Law No. 50(I)/99 providing for an advantageous tax treatment of Schemes as follows:

- 17.5.1** Schemes will be generally liable to income tax in Cyprus at the rate of 4.25% subject to the exemption set out below.
- 17.5.2** 90% of profits or gains realised by Schemes through the disposal or sale of securities held by them will be exempt from taxation. This effectively means that Schemes will suffer taxation at the rate of 0.425% on gains realised on the sale of securities. Other types of income such as dividends or interest will be taxed at the rate of 4.25% subject to applicable credit relief provided by any of Cyprus' double taxation treaties which would reduce or eliminate Cypriot tax.
- 17.5.3** The income generated by managers and trustees through the provision of services to Schemes is exempt from any tax.
- 17.5.4** There is no withholding tax applicable to or payable by a Scheme or its shareholders, unitholders or partners.

Cyprus' wide network of double taxation treaties adds considerably to the competitive position of Schemes over other jurisdictions. This is because the use of double taxation treaties can reduce the burden of withholding tax in the country of source of dividend and interest income and, in a few cases, eliminate source country capital gains tax. As Schemes are subject to tax in Cyprus, they may therefore remain eligible for benefits under those double taxation treaties (particularly with Central and Eastern European countries and other emerging markets) which do not contain specific anti-avoidance or limitation of benefits provisions.

## **18. INTERNATIONAL TRUSTS**

### **18.1 The Law of Trusts in Cyprus**

Cyprus has inherited its trust law from England so the doctrines of equity on which trust law is based have long formed part of the Cypriot legal system. In 1955, Cyprus enacted the Trustees Law, Cap. 193 and that was the basic structure that covered some of the principal aspects of the trust relationship. Thus, up to the date of independence in 1960, Cyprus trust law was to be found in its own domestic law and in the doctrine of equity and the case law in England. The strength of the English principles was reinforced by the enactment of section 29 of the Cyprus Court of Justice Law, 14 of 1960. In this legislation the civil and criminal courts were expressly instructed to adhere to the common law and equity principles, "save insofar as other provision has been or shall be made by any law and so long as not inconsistent with the Constitution". Indeed, in cases where Cypriot law has not made provision for a specific legal point, the courts of the island have held that

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reliance may be placed on common law or equity law.

## **18.2 The International Trusts Law 69 of 1992**

In 1992 a Bill providing for the formation and administration of international trusts was enacted. By this Law, No. 69/92, which is called the "International Trusts Law", Cyprus modernised its existing legislation on trusts and now offers considerable incentives for the establishment of trusts in Cyprus.

The Law accords with the proclaimed government policy to enhance further the attractions of Cyprus as an international jurisdiction and the range of facilities offered to private and institutional clients.

The Law did not attempt to introduce a new comprehensive code to govern all aspects of trust law. Instead it builds on the existing law of trusts in Cyprus and offers to non-residents the possibility of creating a trust which will have certain features that were not available previously.

The specific provisions of the Law may be briefly summarised as follows:

**18.2.1 Definition of an International Trust:** An International Trust is defined as a trust in respect of which:

**18.2.1.1** the settlor is not a permanent resident of Cyprus;

**18.2.1.2** no beneficiary (other than a charity) is a permanent resident of Cyprus;

**18.2.1.3** the trust property does not include any real property situated in Cyprus; and

**18.2.1.4** at all times there is at least one trustee resident in Cyprus. Moreover, a trust will still qualify as an International Trust even if the settlor, the local trustee or a beneficiary (or any combination of those) is a Cyprus international company or partnership.

**18.2.2 Validity:** A Cyprus International Trust can be validly created by any non-resident who is of full age and sound mind under the law of his domicile, and no foreign law relating to inheritance or succession will invalidate the Cyprus Trust. Moreover the Trust will not be set aside by the settlor's creditors in the event of the settlor's bankruptcy or liquidation unless and to the extent that the creditors can show that the trust was made with intent to defraud them; the onus of proof will be on them. This provision effectively allows the use of Cyprus International Trusts as asset protection vehicles.

**18.2.3 Irrevocability:** An International Trust will be presumed to be

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irrevocable by the settlor or his lawful representatives unless a specific power of revocation is reserved in it.

