oneworld

CYPRUS FOR UKRAINIAN BUSINESS

Published by
Oneworld ltd, Nicosia
January 2013

Design
grafica&grafica

Printing
Chr Nicolaou & Sons Ltd

Foreword

Cyprus offers unique tax opportunities: the low corporate tax rate in the EU, a network of favourable double tax treaties, no capital gains on profits from shares and securities and exemption of taxes on foreign dividends received and paid out. A truly significant International Financial Centre.

On 8 November 2012, a Double Tax Treaty ("DTT Treaty") was signed between Cyprus and Ukraine. The Treaty is to replace the 1982 "Cyprus-USSR Treaty" as concluded between Cyprus and the USSR which Ukraine (and Cyprus) upheld after the USSR had ceased to exist.

The loss of the zero withholding taxes on dividends, interest and royalties was inevitable. The new maximum rates are modest and Cyprus remains amongst Ukraine's most favoured treaty partners. The continuation of the very favourable arrangements for taxation of 'property rich' companies is excellent news and gives Cyprus a huge advantage as a jurisdiction in which to hold Ukrainian real estate. In summary, the new agreement remains very beneficial and once it takes effect Cyprus is unlikely to be displaced as the predominant conduit for international investment to and from Ukraine.

Our publication deals with opportunities and structures through Cyprus which are tax effective for Ukrainian business. Cyprus is for many years the leading country for Foreign Direct Investments in Ukraine and this is expected to continue in the foreseeable future.

At Oneworld and Group One, we are continuously enhancing our industry specialization to address the new opportunities and challenges our clients are facing. We help our clients to solve complex problems and we pride ourselves in offering quality services which help to improve trust and confidence. Together with your worldwide network and affiliates we deliver integrated solutions.

George A Philippides
CEO
gap@onegroup.net

January 2013

1 An International Financial Centre

Efficient tax planning has become a very significant factor in commercial decisions and this has let to the development of numerous financial centres in the world.

Cyprus has succeeded in differentiating itself from other financial centres. It has established a favourable tax system with a wide network of Double Tax Treaties (DTT). It also complies fully to all EU Directives. As a result, Cyprus today is firmly established as a reputable, international, financial and commercial regime.

Favourable position

Comprising an area of 9.251 sq km Cyprus is the third largest island in the Mediterranean after Sicily and Sardinia. The strategic location of the island has played an important role in its continuing development into a financial centre.

Cyprus enjoys perhaps the best type of Mediterranean climate with about 340 warm and sunny days a year. The light rainy season is confined to the period between November and March.

Cypriots are highly educated. In fact, Cyprus has one of the highest percentage of university graduates per capita in the EU. This ensures an adequate supply of skilled and qualified personnel. Although the native language is Greek, English is commonly used as the business language.

The strong pro-business attitude, the multilingual and highly skilled human capital, the advanced telecommunications infrastructure have made the island one of the most progressive and efficient business locations in Europe.

Foreign investment

Foreign investment has long been considered as one of the most important elements of the country's economic prosperity. The Cyprus government has liberalized the Foreign Direct Investments (FDI) policy for both EU and non-EU nationals. Administrative procedures have been simplified and as far as the minimum level of investment and the percentage of foreign participation are concerned, no limitations apply in almost all sectors of the economy.

Hydrocarbon opportunities

The recent discovery of significant quantities of hydrocarbons within Cyprus' exclusive economic zone, provides the island and Europe with a totally new, exciting opportunity. Cyprus, one of the smallest EU Member States has a role to play in the energy strategy of the EU.

The Council of Ministers has set up a state company to manage the island's participation in the exploration and exploitation of hydrocarbons.

It will be involved in the trade of hydrocarbons and participate in any new infrastructure deemed necessary, such as a natural gas liquefaction terminal and pipelines. It will also represent Cyprus in any collaboration with companies involved in the exploration of hydrocarbons in the island's exclusive economic zone.

Cyprus and the EU

The Republic of Cyprus became a member of the EU as of May 2004.

