

oneworld

Doing Business in Cyprus



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Doing Business in Cyprus



Published by
Oneworld ltd
Cyprus 2012

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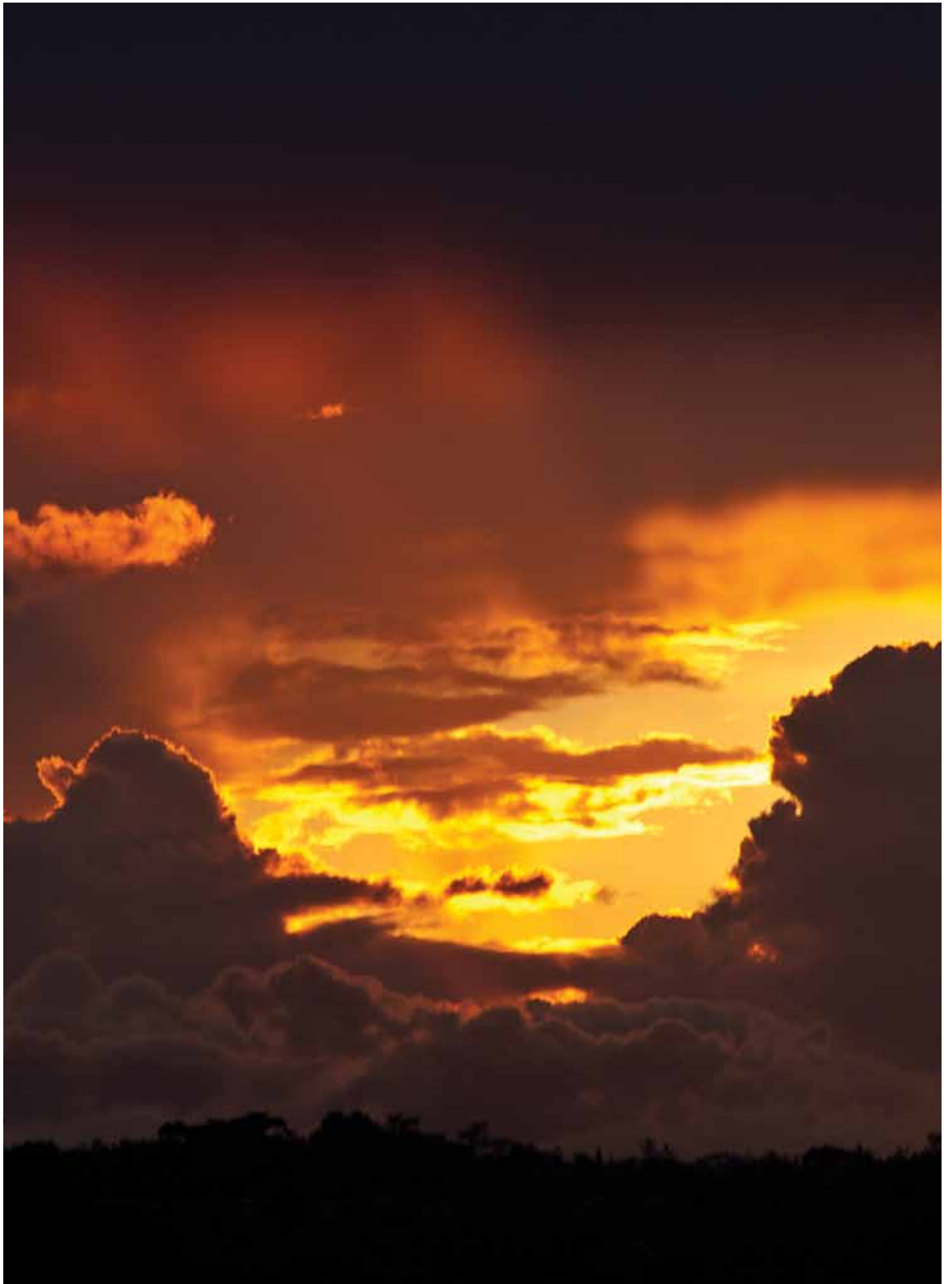
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Design
grafica&grafica Simos Simonis

Printing
Chr Nicolaou & Sons ltd

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Foreword



Cyprus offers unique tax opportunities: the lowest 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.

The island's membership in the EU and the eurozone have considerably enhanced its long standing international business advantages. Cyprus is now firmly established as the ideal 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 European capital markets, the adoption of the "Single EU Passport" have paved the way to unprecedented cross border opportunities for investors wishing to capture the wider EU business market using a Cyprus tax efficient structure.

Recent setbacks in the economy caused by the prevailing international financial melt down, Cypriot banks' exposure and spill over effect in the Greek market, are not expected to affect the island's long term opportunities. On the contrary, when one considers the recent discovery of significant quantities of hydrocarbons drilling in its exclusive economic zone, prospects can be described as very promising. With the hydrocarbon drilling and exploration expected to commence in 2015, Cyprus can play a significant role in the achievement of Europe's energy goals.

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 our worldwide network and affiliates we deliver integrated solutions.

Welcome on board!

A handwritten signature in blue ink, which appears to read "G. Philippides". The signature is fluid and cursive, with a long horizontal stroke at the end.

George A Philippides
CEO
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October 2012



Brief Facts

Introduction

Cyprus is situated in the north eastern basin of the Mediterranean Sea at the crossroads of three continents: Europe, Asia and Africa. It is 65 km south of Turkey, 328 west of Israel, 385 north of Egypt and 980 south east of Athens. The strategic location of the island is an important factor that has contributed to its development into a major financial centre. With an area of 9.251 sq km, Cyprus is the third largest island in the Mediterranean after Sicily and Sardinia.

Population

The estimated population of Cyprus is 820.000. Greek Cypriots form by far the largest ethnic group, accounting for almost 80 percent of the population. Turkish Cypriots, British, Armenians, Maronites and other ethnic groups make up the remaining 20 percent.

Political and social environment

Cyprus is an independent and sovereign Republic with a presidential system of government. The elected President is the Head of State. Each term of office is set for a five year period and the president may be re elected for an unlimited number of terms.

Legislative power lies in the hands of the House of Representatives, the 56 members of which also hold office for a period of five years.

Cyprus' legal system has been structured on its English counterpart. English case law is closely followed and statutes regulating business matters and procedures are largely based on English laws.

The Cyprus economy

The Cyprus economy is based on the free enterprise system. The private sector is the backbone of economic activity, with the government's role being limited to monitoring the economy and the provision of public utilities. With Cyprus' accession to the EU, however, privatization of public utilities is inevitable.

In recent years the economy has been growing, inflation has been consistently running at a

relatively low level average of 4 percent. The per capita income of the Greek Cypriots is around €22.000. Household income is considered today as one of the highest in the Mediterranean. This is an impressive performance, when considering key socio economic factors - such as the excellent housing conditions, low crime rate, pollution free environment - which are not reflected in the per capita income.

Time

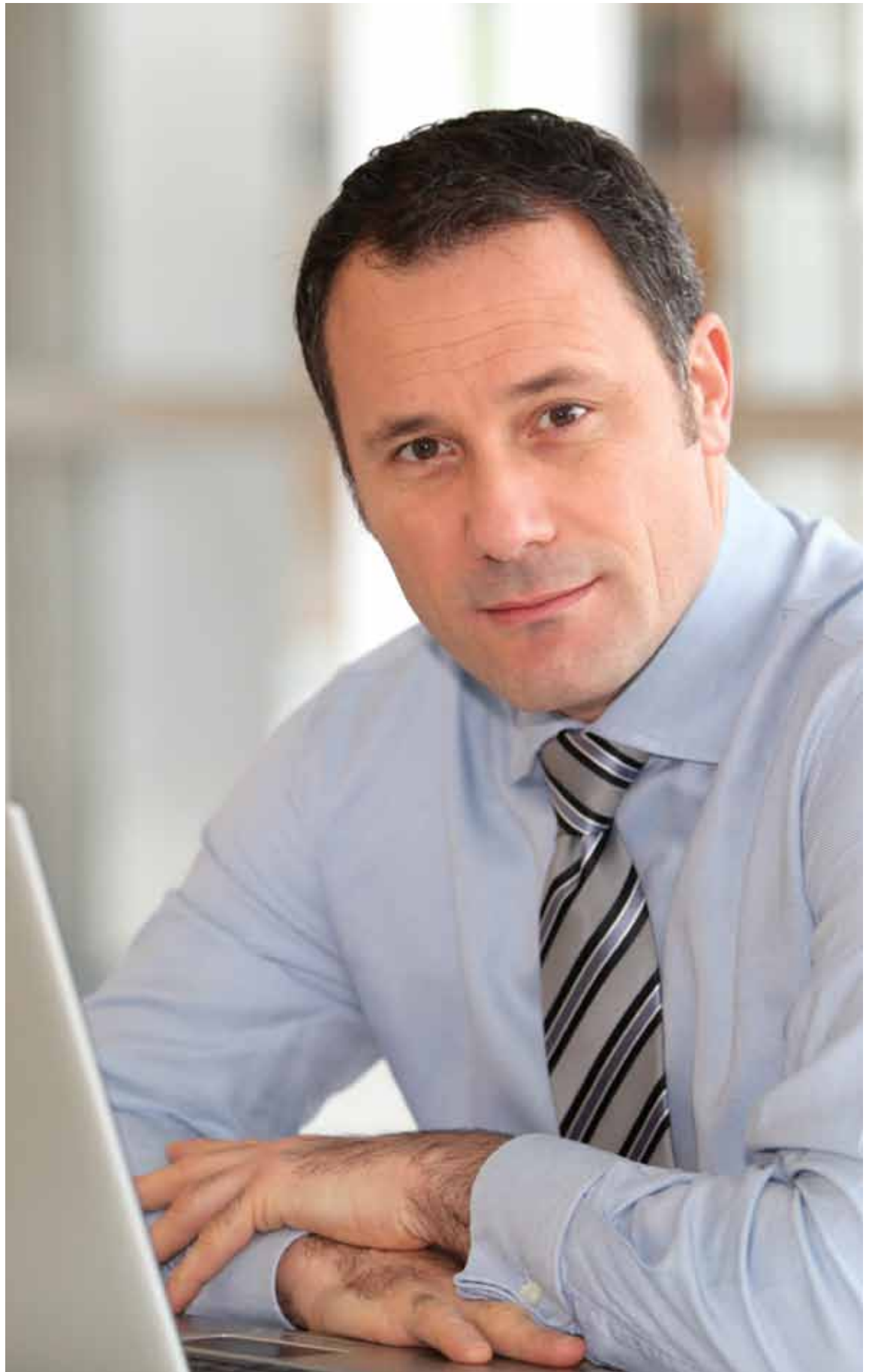
Cyprus is two hours ahead of Greenwich Mean Time (GMT). Between the end of March and the end of October, clocks are advanced one hour under the summer time saving system. Time differences between Cyprus and certain major cities are shown in the following table.

City	Hours behind	City	Hours ahead
Amsterdam	1	Beijing	6
London	2	Hong Kong	6
Los Angeles	10	Moscow	1
New York	7	Singapore	6
Paris	1	Sydney	8
Rome	1	Tokyo	7

Cyprus and the EU

The Republic of Cyprus became a member of the European Union on 1 May 2004. The accession of Cyprus to the EU and the adoption of the *acquis communautaire* have given rise to new challenges and opportunities to the business community. Moreover, a number of new funding opportunities became available from EU funds 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 island's rural areas.

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



Brief Facts

Transit trade

The development of the container transshipment business in Cyprus started in the late 1970s. Located at the crossroads of major international trade routes between Europe, Asia and Africa, Cyprus is a natural transshipment load centre for shipping lines delivering and receiving cargo to/from any European and Middle East ports in the Mediterranean.

Efficient port facilities, minimal customs formalities, advanced business infrastructure and stable political environment, have all contributed to the dramatic increase both in volume and scope of transshipment business carried out through Cyprus. Increasingly the island acts as a central depot for distribution to the markets of Europe, the Middle East, the Gulf and north Africa.

Services sector

The services sector has become increasingly important as indicated by the fact that it now accounts for almost 70 percent of GDP. On the other hand, the importance of agriculture and manufacturing is declining steadily.