- 18.2.4 Perpetuity period:** An International Trust may remain in force for up to one hundred years notwithstanding any statutory provision of Cyprus or any other country to the contrary. This provision is considered to be very advantageous. The rule against perpetuities does not apply to purpose and charitable trusts.
- 18.2.5 Accumulation of income:** The income of an International Trust can be accumulated for the whole of the perpetuity period.
- 18.2.6 Purpose Trusts:** Trusts for a purpose, i.e. trusts which are not necessarily only for established charitable objects, or are for the benefit of ascertained individuals, such as to promote the understanding and cooperation between nations, are valid.
- 18.2.7 Authorised investments:** The trustees of an International Trust have extensive investment powers which must be exercised with the prudence and diligence of the reasonable person.
- 18.2.8 Proper law of the trust:** The law applicable to a Cyprus International Trust can be expressly changed to a foreign law provided that the new law recognises the validity of a trust and the respective interests of the beneficiaries; a trust established in a foreign jurisdiction may by its terms select Cyprus law provided that the foreign law itself recognises such a change. This provision ensures flexibility which might be important if a change in government fiscal or other policy makes it beneficial to change a trust's location.
- 18.2.9 Variation of trusts:** The Cyprus courts have powers to vary the terms of a trust on the lines of the English Variation of Trusts Act, 1958. More specifically, the courts upon application may amend or repeal the terms of the trust or the powers of the trustees to manage the trust, if they are satisfied that the proposed arrangement will be in the interest of the person on whose behalf the application is made and will not substantially prejudice any other interested party.
- 18.2.10 Registration:** International Trusts are exempt from the duty of registration under the provisions of any law. There is, however, a fixed stamp duty of CY,250 payable on the creation of a trust.

### **18.3 Confidentiality**

Confidentiality and privacy of the constitution of International Trusts, as well as their transactions and activities, are assets which are highly prized. This aspect is a cornerstone of the Law which ensures that a trustee or any other person,

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including officers of the Government and of the Central Bank of Cyprus, may not disclose to any person any information or documents in relation to:

- 18.3.1** the name of the settlor or any of the beneficiaries;
- 18.3.2** the consultations of a trustee regarding the exercise of his power, discretion or duties;
- 18.3.3** the reasoning for any specific exercise of power, discretion or duties or the elements supporting the reasoning;
- 18.3.4** the exercise of the power, discretion or duties of a trustee;
- 18.3.5** the accounts of an International Trust.

To the secrecy of the affairs of an International Trust there are only two exceptions:-

§ A trustee is under an obligation to disclose all documents and information relating to the accounts of the trust to a beneficiary, or all documents and information relating to a charitable trust to a charitable institution which appears to be a beneficiary in the trust instrument.

§ The courts, before which criminal or civil proceedings are pending, may order the disclosure of documents or information relating to an International Trust, if they are satisfied that such a disclosure is of substantial importance to the outcome of the pending proceedings.

The above non-disclosure provisions of the new International Trust Law are unique in that they entrench in an almost absolute manner the secrecy and confidentiality of a trust's affairs.

#### **18.4 Taxation**

The income and profits of an International Trust derived or deemed to be derived from a source outside Cyprus are exempt from income tax or any other tax imposed in Cyprus such as capital gains, special contribution etc. The property of the trust is not subject to estate duty.

Trust income such as royalties, interest or dividends received from an international company is exempt from income tax in the hands of the trustees, and the beneficiaries of an International Trust are also exempt from the payment of income tax in respect of any monies they receive from the trustees.

Apart from the above-mentioned advantages, the following further benefits are available to Cyprus International Trusts:

- 18.4.1** An International Trust enjoys complete freedom from all exchange

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control provisions.

**18.4.2** Most importantly, an International Trust may establish a Cyprus international company and thus take full advantage of the beneficial status of international companies as set out in section 9.

**18.4.3** An International Trust may also establish a Cyprus international partnership, the profits of which are not taxable in the hands of the partners nor is tax payable by the partnership, or may register an international branch in Cyprus through a wholly or partly owned foreign company. The net profits of this international branch are either totally exempt from payment of tax where its management and control is outside Cyprus or are taxed at the rate of 4.25 per cent where its management and control is based in Cyprus.

**18.4.4.** An International Trust may be allowed to participate in local business and investments in accordance with the laws and regulations which govern investment in Cyprus by non-residents, but in such a case all income arising from local sources will be subject to the normal tax rates.