The accession of Cyprus to the EU and the adoption of the acquis communittaire have created new challenges and opportunities in the business world in Cyprus. Moreover, a number of new funding opportunities became available from EU credits aiming mainly to support the development of business activities in the manufacturing , agriculture and agrotourism sectors as well as human resource upgrading and the development of the rural areas of the island.

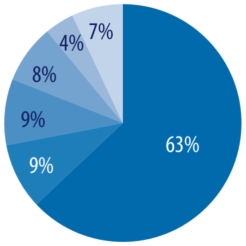
Cyprus introduced euro (€) as its official currency as of 1 January 2008.

Services sector

The services sector has become increasingly important as reflected by its almost 70 percent contribution to GDP and its share in employment, while the importance of agriculture and manufacturing has been declining.

Services include banking and financial services, insurance, advertising, legal, architecture and civil engineering, accounting and auditing, consultancy, design, electrical and mechanical engineering, film production, market research, medical, printing and publishing, public relations, education, software development, tourism and related services, telecommunications, transportation and other services.

The size and rate of growth of this sector, which has been the fastest in recent years, has led observers to describe Cyprus as a "service economy".



GDP breakdown by sectors:

- services including tourism 63%
- manufacturing 9%
- transport and communication 9%
- construction 8%
- agriculture 4%
- other 7%

Incentives for locating a business in Cyprus include:

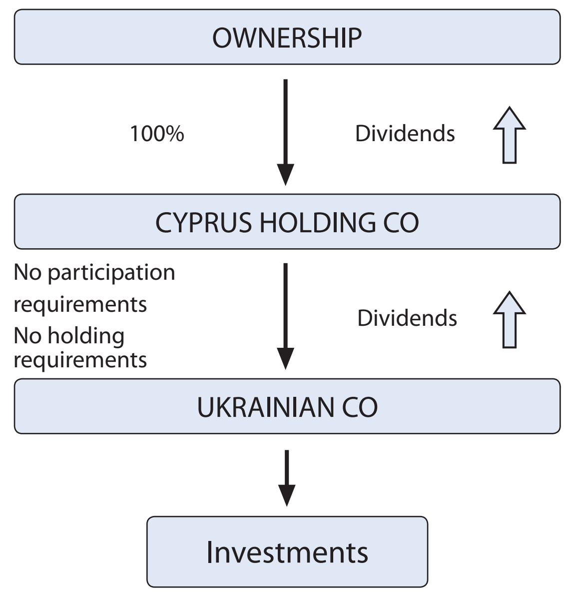
- favourable taxation which includes, inter-alia, 10 percent corporation tax, low personal income tax and no capital gains tax on the sale of shares and securities
- a prosperous and resilient economy enjoying long-term stability and growth
- member of the EU and a gateway for the movement of goods inside and outside the EU
- skilled work force, qualified and multilingual
- excellent infrastructure providing easy access by air and sea
- low set-up and operating costs
- simplified procedures for obtaining requisite permits
- a fine place to live and work in, with pleasant climate and high quality of life

2 Use of Cyprus in International Structures

The Cypriot tax system provides to investors :

- only 10 percent corporation tax, the lowest rate in the EU
- exemption from tax of dividend income, in most cases
- exemption from tax of profits from foreign Permanent Establishment (PE), in most cases
- exemption from tax on profits generated from transactions in shares, securities, bonds and units
- exemption from withholding tax on the repatriation of income either in the form of dividends, interest and on almost all royalties
- extensive double tax treaty network
- access to EU Directives
- no thin capitalization rules
- absence of Controlled Foreign Company (CFC) rules, thus exempting foreign income received
- flexible reorganization rules and group relief provisions