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 makes Cyprus without doubt a “service economy”. GDP breakdown by sectors:

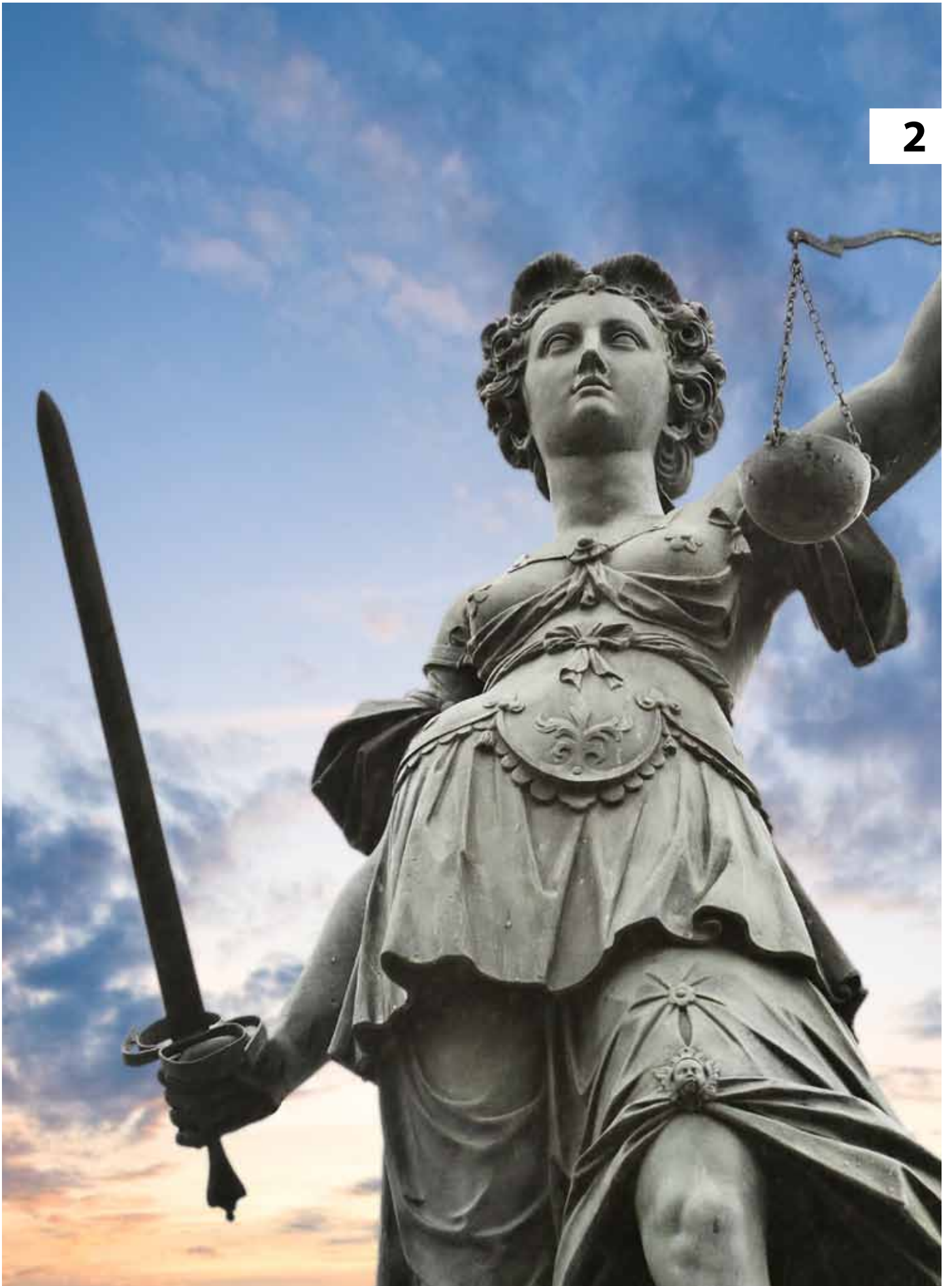
- services including tourism 63%
- manufacturing 9%
- transport and communication 9%
- construction 8%
- agricultural 4%
- other 7%

Visiting and living in Cyprus

Hospitality is a way of life in Cyprus. This, coupled with the fact that Cyprus enjoys perhaps the best type of Mediterranean climate with about 340 warm and sunny days a year, makes Cyprus an ideal location to visit and live.

Foreigners wishing to retire in Cyprus are granted a residence permit provided they can satisfy the authorities that they have enough income from abroad to support them during their retirement in Cyprus.

Economic Indicators		2007	2008	2009	2010	2011
International Reserves	€ million	4.423,4	721,0	895,4	858,0	931,9
Current Account Balance	% of GDP	-11,7	-16,8	-10,7	-9,9	-10,4
Inflation Rate	%	2,37	4,67	0,33	2,43	3,29
Registered Unemployment	%	3,0	2,9	4,3	5,5	6,7
Gross Domestic Product (at current prices)	€ million	15.879	17.287	16.946	17.334	17.761
Gross Domestic Product (real growth)	% change	5,1	3,6	-1,7	1,1	0,5
Gross Domestic Product Per Capita	€	20.300	21.800	21.200	21.700	22.000
Gross Domestic Product Per Capita	EU 27=100	93	97	100	99	92



Legal Framework

Forms of enterprises

The laws and regulations for setting up and administrating Cypriot entities are the same for foreign investors carrying on international business activities as they are for local entities.

Entities may be registered in the following legal forms under Cypriot company law which is very similar to the UK's former Companies Act 1948:

- limited liability company
- partnership
- branch
- European company (SE)

Limited liability companies make up the vast majority of entities registered in Cyprus. Branches and partnerships constitute only a small percentage, mainly because their legal status and financial liabilities are ultimately the same as those of their beneficial owners.

Limited liability company

The liability of a private company's members is limited either by shares or by guarantee. If a company is limited by shares, the liability of its members is limited to the nominal value of the shares fully paid up and the shareholders are not liable to contribute further. If a company is limited by guarantee, the liability of its members is limited to the amount to which they have agreed to subscribe in the case of liquidation. Companies limited by guarantee are usually non profit making organizations.

A **private** limited liability company means a company which by its articles:

- restricts the right to transfer its shares
- prohibits any invitation to the public to subscribe for its shares or debentures
- limits the number of its members to a maximum of fifty
- prohibits the issue of bearer shares

A **public** liability company must adhere to the following:

- minimum of 7 shareholders
- minimum of 2 directors
- hold a statutory meeting and the directors make a statutory report to 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.

International business entities are as a rule registered as private companies because this legal form enjoys comparatively inexpensive formation procedures, consensus of a few shareholders, control over the membership and uncomplicated reporting requirements.

Partnership

A partnership can be either general or limited and comprises two or more persons aiming to profit by carrying on a common business.

Each of the partners of a general partnership are liable severally and jointly with the remaining partners for all debts and obligations of the firm. Furthermore, after a partner's death, his or her estate is also liable for all debts and obligations and is subject to prior payment of his/her separate debts.

Limited partnerships comprise general and limited partners. The one or more general partners are liable for all debts and obligations of the firm and the one or more limited partners must, at the time of entering into such a partnership, contribute a stated amount to its capital or property valued. The limited partners are not liable for debts and obligations of the firm above the amount contributed.

A limited partner may neither take part in the management of the partnership nor have the power to contractually bind it. A company can become a partner with another company or with individuals, provided that it is authorized to do so by its articles.

Legal Framework

Branch

A branch of a foreign company may be registered in Cyprus with the Registrar of Companies under the relevant section of the Companies Law. A branch does not constitute a legal entity different from its founding company. There are two types of branches:

- local branch of a foreign company
- branch of a local company

Overseas companies may establish a branch in Cyprus by registering it with the Registrar within 30 days from their establishment. They must also file the company's memorandum of association, list of directors and details of the local representative.

European Company (SE)

The registration of a European Company is in line with EC Council Regulations 2157/2001. The main objective is to allow companies in different EU member states to merge or form a holding company or joint subsidiary while avoiding the legal and practical constraints arising from the existence of 27 or so different legal systems.

Key features of Cyprus limited liability companies

Incorporation and capacity to contract

A company comes into existence as a legal entity as soon as it is incorporated by the Registrar of Companies. This is evidenced by the Registrar issuing a Certificate of Incorporation that is conclusive evidence that the company has satisfied all legal requirements in respect of incorporation and that the company is duly registered under the Companies Law.

A company cannot contract into or enter any other obligation under the law until it has been incorporated. It cannot be held liable on, or entitled under contracts purporting to be made on its behalf, prior to incorporation. It cannot ratify contracts that were made prior to its existence. In such circumstances, companies should enter into new contracts to give force to agreements that were made prior to incorporation.

Memorandum of association

The company's objects and powers are defined in its memorandum of association. Any act beyond a company's legitimate powers as defined in its memorandum is void. Consequently, the memorandum of association is normally drafted as widely as possible to enable the company to engage in any type of business.

Articles of association

The articles of association set out the administrative regulations and procedures for running the company. They stipulate and define how meetings of shareholders and directors are held, the powers bestowed on directors, the method of appointing and removing directors, determine the minimum number of persons that must be present for a quorum, set out the procedures for issuing new shares, transferring shares, borrowing powers and so on.

Although the articles of association can often be in standard form, they can be also drafted to take into account the specific needs and requirements of the shareholders.

Powers of shareholders and directors

The powers in a company are distributed between the board of directors and the shareholders as stipulated in the articles of association. Therefore, the powers of the directors can be as wide or narrow as the articles provide except that the exercise of certain powers are specifically reserved for the shareholders. For example, the shareholders always have the right to remove directors.

The memorandum and articles of association are filed with the Registrar of Companies and become public documents available for inspection by everybody.

As previously stated, an action outside the objects of the company is void and therefore unenforceable. The remedy commonly available to the other contracting party is to recover money or property paid or transferred under the void transaction to the extent that it is possible to trace it.



On the other hand, the case with regards to an action that is within the objects of the company but made by directors acting outside their powers as stated in the articles of association may be very different. The “indoor management rule” as it is often called, accepts that persons dealing with directors are entitled to assume that the directors have the authority which they claim to have. Under common law principles, the company is bound by the actions of a director where that director acted within the usual, apparent or ostensible scope of the “director’s authority”.

Directors and secretary

A private company may have only one director and a secretary. A director may also be the secretary. From an administrative point of view, it is advisable for the secretary to reside in Cyprus and be conversant in Greek as all communications and filings with the Registrar of Companies are required to be made in the Greek language.

Procedural requirements

All companies are required to hold an Annual General Meeting (AGM) in each calendar year.

No more than 15 months must elapse between one AGM and the next. The first AGM must be held within 18 months of incorporation. Failure to comply makes the company and each director liable to a fine not exceeding €450.

The articles of association normally provide that the directors may call an Extraordinary General Meeting at any time. Notwithstanding the provisions of the articles, the law states that the holders of 10 percent of the paid up capital of the company have the right to require the directors to call an Extraordinary General Meeting.

The notice period for an AGM or the meeting for the passing of a special resolution is 21 days. The notice period is 14 days for every other case. These notice periods may be shortened if 95 percent of the members entitled to attend and vote agree to do so, except in the case of an AGM where all the shareholders must agree to the shorter notice period.

Cyprus law contemplates three types of resolutions: ordinary, special and extraordinary. The minimum notice period and majority required in each case, are summarised as follows:

Legal Framework

Type of resolution	Minimum notice period	Majority required
Ordinary	14 days	50 percent plus 1 share
Special	21 days	75 percent plus 1 share
Extraordinary	14 days*	75 percent plus 1 share

*21 days if the resolution is to be passed at an AGM

Cypriot law details the nature of resolutions for each type of decision required.

Description of decision	Type of resolution
Amendment to articles of association	Special
Amendment to memorandum of association	Special with Court approval
Issue of shares at discount	Ordinary with Court approval
Purchase of own shares	Special
Reduction of share capital	Special with Court approval
Change of name	Special
Change of auditor	Ordinary with special notice (28 days)
Removal of director	Ordinary with special notice (28 days)
Member's voluntary liquidation	Special

Obligation to maintain accounting records and prepare audited financial statements

The directors are obliged to ensure that the company maintains records which enable the preparation of financial statements that present a true and fair view of the company's financial position and performance in accordance with International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS). Accounting records of companies should be updated within four months from the date of each transaction. Audited financial statements are required to be filed with the Registrar of Companies and Tax Authorities within 12 months from the financial year end.

The accounting records must be held either at the registered office or at another place in Cyprus and must always be available for inspection by the directors. Even if the bookkeeping function is

maintained outside Cyprus, arrangements should be made for the accounting records to be sent to Cyprus at regular intervals.

Consolidated financial statements

Every company that has subsidiaries is obliged, in certain circumstances, to prepare consolidated financial statements in accordance with IFRS and IAS and present them to members at the general meeting. Additionally, the financial statements must disclose the following:

- remuneration of auditors
- amounts paid to directors as compensation for loss of office
- the total amount paid to directors in fees and emoluments
- directors' holdings in shares and debentures
- loans granted to directors



The financial statements must be accompanied by a report of the board of directors which includes:

- details of any changes in the nature or volume of operations
- any changes in the share capital
- any significant change in the constitution of the board of directors or the duties assigned to its members
- directors' proposals regarding the distribution of the retained profits

Exemption from consolidated statements

"Small groups" as defined in the law are exempted from the preparation of consolidated accounts, unless:

- (a) they are public companies
- (b) the preparation of consolidated accounts is governed by other specific legislation, and
- (c) they exceed any two of the following three criteria:
 - total balance sheet assets of €17.500.000
 - total turnover €35.000.000
 - total number of employees 250

Conversion of Private into Public Company, Listing and EU Passporting

- a Cyprus private company can be converted into a public company through a simple filing process
- a Cyprus public company can be listed in the Cyprus Stock Exchange or any Exchange Regulated Market in the EU
- "Single EU Passport" allows a company registered in Cyprus to conduct a public offer in another EU Member State or have the shares admitted to trading on EU Exchange Regulated Markets
- the only requirement existing is that the prospectus must be approved by the CySEC the Cyprus member of the Committee of European Securities Regulators (CESR)



Business Opportunities

Banking

The supervising authority for the banking sector is the Central Bank of Cyprus. In addition to the Central Bank, the banking system consists of six local banks, eight subsidiaries of foreign banks from EU and non EU Member States, twenty seven branches of foreign banks from EU and non EU Member States and one representative office of foreign bank. Commercial banking arrangements and practices follow the British model. All banks maintain correspondents around the world and they subscribe to SWIFT, Reuters, Telerate and pertinent services. Consequently, they have easy access to the world banking network and are able to carry out both conventional and specialized financial transactions.

The Cyprus Stock Exchange

The Cyprus Stock Exchange commenced its operations in 1996. The Council of the Stock Exchange is responsible for implementing policies for the Exchange. A fully computerized on line trading, clearing and settlement system is in operation.

Some 130 companies have their shares quoted on the Cyprus Stock Exchange.

Insurance

The activities of insurance companies are governed by the Insurance Companies Laws and the Superintendent of Insurance monitors their adherence to regulations and their operations. The major insurance companies are subsidiaries or affiliates of local banks.

There are also a number of captive insurance companies.

Investment firms

The Cyprus Investment Firms Act of 2002-2005 and MiFID provide the legal framework for the provision of investment services as well as for the registration, regulation of operations and supervision of Cypriot Investment Firms (CIF).

Under the provisions of the Act, only the following entities may provide investment services on a professional basis:

- CIF: investment firms operating within Cyprus, excluding credit institutions, provided that the CIF has obtained the appropriate authorization from the Cyprus Securities and Exchange Commission (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 non core services
- investment firms with their registered offices outside Cyprus : whether providing investment or non core services through a branch or operating on a cross boarder basis without a branch, provided they have been granted a licence from the regulators of an EU member state

Foreign Direct Investment

Cyprus is an attractive place for investments. The island's strategic location, its excellent climate, the well developed infrastructure and the plentiful supply of high quality, well trained labour are some of the advantages Cyprus has to offer. In addition to these, the favourable tax regime and the existence of a free zone area, make Cyprus an ideal location for manufacturers, especially those with Middle East and north African export activities.