## **18.5 Conclusion**

The advantages of using a trust for regulating family and commercial affairs are well known to those accustomed to the English common law. It appears that the trust concept is also becoming popular with people familiar with civil jurisdictions and it is expected that the use of trusts will increase in the future. Cyprus as an expanding international centre has shown that it may become a considerable trust jurisdiction. This is also due to the fact that a Cyprus trust may in certain cases be used to obtain the benefit of an applicable double taxation treaty or provide asset protection where this is required.

## **19. SHIPPING COMPANIES**

This section deals with shipping companies as a special type of local company enjoying total tax exemption.

Shipping companies are companies incorporated in the Republic of Cyprus which own ships registered under the Cyprus flag and which may or may not be fully owned by foreigners.

Today, the Cypriot merchant fleet ranks 6<sup>th</sup> on the list of leading maritime nations with over 2,600 vessels exceeding 26.5 million gt and is still expanding.

### **19.1 Legal Requirements**

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In terms of legislation enacted in 1963 and based on the British Merchant Shipping Act, registration under the Cyprus flag is freely open to foreigners as well as to local residents.

A ship can be registered under the Cyprus flag if more than 50% of the shares in the ship are owned :-

- § by Cypriots; or
- § by a Cyprus registered company irrespective of whether such company is totally owned by foreigners; or
- § with the special permission of the Council of Ministers, by a foreign corporation in which Cypriots have a controlling interest.

Thus a shipping company, unlike all other international entities, can be owned by Cypriots alone, by foreigners alone or jointly by Cypriots and foreigners.

### **19.2 Provisional Registration**

The Cyprus Merchant Shipping legislation allows for the provisional registration of a vessel and most owners usually opt to have their ship provisionally registered first. This will allow them time (up to nine months including a three month extension) to complete the administrative formalities for permanent registration.

Any ship may be provisionally registered under the Cyprus flag with the approval of the Minister of Communications and Works. Such registration may take place abroad in countries where Cyprus has an Embassy, High Commission, Consulate or Honorary Consul.

The procedure for provisional registration is fairly quick and can usually be completed within 7-10 days, provided that all the necessary documents, details and safety confirmation certificates are furnished within this time.

### **19.3 Permanent Registration**

Permanent registration must take place within 6 months from the date of provisional registration. However, this period may be extended by an additional 3 months upon application. To effect permanent registration a ship must be properly surveyed in any part of the world by any one of the recognised classification societies.

### **19.4 Parallel Registration**

The Merchant Shipping (Registration of Ships, Sales and Mortgages) Law provides for the registration for a fixed period of bareboat charterparties under the Cyprus flag while the vessel remains registered under its foreign registry but

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subject to parallel registration being permitted by the foreign country. During this period the vessel must carry the Cyprus flag to the exclusion of all others and will also be subject to the above-mentioned Cyprus Law and the regulations introduced in accordance with it.

By an amendment effected to the Merchant Shipping (Registration of Ships, Sales and Mortgages) Law in May 1987, the parallel registration of Cyprus vessels under bareboat charterparties in foreign registries is permitted, provided that this is allowed by the relevant foreign authorities.

The advantages of parallel registration are two-fold:-

- 19.4.1** the bareboat charterer has all the rights and liabilities of the owner, except that he may not sell or mortgage the vessel; and
- 19.4.2** the ship's owner has access to foreign financing while also enjoying the tax and other advantages of Cyprus.

## **19.5 Tax Advantages**

Under Section 3 of the Merchant Shipping Law, a ship sailing under the Cyprus flag is entitled to complete tax exemption in respect of all profits, dividends, estate duty and capital gains tax arising from shipping activities.

In particular:-

- 19.5.1** No income tax is payable on the profits of a Cypriot shipping company operating in international waters.
- 19.5.2** No income tax is payable on dividends declared by a Cypriot shipping company.
- 19.5.3.** No estate duty is payable on the inheritance of shares in such a company.
- 19.5.4** No capital gains or other tax is payable on the sale, ownership or transfer of any ship or shares in a shipping company.
- 19.5.5** No stamp duty is charged on ship mortgage deeds or other security documents.
- 19.5.6** Emoluments of seamen employed on board Cyprus ships are exempt from tax.
- 19.5.7** Emoluments of seamen employed by Cyprus international shipmanagement companies on board foreign flag ships managed by them are exempt from tax if paid through a bank operating in Cyprus, otherwise a tax of 10% of the Cyprus income tax rates for individuals is imposed. If such emoluments are paid in respect of services on board

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Cyprus flag ships they are totally exempt from taxation.