Cyprus Holding Company



Cyprus

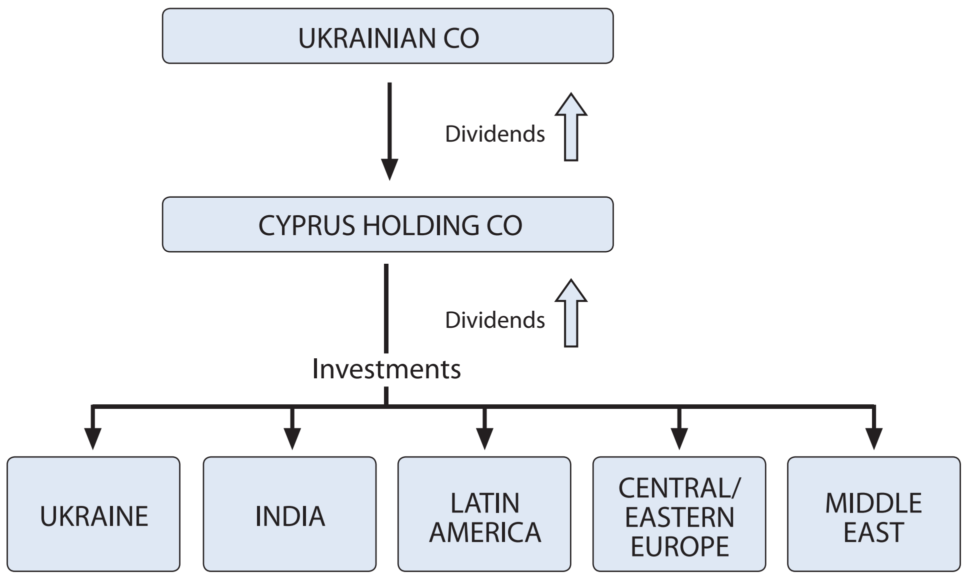
- Corporate tax on worldwide profits: 10%
- Dividends received: Dividends are not subject to corporation tax and are usually exempt from SDC
- Dividends paid: 0% withholding tax

Ukraine

- Dividends paid:
  - 5% withholding tax if the beneficial owner holds at least 20% of the capital of the company paying the dividend or has invested at least € 100.000
  - In all other cases, the withholding tax is 15%

- From a Cyprus perspective, no participation or holding requirements exist in order to obtain tax benefits. Incoming dividends from Ukraine are exempt from Cyprus corporation tax and are usually exempt from the Special Defence Contribution (SDC) provided that no more than 50% of the Russian entity's activities arise from investment income or the foreign tax rate is not significantly lower than the tax payable in Cyprus (lower than 5%)
- 5/15% withholding tax is imposed on dividends distributed by the Ukrainian company according to the DTT in place
- The Cyprus Company is liable to a 10% corporation tax on its worldwide income

Cyprus Holding Company in International Investments



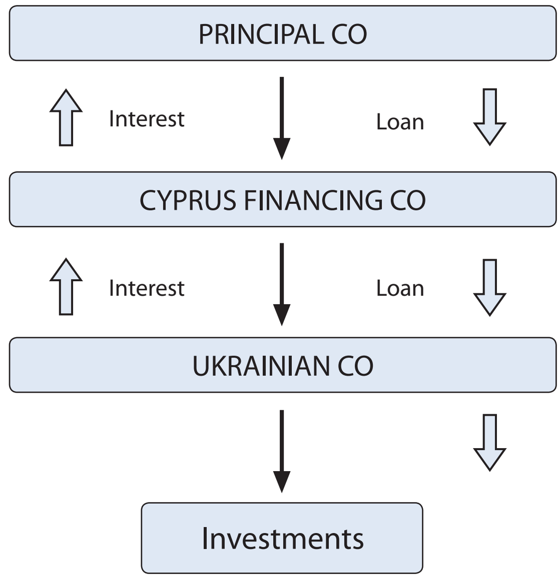
	UKRAINE	INDIA	LATIN AMERICA	CENTRAL/ EASTERN EUROPE	MIDDLE EAST
Dividends	5/15%	10/15%	0/30%	0/15%	0/15%
Interest	2%	0/10%	0/30%	0/15%	0/15%
Royalties	5%	10/15%	0/30%	0/15%	0/15%

Cyprus

- Dividends paid:
  0% withholding tax in Cyprus
- Dividends received:
  - 0% withholding tax (taxed with low or no withholding taxes at the level of the subsidiaries)
  - Dividends are not subject to corporation tax

From an international investment perspective, Ukrainian companies through Cyprus can gain access to jurisdictions with which Ukraine does not have a double tax treaty. Cyprus is considered a 'passport' for investments.

