

CYPRUS FOR BUSINESS

Despite the events of March 2013, Cyprus' economy has since picked up and the unique business opportunities to international businesses have not been affected.

The island maintains one of the lowest corporate tax rates in the EU, offers an extensive network of favourable double tax treaties, has no withholding taxes on dividends and interest paid, no capital gains on profits from the sale of shares and securities and exemption of taxes on foreign dividends and interest received.

At the same time, it is complying with EU Directives and OECD regulations against harmful tax practices. A significant international business hub!

The island's entry to the EU and the eurozone considerably enhanced its long standing international business advantages. Cyprus a significant gateway for EU inbound and outbound investments. This complements the traditional links Cyprus has with central and eastern Europe, Russia, India and China. Further, the harmonization of EU capital markets and the adoption of the "Single EU Passport", have paved the way to significant cross border opportunities for investors wishing to capture the wider EU business market using Cypriot tax efficient structures.

Public/private companies and funds (UCITS and AIFs) registered in Cyprus can be used as efficient investment vehicles. A company or fund registered in Cyprus can conduct public offers in other EU member states or have their shares admitted on an EU regulated stock exchange.

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1 TAX ADVANTAGES

The Cypriot tax system provides to investors:

- 12,5 percent corporation tax, amongst the lowest in the EU
- exemption from tax on dividend income, in most instances
- no tax on profits from foreign permanent establishment (PE), in most instances
- exemption from tax on profits from shares, securities, bonds and units
- no withholding tax on the repatriation of income including dividends, interest and royalties
- extensive double tax treaties 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

Tax system

Cyprus' tax system is in full compliance with EU requirements and also with the OECD requirements against harmful tax practices.

The main features of the tax system of Cyprus are as follows:

Scope of tax

Tax is imposed on all Cypriot resident persons (individuals and corporations) on their worldwide income.

A corporation is tax resident in Cyprus when its management and control is exercised in Cyprus.

An individual is tax resident in Cyprus when spending more than 183 days of a calendar year in Cyprus.

Corporation tax

The corporation tax rate is 12,5 percent.

Dividend income

Corporations do not pay any tax on dividends received from other Cypriot tax resident companies.

The exemption from tax also applies to profits of a permanent establishment (PE) the Cypriot company has in another jurisdiction, subject to certain conditions.

The exemption will not be granted if:

- more than 50 percent of the activities of the paying company/PE result in investment (passive) income, and
- the paying company/PE is subject to tax rate substantially lower than the Cyprus rate

When dividend income is not exempt, it is subject to 17 percent defence tax contribution. Tax credits for taxes paid abroad, are deductible in Cyprus. If the profits of the PE are not exempted, they are subject to corporation tax of 12,5 percent. Tax credits for taxes paid abroad apply.

Interest income

When interest income is the result of the ordinary activities of the company or is closely connected to the ordinary activities of the company, it is subject to tax like any other "active" trading income.

Group finance interest income is considered as trading income.

Capital gains tax

Capital gains tax (CGT) is only imposed on the sale of land and buildings situated in Cyprus, or of shares in non-listed companies that own such property. There is no CGT on the sale of any other assets including real estate outside Cyprus and shares. As far as shares are concerned, gains as well as trading profits from the disposal of titles are exempt from all taxes.

Thin capitalization

Cypriot tax legislation does not contain specific provisions relating to thin capitalization of companies ie debt to equity ratio restrictions. A Cypriot holding company may, therefore, be capitalized with loans without any risk that interest paid at arm's length to its parent company will not be deductible.

Controlled foreign company (CFC) legislation

Compared with other jurisdictions, Cyprus CFC legislation is limited, targeting only certain types of income that are not derived from real business activities to create a distinction between participation (active) and investment (passive) income.

Other significant provisions

Losses can be carried forward up to five years.

Group tax loss relief is available for companies forming part of a group.

Mergers, acquisitions and spin-offs as per the same rules as the relevant EU Directive, can be effected without tax cost.

There are no thin capitalization rules (companies can be funded almost exclusively by debt) and no CFC rules.

Royalties (IP "box regime")

The provisions introduced in 2012 provide exemptions from tax on income related to Intellectual Property (IP). More specifically:

- 80 percent of worldwide royalty income is exempt from income tax

- 80 percent of profits generated from the disposal of Cypriot IP is exempt from income tax
- effective tax rate of 2,5 percent or less
- any expenditure of a capital nature

The above exemptions are also available for IPs acquired or developed before January 2012.

In addition:

- no withholding taxes on payment of royalties
- Cyprus has an extensive worldwide network of double tax treaties
- the EU Directive on Interest and Royalties provides for nil withholding taxes between EU countries which applies to Cyprus also

Withholding taxes

Cyprus does not impose any withholding tax on dividend, interest and royalty payments made to non-Cypriot resident recipients.

In the case of royalties, the exemption applies for royalty payments when the right/asset is used outside of Cyprus.