The Council of Ministers liberalized the Foreign Direct Investment (FDI) policy for both EU and non EU nationals as of 1 October 2004, the main features being:

- restrictions relating to the minimum level of investment and the foreigners' participation percentage have been abolished in most sectors of the economy, unless otherwise stated by separate laws or regulations
- permits and licences that may be required are to be issued by the relevant local authority
- foreign companies now have the opportunity of investing and establishing business in Cyprus on equal terms with local investors as no distinction is made between foreign and Cypriot companies

Investors from the EU wishing to acquire shares or a stake in a company registered in Cyprus may apply directly to the Registrar of Companies for approval. They are allowed 100 percent equity participation in any enterprise in Cyprus including companies listed on the Cyprus Stock Exchange.

Direct investments by non residents who are outside the EU are generally allowed. There are certain limitations in respect to real estate

Business Opportunities

acquisitions and in respect of media, health, transportation and education services.

Holding companies

The Cyprus tax regime has attracted a large number of international investment and holding companies, investment funds and royalty companies. Main incentives include:

- favourable taxation which includes, inter alia, 10 percent corporation tax rate, low personal income tax and no capital gains tax on the sale of shares
- double tax treaties with more than 40 countries
- bilateral investment agreements with 20 countries
- a prosperous and resilient economy enjoying long term stability and growth and high per capita income
- privileged location at the crossroads of three continents, providing a strategic base for expansion into new markets
- member of the EU, situated at Europe's Middle East outpost and a gateway for the movement of goods inside and outside the EU
- liberal foreign investment policy allowing 100 percent participation in almost all sectors of the economy
- skilled workforce, highly qualified and multilingual with one of the highest percentage of university degree holders in the world
- excellent infrastructure providing easy access by air and sea, and serving as an important telecommunications hub in the region
- low set up and operating costs including rental costs, salaries and social insurance contribution
- simplified procedures for acquiring requisite permits, as company registration may be completed within one to two weeks
- efficient legal, accounting and banking services
- a fine place to live and work with pleasant climate, high standard of living, friendly people and one of the lowest crime rates within the EU

Technology and research

Cyprus is pursuing the goal of establishing itself as a regional research and technology centre. Through

incentives, the country is rapidly being transformed into a hub for technological development within the eastern Mediterranean region.

The Research Promotion Foundation (RPF), an initiative of the government, was established in order to promote the development of scientific and technological research in Cyprus. One of its main activities is the development of a national framework programme for financing Research and Development and Innovation (R&D&I) projects. A large number of research projects and supporting activities are financed through RPF's programmes, with approximate funding budget of €15 million for 2011. The budget is expected to grow substantially in the coming years. The R&D&I supporting programmes are categorized under five strategic areas:

- strategic and multithematic research and development
- growth of national scientific and research human capital
- applied research development and enterprise innovation
- research on infrastructure development and large scale investment
- international networking and collaboration in the field of R&D&I

Industrial development

Industrial development has been amongst the primary objectives of the government, as it constitutes a vital component of economic policy. The accession of Cyprus in the EU provides Cypriot enterprises with the opportunity to participate in the various community programmes concerning industrial technology, namely: product development, marketing, professional training etc, thus further enhancing the process of restructuring.

The Industrial Development Service (IDS) of the Ministry of Commerce, Industry and Tourism, aims at accelerating the rate of growth of the manufacturing sector and enhancing its competitiveness under free market conditions. IDS has introduced a framework of investment incentives which cover:

- technology upgrade
- manufacturing in rural areas
- relocation of small companies





Hydrocarbon Opportunities

Cyprus is almost wholly dependent on oil imports to cover its energy needs. However, the recent discovery of significant quantities of hydrocarbons offshore Cyprus 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.

Global growth in energy demand in the recent years has shifted from Organization for Economic Cooperation and Development (OECD) countries to emerging economies. According to the International Energy Agency (IEA) the global primary energy demand is expected to rise up to 30 percent by 2030 with oil and natural gas reserves rising by single digit figures the last few years. Fossil fuels are satisfying in excess of 80 percent of the world's energy needs, with gas gaining increasing importance as the fuel of choice.

The EU continues to be heavily reliant on energy imports. Energy dependency and increasing energy prices pose European governments with major challenges when it comes to achieving the central goals of the energy 2020 road map of security of supply, competitiveness and sustainability.

As far as natural gas is concerned, with only around 3 percent of global reserves in Europe and three countries supplying more than 80

percent of the block's imports, diversification of energy sources and routes remains an ever important strategic priority. The relationship that exists between the EU and Russia in the field of energy is very important to both partners. With the EU being the largest energy resources importer from Russia, this mutually beneficial relationship will not disappear in the near future and Cyprus might have a role in enhancing this relationship further.

Cyprus, a member of the EU and an established investment gateway to and from Russia can be the bridge of cooperation between EU, Russia and other countries in the region and beyond with the potential benefits of hydrocarbon discoveries in its economic zone offering unity, stability and prosperity.

The Council of Ministers has set up a state company to manage the island's participation in the exploration and exploitation of hydrocarbons. The company's formation is based on the recommendations of a group of experts appointed by the government and Cyprus' energy regulator, CERA. 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.

Business Opportunities

Immigration

In accordance with the EU's *acquis communautaire*, Cyprus has amended its Aliens and Immigration regulations with regard to the entry and stay of third country nationals for self employment, study purposes or for long term residency.

From 1 January 2007 third country nationals who have been residing in Cyprus for at least five years will be entitled to a long term residence permit which will have an indefinite limit. This entitlement is valid in all EU member states.

In 2008 Cyprus became a signatory to the Schengen Agreement which allows EU citizens and third country nationals living in the EU substantially increased freedom of travel and improved safety within the Schengen countries and at their external border.

Third country nationals wishing to enter Cyprus for other purposes not mentioned above, will require a visa in line with current EU regulation.

Work permits

Citizens of EU member states may work in Cyprus. If they are employed, they must obtain a residence permit.

Third party nationals wishing to work in Cyprus require an employment permit. These are granted for employment by each specific employer and are normally issued for one year and can be renewed.

In December 2006, the government announced proposals to simplify and expedite the application process to allow foreign companies to employ non EU workers more efficiently.

The main features of the new policy are as follows:

- reduction of documentation required to support applications
- ease of re entry visa requirements for third country workers who frequently travel outside Cyprus
- encourage management employees who intend to stay in Cyprus for an extended time to obtain permanent residence permits
- reduction of the time taken to examine applications
- grant of indefinite work and residence permits to senior management
- streamline the procedures for domestic staff employed by senior management personnel

"One Stop Shop" for foreign investors

Within the framework of the decision taken by the heads of the EU member states and the commitment of Cyprus to adopt specific measures in order to reduce the average time for setting up a business, the Ministry of Commerce, Industry and Tourism announced as from April 2007 the operation of a "One Stop Shop Service" for setting up a business.

Consequently, investors and businessmen now only need to be in contact with one single point to obtain almost all the required permits in one streamlined coordinated process rather than having to go through different government departments. The aim is to reduce the average time for setting up a new business in Cyprus.

The new service operates as a "One Stop Shop", hosting services from all the government departments involved in setting up a new business in Cyprus.

Officials from the Department of the Registrar of Companies are available, with the authority to approve a company name, check corporate documents to be submitted and forward these for the registration of the entity within five to ten working days.

Officials from the VAT Department register the new company for VAT purposes, and provide a registration number and any other necessary information on VAT.

The Inland Revenue Department provides tax identification number and advice on Cyprus tax.

The Labour Department has staff available who provide assistance with regard to the employment of local and foreign staff, and to effect registration in the social insurance scheme.

The immigration Department issues work and residence permits for directors, managers and staff from third countries, as well as any facilitation required by EU citizens.

In addition to the above, officials from the Ministry of Commerce, Industry and Tourism are on hand to provide general advice and assistance. This includes the coordination of the above procedures as well as rendering advice on incentives, grants and other business possibilities.



Cypriot Citizenship by Investment

Naturalization is governed by the Population Records Law 2002-2011. Traditionally, acquisition of citizenship through naturalization is conditional on the duration of residency while being legally employed in Cyprus and on other factors such as: family relations and the intention to continue living and working in Cyprus after naturalization.

Exceptionally and regardless of the length of prior residency in Cyprus, high net worth individuals and investors can be naturalized on the basis of other consideration. The Council of Ministers may on public good grounds approve the naturalization of an individual making a significant contribution to the Republic. The public good grounds are enumerated in the decision of the Council of Ministers in October 2011.

A foreign investor may apply for naturalization if he/she meets anyone of the criteria 1-6 and criteria 7, below:

Available investments

- 1 Has available investments in Cyprus worth at least €10 million which include, inter alia, buying immovable property, businesses, companies, shares or securities registered and issued in Cyprus

OR

Business activities

- 2 Has incorporated a company or companies controlled by the investor, with a turnover of at least €10 million per year on average, in the 3 years preceding the application for naturalization and/or at least 1/3 of the employees of these companies are Cypriot citizens

OR

Introduction of new and innovative technology or research centres

- 3a The investor's activities have led to large scale implementation of new and innovative technology which has a positive effect on vital sectors of the Cyprus economy, or
- 3b The investor is the founder of a research institute for large scale scientific projects to be carried out locally

OR

Bank deposits

- 4 The investor personally or through companies owned by him or trusts of which he/she is the beneficiary has a fixed deposit for a minimum period of 5 years in a Cyprus bank of at least €15 million

OR

Combined criteria

- 5 On the basis of a combination of the abovementioned criteria, the investor owns property worth at least €15 million

OR

Direct income/Payments for services

- 6 Has incorporated companies managed in Cyprus. The companies have in the 3 years preceding the application contributed to the Cyprus economy on average at least €500.000 annually in the form of payment of taxes, VAT or acquisition of professional services

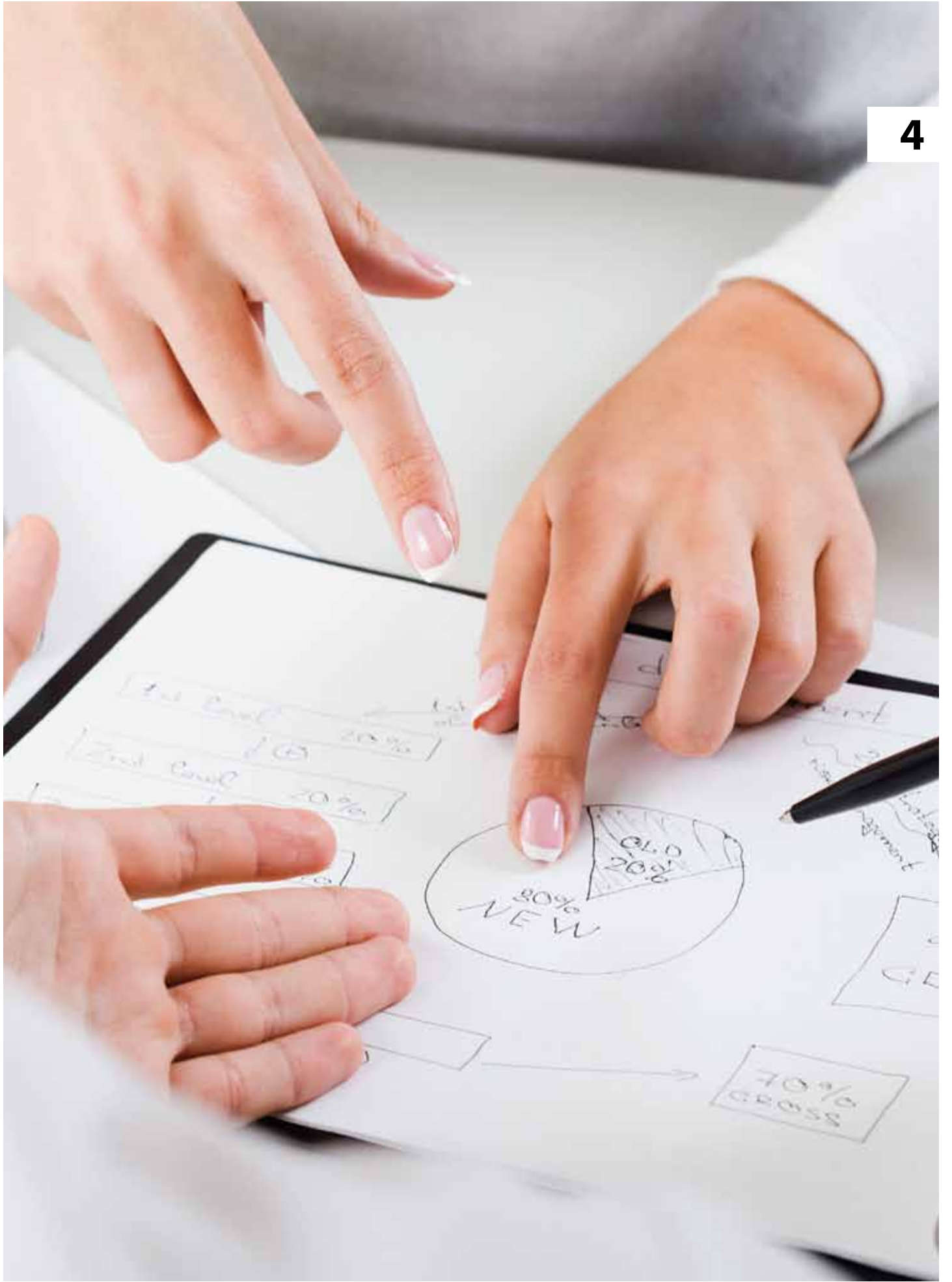
AND

Other criteria

- 7 In addition to any one of the above listed criteria, the investor:
 - a) has reached the age of 30
 - b) has no criminal record
 - c) holds a confirmation that he/she is not included in the list of persons whose assets in the EU are subject to sequestration, and
 - d) owns a house worth at least €500.000 which he or she uses as permanent residence

As regards each one of the above mentioned criteria, the Council of Ministers decision provides for an indicative list of the respective documents which should accompany the application.

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



1st Level 20%

2nd Level 20%



70% GROSS

Tax System

Introduction

According to the Cyprus tax system, taxable income is taxed either in the hands of private individuals or in the hands of corporate bodies. Limited liability companies are the most significant taxable entities.