Cyprus Back to Back Financing Company



Cyprus

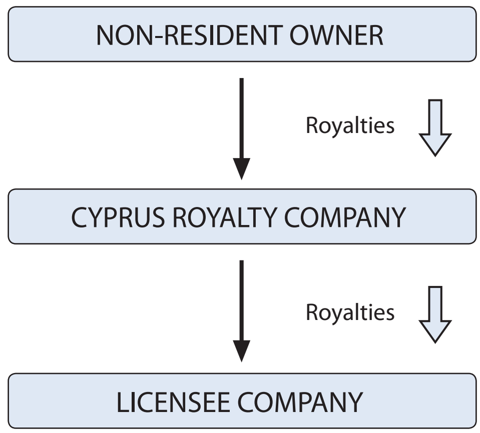
- Interest income received from intra-group lending is taxed at 10% corporation tax on the interest margin
- No thin capitalisation / no debt to equity restrictions exist
- No transfer pricing legislation in place, however, the arm's length principle applies
- Interest paid to non-resident creditors is not subject to any withholding taxes

As for back-to-back financing minimum interest margin (per contact) accepted by the Cyprus Tax Authorities is as shown:

Less than €50m:	0.35 %
€50m – €200m:	0.25 %
Over €200m:	0.125%

Cyprus companies can be utilized as finance investment vehicles suitable for financing groups of companies, leading to an efficient accumulation of interest income.

Cyprus Royalty Companies



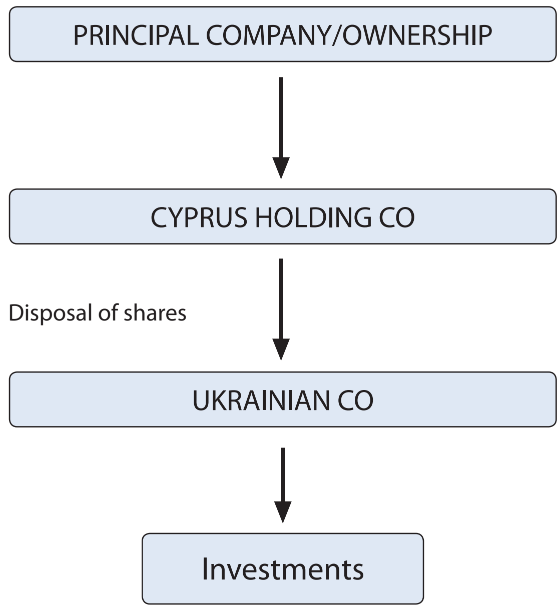
Cyprus Royalty Company

- Sublicenses Intellectual Property Rights (IP)

Cyprus

- Net royalty profits are subject to 10% corporation tax. From 1 January 2012, 80% of any income and capital gains (net of direct expenses) generated from IP rights owned by Cypriot resident companies will be exempt from corporation tax, thus the effective tax is less than 2%
- Gains on the sale of shares of a Royalty Company are exempt from corporation tax
- Royalty payments are exempt from any withholding taxes provided that these rights are exercised outside Cyprus
- A Cypriot sublicensing company may be interposed between the non-resident beneficial owner company and the licensee company which will exercise the rights on the IP obtained. Royalty payments are received with respect to the licenses on the IP rights which are granted