When the royalties are connected with the use of the right/asset within Cyprus, there is a 12,5 percent withholding tax subject to treaty provisions, and where applicable, to the EU Interest and Royalties Directive.

Expense deductibility

Under Cypriot law all expenses incurred for the generation of income are deducted before arriving at the taxable income.

Double tax treaty (DTT) network and EU Directives

Cyprus has an extensive network of DTTs. Several others are under negotiation. Where there is no DTT, a Cyprus company can benefit from the EU Directives to eliminate withholding taxes when collecting income from the EU. Unilateral tax credit on foreign taxes withheld at source is also available.

EU Parent Subsidiary Directive

This Directive, as amended, was transposed into Cypriot law in the form of the Income Tax Law and the Special Contribution for Defence Law. These laws establish a liberal system of double taxation avoidance. The new tax regime extends to non-EU countries, as the laws distinguish only between residents and non-residents of Cyprus.

On the taxation of dividends, the Cypriot tax laws are even more liberal than the Directive. Foreign dividends are exempt. On a holding period, the second derogation of the Directive allows a member state not to apply the Directive.

Incentives for Locating a Business in Cyprus

Tax benefits

Main tax benefits include:

- favourable system including 12,5 percent corporation tax, low personal income taxes and no capital gains tax on the sale of shares
- extensive network of favourable double tax treaties
- low margins on intra-group loans and equity
- interest to finance the acquisition of a 100 percent subsidiary is tax allowable
- no financial transactions tax

Holding companies

Holding companies represent the majority of IBCs. The regime is beneficial, remember:

- dividends are exempt from taxation, in Cyprus and abroad
- gains from disposal of shares and bonds are tax exempt
- no thin capitalization rules
- dividends paid to non-resident shareholders are not subject to withholding tax

Financing companies engaged in intra-group loans

Generous tax deductibility of general administration expenses. No withholding tax on payments of interest to non-residents

Intellectual property (IP) companies

The IP regime is probably the most attractive in EU, the effective tax rate is below 2,5 percent

Other advantages

- strategic location at the crossroads of Europe, Middle East and Africa
- member state of the EU and a gateway for the movement of goods in and out of EU
- high quality professional services
- excellent infrastructure providing easy access by air and sea
- low set up and operating costs

TAX ADVANTAGES

Withholding Taxes - Paid to Cyprus

	Dividends %	Interest %	Royalties %		Dividends %	Interest %	Royalties %
Non-treaty countries	0	0	0	Mauritius	0	0	0
Armenia	0/5	5	5	Moldova	5/10	5	5
Austria	10	0	0	Montenegro	10	10	10
Azerbaijan	0	0	0	Norway	0/15	0	0
Belarus	5/10/15	5	5	Poland	0/5	0/5	5
Belgium	10/15	0/10	0	Portugal	10	10	10
Bosnia	10	10	10	Qatar	0	0	5
Bulgaria	5/10	0/7	10	Romania	10	0/10	0/5
Canada	15	0/15	0/10	Russia	5/10	0	0
China	10	10	0/10	San Marino	0	0	0
Czech Republic	0/5	0	0/10	Serbia	10	10	10
Denmark	0/15	0	0	Seychelles	0	0	5
Egypt	15	15	10	Singapore	0	0/7/10	10
Estonia	0	0	0	Slovakia	10	0/10	0/5
Finland	5/15	0	0	Slovenia	5	5	5
France	10/15	0/10	0/5	Spain	0/5	0	0
Germany	5/15	0	0	South Africa	0	0	0
Greece	25	10	0/5	Sweden	5/15	0/10	0
Hungary	5/15	0/10	0	Syria	0/15	0/10	10/15
India	10/15	0/10	15	Tajikistan	0	0	0
Ireland	0	0	0/5	Thailand	10	10/15	5/10/15
Italy	15	10	0	Ukraine	5/15	2	5/10
Kuwait	0	0	5	United Arab Emirates	0	0	0
Kyrgyzstan	0	0	0	United Kingdom	0/15	10	0/5
Lebanon	5	5	0	United States of America	5/15	0/10	0
Lithuania	0/5	0	5	Uzbekistan	0	0	0
Malta	0	10	10				

The above table provides a summary of the withholding taxes applicable for payments to Cyprus companies from double tax treaty countries.

Withholding taxes – Paid from Cyprus

- No withholding taxes exist for **dividend** payments which are made to non-tax residents of Cyprus
- No withholding taxes exist for **interest** payments which are made to non-tax residents of Cyprus
- No withholding taxes exist for **royalty** payments if the right is used outside Cyprus

2 IP AND ROYALTIES

Royalties are the payments of license fees or commissions by one individual or entity to another for the use of intellectual property (IP). IP can take several forms:

- copyrights including literary works, dramatic works, musical works, scientific works, artistic works, sound recordings, films, broadcasts, published editions, databases, publications, software programs
- patented inventions
- trademarks (and service marks), designs and models that are used or applied on products

The above is not an exhaustive list.