Corporate bodies

Income resulting from business or other activities is subject to tax under the Cyprus Income Tax Law of 2002 as amended in 2010, though certain forms of income are subject to the Special Contribution for the Defence Fund of the Republic Law of 2002 as amended in 2010. Capital gains are taxed under the Capital Gains Tax Law of 1980 as amended in 2010.

Sole proprietors

Sole proprietorships are not treated as separate taxable entities. The business income of a sole proprietor is calculated according to the rules regarding corporate bodies.

Partnership

Partnerships are not considered as separate taxable entities. Their net income is determined under the rules applicable to corporate bodies, but is attributed to the partners, according to each partner's share in the partnership's total income.

Joint ventures

Joint ventures do not have any special treatment in Cyprus tax legislation.

Taxing authorities

Taxes are levied by the state.

Principal taxes

- Income Taxes
 - Income tax
 - Special Defence Contribution

- Capital Gains Tax
- Immovable Property Transfer Tax
- Value Added Tax
- Stamp Duty

Treatment of foreign taxes

Cyprus has concluded tax treaties for the avoidance of double taxation with a large number of countries (see chapter 9). Most of the treaties apply the credit method in order to avoid double taxation.

In the absence of a treaty, double taxation is eliminated unilaterally under both the Cyprus Income Tax Laws and the Special Contribution for the Defence Laws.

Taxation of non residents

As a general rule, non residents may only be taxed on income derived from Cyprus. Whether the taxpayer is a resident or a non resident in Cyprus, is solely decided on the basis of Cyprus legislation which defines a resident as any person that resides in Cyprus for more than 183 days in any calendar year. A double tax treaty may, however, restrict the taxation of income of non residents in Cyprus. A list of the double tax treaties concluded by Cyprus is discussed in chapter 9.

However, non resident companies and non resident individuals carrying on business through a permanent establishment in Cyprus are taxed on the total income of that permanent establishment.

Taxation of foreign establishments

The income derived by a resident from a foreign establishment is generally exempt from taxation in Cyprus. The exemption does not apply where the income of the foreign establishment is subject to an effective rate of taxation in the foreign country of less than 5 percent and the majority of the foreign establishment's income is derived from investment activities.



Corporate Tax

Management and control

Under Cyprus tax law, a company is considered to be 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. It is, therefore, important especially where a number of jurisdictions are involved, each with different requirements regarding substance, to ensure that the Cypriot companies are properly managed and controlled from Cyprus.

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

- majority of the board are residents 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 may be advisable that a company hires own offices

A company that is incorporated in a foreign country is considered to be tax resident in Cyprus if it is managed and controlled in Cyprus. The Cypriot branch of a foreign company is taxed at 10 percent of its worldwide income, as long as the management and control of the branch is in Cyprus. If it is exercised abroad, all the foreign income of the branch is exempt from Cypriot tax.

It is possible to incorporate companies in Cyprus that are non resident for Cyprus tax purposes. Non resident Cypriot companies ie entities not managed and controlled in Cyprus, are not subject to taxation in Cyprus unless they have a permanent establishment on the island. Where they have such an establishment, they are taxed only on the income that arises from the activities of that establishment. Such companies cannot

take advantage of Cyprus network of double tax treaties and are therefore used mainly for trading activities where treaty benefits are not required. The reputation of Cyprus as a quality financial centre with highly developed banking, legal and accountancy professions gives a non resident Cyprus company a clear advantage over known offshore jurisdictions which are often viewed with suspicion or mistrust.

Taxation of resident companies

Cyprus tax resident companies are subject to corporate tax on their worldwide income at the rate of 10 percent which is the lowest in the EU. A non Cyprus tax resident company is taxed in Cyprus only on income accrued or derived from a business activity which is carried out through a permanent establishment in Cyprus.

The following are the main deductions allowed against income for corporate income tax purposes:

- donations to approved charities
- employer's contributions to social insurance and approved funds
- expenditure incurred for the maintenance of a building preserved (up to €340, €510 or €600 per sq metre, depending on the size)
- entertainment expenses for business purposes (up to a maximum amount of €17.100)
- wear and tear allowances in respect of fixed assets

Dividends, interest, royalties, profits realized from the sale of securities and capital gains released on immovable property are subject to special tax treatment as detailed below.

Taxation of dividend income

Dividends received by a Cyprus resident company are exempt from taxation where they are received from another Cyprus entity. Dividends received from abroad are generally exempt from taxation in Cyprus unless the foreign entity:

Corporate Tax

- receives more than 50 percent of its income from investment activities, and
- the foreign tax burden of the company paying the dividend is substantially lower than that of a Cyprus resident company (“substantially lower” has been interpreted as meaning less than 5 percent)

When dividend income is not exempt, then is subject to 20 percent Special Defence Contribution (SDC) tax. However, any tax withheld at source is allowed as a deduction from this tax even if it is made from a country that does not have a double tax treaty with Cyprus.

EU Parent Subsidiary Directive

Cypriot holding companies benefit from the EU parent subsidiary directive. The directive provides that dividends paid between associated enterprises that are both situated in the EU are made free of any withholding taxes. A company is defined as an associate of another, if that other company holds at least 20 percent of its share capital.

In August 2005, Cypriot law was amended to satisfy the requirements of the EU parent subsidiary directive. These amendments provide that where dividends received from an EU company, irrespective of the shareholding percentage, do not qualify for participation exemption as explained above, then a credit will be provided for any tax paid in that EU country. Tax paid includes not only withholding taxes but also any tax attributable to the profits of the paying company (underlying tax) on lower level subsidiaries.

Taxation of interest income

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. If the interest income fails the test of “active” trading income then it is subject to SDC at 15 percent and exempt from corporation tax. Group finance interest income is considered as trading income.

The absence of thin capitalization rules (see below), combined with the tax treatment of interest make it more favourable to finance Cypriot holding companies through debt and capitalize foreign companies by way of loans rather than through equity. The advantages are that borrowings will not be challenged under thin capitalization rules. Cypriot double taxation treaties usually protect interest receipts from withholding taxes applicable in the source country and there is no withholding tax on interest payable to non Cypriot residents.

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.

Taxation on royalties

Royalties received by a non resident from sources within Cyprus are subject to 10 percent withholding tax in Cyprus.

Where a Cyprus company is granted the right to use a patent, trademark or innovation outside Cyprus there is no withholding tax on payments to the licensor and the Cypriot company is taxed at the corporate income tax rate on the profit margin that it realizes on the use of the right.

EU Interest and Royalty Directive

The EU interest and royalty directive provides that interest and royalty payments in one EU Member State are exempt from any withholding taxes imposed on those payments in that state, provided that the beneficial owner of the interest is a company in another EU state.

For the directive to apply the companies must be associated. One company is defined as an associate of another if that other company holds at least 20 percent of its share capital.





The company receiving the interest or royalty payment must not be acting as a trustee, agent or intermediary. It should be receiving the income for its own benefit.

The interest or royalty must be on an arm's length basis. The directive will not apply to what is considered to be in excess of an arm's length amount.

Taxation of transactions in shares and other securities

Profits realized from the sale of securities are in most cases exempt from tax.

"Securities" are defined as meaning shares, bonds, debentures, founders' shares and securities of companies or other legal persons and options thereon.

The definition of security does not embrace all financial instruments. The Cyprus Tax Authorities have issued a circular that lists the financial instruments that fall within the definition of titles and which excludes promissory notes. Profits realized on dealing in these instruments which are not exempt, are subject to corporation tax.

Capital Gains Tax

Capital gains tax is payable at the rate of 20 percent on profits realized from the sale of immovable property situated in Cyprus - after providing for an inflation indexation allowance - or of shares in non listed companies that own such property. Capital gains realized on the sale of immovable property situated abroad are exempt from capital gains tax.

Taxation of rental income

Net rental income is subject to Cyprus income tax at the rate of 10 percent after allowing for capital allowances of 3 percent (or higher where the building comprises a lease with less than 33 years to termination) and after allowing for the interest expense on loans acquired to finance the acquisition of the property, provided the loan is granted on a normal arm's length basis. Capital

allowances are not granted for the element of the cost that relates to the land. A credit is provided for any withholding taxes deducted abroad.

75 percent of the gross amount of the income earned is also subject to SDC at the rate of 3 percent. Again, a credit is provided for any withholding taxes deducted abroad that have not been utilized in the corporate income tax computation.

Deemed dividend distribution

If a Cyprus resident company does not distribute a dividend within two years from the end of the tax year then:

- 70 percent of accounting profits (after some adjustments) are deemed to have been distributed
- 20 percent SDC is imposed on the deemed dividend distribution applicable to shareholders who are residents of Cyprus
- the deemed distribution is reduced by the actual dividends paid during the period

When dividends are paid after SDC has been paid on deemed dividend distribution, then additional SDC is imposed only on the additional dividend paid over the amount deemed to have been distributed.

Non resident companies are exempt.

Treatment of tax losses

Taxable losses incurred during a tax year which cannot be set off against other income of the same tax year are carried forward indefinitely and set off against future profits. This provision is applicable for losses arising from the year 1997 onwards.

Taxable losses cannot be carried forward if there is a change in the nature of business within three years from the year in which the loss arose.

Group relief

The taxable losses of any company may be set off against the taxable profits of another company in



the same group, provided that the two companies are members of the same group for the whole year and are both tax residents of Cyprus. For the purpose of group relief, a company is deemed to be a member of the same tax group, if:

- (a) it is a 75 percent subsidiary of another company, or
- (b) both are 75 percent subsidiaries of a third company

Reorganizations

Any profits arising on the transfer of assets and liabilities between companies during a reorganization plan are tax free. A reorganization plan includes mergers of companies, demergers, transfer of activities and exchange of shares. The reorganization plan must be approved by the Cyprus taxation authorities.

Inheritance or estate taxes

There are no inheritance, estate or other taxes on shares held in a Cyprus company.

Wealth taxes

Cyprus imposes no taxes on wealth and it is not anticipated it shall do so in the years to come.

Thin capitalization rules

As stated earlier, there are no thin capitalization rules in Cyprus' tax legislation. Caution needs to be exercised in relation to interest deductions in respect of loans used for the purchase of assets not used in business. Such as interest is disallowed.

Controlled Foreign Company (CFC)

Compared with many other jurisdictions, Cypriot CFC legislation is rather 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. The CFC provisions will be

triggered if more than 50 percent of the company's activities result directly or indirectly in investment income, and the foreign tax burden of the non resident company paying the dividend is substantially lower than the tax burden of the Cypriot company.

Transfer pricing

There are no transfer pricing rules in Cyprus but a provision in the Cyprus Tax Law requires transactions to be based on an "arm's length" basis. Cypriot legislation incorporates the OECD model and pertinent guidelines to determine what an arm's length transaction is.

Withholding taxes

No Cypriot withholding taxes will apply with respect to any distribution of dividends and interest by a company to non Cyprus tax resident shareholders (companies and individuals) and Cyprus tax resident companies. Dividends payable to individuals who are tax residents in Cyprus are subject to SDC at 20 percent.

Capital Duty

Capital duty in the form of registration fees is payable to the Registrar of Companies in respect of the registered authorized capital of a Cypriot company upon its incorporation and upon subsequent increase thereon. The capital duty rates for subsequent changes of the registered authorised capital are as follows:

- 0,6 percent on the nominal value of additional registered authorized share capital, and
- €17 flat duty on every issue, whether the shares are issued at their nominal value or at a premium

Stamp Duty

Cyprus levies stamp duty on every instrument if:

- it relates to any property situated in Cyprus, or
- it relates to any matter or act which is performed or done in Cyprus

There are instruments which are subject to Cypriot stamp duty at a fixed fee and instruments which are subject to stamp duty based on the value of the instrument. Contracts are generally subject to stamp duty based on the value of the instrument. The above obligation arises irrespective of whether the instrument is executed in Cyprus or abroad.

It is possible for a Cyprus company to apply to the Commissioner of Stamp Duties for exemption from stamp duty on any contract by providing an application together with the proposed contract. Where loans to foreign subsidiaries are concerned, the Commissioner will expect that the agreement is denominated in a foreign currency, that it is governed by a foreign law, that the contract is executed outside and that the funds are received by the borrower outside Cyprus. The following table summarises the stamp duty payable on a range of documents.

Document	Duty
Receipt – for sums of €3,42 to €34,17	€3,42
Receipt – for sums over €34,17	€6,84
Cheques	€5,13
Letters of credit	€1,71
Letters of guarantee	€3,42
Bills of exchange	€85,43
Contract – up to €170.860 – over €170.860 – without fixed sum	0,15% 0.2% per thousand up to a maximum amount of €17.086 €34,17
Customs declaration documents	€17,10 - €34,17
Bills of lading	€3,42
Charterparty	€17,09
Power of attorney – general – limited	€5,13 €1,71
Certified copy of contracts and documents	€1,71
Will	€17,10
Estate administration document	€8,50



Corporate Tax

Special types of companies

Shipping companies

The Merchant Shipping Law enacted in January 2010 places Cyprus in a very competitive position. It is the only EU country with an EU approved Tonnage Tax (TT) system that:

- provides for TT on the net tonnage of the vessels rather than corporation tax on the actual profits and regulated by the Department of Merchant Shipping (DMS) rather than the Tax Authorities
- grants total tax exemption of profits tax and distribution tax at all levels
- allows mixed activities within a company/group (shipping subject to TT and other subject to 10 percent corporation tax)
- supports an open registry
- allows split ship management activities (crewing or technical)

Cyprus offers complete tax exemption of all profits and dividends at all levels of distribution arising from qualifying shipping operations. This tax relief was introduced in 1963 for 10 years and has been extended a number of times.

The new Merchant Shipping legislation, a major success for the Cyprus shipping industry, offers new opportunities:

- it introduced two new TT schemes applicable to shipowners of non Cyprus flag vessels and charterers. It also extended the application of the TT regime (and exemption from profits tax) currently enjoyed by shipowners and ship managers
- the EU considered that the scheme is in line with the EU's Guidelines on state aid to maritime transport and authorized the scheme until 31 December 2019. It is aimed at supporting the shipping sector in Cyprus and other EU countries with a strong maritime sector, providing incentives for the employment of EU seamen and registration of vessels in the EU and enhancing the competitiveness of shipowners, charterers and ship managers operating in the EU

- under this legislation, qualifying shipping activities are fully exempt from corporation tax. Tonnage tax on the net tonnage of the vessels is imposed instead of corporation tax on the actual profits. Qualifying persons are also regulated completely by the DMS rather than the Tax Authorities
- the exemption also applies on salaries of officers and crew of such ships

Insurance companies

Profits of insurance companies are liable to corporation tax similar to all other companies except in the case where the corporation tax payable on taxable profit of life insurance business is less than 1,5 percent of the gross premium. In this case, the difference is paid as additional corporation tax.