Capital Gains Exemption

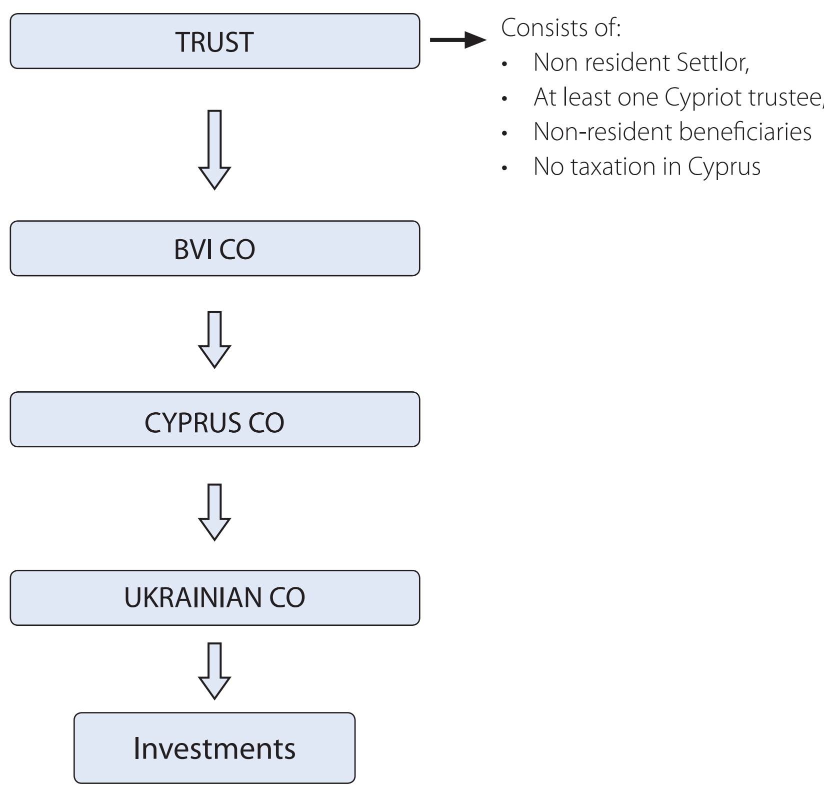


Disposal of shares is not in any way taxable under the capital gains tax or corporation tax provisions in Cyprus:

- Cyprus companies investing in Ukraine are in a position to gain additional business benefits from the capital gains treatment where there is a disposal of shares held in the Ukrainian Company.
- In Cyprus, capital gains deriving from the disposal of shares are not subject to capital gains tax if no immovable property situated in Cyprus is involved.
- The favorable benefits of the Cyprus - USSR DTT provisions are maintained with regard to capital gains on disposal of shares of "property rich companies".

Cyprus International Trusts (CIT)

- Cyprus International Trusts (CIT) are efficient business and wealth management instruments, as well as instruments to be used for the protection of assets
- The assets and interests of the beneficiaries of the CIT are safeguarded from interference by life's various obstacles including divorces and separations
- A CIT serves the purposes for the securing of inheritance
- The duration of a CIT is not subject to any limitation



- Exempt from income tax, capital gains tax, SDC or any other taxes in Cyprus
- Exempt from estate duty or inheritance tax
- Have no reporting requirements
- Dividends, interest or royalties received by CIT are not taxable and not subject to any withholding tax
- Exempt from exchange control restrictions
- Exempt from any trust capital received in Cyprus by a foreign resident beneficiary
- Discreet and protected by recent legislation

Collective Investment Vehicles (Private Funds)

Russian/International Investors

- No withholding tax on dividends, interest and royalties distributed in Cyprus

INTERNATIONAL FUND

- ICIS TYPE
  - o International Variable Capital Company
  - o International Fixed Capital Company
  - o International Unit Trust Scheme
  - o International Investment Limited Partnership
- CENTRAL BANK of CYPRUS REGULATES ICIS
  - o Marketed to the general public
  - o Addressing experienced investors
  - o It can be a private fund consisting of up to 100 investors
  - o Or public fund exceeding 100 investors (public funds are regulated by CySEC under UCITS law) and requires a Manager with EU licence

- Cyprus
  - o Dividends received or paid from Cyprus are not taxed
  - o Wide DTT network
  - o Favourable investment conditions
  - o Nil or very low withholding tax on dividends, interest and royalties received

Global Investments

	UKRAINE	INDIA	LATIN AMERICA	CENTRAL/ EASTERN EUROPE	MIDDLE EAST
Dividends	5/10%	10/15%	0/30%	0/15%	0/15%
Interest	2%	0/10%	0/30%	0/15%	0/15%
Royalties	0/5%	10/15%	0/30%	0/15%	0/15%

Collective Investment Funds can invest not only in investment instruments in Ukraine but in almost every other part of the world including India, Latin America, China, the Middle East, and Central and Eastern Europe.