Registrable IPs need not to be registered in Cyprus to benefit from the IP regime.

The aim is to generate the income arising from these rights in the most tax efficient manner possible. The ideal candidate for royalty routing is a business who has a new IP right, when there is little difference between the fiscal book value and the real value of that right and it can be transferred to an offshore company at minimal value. Once the intellectual property rights are vested in this company they are then licensed to other, usually onshore, intermediary corporations.

The introduction of the new IP "box regime" in 2012, means that there is no need for the use of the traditional offshore company as the ultimate parent company as the IP owner and the Cyprus entity can be the collection agent.

Ideal IP location

IP can be one of the most valuable assets of an organization. Choosing the right location for the centralization and management of IP is a very important strategic business decision. The ideal location to establish an IP structure is one that can serve the organization's business strategies/ model, safeguard and protect its IP and contribute to its tax optimization.

Cyprus offers an efficient IP tax regime coupled with the protection afforded by EU member states and by the signatories of all major IP treaties and protocols.

Benefits of Cyprus IP

The new provisions provide exemptions from tax of income related to IP. More specifically:

- 80 percent of worldwide royalty income generated from IP owned by Cypriot resident companies (net of any direct expenses) is exempt from income tax
- 80 percent of profit generated from the disposal of IP owned by Cypriot resident companies (net of any direct expenses) is exempt from income tax
- effective tax rate of 2,5 percent or less

- any expenditure of a capital nature for the acquisition or development of IP is claimed as a tax deduction in the year in which it was incurred and the immediate four following years on a straight line

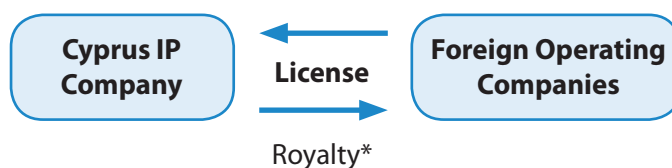
All the above exemptions are also available for IPs acquired or developed before January 2012.

In addition:

- no withholding taxes on payment of royalties when distributed out of Cyprus, provided that the holder is not a Cyprus resident and the royalty is used outside of Cyprus
- tax is only paid on the licence fee retained by the Cyprus company
- Cyprus has an extensive worldwide network of double tax treaties
- EU Directive on Interest and Royalties providing for nil withholding taxes between EU countries, applying also to Cyprus
- Cyprus corporate tax rate is at 12,5 percent, the lowest within EU
- the licence fee retained by the onshore intermediary company will typically be 5 percent

Example

Assume that a Cyprus IP company licenses its IP to its operating foreign Companies and in return it receives royalty income of €100.000 per year.



The expected annual tax for the Cyprus IP Company will be as follows:

	€
Annual royalty income	100.000
Direct expenses, say	<u>(20.000)</u>
Net income	80.000
80% deemed deduction	<u>(64.000)</u>
Taxable income	<u>16.000</u>
@ 12,5% Income tax	2.000
Effective tax rate	2%

* under the majority of Cyprus double tax treaties the withholding tax on royalty payment is nil

3 HOLDING COMPANIES

Suitability of Cyprus Holding Companies

Key criteria	Favourable (YES)/ or Not (NO)	Comment
Incoming dividends	YES	Extensive double tax treaties, unilateral tax reliefs and EU Directives
Dividend income	YES	Generally not taxable
Outgoing dividends	YES	No withholding tax to non-residents
Capital gains	YES	Full tax exemption of gains
Reorganization and group relief	YES	Group relief is allowed and losses set off against future profits
Controlled foreign company (CFC)	YES	No CFC legislation
Thin capitalization	YES	No provisions for debt to equity ratio
Redomiciliation	YES	Redomiciliation is permitted
Listing in international stock exchanges	YES	Tax efficient and easy process
Interest income	YES	Interest taxed only at 12,5 percent
Interest and royalties withholding	YES	No withholding taxes, only for royalties (12,5 percent) for their use in Cyprus
VAT registration	YES	Holding activities are not obliged to register
Liquidation	YES	Distribution of assets without any tax
Stamp duty	YES	Only for assets existing in Cyprus

In accordance with Cyprus' Income Tax Laws, a company is a tax resident of Cyprus if its management and control is exercised in Cyprus. The definition follows the OECD model convention in relation to "place of effective management". Therefore, as a minimum, management and control is considered to be exercised where the board of directors meets and takes decisions.

The formation and registration procedures, including various administrative needs such as printing of the company's letterheads, opening of statutory books and bank accounts until the certificate of incorporation is issued can normally be completed within a period of two weeks.

Cypriot companies can be either private or public.

Private companies

A private company is a company which by its Articles of Association specifically:

- restricts the right to transfer its shares
- limits the number of its shareholders to 50
- prohibits any invitation to the public to subscribe for its shares or debentures
- prohibits the issue of bearer shares



Public companies

A public company must adhere to the following:

- minimum 7 shareholders
- minimum 2 directors
- hold a statutory meeting and the directors make a statutory report to the shareholders
- may issue share warrants
- before issuing shares or debentures to the public it must issue a prospectus or a statement in lieu of a prospectus

The conversion from a private company into a public company can be done through a simple filing procedure prior to listing.