**19.5.8** Dividends distributed to shareholders of international shipmanagement companies are not taxed at all.

Because of the tax incentives available to Cyprus shipping companies, there is no requirement for them to submit annual financial returns nor to furnish reports on income or accounts.

The Merchant Shipping (Fees and Taxing Provisions) has been amended by law 73(1)/99, which provides that a Cypriot-registered shipmanagement company is entitled every year to choose to be taxed either in accordance with the provisions of the prevailing income tax laws (currently at the rate of 4.25%) or at rates equal to 25% of the applicable rates for calculating the tonnage tax of vessels under management which are registered outside Cyprus. This option may be exercised by a written notice to the Department of Merchant Shipping at least 30 days before the start of the year for which the tax payer wishes to exercise the option.

The shipmanagement company will be able to calculate its tax liability in advance and can opt for the method which will result in the lower amount of tax.

## **19.6 Vessel Registration and Age Limit**

At present, vessels of any type and tonnage not exceeding seventeen years of age may be registered in the Register of Cyprus Ships. Vessels of over seventeen years and up to twenty years of age may be registered provided that:-

**19.6.1** the vessel undergoes a special inspection; or

**19.6.2** the vessel is managed from Cyprus.

A vessel of any type and tonnage over twenty years and up to twenty-three years of age may be registered provided that:-

**19.6.3** the beneficial owner of the vessel has at least two other vessels registered under the Cyprus flag, each having a gross tonnage of over 1000 tons, with a good safety record, and whose average age, including the vessel to be registered, does not exceed seventeen years, or its beneficial owner is a Cypriot who, if he resides abroad, fully manages his vessel;

**19.6.4** the vessel undergoes a special inspection, or

**19.6.5** the vessel is managed from Cyprus.

A vessel of any type and tonnage over twenty-three years of age may be registered provided that:-

**19.6.6** it is owned by Cypriots permanently residing in Cyprus or by a Cypriot

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company. If the owner is a Cypriot company, at least 51% of the shares must be owned by Cypriots permanently residing in Cyprus and at least 51% of its directors, who must participate substantially in the management and control of the activities of the company, must be Cypriots permanently residing in Cyprus;

**19.6.7** the vessel undergoes a special inspection;

**19.6.8** the vessel is managed from Cyprus.

From 1<sup>st</sup> January 2000 a new policy for the registration of ships under the Cyprus flag will be introduced, placing a new ceiling on the age of ships which may be registered and lowering, from 17 to 15 years, the age at which an entry inspection is required.

## **19.7 Shipping Companies' Headquarters**

The Republic of Cyprus has enacted legislation to encourage shipping companies to establish their headquarters in Cyprus.

The primary aim of this legislation is to provide benefits for foreign employees of shipping and other companies. Foreigners employed by such international shipping companies and who derive their income from activities outside Cyprus are taxed at one tenth of the normal Cyprus tax rates or are totally exempt from tax if they receive their emoluments in Cyprus.

Foreign employees of such international companies working inside Cyprus are, subject to half the normal Cyprus tax rates and enjoy certain duty free concessions and other advantages.

International shipping companies and their foreign employees may maintain accounts in foreign currencies and they may remit their income abroad at any time they wish, after payment of taxes. By using this procedure, foreign employees may avoid payment of higher taxes in their own countries.

## **19.8 Future Plans**

In recent years, Cyprus has made considerable progress in achieving growth in its merchant fleet and establishing itself as an even bigger maritime centre. Now the government, in a conscious effort to upgrade the image of its flag, has decided to allocate its resources to safety measures, prevention of pollution and adequate manning standards. It has ratified the latest international conventions on safety, training and certification of seafarers and prevention of pollution and has strengthened its merchant shipping department by expanding its network of surveyors throughout all major parts of the world. All these measures, together with a long maritime history and tradition and the presence on the island of an active shipping community, have meant that Cyprus has developed as a high quality open register and as a suitable location for ship management operations.