Tax due dates

End of following month

- payment of tax deducted from salaries (PAYE)
- payment of SDC on dividends and interest received in the previous month

30 January

- deadline for the avoidance of penalty of 5 percent for the payment of corporation tax based on tax return of the penultimate year, if that was not paid on 1 August of previous year

31 January

- submission of declaration of deemed dividend distribution (IR623) for the year ended 31 December two years before

30 April

- submission of the previous year personal returns of individuals where their gross income arises exclusively from salaried services. Physical persons submit returns only when their gross income exceeds €19,500.



- payment of premium tax for life insurance companies, first instalment for the year
- submission by employers of the total payroll of the previous year (Form IR7)

30 June

- submission of previous year personal returns of individuals not preparing audited financial statements. A physical person is obliged to submit audited financial statements if his/her turnover exceeds €70.000 annually
- payment of SDC for the first six months
- payment of annual government levy of €350 to the Registrar of Companies

1 August

- submission of provisional tax declaration and payment of first instalment of provisional tax for the year
- payment of previous year's final corporation tax under the self assessment method
- payment of previous year's income tax under the self assessment method by individuals preparing audited financial statements, if annual turnover exceeds €70.000

31 August

- payment of premium tax for life insurance companies, second instalment

30 September

- payment of provisional tax, second instalment
- payment of immovable property tax for the year

31 December

- submission of previous year financial statements and tax returns
- payment of provisional tax, third and last instalment
- payment of SDC for the last six months of the year

- payment of premium tax for life insurance companies, third and last instalment

Interest and penalties

The official interest rate, as set by the Ministry of Finance, is 5 percent per annum for all amounts due after 1 January 2011.

In addition to the interest, a penalty is also charged depending on the circumstances.

Value Added Tax

Value Added Tax (VAT) is imposed on the provision of goods and services in Cyprus, as well as on the acquisition of goods from the EU and the importation of goods into Cyprus.

In principle, any natural or legal person who makes a supply of goods or services for consideration in the course of a business is liable to VAT.

Taxable persons charge VAT on their taxable supplies (output tax) and are charged with VAT on goods or services which they receive (input tax).

For intra community acquisitions of goods (except goods subject to exercise duty or new means of transport) the trader does not pay VAT on receipt of the goods in Cyprus but instead accounts for VAT using the acquisition accounting method. This involves a simple accounting entry in the books of the business whereby he self charges VAT and, at the same time, claims it back if it relates to taxable supplies thereby creating no cost to the business.

Where the acquisition relates to an exempt transaction, the trader must pay the VAT that corresponds to the acquisition.

According to the general rule, a supply of services is taking place in Cyprus if the supplier has a fixed establishment in Cyprus from which the services are supplied. When the service is not supplied from any fixed establishment, the supply is deemed to take place in Cyprus if the supplier has his domicile - permanent residence or registered office - in Cyprus.





Special rules apply to the supply of certain services. The following supplies are regarded as taking place in Cyprus:

- services connected with real property if the property is situated in Cyprus
- transportation services where the transport takes place in Cyprus. Transportation services from Cyprus directed to another country and vice versa are not deemed to take place in Cyprus. Intra community transport is deemed to take place in Cyprus if the transport begins in Cyprus or the customer uses a Cyprus VAT number
- educational and scientific services, cultural, entertainment and sporting events, ancillary transport services, the valuation of and work on movable tangible property if the event takes place, the property is situated or the service is consumed, in Cyprus
- the transfer of rights, patents, licenses and similar rights, advertising and consultancy services, data processing and the supply of information, financial services, the supply of personnel, and hiring out of movable tangible property (excluding the means of transport), the obligation to refrain from resuming a business activity, and the services of agents who act for and on behalf of another person when they procure such services for their principal, provided that in all these cases the customer is a business and has a fixed establishment in Cyprus to which the service is supplied, or the customer has his domicile in Cyprus

Foreign business are subject to VAT on the commercial sale of goods and services in Cyprus.

If a foreign supplier does not have a permanent place of business in Cyprus and has not applied or does not need to apply for VAT registration in Cyprus, VAT is collected from the purchaser under the reverse charge mechanism. Nevertheless, the supplier is always liable for VAT where the buyer is a private individual or where passenger transport services are being provided to and from Cyprus.

VAT rates

The legislation provides for the following tax rates:

- Zero rate
- Reduced rate 5 percent
- Reduced rate 8 percent
- Standard rate 17 percent

Zero rate

- supply of goods and services to other EU member states
- exports to non EU countries
- commissions received from abroad for import / export of goods
- international air and sea transport
- processing carried out on goods in Cyprus on behalf of a customer abroad provided that the goods will be exported outside the EU when the processing finishes

Reduced rate

- hotel accommodation fees (8%)
- restaurants and catering, except alcohol (8%)
- rural and private tax transport services (8%)
- tourist excursion and long distance bus services (8%)
- foodstuff (5%)
- Supply of fertilizers, animal feeding products and seeds (5%)
- supply of live animals for human consumption (5%)
- books, magazines and newspapers (5%)
- non bottled water (5%)
- liquid gas (5%)
- transfer of persons on a rural or city bus (5%)
- various goods for the use of handicapped persons (5%)
- ice cream and similar products (5%)
- funeral service and supply of coffins (5%)
- road sweeping, garbage collection and recycling (5%)
- services of authors, composers and artists (5%)
- medicines and vaccines (5%)

Exemptions

The following services are exempt from VAT:

- Rents
- Medical services
- Insurance, banking and financial services
- Educational services
- Management services provided to mutual funds
- Supplies of real estate, excluding new building before their first use but including supplies of land and of second hand buildings
- Postal services provided by the national postal authority
- Lottery tickets and betting coupons for football and horse racing

Registration

Registration is compulsory for a business with turnover in excess of €15.600 in a year or with an expected turnover in excess of €15.600 in the period of the following thirty days. Business with less than this turnover have the option to register only if they so elect.

An obligation for registration also arises for businesses which make acquisitions of goods from other EU member states in excess of €10.252 during any calendar year.

Exempt goods and services and transactions of capital nature are not taken into consideration when determining the annual turnover for registration purposes.

In addition, as from 1 January 2010, an obligation for VAT registration arises for businesses engaged in the supply of intra Community services for which the recipient must account for VAT under the reverse charge rules. Such businesses will be required to complete and submit a VIES declaration on a monthly basis, for services which are taxed by the recipient under the reverse charge provisions. VIES return will only be submitted electronically.

Furthermore, an obligation for VAT registration arises for businesses carrying out economic activities where they receive services from abroad for which an obligation to account for Cyprus VAT under the reverse charge provision exists.

No registration threshold exists for intra Community supply of services, however for intra Community receipt of services from abroad, a threshold of €15.600 applies.

Thresholds for VAT registration

Provision of taxable supplies in Cyprus	€ 15.600
Acquisition of goods in Cyprus from other EU member states suppliers	€ 10.252
Supply of intra Community services	No threshold
Receipt of services from abroad, under reverse charge rules	€ 15.600
Registration threshold for sales to persons not subject to VAT registration in Cyprus by suppliers in another EU member state	€ 35.000

Difference between zero rate and exempt supplies

The difference between zero rate and exempt supplies is that businesses that make exempt supplies, are not entitled to recover the VAT charged on their purchases, expenses or imports.

Irrecoverable input VAT

As an exception to the general rule, input VAT cannot be recovered in a number of cases which include the following:

- acquisition used for making exempt supplies
- purchase, import or hire of saloon cars
- entertainment and hospitality expenses (except those relating to employees and directors)
- housing expenses of directors



VAT return

VAT returns must be submitted quarterly and the payment of the VAT must be made within 10 days of the second month that follows the month in which the tax period ends.

VAT registered persons and companies have the right to request for a different filing period. Approval of the VAT authorities is required. A tax person maybe required by the authorities to file returns for different periods.

Where in a quarter input tax is higher than output tax, and therefore a repayment is due, the difference is refundable or is transferred to the next VAT quarter.

Reduced rate of 5 percent for first residence

The reduced rate of 5 percent is effective as from 1 November 2011 and applies to primary and permanent residences.

The rate will apply for the first 200 sq meters of a total covered area of up to 300 sq meters of the residence. A persons who is entitled to this rate should fulfil the following conditions:

- has completed 18 years of age at the time of submission of application
- is a citizen of Cyprus or any other member state of the EU
- does not own any other place of residence in Cyprus

Penalties

Late submission of VAT Return	€ 51 each
Late submission of VIES Return	€ 50 each
Late submission of corrective VIES Return	€ 15 each
Late registration with VAT Authorities	€ 85 per month of delay
Omission to keep books and records for 7 years	€ 341





Taxes on Individuals

Basis of taxation

All Cyprus tax residents are taxed on all income accrued or derived from all sources in Cyprus and abroad. Individuals who are not tax residents of Cyprus are taxed on income accrued or derived from sources in Cyprus.

An individual is tax resident if he spends more than 183 days in Cyprus in any one year.

Personal tax rates

The following income tax rates apply to individuals:

Chargeable income	Tax rate	Accumulated tax
0 - € 19.500	Nil	Nil
€ 19.501 - € 28.000	20%	€ 1.700
€ 28.001 - € 36.300	25%	€ 3.775
€ 36.301 - € 60.000	30%	€ 10.885
Over € 60.000	35%	

Exemptions

The following are exempt from income tax:

Type of income	Exemption limit
Interest	The whole amount but subject to SDC* at 15%
Dividends	The whole amount but subject to SDC* at 20%
Remuneration from any office or employment exercised in Cyprus by an individual who was not a Cyprus tax resident before the commencement of his employment, for a period of 3 years	20% of income with a maximum amount of €8.550 annually
Remuneration from salaried services rendered outside Cyprus for more than 90 days in a tax year to a non Cyprus employer	The whole amount
Profits of a permanent establishment abroad, under certain conditions	The whole amount
Lump sum received by way of retiring gratuity, pension, death or injuries	The whole amount
Capital sums from approved funds (eg provident fund)	The whole amount
Capital gains from the sale of immovable property	The whole amount
Profits from the sale of shares and securities	The whole amount
* <i>Special Defence Contribution</i>	

Taxes on Individuals

Tax deductions

Type of income	Exemption limit
Contributions to approved funds	The whole amount
Contributions to trade unions or professional bodies	The whole amount
Loss of current year and previous years	The whole amount
Expenditure incurred for a preserved building	Up to €342, €513 or €598 per square metre (depending on the size)
Social insurance, provident fund, pension fund contributions and life insurance premiums (restricted to 7 percent of insured amount)	Up to 1/6 of the chargeable income
Rental income	20% of gross rental income

Social grants

The following social grants are given:

- €2.560 per annum for every child receiving full time higher education in Cyprus or full time university education outside Cyprus
- €3.417 per annum for blind persons
- families meeting the provisions of the Law, are entitled to a basic child grant and, further, if their income is below €39.000 they are entitled to an additional child grant

Salaries

Cyprus source employment

Income from employment is fully taxable. Domestic Cyprus earnings are generally taxable in Cyprus whether the individual is resident or not.

Foreign source employment

Foreign source employment income is taxed only if the individual is a resident of Cyprus or is exercising the duties of the employment in Cyprus.

Where a Cyprus resident is engaged full time in a foreign employment in which his duties are carried out outside Cyprus, then he or she will not be liable to Cyprus tax if he is abroad for more than 90 days in any year.

Where an individual is resident in Cyprus but commutes to work in another country and suffers tax on the earnings in the other country, a tax credit will be granted in respect of any tax paid in that other country against any Cyprus tax payable in respect of that income.

Tax incentives for the employment in Cyprus of highly paid non Cypriot resident individuals

In order to encourage the establishment or expansion in Cyprus of new businesses, tax incentives are offered for the employment in Cyprus of persons who are not Cyprus tax residents.

Employees who take up residence in Cyprus and whose annual remuneration is in excess of €100.000 will enjoy an exemption from income tax of 50 percent of their employment income for a period of 5 years. The exemption applies from the year of commencement of employment starting from 1 January 2012.

Termination payments

As a general rule, employment income is taxed on an earnings basis. Termination payments are included in taxable income.

Share option arrangements

There are no specific provisions regarding the treatment of share option arrangements in Cyprus



tax law. Consequently, the granting of such options is rare as there is some ambiguity in their tax treatment and there is no case law to draw upon. The following is the general consensus on the treatment of options:

Income tax is levied on the value of benefits derived from salaried services and accordingly the value or benefit derived by share option arrangements will be taxed.

A share option arises when a company grants to its employees or directors an option to subscribe for shares in the company at a predetermined price. It is generally accepted that there is no tax charge on the grant of an option unless the option is a marketable security in which case it will be taxed as a benefit in kind at the market price.

When a share option is exercised, the individual will be subject to income tax (income from employment) in the year of exercise on the difference between the option price and the market value at the date of its granting. Any gain realized between the date of grant of the option and its exercise is a capital gain and is exempt from tax under Cyprus tax law. Where the shares in question are not quoted, it will be necessary to provide the Revenue with valuations of the shares at the relevant dates.

Pensions

Cyprus pensions are fully taxable when received by a resident. Cyprus pensions received by non residents are also subject to Cyprus tax, unless the pension is paid by the government of Cyprus or a local authority.

Contributions to approved pension plans or provident funds by employers and employees are deductible for tax purposes within specific limits, provided the plan has been approved by the Cyprus Tax Authorities. Such registered pension plans are themselves exempt from Cyprus' tax on investment income and gains.

Foreign pensions are subject to a special rate of taxation at the rate of 5 percent. The first €3.420 is tax free. Alternatively, an individual may elect to have his or her pension taxed under the normal

income tax rules. This may be favourable where the personal allowances have not been utilized in full.