Further, the law on redomiciliation opens new dimensions to international investors and traders as non-Cypriot companies can now be redomiciled in Cyprus and can benefit from the favourable provisions of the Cyprus legislation. It also provides for Cyprus registered companies which opt to redomicile abroad. At the same time, redomiciled companies retain their previous records, investments, trading history and business connections.

Management and control

Under Cyprus tax law, a company is considered a Cyprus tax resident if its management and control is exercised in Cyprus. In general, the Cypriot Tax Authorities adopt a liberal attitude accepting that management and control is exercised from Cyprus unless residence is claimed by another country.

The following usually ensure that substance and management and control is achieved in Cyprus:

- majority of the board are resident in Cyprus
- regular meetings are held in Cyprus, perhaps every 3-4 months and maybe more regularly, if deemed necessary
- major decisions and contracts should be approved by the board of directors in Cyprus and major contracts should, as far as possible, be signed in Cyprus
- in certain circumstances, it is advisable that a company hires offices or locates in a serviced office

Use of holding companies

Cyprus is most commonly used as an intermediate holding company jurisdiction and is of particular interest in the following circumstances:

- for groups, international or domestic investing outside Cyprus, aiming at dividend income streams. Such dividend in most cases will be tax exempt in Cyprus
- to hold subsidiaries that have scope for significant capital appreciation that may be spun off or sold in the future. Profits arising from disposals are not taxable in Cyprus
- to benefit from the favourable withholding tax provisions of Cyprus' double tax treaties network, the EU Parent Subsidiary Directive and the other directives
- where a jurisdiction is required that does not have CFC legislation
- to avail of the favourable repatriation provisions under Cypriot tax law which allows payment of dividend, interest and royalties, in most cases, without payment of withholding tax
- suitable for any fund or investment vehicle, as there is no tax on transactions in securities even if this is the trading activity of the entity
- where it may be important to achieve a tax free unwind of the holding company at some stage in the future
- where it may be important to unwind the holding company structure at some stage in the future in a tax free manner (unconditional exemption of profits on disposal of shares, dividends exempt from taxation subject to easily met conditions, no taxes on liquidation or capital reduction to non Cyprus resident shareholders)
- to hold intellectual property companies for a tax free exit route. Since Cyprus imposes no tax on the disposal of shares (with the exception of gains derived from real estate situated in Cyprus) a Cyprus company offers an ideal way of holding a subsidiary IP company. By selling the shares in the subsidiary IP company to a prospective investor effectively allows for the tax free disposal of the intangible assets.



4 INVESTMENT FIRMS

Since its entry in the EU in 2014, Cyprus has managed to attract a plethora of Cyprus investment firms (CIFs) which have set up and operate efficiently from the island.

Indicatively, the Cyprus Securities Exchange Commission (CySEC) licensed nearly 170 CIFs to date. Of them, 28 were granted licence in 2013 and 38 in 2014.

A large number of them have “passporting” their services across other EU Member States and a significant number of non-Cyprus based EU CIFs have applied to offer services in Cyprus under the “passporting regime”.

This signifies a continuous interest in setting up and operating CIFs from Cyprus as it offers an attractive tax regime, efficient and flexible regulating authority, pool of knowledgeable professionals and competitive costs. The adoption in Cyprus of the EU Directives (including recent AIFM and AIF Directives) allows CIFs access to the EU financial markets through “European passporting”.

There are many reasons why accessing the European securities markets is becoming increasingly attractive. European exchanges in recent years compare well with those in the United States in both IPO volume and value terms. Other than providing liquidity and access to a diverse pool of investors, European listings provide companies with the appropriate status for further European and international expansion.

Legal framework

The Cyprus Investment Services and Activities and Regulated Markets of 2007 to 2012 (Law 144(I)/2007), (the “Law”) as amended, provides the legal framework for the provision of investment services as well as for the registration, regulation of operations and supervision of CIFs. The Law also incorporates the provisions of MiFID (Market in Financial Instruments Directive 2004/39/EC), the Directive that harmonizes regulation of investment services across EU Member States.