## **20. INTERNATIONAL INSURANCE COMPANIES**

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## **20.1 International Insurance Companies**

The procedure to set up such a company is identical to the one followed for registering local insurance companies. Following its registration with the Registrar of Companies, an insurance company must apply to the Superintendent of Insurance for a licence. Section 8 of the Insurance Companies Law sets out the provisions that must be complied with for an insurance licence to be issued:-

- 20.1.1** the company must have a paid up share capital of not less than CYP 200,000;
- 20.1.2** the company's solvency margin is not such that the company may be deemed to be unable to pay its debts;
- 20.1.3** the class of insurance business in respect of which the application is made will be conducted in accordance with sound insurance principles;
- 20.1.4** the company is reinsured or has made arrangements for its reinsurance by another insurance or reinsurance company in respect of policies issued or to be reissued;
- 20.1.5** the name of the company is not identical to that of an existing licensee or of a company which was lawfully carrying on insurance business in the Republic at the commencement of the Law; and
- 20.1.6** it complies with the provisions of section 9 of the Insurance Companies Law which provides that the Superintendent shall not grant a licence to a company if any director, controller, manager or any principal of the company does not satisfy such standards or requirements as may be prescribed.

According to section 17 of the Insurance Companies Law every insurance company must deposit with the Central Bank of Cyprus the sum of CYP 30,000. The application to the Superintendent must be accompanied by the following:-

- § a guarantee supplied by either the parent company or one of its affiliates or a bank guarantee issued on the strength of the company's invested capital;
- § a business plan setting out the company's intended operations for the first three years including information relating to the administrative structure of the company's head office as well as its branches, the approximate number of agents and/or intermediaries to be appointed and the applicable average commission. It should also include such information as would normally be contained in a revenue account;
- § a specification pursuant to section 3(1) of the Insurance Companies Law setting out the classes of insurance business which the company proposes

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to conduct; and

§ specimen policy contracts which the company will be adopting in its business.

Cyprus international insurance companies are by definition owned by foreigners and conduct insurance activities outside Cyprus. They enjoy all the advantages of international business companies.

## **20.2 International Captive Insurance Companies**

Such a company is defined as a wholly owned or controlled subsidiary company established by a non-insurance parent for the purpose of participating in the risks of the parent and its other affiliates or associates.

Captive insurance companies are often operated by non-insurance multinational groups for the purpose of providing insurance cover for the companies within the group where such cover would not normally be obtainable or would be very costly if provided by third parties.

A captive insurance company can also be formed by an association of companies or individuals having as a common interest the insuring of the risks of that group.

### **20.2.1 Conditions**

The Council of Ministers has the authority to exempt a captive insurance company from the provisions of the Insurance Companies Law, provided that the company complies with any conditions or terms that the appropriate authorities in Cyprus deem necessary to impose.

The conditions currently being imposed are as follows:-

**20.2.1.1** The minimum subscription by way of share capital is CYP10,000.- instead of the normal CYP200,000.- stipulated in the Insurance Companies Law.

**20.2.1.2** There must be full compliance with the provisions of the Insurance Companies Law as to the filing of accounts and other relevant documents.

**20.2.1.3** The Superintendent of Insurance must be satisfied both that there is adequate cover to meet the claims of any individuals or third parties and that their claims will rank in priority to the claims of any other company within the group.

**20.2.1.4** The captive must not obtain any finance from local sources.

**20.2.1.5** All local expenses of the captive must be covered by funds imported from external sources.

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**20.2.1.6** The captive must advise the Central Bank of Cyprus annually of the funds imported into the country from external sources.

#### **20.2.2 Tax Exemption**

As the captive is entitled to international business status, it is liable to a reduced tax of 4.25% on its taxable income. The captive also enjoys all the other advantages afforded to international companies as described in Section 9.

### **21. DOUBLE TAXATION TREATIES**

#### **21.1 General**

Cyprus is one of the best examples of a "treaty haven" since it combines a low tax regime for international business entities with an extensive network of double taxation treaties and few anti-treaty shopping provisions. The primary purpose of these treaties is the avoidance of double taxation of income earned in any of the treaty countries. This is usually achieved, either through the allowance of a tax credit against the tax levied on the taxpayer by his country of residence or through tax exemption in one contracting state of the income taxed in the other contracting state. Normally, the result is that the taxpayer pays no more than the higher of the two rates.