Treatment of company directors

For income tax purposes directors of companies are treated as employees.

Benefits in kind

The general rule is that the value of fringe benefits received or enjoyed from an office or employment is included in the taxable income of the employee. With certain specific exceptions, the value of the benefit is deemed to be the cost incurred by the employer in providing it.

There are regulations for the collection of taxes and social insurance on benefits in kind, under which the employer is obliged to withhold tax and social security from the employee's salary, generally in the month after the benefit in kind has been provided.

Accommodation

The value of the benefit depends on the cost to the employer of providing the accommodation including the rent and any expenses paid by the employer in maintaining the residence.

Motor cars

There are no regulations prescribing how the value of the benefit is to be calculated. Consequently, the value is normally agreed between the Inland Revenue and the taxpayer. The usual treatment is to calculate the proportion for use for business purposes vis à vis private use and to allocate the actual cost to the employer accordingly. The personal element is the benefit in kind and typically varies between €1.200 and €2.500.

Expense allowances

Expenses paid to an employee are taxable unless they are reimbursements of expenses actually incurred by the employee in the performance of his or her duties, or they are payments made according to a scale calculated to do no more than cover the employee's outlay.

Taxes on Individuals

Low interest and interest free loans

Where an employee receives interest free credit facilities or loans from the employer, no taxable benefit arises. However, where a director receives an interest free or low interest loan from a closely controlled or family company, the company will be chargeable on a notional profit calculated at 9 percent per annum on the loan amount or facility granted.

Payments towards children's education

Such payments are treated as taxable benefits in kind.

Entertaining

Where the employer reimburses entertaining expenses incurred by the employee, there is no tax consequence for the employee, but there are limits as to the maximum amount that the employer may deduct from its taxable income each year.

Medical insurance

Payments made by the employer on behalf of the employee in respect of medical insurance are treated as taxable benefits in kind.

Relocation expenses

Any costs incurred by an individual that relate to either his or her move to or from Cyprus, or trips to the home country for leave, are not deductible for tax purposes in Cyprus. However, if the employer meets any amount of these costs, they will be deductible as a business expense in computing the employer's taxable income. If the employer has reimbursed the employee for costs incurred in moving, the employee will not normally be assessed to Cyprus tax on the reimbursement, provided that the payments are reasonable and do no more than reimburse the actual cost incurred.

Amounts paid by an employer for a home leave trip are considered as taxable benefits for the employee.

Dividends

Dividends are exempt from income tax but are instead subject to SDC.

Cyprus companies are subject to SDC at the rate of 20 percent on the dividends they pay to Cyprus tax resident individuals.

Foreign dividends received by a resident individual are subject to SDC at the rate of 20 percent. Where foreign withholding tax has been applied, the full amount of dividends including the foreign tax is included in taxable income and the individual is entitled to claim relief by way of tax credit for the foreign tax suffered. The credit is granted irrespective of whether or not Cyprus has a double taxation agreement with the paying country.

Interest

Interest income is exempt from income tax but is, instead, subject to SDC at the rate of 15 percent. Deposit interest from Cyprus banks is subject to SDC withholding tax at source so that no further defence tax is payable. Non residents can claim exemption from SDC.

Business income

Taxable profit from business activities is calculated in the same way as taxable profit for companies. Individuals are entitled to the same annual wear and tear allowances. As for companies, expenses incurred wholly for the purposes of the business, these are allowed as tax expenses if they are used for the purposes of generating taxable income. However, the following are specifically not allowable:

- expenses of saloon vehicles
- interest incurred for the acquisition of a capital investment (for the first 7 years)
- general bad debt provisions and doubtful debt provisions. Banks and other credit institutions as well as insurance companies are, however, entitled to make a doubtful debt provision corresponding to a certain percentage of their outstanding dues

Capital Gains Tax

Capital gains realized on the sale of property situated in Cyprus are subject to a separate tax Capital Gains Tax (CGT). CGT is charged on the



difference between net disposal proceeds and cost of acquisition and improvements of the property. Cost means the historic cost, inflated by reference to the consumer price index applicable during the period of ownership.

Each individual is entitled to a one off exemption for the sale of his or her residence of €85,430. The residence must have been used and occupied by the owner for a period of at least five years for the exemption to apply. Otherwise each tax payer is entitled to a one off exemption of €17,086. Where a property is jointly owned, the exemption is granted to both owners.

The rate of CGT is 20 percent. Sale of foreign properties is exempt from CGT.

Taxation of rental income

For a resident taxpayer, rental income from real estate is included in income for Cyprus tax purposes, wherever the property may be situated.

Rental income is subject to income tax after deducting 20 percent deemed maintenance and administration costs, interest on loans obtained for the acquisition of the property and capital allowances on the cost of construction at the rate of 3 to 4 percent per annum. Where the property is situated outside Cyprus a tax credit is granted for tax paid on the rental income in the source country. Consequently, it is rare for Cyprus income tax to be payable on foreign source rental income.

Rental income is additionally subject to SDC at an effective rate of 2,25 percent. Again a credit is granted for any foreign tax paid and not utilized in the calculation of income tax as discussed above.

Effect of double tax treaties

In general, salaries, wages, director remuneration and similar remuneration derived by a resident of one country, from an employment exercised in the other country, may be taxable in both countries. Double taxation agreements are concluded by Cyprus to give relief, inter alia, from this double taxation, by allowing a credit against the tax payable in the country of residence for the tax payable in the other country.

Interest, dividends and royalties received are, in general, taxed both in the country in which the recipient individual is resident and in the country of payment. Any tax withheld at source is granted a tax credit against the Cyprus tax payable in respect of that income.

Income from non treaty countries

Cyprus grants unilateral tax relief for tax withheld at source on interest, dividends, and royalties received from a country with which Cyprus does not have a double taxation agreement. Relief is provided by way of tax credit.

Tax returns, assessment and collection

Tax returns

Tax returns must be submitted by all persons earning taxable income (after deduction of the personal allowance). The tax return requires the declaration of all income from all sources.

Employees are required to file their tax return by 30 April of the year following the year of assessment.

Self employed persons who earn less than €70,000 per annum are required to file their tax return by 30 June of the year following the year of assessment.

Self employed persons earning more than €70,000 per annum are required to submit their income tax return together with a declaration that it is in agreement with audited financial statements by 31 December of the year of assessment.

Tax on salaries

Every employer is required under the PAYE (Pay As You Earn) system to withhold from each payment of salary, wages, benefits in kind and commission, prescribed amounts in respect of each employee's income tax liability. Any balance of tax due and resulting from other sources of income will be collected by direct assessment at a later date.

Due dates for payment of tax

Self employed persons are required to make a

Taxes on Individuals

provisional tax declaration by 1 August declaring their anticipated taxable income for that year. They are obliged to pay the tax due in three equal installments on 1 August, 30 September and 31 December of the year of assessment.

Any additional tax payable in excess of the amount originally anticipated under the provisional tax declaration is payable by 30 June of the year following the year of assessment unless audited accounts are prepared in which case it is payable by 1 August. If the amount declared on the provisional tax declaration is 25 percent or more, lower than the actual tax payable in accordance with the final income tax return, then a penalty of 10 percent of the additional tax due will be imposed.

A further penalty of 5 percent is payable on the late payment of any taxes due unless the relevant payment is made within 30 days of the relevant due date.

Payment of Capital Gains Tax

The tax on gains made on property situated in Cyprus must be paid at the time of the transaction. A property cannot be transferred to the new owner unless a tax clearance is obtained.

Payment of SDC

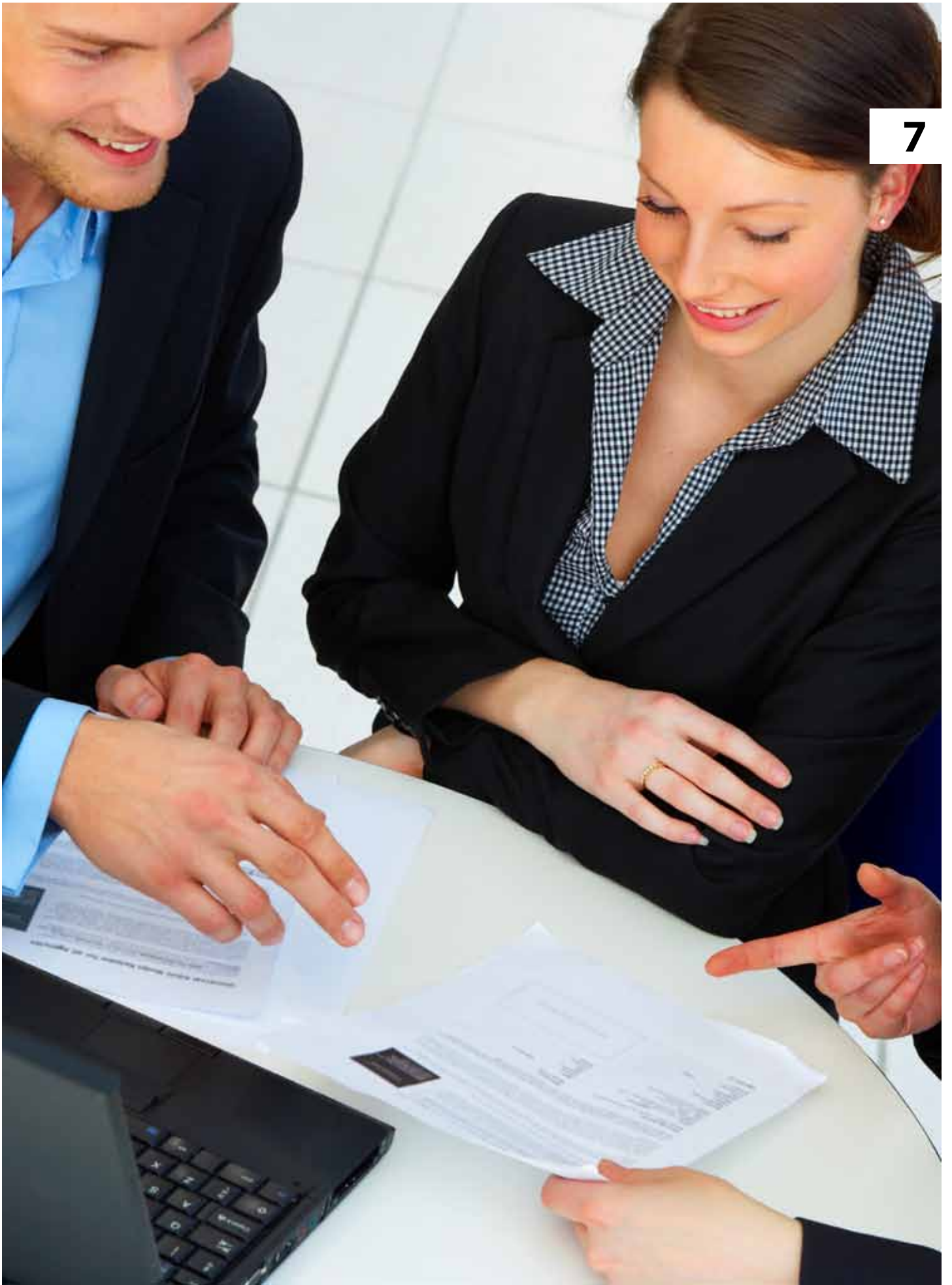
SDC on dividends and interest income must be paid by the end of the month following the receipt of the income.

SDC on rental income is payable in two instalments, on or before 30 June and 31 December of each year.

Social security contributions

Employees and employers are required to make prescribed minimum contributions to the Social Insurance scheme administered by the state. These contributions are collected through the PAYE system operated by employers. For rates see chapter 8.





Other Taxes

Capital Gains Tax (CGT)

CGT is imposed at the rate of 20 percent on gains from the disposal of immovable property situated in Cyprus including gains from the disposal of shares in companies which own immovable property in Cyprus and not listed in any recognized stock exchange.

Determination of capital gain

The capital gain is calculated after deducting from the selling price the initial acquisition cost and improvements of the property or the market value as at 1 January 1980 whichever is the higher, adjusted by the retail price index in Cyprus.

Exemptions

The following disposals of immovable property are not subject to CGT:

- transfer arising on death
- gifts made from parent to child or between husband and wife or between up to third degree relatives
- gifts to a company where the company's shareholders are members of the donor's family and the shareholders continue to be members of the family for five years
- gifts by a family company to its shareholders, provided that property was originally acquired by means of donation
- gifts to charities and the government
- transfers resulting from reorganizations
- expropriations
- exchange of property where the market value of the property exchanged is equal to the gain made

Deductions

The following deductions exist for individuals:

Sale of own residence, under certain conditions	€ 85.430
Sale of agricultural land by a farmer	€ 25.629
Other sales	€ 17.086

The above exemptions are granted only once to each taxpayer in his or her lifetime and not for each sale. Any person claiming a combination of the above is allowed a maximum of € 85.430.

Estate Duty

Estate duty was abolished in 2000. The executor/administrator of the estate of the deceased is required by the Deceased Persons Estate Law to submit to the Tax Authorities a statement of assets and liabilities of the deceased person's estate within six months from the date of death.

Gift and Inheritance Taxes

There are no gift or inheritance taxes in Cyprus.

Immovable Property Tax

Immovable property tax is imposed on the market value as at 1 January 1980 and applies to the immovable property owned by the taxpayer on 1 January of each year. The immovable property tax is payable on 30 September of each year.

The immovable property is imposed on both individuals and legal persons.

Tax rates as from January 2012

Property value	Rate
Up to €120.000	0‰
From €120.001-€170.000	4‰
From €170.001-€300.000	5‰
From €300.001-€500.000	6‰
From €500.001-€800.000	7‰
Over €800.000	8‰

Other Taxes

Transfer fees

Transfer fees are levied by the Department of Land and Surveys for transfers of immovable property, situated in Cyprus.

Rates applying from 19 March 1999

Property value	Rate	Accumulated tax
Up to € 85.430	3%	€ 2.563
€ 85.431 - € 170.860	5%	€ 6.835
Over € 170.860	8%	

In the case of property transferred to a family company, transfer fees are refundable after five years if the property remains with the company and the shareholders remain the same.

In the case of company reorganizations transfers of immovable property are not subject to transfer fees.