Under the provision of the Law, the following entities may provide investment services on a professional basis:

- CIF: investment firms in Cyprus, excluding credit institutions, provided that the CIF has obtained the appropriate authorization from the CySEC
- credit institutions established in Cyprus: provided that the credit institutions have received an authorization from the Central Bank of Cyprus (CBC) in accordance with the provisions of the Banking Acts 1997 to 2000 for the

provision of investment and ancillary services

- investment firms with their registered offices outside Cyprus: whether rendering investment or ancillary services through a branch or operating on a cross border basis without a branch, provided they have been granted a licence from the regulators of an EU Member State

Investment Services

Investment services include any of the following services:

- 1 Reception and transmission of orders in relation to one or more financial instruments
- 2 Execution of orders on behalf of clients
- 3 Dealing in financial instruments for own account
- 4 Managing of individual portfolios under discretionary management
- 5 Investment advice
- 6 Underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis
- 7 Placing of financial instruments without a firm commitment basis
- 8 Operation of multilateral trading facility (MTF)

Ancillary Services

- 1 Safekeeping and administration of financial instruments for the account of clients
- 2 Granting credits or loans to an investor to carry out a transaction in one or more financial instruments
- 3 Advice to undertakings on capital structure, industrial strategy and related matters
- 4 Foreign exchange services where these are connected to the provision of investment services
- 5 Investment research and financial analysis
- 6 Services related to underwriting
- 7 Investment services and activities as well as ancillary services where these are connected to the provision of investment or ancillary services

A CIF authorization cannot be granted for the provision of ancillary services alone.



Practical criteria and requirements

In general, in order to grant a CIF authorisation, CySEC must be satisfied that the applicant company has and maintains throughout its operation:

- the minimum capital required under the Law
- shareholders possessing a qualifying holding or that are otherwise capable of exercising influence over the management and business strategy, must be fit to ensure the sound and prudent running of the company
- two experienced and reliable persons to manage its business, and that the said persons are capable of fulfilling their duties. One of the two executives should be employed by the company on a full time basis and reside in Cyprus. They should both be accessible and available to appear before the Commission within reasonable notice
- adequate technical and financial resources
- appropriate control and safeguarding arrangements for electronic data processing and adequate internal control mechanisms
- reliability, experience, professional skill and professional diligence of the persons who direct its business
- adequate structure and mechanism to guarantee the protection of investors' assets and eliminate any conflict of interest that may arise between the company or the staff and clients' interests
- full fledged office with established telecommunications and PC networks, staffed with employees on a full or part time basis as described in the applicant's organization chart
- heads of the core services departments must possess relevant professional competence certificates from the Ministry of Finance. A CIF has a 12 month period subsequent to the issue of the license to comply with this requirement





5 PRIVATE FUNDS

The EU Directives on financial markets - AIFMD and MiFID - have encouraged fund managers, custodians, administrators and promoters who want to benefit from cross border EU opportunities, raise funds intra EU and maximize returns for investors at low cost and enhanced tax efficiency to transfer their funds and operations to Cyprus. It is a credible alternative to onshore fund jurisdictions such as Luxemburg, Ireland, Malta and the UK and offshore jurisdictions such as the Cayman or BVI.

The relevant EU regulatory framework derives from the UCITS IV Directive and the AIFMD Directive. The Prospectus Directive and the Markets in Financial Instruments Directive (MiFID) have both been transposed into Cyprus national legislation and allow issuers with a single EU passport for prospectuses and managers to promote their services in all EU member states.

Alternative Investment Funds Law of 2014 (“AIF Law”)

Main advantages of Cyprus private funds:

- competitive setting up and ongoing costs structures and funds in the EU
- favourable tax regime in the EU, especially for non-Cyprus residents
- combination of reasonable regulations, flexibility and tax incentives
- EU Member State compliant with EU laws
- developed infrastructure, highly qualified professionals and minimum formalities
- wide and efficient network of legal, accounting and banking services
- hedge fund and hedge fund managers location
- AIFS, ICIS, UCITS can be listed on Cyprus stock exchange (CSE) and other recognized EU stock exchanges
- redomiciliation in and out is possible

The AIF Law enacted in July 2014, updates the funds regime in Cyprus and aligns it with the latest EU directives on alternative funds, funds management and investor protection. The AIF Law replaces the International Collective Investment Schemes Law (the “ICIS Law”).

The AIF Law provides for two classes of AIF, namely AIFs available to an unlimited number of investors (“unlimited”) which may be marketed to all investors, including retail investors and those available to 75 investors or fewer (“limited”) marketed only to well informed or professional investors.

AIFs may be structured as variable or fixed capital companies or as limited partnerships. In addition, unlimited AIFs may be structured as a mutual fund.

The key new features of the Cyprus’ fund regime are:

- the AIF Law introduces a single regulator
- the law introduces new structuring options which were the main limitation of the previous legislation, including multiple investment compartments
- provides the ability to set up an AIF taking the contractual form of a Common Fund
- allows the cross investment between sub-funds
- provides the ability to set up an AIF marketed to professional investors and/or well informed investors
- allows the public offering of shares of AIFs

Opting for registration an AIF as an AIFM (or self-managed AIF) under the AIFMD allows investment firms to passport their services across EU.