By utilising the provisions of these treaties in conjunction with the low and sometimes total tax exemption situation in Cyprus, one may often achieve total avoidance of any tax in either country. It should be noted that tax haven countries do not participate in the network of double taxation treaties and are therefore unsuitable locations for intermediary companies since any payments to them would normally be subject to high withholding taxes at source. Cyprus has concluded double taxation treaties with the following countries:

|                       |                |                                   |
|-----------------------|----------------|-----------------------------------|
| <b>Austria</b>        | <b>Germany</b> | <b>Romania</b>                    |
| <b>Belarus</b>        | <b>Greece</b>  | <b>Russia and CIS Republics *</b> |
| <b>Belgium</b>        | <b>Hungary</b> | <b>Slovak Republic</b>            |
| <b>Bulgaria</b>       | <b>India</b>   | <b>South Africa</b>               |
| <b>Canada</b>         | <b>Ireland</b> | <b>Syria</b>                      |
| <b>China</b>          | <b>Italy</b>   | <b>Sweden</b>                     |
| <b>Czech Republic</b> | <b>Malta</b>   | <b>United Kingdom</b>             |
| <b>Egypt</b>          | <b>Kuwait</b>  | <b>United States of America</b>   |
| <b>Denmark</b>        | <b>Norway</b>  | <b>Yugoslavia</b>                 |
| <b>France</b>         | <b>Poland</b>  |                                   |

\*Excluding Kazakhstan and Turkmenistan

The tax treaty with Thailand awaits ratification and treaties with Mauritius and Singapore await signature. A new treaty with Yugoslavia was initialled and awaits

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signature (the old treaty is still in force). Treaties with Ireland, Denmark and the Czech Republic are renegotiated and treaties with Armenia, Ukraine, Algeria and Indonesia are under negotiation.

All the double taxation treaties that Cyprus has entered into are drafted on the basis of the OECD treaty model. By careful utilisation of the provisions of these treaties, Cyprus international business companies may be beneficially used as conduit vehicles where a treaty partner does not have a treaty with the country in which an investment is proposed or where such a treaty exists but is not as beneficial as Cyprus' own treaty with that country; for example, Cyprus has treaties with Bulgaria and Kuwait with whom the UK has no corresponding treaty.

Financing group structures may also be beneficially arranged through a Cyprus intermediary finance company in respect of countries with which the island has negotiated more beneficial tax treaties than the ultimate lender. The use of a Cyprus finance company may allow a reduction in foreign withholding tax on interest received and the accumulation of interest in Cyprus may be tax free or subject to a low rate of tax if this is desirable for treaty purposes. No debt/equity rules exist in Cyprus. Significant tax deferrals may also be achieved through the use of Cyprus international business companies as any overseas dividends received by them may be trapped and further utilised for reinvestment within a group structure without the ultimate parent incurring domestic tax liabilities, subject to applying an acceptable distribution policy.

In addition, the reputation that Cyprus enjoys with foreign tax jurisdictions means that tax screening requirements normally relevant to tax havens and low tax countries, may not be relevant to payments to Cyprus entities, while the anti-avoidance legislation of high tax countries aimed at clawing back benefits derived through tax havens and low tax centres may be less significant with regard to Cyprus.

## **21.2 Cyprus' Double Taxation Treaties with Central and Eastern European Countries**

These treaties give Cyprus-incorporated international business companies a considerable advantage over other countries in entering into joint venture activities in Eastern Europe, primarily because of the reduction in the impact of withholding taxes on the distribution of joint venture profits to the respective parties. The table below shows the rates of withholding taxes on dividends, interest and royalties on payments from companies resident in Central and Eastern European treaty countries to Cypriot residents. Since Cypriot companies are subject to tax on their profits but dividends or other types of payments payable out of such profits are not subject to further taxation, there is no need to table the withholding tax position on payments from Cypriot companies to non-residents.

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| WITHHOLDING TAX RATES |             |            |              |
|-----------------------|-------------|------------|--------------|
| Received in Cyprus    |             |            |              |
|                       | Dividend- % | Interest-% | Royalties- % |
| Bulgaria              | Nil         | Nil        | Nil          |
| Czech Republic        | 10          | 10         | 5            |
| Hungary               | Nil         | 10         | Nil          |
| Poland                | Nil         | 10         | 5            |
| Romania               | 10          | 10         | 5            |
| Russia                | 5           | Nil        | Nil          |
| Slovak Republic       | 10          | 10         | 5            |
| Yugoslavia            | 10          | 10         | 10           |

### 21.3 Cyprus/ Russia Double Taxation Treaty

The traditional investment route into Russia is via Cyprus and this is largely due to the fact that a favourable tax treaty exists between the two countries. The current treaty provides for a Russian withholding tax on dividend payments of 5% and a nil Russian withholding tax on interest and royalty payments to Cypriot residents. Cyprus does not levy a withholding tax on dividends and a Cypriot international business company is entitled to declare income received from dividends, interest and royalties as a dividend for the benefit of shareholders (whether in Cyprus or in any international jurisdiction) without suffering any withholding tax in Cyprus.