In case of property transferred from a family company to one of the two spouses or their children or to a relative up to third degree, the transfer fees are calculated on the value of the property on the title deed, as follows:

Transfer to a spouse	8%
Transfer to a child	4%
Transfer to a relative up to third degree	8%







Social Insurance Contribution

Contributions

Employer	6,8%
Employee	6,8%

The maximum level of annual income on which social insurance contributions are paid is as follows:

Weekly employees	€ 53.304
Monthly employees	€ 53.304

The contributions of self employed persons are 12.6 percent of income, according to the following table:

Weekly salaries

Profession / occupation	Lower limit	Upper limit
Doctors, pharmacists, specialists in health matters, accountants, economists, lawyers and other professionals		
up to 10 years	€ 376	€ 1.025
> 10 years	€ 760	€ 1.025
Wholesalers, estate agents, directors (businessmen)	€760	€ 1.025
Professors and teachers		
up to 10 years	€ 367	€ 1.025
> 10 years	€ 735	€ 1.025
Builders and other related construction industry businesses	€ 461	€ 1.025
Drivers, excavator drivers and other related professions, technicians, associates in media, machinery users (apart from the construction industry), assemblers of products, writers, typists, cashiers, secretaries and technicians who do not fall in any other category	€ 367	€ 1.025
Shopkeepers, cleaners, messengers, guards and owners of dry cleaners	€ 350	€ 1.025

Social Security Contribution

Cont'd

Profession / occupation	Lower limit	Upper limit
Farmers, stock breeders, aviarists, fishermen and other related professions, hawkers, postmen, refuse collectors, workers in mines and quarries, marine workers specializing in underwater constructions, installers of forklift equipment, street sweepers and people responsible for provision of services and salesmen	€ 256	€ 1.025
Butchers, bakers, confectioners and similar professions	€ 282	€ 1.025
Designers, users of computers, ship engineers, agents and musicians, magicians, persons that do not fall into any other professional category	€ 376	€ 1.025

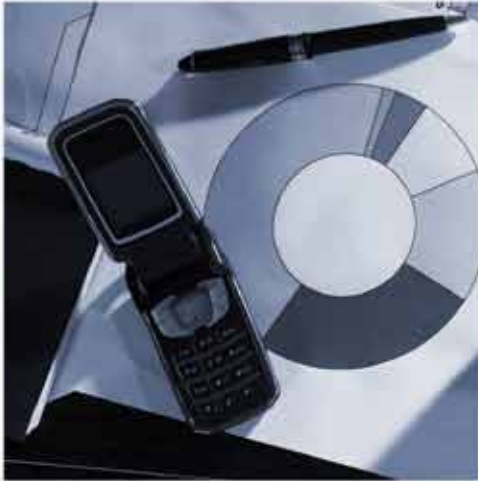
Other employer's contributions

The employer makes the following other contributions based on employee's emoluments:

Fund

Social Cohesion fund	2%
Redundancy fund	1,2%
Industrial Training fund	0,5%
Holiday fund (if not exempt)	8%





Holding Companies and Double Tax Treaties

Holding companies

Holding companies exist for legal, commercial and tax reasons.

Offering the lowest tax rate in the EU, complying with the EU requirements as well as OECD requirements against harmful tax practice, have made Cyprus an ideal International Financial Centre (IFC) for both inbound and outbound EU investors.

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

- for groups, international and domestic, investing outside Cyprus and receiving substantial dividends from subsidiaries. Such dividends in most cases will be tax exempt in Cyprus
- to hold subsidiaries that have scope for significant capital appreciation and that may be spun off or sold in the future. Such disposals are not taxable in Cyprus
- to benefit from the favourable withholding tax provisions of the Cyprus double tax treaty network, the EU parent subsidiary directive and the other EU directives
- where a jurisdiction is required that does not have Controlled Foreign Company (CFC) legislation
- where it may be important to achieve a tax free unwind of the holding company at some stage in the future
- to avail of the easy exit strategy under Cyprus law which allows payment of dividends, interest and royalties without payment of withholding tax
- appropriate for any fund or investment vehicle, as there is no tax on transactions in shares and securities, even if this is the main trading activity of the entity

A Cyprus holding company is generally set up as an ordinary resident in Cyprus which, besides participating in domestic and/or foreign companies, may also have other functions such as trading, manufacturing or financing. There are no restrictions on its activities. It is taxable in

Cyprus on its worldwide income, provided that it is managed and controlled in Cyprus.

Tax incentives available to a Cypriot holding company include:

Taxation of trading income

Trading income is taxed at the rate of 10 percent, the lowest in the EU.

Taxation of dividend income

Dividends and other profit distributions received by a Cypriot tax resident company from another Cypriot tax resident company are exempt from corporation tax.

Dividends and other profit distributions received by a Cypriot tax resident company from a foreign company are exempt from corporation tax. Such income is also exempt from Special Defence Contribution (SDC) at 20 percent, unless:

- a) more than 50 percent of the paying company's activities result directly or indirectly in investment income, and
- b) the foreign tax is significantly lower than the tax rate payable in Cyprus

Tax of capital gains on the sale of shares

Only gains from shares in companies owning immovable property in Cyprus are taxable. Any other trading gains and capital gains made by a Cypriot holding company from the sale of shares are exempt from taxation. No minimum participation threshold is required.

Tax on outgoing dividend and interest

Outgoing dividends and interest paid by a Cypriot holding company abroad are not subject to withholding tax in Cyprus.

Tax on interest income

The EU interest and royalty directive allows interest and royalties to be paid to the Cyprus holding company by group EU companies without deductions of any withholding tax at source. Although some countries have been granted a transitional period in which to apply the directive, the maximum withholding tax that they can apply is 5 percent. In such cases, a credit is provided

Holding Companies and Double Tax Treaties

against Cyprus tax payable for foreign taxes withheld at source.

Foreign tax credit on income received

Income received by a Cypriot company from abroad may be liable to a withholding tax on payment in the country of origin. If this income is liable to tax in Cyprus, the tax paid abroad is credited against the tax payable in Cyprus.

Foreign taxes are credited in Cyprus:

- a) under unilateral provisions of the Cypriot tax law
- b) under bilateral treaty provisions which in some cases provide for credit of the underlying tax as well

Interest deduction for borrowing costs

Generally, interest expenses payable by a Cypriot company are fully deductible.

Thin capitalization

Cyprus tax legislation does not contain any provisions relating to thin capitalization of companies ie debt to equity ratio restrictions. A Cyprus 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 many other jurisdictions, Cyprus' CFC legislation is rather 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. The CFC provisions will only be triggered if more than 50 percent of a subsidiary's or associate's activities result directly or indirectly in investment income, and the foreign tax burden of the subsidiary or associate is substantially lower (taken to mean an effective tax rate of less than 5 percent).

Capital Duty

Capital contribution is subject to capital duty under the Cypriot legislation on the authorized share capital and any further increases, as follows:

- upon incorporation of the company: €102,50 plus 0.6 percent on the authorized share capital
- upon subsequent increases: 0,6 percent on the additional share capital

This capital duty that is payable to the Registrar of Companies can be reduced by having small authorized share capital and issuing the shares at a premium. There is no capital duty payable on share premium.

Registrar of Companies levy

All companies, except for dormant and those not owing any assets, are required to pay an annual fixed duty of €350 to the Registrar of Companies. For groups of companies the total duty is capped at €20.000.

The duty for 2011 should have been paid by 31 December 2011, whereas the levy for 2012 onwards by 30 June each year.

In case where the levy is not paid within the prescribed period, if paid within two months from the due date, a penalty of 10 percent is payable which is increased to 30 percent if the levy is paid within five months from the due date.

Value Added Tax

If the holding company's activity is limited to the holding of shares, it will not be taxable under the VAT legislation. As such it will fall outside the scope of the VAT legislation and will not be entitled or obliged to register for VAT purposes.

However, if the holding company is involved in activities in addition to the holding of shares, such as the provision of management services or granting of loans, then it may be entitled to deduct VAT that it suffers on expenses incurred in Cyprus or self charged under the reverse charge provisions.

Double taxation treaties

The Cypriot double taxation treaty network ensures that dividends received by a Cypriot holding company from its foreign subsidiary are either exempt from or subject to low withholding tax in the subsidiary's place of residence.

Liquidation

If a Cypriot holding company is liquidated, all the profits of the last five years which have not been distributed, are then deemed to have been distributed and are therefore subject to SDC, if applicable. This does not apply to a liquidation in the context of a reorganization.

There is no SDC on liquidation payments to non Cyprus tax residents.

Company reorganizations

Tax rules for reorganizations of companies such as mergers, divisions, transfers of assets including immovable property and exchanges of shares follow the EU merger directive. They extend the directive to domestic reorganizations, cross border reorganizations involving member and non member states and reorganizations abroad with tax implications in Cyprus. Such reorganizations do not lead to recognition of income at company and shareholder levels and any gains made are

exempt from Cypriot tax. Losses incurred before a reorganization may be carried forward indefinitely by the new entity and losses from one activity may be offset against profits from another. No stamp duty is payable on documents effecting a reorganization.

Cessation of activities

A Cypriot holding company held by non resident shareholders can cease operations in Cyprus and distribute assets to its shareholders in any form (dividend, proceeds on liquidation etc) without any tax cost to the shareholders. If the Cypriot holding company owns immovable property in Cyprus, then its disposal at the time of ceasing operations may be subject to capital gains tax.

Table of double tax treaties

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

Suitability of Cyprus Holding Companies

Key Criteria	Favourable (YES) Not Favourable (NO)	Comment
Dividend Income	YES	Extensive double tax treaties, unilateral tax reliefs and EU Directives
Outgoing Dividends	YES	No withholding taxes 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 at 10 percent
Interest and Royalties Withholding	YES	No withholding taxes, only for royalties (10 percent) for their use in Cyprus
VAT Registration	YES	Not obliged to register
Liquidation	YES	Distribution of assets without any tax
Stamp Duty	YES	Only for assets existing in Cyprus