Why Set Up Your AIF in Cyprus

- EU Member State and compliant with EU laws and regulations
- mature business centre with developed infrastructure and highly qualified professionals
- minimum formalities
- wide and efficient network of legal, accounting and banking services
- competitive setting up and ongoing costs structures and funds in the EU
- favourable tax regime in the EU, especially for non-residents
- combination of effective regulations, flexibility and incentives
- hedge fund and hedge fund managers location
- AIFS, ICIS, UCITS can be listed on CSE and other recognized EU stock exchanges
- redomiciliation in and out is possible

Cyprus based AIFMs and AIFs will benefit from low tax burdens levied on Cyprus based corporations. Further, non-Cypriot investors in Cyprus AIFs will, at the time of a redemption or distribution of a Cyprus AIF, benefit from an extensive double tax treaty network.



6 INTERNATIONAL TRUSTS

Cyprus International Trusts (CIT) are set up under the International Trust Laws enacted between 1992 till 2013, regulating the establishment and administration of international trusts in the island.

The doctrines of equity on which trust law is based, have long formed a part of the legal system in Cyprus, inherited from the time of being a British colony. The object of the recent legislation was to modernize and update the existing legal framework.

CITs are exempt from taxation and can be used effectively for tax and other planning considerations.

Nature of trust

A trust is established by an individual (the *Settlor*) and is a means whereby property (the *Trust Property*) is held by one or more persons (the *Trustees*) for the benefit of another or others (the *Beneficiaries*) or for specified purposes. The settlor can be a trustee and the settlor and the trustees or any of them can be Beneficiaries. A protector who can be the settlor may be appointed to oversee the work of the trustee.

In law, the trustees are the owners of the trust property, although they may not deal with it as absolute owners but rather in accordance with the provisions of the law relating to trusts and the rights of the beneficiaries as set out in the trust documents.

The recent amendments to the International Trust Law have enhanced the efficiency and competitiveness of CITs as an asset management and investment tool.

The legislative developments which position Cyprus as a prime jurisdiction in the area of international trusts are mainly due to the following:

Flexible definition

The definition of a CIT has become more flexible:

- allows the settlor/beneficiary to become a Cyprus resident as long as neither the settlor nor the beneficiary take up residence during the calendar year preceding the year the trust was set up
- the previous restriction on investments in immovable property in Cyprus has been lifted. It is now possible for the trust property to include real estate in Cyprus
- at least one of the trustees, during the whole duration of the trust, is a permanent resident of Cyprus

A trust can still qualify as a CIT for the purposes of the law even if the settlor, trustee or the beneficiaries are Cypriot companies or partnerships. In fact this provides unique opportunities for a wide range of investors.

Additional protection

Building on existing clauses, additional firewall provisions were inserted to enhance the validity of the trust vis-à-vis foreign laws and court proceedings in other countries:

- the trust's validity, management, disposition of property, variations of its terms or the exercise of the functions of the trustee/ protector are regulated by Cyprus' Law and are not affected by the application of any foreign law
- in the event of the settlor's bankruptcy, or liquidation, no Cyprus or foreign law shall invalidate the trust and no claim can be brought against the property transferred into the trust
- the trust or disposition is not affected by the laws of any other jurisdiction which prohibits or does not recognize the concept of a trust
- the trust or disposition is protected against foreign inheritance law and against foreign laws which regulate personal relationships

If the beneficiary is a Cyprus resident, the income and the profits of the trust earned from sources within and outside Cyprus are subject to the relevant Cyprus tax laws.

If the beneficiary is not a Cyprus resident, only the income earned and the profit made from sources in Cyprus are subject to Cyprus tax laws.

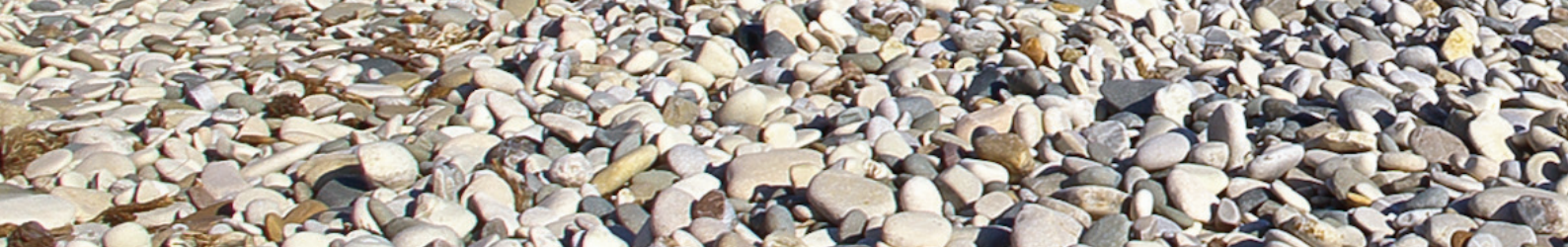
Tax aspects

International trusts are governed by the local trust law and are not taxed in Cyprus.

If the beneficiary is not a Cyprus resident only the income earned and the profit made from sources in Cyprus are subject to Cyprus tax laws.