3 Cyprus - Ukraine Double Tax Treaty

On 8 November 2012, a Double Tax Treaty ("DTT" /"Treaty") was signed between Cyprus and Ukraine. The Treaty is to replace the 1982 "Cyprus-USSR Treaty" as concluded between Cyprus and the USSR which Ukraine (and Cyprus) upheld after the USSR had ceased to exist.

The DTT is based on the OECD Model Tax Convention on Income and on Capital of 2010 (the "OECD Model").

The most salient changes (compared to the Cyprus-USSR Treaty) are the following:

Place of effective management

Article 4 of the Treaty ('Resident') follows the OECD Model and provides for 'place of effective management' test to determine tax residency status of a company in both Cyprus and Ukraine.

Taxes covered

The DTT applies to taxes on income (including income from alienation of movable or immovable property). In the case of Ukraine, the Treaty covers only corporate and personal income taxes whereas in the case of Cyprus it also covers Special Defence Tax and Capital Gains Tax.

General definitions

Article 3 of the Convention provides definitions of the terms "Cyprus" and "Ukraine". The term "Cyprus" explicitly includes the contiguous zone, the exclusive economic zone and the continental shelf as an area within which Cyprus may exercise sovereign rights or jurisdiction.

This may be particularly important given the recent discovery of hydro carbons in Cyprus' exclusive economic zone.

Income from immovable property

Article 6 of the Treaty is in accordance with OECD Model and explicitly excludes ships, boats and aircrafts from the definition of immovable property for the purposes of the DTT. Profit from the sale of shares in 'property rich' companies is not covered under 'Immovable property' or 'Capital gains' articles and should still fall under article 'Other income' and, thus, be taxed in a Contracting State ("CS") where the alienator is resident.

Permanent establishment

Article 5 of the Treaty adjusts the definition of 'permanent establishment' to be in accordance with the OECD Model and to include place of management, place of exploration and extraction of natural resources. A building site/ construction or installation project (or supervisory activities thereof) will be considered 'permanent establishment' only if it lasts more than 12 months.

Dividends

The Cyprus-USSR Treaty provides for a zero withholding tax on dividend payments made by a resident of one CS to a resident of the other CS. Under the Treaty, the withholding tax rate will be limited to 5% if the beneficial owner holds at least 20% of the capital of the dividend paying company or has invested in the shares or other rights of the company equivalent of at least €100,000. In case these conditions are not met, withholding tax will be at 15%.

If dividends do not meet the exemption criteria and are subject to tax in Cyprus, a tax credit is granted for the full amount of tax paid.

Interest

The Cyprus-USSR Treaty provides for a zero withholding tax on interest received from sources in a CS by a resident of the other CS. Under the Treaty the withholding tax rate will be limited to 2%provided the beneficial owner of the interest income is resident in the other CS.

Royalties

Under the USSR-Cyprus Treaty payments for copyrights and licences received from sources in a CS by a resident of the other CS are not subject to withholding tax. Under the Treaty the withholding tax rate is 5% in case of royalties in respect of copyright of scientific work, any patent, trade mark, secret formula, process or information concerning industrial, commercial or scientific experience and 10% for the rest of the royalties (i.e films etc).

Cyprus is the most favourable jurisdiction in EU for royalties as the effective tax rate is less than 2% on net profits.

Elimination of double taxation

The Convention introduces a tax credit method of tax relief and also provides for a tax sparing credit, i.e. income which is exempt from tax in one CS may be taken into account by the other CS in calculating the amount of tax on the remaining income.

Exchange of information

The Treaty introduces a new wording of 'Exchange of information' article which is in accordance with Article 26 of the OECD Model. The Protocol clearly states that the requesting CS shall provide certain information when making a request for information to demonstrate the foreseeable relevance of the information to the request. This wording is in accordance with Article 5 (5) of the OECD Model, Agreement on Exchange of Information on Tax Matters. However, the Protocol specifically states that the information requested shall not be provided unless the requesting CS has reciprocal provisions and/or applies appropriate administrative practices for the provision of the information requested.