Profits derived in Russia by a resident of Cyprus, will be liable to taxation in Russia only if the profits are derived from a permanent establishment located in Russia and only to the extent which is attributable to the activity of such permanent establishment. In the determination of profits of a permanent establishment, expenses which are incurred for the purposes of the permanent establishment are deductible, including executive and general administrative expenses, whether incurred in the country of residence or abroad. The treaty provides that construction or assembly works lasting for a period not exceeding twelve months, would not be considered as a permanent establishment and would therefore not be taxable in Russia.

The treaty contains increased emphasis on anti-avoidance and Cypriot international business entities are entitled to normal treaty relief.

### 21.4 Cyprus / U.S.A. Double Taxation Treaty

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This treaty came into force on 1st January 1986 and contains an exchange of information provision which imposes upon each contracting state an obligation to provide information to the other in the form of depositions of witnesses and authenticated copies of original documents. This applies to the same extent as such information can be obtained under the laws and administrative practices of the other country in respect of its own taxes.

US companies in particular would benefit from using a Cyprus company for investment in certain Central and Eastern European countries with which the US has no double taxation treaties. Moreover, although the new US/ Russia double taxation treaty signed on the 17th June 1992 might have significantly reduced the tax benefits of Cyprus as a useful intermediary jurisdiction for US corporations, it is still advantageous to use Cyprus for investments in the Russian Federation because the permanent establishment article in the new US/ Russia double taxation treaty is a very broad one whereas the respective article in the Cyprus/ Russia double taxation treaty gives a much narrower definition of permanent establishment, thus restricting potential tax liabilities in certain circumstances and creating tax planning opportunities.

#### **21.5 Cyprus / Austria route**

Cyprus has also entered into a double taxation treaty with Austria; in view of the tax-free receipt of dividends and other income by Austrian holding companies, which is similar to the Dutch participation exemption, the Austrian/ Cyprus route could provide a suitable alternative to the present Netherlands/ Netherlands Antilles holding structure. Under the Austria/ Cyprus treaty the Austrian dividend withholding tax is reduced to 10% and there is no further taxation in Cyprus for international business companies holding the Austrian company's shares.

#### **21.6 Cyprus/ China Double Taxation Treaty**

Under the Cyprus/ China double taxation treaty, the maximum withholding tax rate on royalties and interest is 10%. Of particular importance is the fact that the treaty contains no limitation of benefits provisions so that a Cyprus international business company paying tax at just 4.25% on its income will nevertheless be able to benefit from the treaty provisions. Such Cyprus companies may therefore not only be useful as intermediary companies but indeed as the ultimate financing or licensing entities used for investment in China.

#### **21.7 Cyprus/ India Double Taxation Treaty**

Under the Cyprus/ India double taxation treaty, the Indian dividend withholding tax is reduced to 15% with respect to shareholdings of less than 10%. Cyprus can therefore be a suitable location for a portfolio investment company owning both shares and bonds. The treaty provides for a reduced 10% Indian withholding tax on outgoing interest.

### **22. CONCLUSION**

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Since 1975 when the authorities, anxious to diversify the economy, first began to attract overseas companies operating abroad, Cyprus' expansion as an international business centre has been rapid. Now the island's enormous potential is being fully realised and, largely through the efforts of an aggressive, adventurous private sector, the country has come into its own as a dynamic financial base.

Cyprus' convenient geographic location, the existence of legislation based on English law and principles, the provision of substantial tax incentives, its excellent commercial infrastructure, low operational costs and very good telecommunications are only a few of the factors which have helped Cyprus to attract foreign investors.

The purpose of this publication is to assist clients and associates in clarifying and appreciating the range of opportunities which are available in or through Cyprus. Although every effort has been made to provide the reader with a clear and comprehensive picture of the island's beneficial regime, it should be appreciated that it is not possible to cover all aspects comprehensively in a publication of this size.

Individuals or companies who are seriously considering using Cyprus for any of their international business activities are advised to obtain expert professional advice before taking positive action.

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