In fact, CITs enjoy important tax advantages providing significant tax planning opportunities to interested parties. The following tax privileges are indicative of the possible options for tax minimization:

- all income, whether trading or otherwise, of a CIT (ie a trust whose property is located and income is derived from outside Cyprus) is not taxable in Cyprus
- dividends, interest or other income received by a trust from a Cyprus company are also neither taxable nor subject to withholding tax provided that the beneficiaries are not tax residents in Cyprus
- gains on the disposal of the assets of a CIT are not subject to capital gains tax in Cyprus
- an alien who creates a CIT in Cyprus and retires in Cyprus is still exempt from tax if all the property settled and the income earned is abroad, even if he is a beneficiary
- a CIT created for estate duty planning purposes would not be subject to estate duty in Cyprus



7 REDOMICILIATION

In line with the international practice of permitting companies to move their seat of incorporation, companies are allowed under the laws of Cyprus to change their jurisdiction.

Redomiciliation enables companies to avoid liquidating the existing company and transfer its portfolio of assets to an entity incorporated for the purpose of the new jurisdiction. As much as a company can change its registered office or registered agent within the same jurisdiction, it can also “move” to a new jurisdiction.

Corporate redomiciliation is the process by which a company moves its domicile (or place of incorporation) from one jurisdiction to another by changing the country under whose laws it is registered with, whilst maintaining the same legal identity. The ease with which redomiciliation may take place has increased in recent years.

Why redomicile

Not all countries allow redomiciliation. The ones that do tend to be Commonwealth common law, as opposed to civil law jurisdictions. Notable exceptions are Austria, Hungary, Latvia, Luxembourg and Liechtenstein which are civil law countries but permit redomiciliation. We list in this section the main jurisdictions that allow redomiciliation.

Companies redomicile for a variety of reasons including:

- to benefit from a favourable tax environment
- to take advantage of less stringent regulation and scrutiny
- to align their place of registration with their shareholder base
- to move to an international financial centre
- to access specialist capital markets

Where an existing company migrates or redomiciles to Cyprus, the company's existing legal status, goodwill and operational history is preserved. This process will allow for companies who currently operate in more costly, difficult regulatory, high tax and high risk environments in other countries to migrate to Cyprus without triggering a disposal of their assets or a diminution in their goodwill or operating history.

Migration to Cyprus

As from 2006 a new law has been enacted in Cyprus as an amendment to the Companies' Law Cap. 113, by which:

- foreign companies can be redomiciled in Cyprus
- Cyprus registered companies can be redomiciled abroad

A foreign company registered in a country which allows redomiciliation and whose memorandum and articles of association provide for the possibility of redomiciliation, may apply to the Registrar of Companies to be registered in Cyprus as a continuing company pursuant to the provisions of the Companies Law Cap 113.

Companies which offer licensed activities under certain provisions of the law in their jurisdiction and for which similar licenses are required in Cyprus, must produce relevant consent for their redomiciliation by the relevant authority of their country.

Temporary registration

From the date of issuing the temporary certificate of continuation the foreign company:

- is considered as a legal entity duly domiciled incorporated according to the laws of Cyprus
- has the same liabilities and is eligible to exercise all powers that registered companies have according to the laws of Cyprus
- the constituent document of amendment is considered as the memorandum of the company and where applicable as its articles of association
- the registration of the foreign company is not lawful and is void if it is done for the purpose of establishing a new legal entity to damage or affect the continuance of the foreign company as a legal body, to affect the property of the foreign company and the way this company will maintain its assets, rights and obligations, to render ineffective any legal or other procedures filed or to be filed against the foreign company, or prohibit from any conviction, judgment, opinion, debt, order or liability against the foreign company or its officials or shareholders

Within six months from the issuance of the temporary registration certificate, the foreign company must present evidence to the Registrar of Companies that it has been struck off from the public register in the country of initial incorporation to receive the certificate of permanent domiciliation.



Countries Allowing Redomiciliation

Andora
Anguilla
Antigua
Barbuda
Aruba
Austria
Bahamas
Bahrain
Barbados
Belgium
Belize
Bermuda
British Virgin Islands
Brunei
Cayman Islands

Cook Islands
Costa Rica
Cyprus
Dominica
Gibraltar
Grenada
Guernsey
Hungary
Ireland
Isle of Man
Israel
Jersey
Latvia
Lebanon

Liberia
Liechtenstein
Luxembourg
Macao
Malaysia (Labuan)
Maldives
Malta
Marshall Islands
Mauritius
Montserrat
Nauru
Netherlands Antilles
Panama
Philippines

Portugal (Madeira)
Samoa
Seychelles
St Kitts and Nevis
St Lucia
St Vincent
Grenadines
Switzerland
Turks and Caicos
UAE
Uruguay
US Virgin Islands
USA (Delaware)
Vanuatu





8 CYPRIOT CITIZENSHIP

A non-Cypriot citizen, who meets one of a number of economic criteria, either personally or through a company in which he or she participates as a shareholder may apply for the acquisition of the Cypriot citizenship through naturalization by exception.