Taxation of gains on shares

There were fears that a number of benefits would be lost as a result of the renegotiation. One of the great benefits of the Cyprus-USSR treaty is its highly favourable provisions regarding capital gains on disposal of shares in 'property rich' companies. Movable property including shares is taxable only in the country of residence of the owner, and since Cyprus imposes no tax on disposal of shares except and to the extent that the gain is derived from real estate in Cyprus, Cyprus companies have become convenient means of holding real estate in Ukraine, effectively allowing property to be disposed of tax free.

Cyprus remained as the most favourable jurisdiction to hold shares and real estates as they are tax free on disposal.

Entry in force

The Treaty will come into force once it is ratified by the appropriate bodies in both Cyprus and Ukraine in accordance with their domestic procedures and once the ratification instruments are exchanged by the two countries. The ratification process usually takes a few months so assuming this is complete in early 2013 the Treaty will be in effect as from 1 January 2014. Once the DTT comes into effect the Cyprus-USSR Treaty in relation to Ukraine shall be terminated.

Comments and conclusion

The loss of the zero withholding taxes on dividends, interest and royalties was inevitable. The new maximum rates are modest and Cyprus remains among Ukraine's most favoured treaty partners.

The continuation of the very favourable arrangements for taxation of 'property rich' companies is excellent news and gives Cyprus a huge advantage as a jurisdiction in which to hold Ukrainian real estate.

Much of the Ukrainian criticism of the Cyprus-USSR Treaty related to the perceived inadequacy of its exchange of information scope to engage in "fishing expeditions" based on little more than suspicion. These fears are now unfounded. Direct informal exchange of information between tax officers bypassing the competent authority is prohibited. A detailed case must be made, with the criteria set out in a lengthy legal document. In effect, this means that the authorities requesting the information must already have a strong case even before their request.

In summary, the new agreement remains very beneficial and once it takes effect Cyprus is unlikely to be displaced as the predominant conduit for international investment to and from Ukraine.

Oneworld ltd/Group One

At Oneworld we deal in solutions. Although a significant proportion of our business is corporate registration and administration, many clients now come to us for a complete solution and for many we also provide creation and administration of trusts, international tax advice, accounting and payroll, VAT and customs, corporate finance, valuations and related services.

Like our clients, we maintain the highest professional standards and code of conduct. Our due diligence procedures more than meet the requirements of the highly regulated jurisdictions in which we work.

Adherence to the highest standards is demonstrated by the licenses we have obtained. Our staff are trained comprehensively in anti money laundering and 'know your client' procedures. As you would expect, confidentially is paramount in all our dealings, and our staff are bound by law to maintain professional confidences.

We are one of the leading corporate providers and we bring a depth of experience to our work and dealings with clients. Our personnel consists of chartered accountants, lawyers, financial advisors, tax specialists, administrators and company secretaries as well as a highly trained and knowledgeable corporate and support staff.

Our services include:

- Corporate and Trust
- Financial Advisory
- Global Compliance
- Business Advisory
- Tax and Legal

Oneworld ltd is a member of Group One which includes:

- One Plus Capital ltd (licenced by CySEc)
- One Plus Family MFO ltd
- Oneworld Ventures Trustees ltd
- Priamus Pro Audit Services (Affiliate)

Our contact details

Nicosia (Head Office)

75 Prodromou Avenue

Oneworld House

PO Box 25207

Nicosia 1307

Cyprus

T +357 22496000

F +357 22493000

reception@oneworldweb.net

Limassol

135 Arch Makarios III Avenue

Emelle Building, 4th floor

PO Box 51718

Limassol 3021

Cyprus

T +357 25337745

F +357 25337765

limassol@oneworldweb.net

www.oneworldweb.net

www.onegroup.net

GROUP ONE

Thinking Ahead of Tomorrow