The decision of the Council of Ministers provides for the granting of the Cypriot citizenship to the spouse as well as to the financially dependent adult children (eighteen years old or above) of the investor. Neither the spouse nor the children are obliged to meet any financial criteria.

The decision regulates that adult children of an investor are considered as financially dependent, if they are students up to the age of 28 and are attending an institution of higher education aiming to obtain a diploma or an undergraduate or a master's degree. Minor children (under the age of eighteen) of an investor have the right to acquire the citizenship according to the provisions of the Civil Registry Law.

The applicant must retain the investments for a period of at least 3 years since the date of naturalization.

Criteria

There are six investment ways which enable an investor to apply for naturalization. A foreign investor may apply for naturalization if he or she meets **any one** of the below criteria 1 to 6 **and** the conditions that follow:

1 Investment in government bonds

The applicant must have purchased state bonds of the Republic of Cyprus of at least €5mn

2 Investment in financial assets of Cypriot companies or organizations

The applicant must have purchased financial assets of Cypriot companies or Cypriot organizations (bonds, securities, debentures registered and issued in the Republic of Cyprus) of at least €5mn

3 Investment in real estate, land development and infrastructure projects

The applicant must have made an investment of at least €5mn for the purchase or construction of buildings or for the construction of other land development projects (residential or commercial developments, developments in the tourism sector or other infrastructure projects).

4 Purchase or creation or participation in Cypriot businesses or companies

The applicant must have made an investment of at least €5mn in the purchase, creation or participation in businesses or companies, that are based and operating in the Republic. These businesses or companies should evidently have a presence in Cyprus and employ at least 5 Cypriot citizens

5 Deposits in Cypriot banks

The applicant must have personal fixed term deposits for 3 years in Cypriot banks or deposits of privately owned companies or trusts (in which he/she is the beneficiary owner) in the Republic of Cyprus of at least €5mn

6 Combined criteria

On the basis of a combination of the aforementioned criteria 1- 5, to the investors owning property in Cyprus worth at least €5mn

7 Individuals whose deposits at Popular Bank (Laiki Bank) have been impaired due to the measures implemented after 15 March 2013

The applicant either as an individual or through a Cyprus company has suffered impairment on deposits of the total amount of at least €3mn, automatically qualifies for naturalization.

In case the applicant that has suffered impairment on deposits of the total amount of less than €3mn can apply provided he has invested additionally for the remaining amount up to the €3mn, under options 1- 5 above

8 Major Collective Investments

The Council of Ministers shall have the right on special occasions, to reduce the above criteria 1 to 4 to:

- A €2.5mn for investors, who demonstrably participate in a special collective investment scheme, provided that the total value of the investment is at least €12.5mn
- B €2.0mn for investors who demonstrably participate in a special collective investment scheme, provided that the total value of the investment is more than €12.5mn. It is noted that this present provision (A), will be in force until the 1 June 2014

In addition, it is noted that for the above mentioned provisions (A) and (B), the investment for the criteria 1 to 4 may be realized through a different salesman or provider (physical or legal entity).

High ranking managers

Additionally, a high ranking senior manager may apply, provided that he or she receives such a remuneration that generates for the Republic of Cyprus tax revenue of at least €100.000 for a 3 year period and provided that this tax has already been paid or prepaid.

The first condition that needs to be fulfilled is that the company that employs the manager must have concluded in Cyprus such an investment that meets one of the economic criteria stipulated in the decision of the Council of Ministers. If and when the investment is completed, the executive may apply



for naturalization provided that he or she has paid or prepaid an income tax amounting to €100.000 for a 3 year period and has acquired a permanent residence of purchase value at least €500.000

Government Fees

Applicant	Application submission fee	Certificate issuance fee	Total
Investor	€2.000	€5.000	€7.000
Investor's spouse	€2.000	€5.000	€7.000
Investor's adult child	€2.000	€5.000	€7.000
Investor's minor child	€80	-	€80

Conditions

In addition to any one of the above, the investor must:

- be at least 30 years of age
- have clean criminal record
- hold a confirmation that he or she is not included in the list of persons whose assets in the EU are subject to sequestration, and
- own a house worth at least €500.000 plus VAT, which is used as permanent residence

If these conditions are met the Council of Ministers shall inform the House of Representatives before taking the final decision on the applicant's naturalization. On the basis of current trends, applications are positively considered by the Council of Ministers and the House of Representatives.





ONEWORLD LTD

Oneworld Ltd is rendering a wide range of fiduciary and business services to our international clientele. 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

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Company Formation
International Structuring
Fund Administration
Domiciliary Management
Registrar and Shareholders

Business Advisory

Regulatory Compliance
Corporate Strategy
HR Management
Internal Audit and Review

Global Compliance

Risk and Regulatory Compliance
Bookkeeping and Reporting
Fund Valuation Services
HR and Payroll

Financial Advisory

Corporate Finance
Financial Due Diligence
Mergers and Acquisitions
Financial Reporting

Tax and Legal

International Tax Planning
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