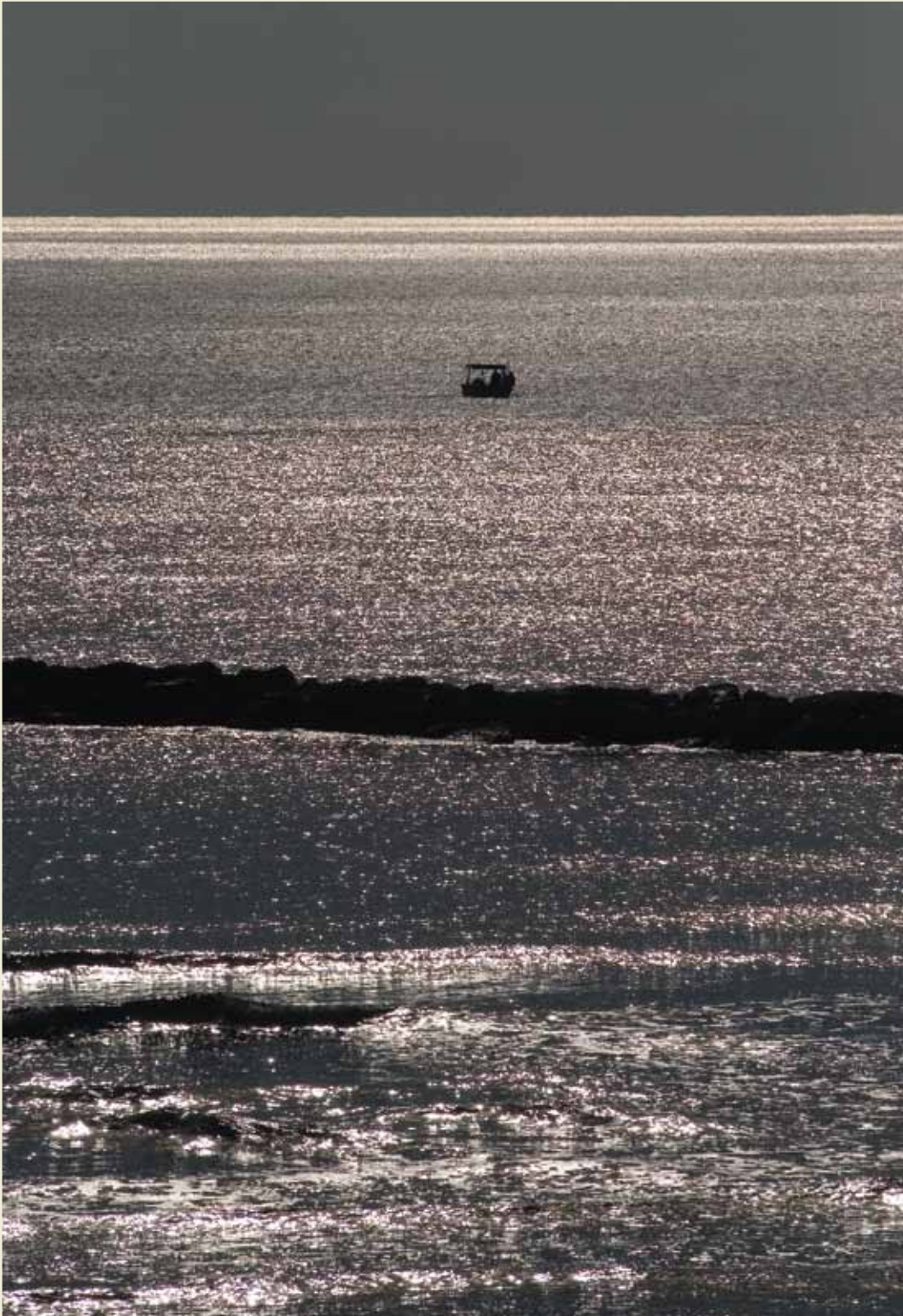
● **Paid to Cyprus**

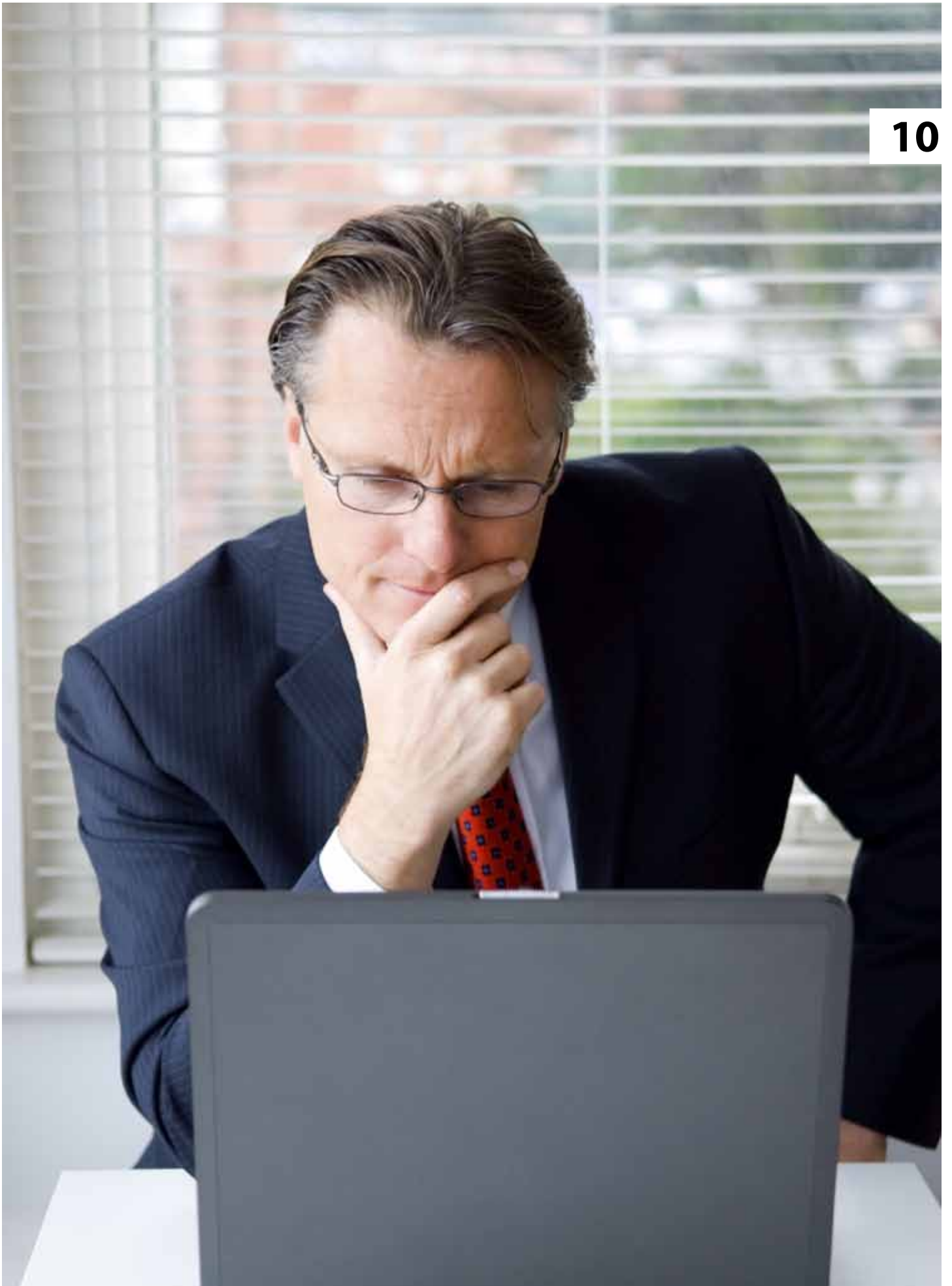
	Dividends	Interest	Royalties
	%	%	%
Armenia	-	-/5	-/5
Austria	10	-	-
Azerbaijan	-	-	-
Belarus	5/10/15	5	5
Belgium	10/15	10	-
Bulgaria	5/10	-/7	10
Canada	15	-/15	-/10
China	10	10	10
Czech Republic	-/5	-	-/10
Denmark	-/15	-/10	-
Egypt	15	15	10
France	10/15	-/10	-/5
Germany	10/15	-/10	-/5
Greece	25	10	-/5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

● **Paid from Cyprus**

There are no withholding taxes on payments (dividends, interest, royalties) made from Cyprus

Holding Companies and Double Tax Treaties





Banking Units IBU

In 1981, the government of Cyprus introduced a comprehensive policy regarding International Banking Units (IBUs) and their encouragement in Cyprus. This type of activity has grown steadily and there are now thirty five foreign banks operating from Cyprus with a banking licence and one with a representative office.

The Central Bank of Cyprus (CBC) has always been guided in its supervisory role by the recommendations of the Basel Committee on banking supervision and the EU directives on banking regulation.

Supervision is exercised by both off site monitoring and on site examination. Off site monitoring entails the submission by banks of an extensive range of periodic returns which cover numerous aspects of banking operations. Any areas of concern are taken up promptly with the bank involved for remedial action. On site examinations are carried out with a view to assessing the current financial position and soundness of a bank and its future prospects at a given time.

The CBC may grant a banking licence for the following two legal types of establishments.

Cyprus incorporated bank A Cyprus incorporated bank may take the form of:

- (a) a subsidiary, being a legally independent person, wholly or majority owned by a credit institution, incorporated either in Cyprus or abroad, or
- (b) a joint venture, between legally independent institutions, controlled by two or more parent institutions being either domestic or foreign and not all of which being necessarily credit institutions.

Branch of a foreign non EU bank The CBC may grant a banking licence to an established overseas bank allowing it to register and operate a branch in Cyprus, an operating entity which does not have a separate legal status from that of its head office. The Cyprus branch must be registered with the Registrar of Companies under section 347 of the Cyprus Companies Law. Due to its legal status, a Cyprus branch of an overseas bank is not required to have its own minimum capital as is

the case of a bank incorporated in Cyprus. In case where an overseas bank has obtained a banking business licence to establish a branch, it is entitled to operate through any number of branches in Cyprus.

The CBC may also grant an authorization for the establishment of a Representative Office ("RO") of a foreign bank incorporated either in the EU or in a third country. This is an office in Cyprus from which the interests of the entity to which it belongs are promoted or assisted but from which no banking business including accepting deposits is carried on. It must, therefore, be clarified that a RO is not granted a banking business licence by the CBC but merely an authorization.

Application for banking licence

The following conditions and guidelines are stipulated for the application of a banking licence:

- IBUs, whether branches of foreign banks or locally incorporated legal entities, are required to be licensed under the provisions of the Banking Business (Temporary Restrictions) Law, Chapter 124
- as a rule, only branches or subsidiaries of banks enjoying a good reputation internationally, established in countries where there is adequate banking supervision and lender of last resort protection, will be considered eligible for a licence
- an IBU's head office in the case of a branch, or its parent bank in the case of a subsidiary, is expected to provide an appropriate letter of comfort in support of the IBU's operations from within Cyprus
- IBUs are expected to operate as fully staffed units and not merely as brass plate operations
- IBUs are expected to comply with the provisions of the CBC and Cyprus law or regulations made thereunder, but are exempted from the maintenance of formal liquidity ratios, reserves with the CBC and capital ratios. IBUs are, however, required to supply the CBC, on request, with information about their activities, their ability to meet their obligations as they fall due, and their general adherence to sound banking practices

Banking Units IBU

- IBUs pay an annual supervisory fee that is agreed with the CBC

Applications for a banking business licence or an authorization for a RO must be submitted in writing by or on behalf of the applicant to the CBC, together with any documents and information which the CBC may require. The applicant is required to provide the CBC with information on:

- business plans, providing insights on the applicant's proposed banking activities
- management and organizational structures, including internal governance
- financial standing of the applicant bank or financial institution
- compliance procedures and systems to be used
- identity of all directors, controllers and managers of the applicant bank/financial institution

Procedure for obtaining IBU licence

Applications for establishing an IBU must be submitted to the Controller of Banks who, by law, is the Governor of the CBC. The Controller of Banks, in granting a banking business licence, may attach such conditions as he may deem necessary. The Banking Business Law gives the power to the Controller of Banks to call for any books, accounts or documents of any licensed bank.

Each application is considered on its own merits and in case of established international banks the required information is considerably reduced. The information normally required is set out below.

Branches

If the proposed IBU is branch of an overseas bank, the following particulars are required:

- audited financial statements for the last three financial years
- short history of the applicants, reflecting gradual and constant achievement of new and improved levels of financial capability

- the extent to which the applicants envisage contributing towards the improvement, expansion or diversification of banking and financial services offered
- list of major and/or controlling shareholders with their respective percentage shareholding and a short description of their financial outlook
- experience, qualifications, reputation, nationality and address of persons who are expected to assume the local direction and management
- feasibility study of the proposed IBU's operations, incorporating projected income statements, balance sheets and statements of source and application of funds for the first five years of operation
- present geographical representation of the applicants
- copy of the applicant's memorandum and articles of association, translated where necessary into English
- present organizational chart of the applicant's head office, together with the profiles of executive directors and senior management

Subsidiaries

If the proposed IBU is a local subsidiary of an overseas bank, the above information, as applicable, is again required. In addition, the following should be included:

- complete list of the proposed shareholders of the subsidiary company with their respective percentage shareholding and a short description of their economic and financial outlook
- draft of the proposed subsidiary's memorandum and articles of association
- written undertaking to provide and set apart the proposed fully paid up capital before or at the time the subsidiary commences business
- a letter of comfort from the applicant
- a certified copy of a decision by the board of the parent company to establish the IBU in Cyprus

Minimum requirements

The minimum statutory criteria for licensing which must be fulfilled with respect to an applicant, in order that the CBC grants a banking business licence, as set out in the Banking Law of 1997 as subsequently amended, are the following:

"Fit and proper" directors, chief executive and managers

Directors, the chief executive and managers of the prospective bank or branch, have to satisfy the CBC that they are "fit and proper" persons to be involved in the provision of banking services. The law prescribes the considerations which the CBC must take into account when determining "fitness and properness". These include the persons' integrity, sound judgment, honesty, diligence, competence, capability and adequate experience.

The "four eye" principle

At least two persons are required to participate and concur in the effective direction and management of the business of the bank. The CBC expects, in the case of Cyprus incorporated banks, that the individuals concerned are either executive directors or persons granted executive powers by and reporting immediately to the bank's Board of Directors.

Minimum capital

A bank incorporated in Cyprus must have at all times a minimum capital of not less than €5.1 million or other higher amount that the CBC might determine. A branch is not required to have its own minimum capital as is the case for a bank incorporated in Cyprus although an "assigned capital" arrangement will be looked favourably by the CBC.

Suitability of controllers

The CBC places particular emphasis on the "fitness and properness" of prospective controllers of the bank (both natural and legal persons) as well as their financial soundness in order to grant its approval. The suitability of controllers is determined, to the extent possible, by means of detailed questionnaires to be completed by directors, chief executives and managers.

Ongoing requirements

Minimum reserve requirements

Banks, whether incorporated in Cyprus or operating as branches of foreign banks, are required to maintain minimum reserves with the CBC, in pursuance of monetary policy objectives, in accordance with section 41 of the Central Bank of Cyprus Law of 2002 as subsequently amended.

Annual financial statements

According to section 24 of the law, banks, whether incorporated in Cyprus or operating as branches of foreign banks, are required to prepare annual accounts and submit them, after they have been audited, to the CBC within four months of the end of each financial year. These financial statements are required to be audited in accordance with the International Standards on Auditing, issued by the International Federation of Accountants, by external auditors appointed by the applicant bank and approved by the CBC.

Investor Compensation Fund for clients of banks and Deposit Protection Scheme

All banks which are incorporated in Cyprus as well as Cypriot registered branches of banks incorporated outside the EU which intend to provide investment services are required to become members of the Cyprus Investor Compensation Fund for Clients of Banks and Deposit Protection Scheme, unless the bank is specifically exempted.

Anti money laundering measures

Banks operating in Cyprus are required to implement strict procedures for preventing the use of their services for money laundering in accordance with the provisions of the Prevention and Suppression of Money Laundering Activities Law of 1996 as subsequently amended and the guidance notes issued thereunder by the CBC.

Payment of fees

The CBC is empowered, under section 26 of the law, to require banks to pay fees as reimbursement of the expenses incurred for their supervision and inspection.



Investment Firms CIF

With its entry into the EU in May 2004, Cyprus has become one of the most attractive countries to set up and operate investment and financial services activities.

The Investment Firms Act and MiFID

The Cyprus Investment Firms Act of 2002-2005 (the "Act") and MiFID provide the legal framework for the provision of investment services as well as for the registration, regulation of operations and supervision of Cypriot Investment Firms (CIFs).

Under the provisions of the Act, only the following entities may provide investment services on a professional basis:

- CIFs - investment firms operating within Cyprus, excluding credit institutions, provided that the CIF has obtained the appropriate authorization from the Cyprus Securities and Exchange Commission (CySEC)
- Credit institutions established in Cyprus - provided that the credit institutions have received an authorization from the Central Bank of Cyprus, in accordance with the provisions of the relevant acts enacted between 1997 to 2000 for the provision of investment and non core services
- Investment firms with their registered offices outside Cyprus - whether providing investment or non core services through a branch or operating on a cross border basis without a licence from the regulators of an EU Member State

Investment services

Investment services include any of the following services:

- Reception and transmission of orders in relation to one or more financial instruments
- Execution of orders on behalf of clients
- Dealing on own account
- Portfolio management
- Investment advice

- Underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis
- Placing of financial instruments without a firm commitment basis
- Operation of Multilateral Trading Facilities

Ancillary services

- Safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management
- Granting credits or loans to investors to enable them to carry out a transaction in one or more financial instruments, where the firm granting the credit or loan is involved in the transaction
- Advice to undertakings on capital structure, industrial strategy and related matters and advice and services relating to mergers and the purchase of undertakings
- Foreign exchange services where these are connected to the provision of investment services
- Investment research and financial analysis or other forms of general recommendation relating to transactions in financial instruments
- Services related to underwriting

CIF minimum share capital and application fees

The Act allows for the establishment of three types of investment services companies. These are briefly described below.

Type 1: these investment firms are authorized to send, receive and execute orders related to financial instruments on behalf of clients. They are not permitted to hold or control clients' assets, deal for their own account or underwrite

Type 2: these investment services companies are authorized to manage clients' portfolios, in addition to the provision of services granted under type 1. They are not permitted to deal for their own account or underwrite

Investment Firms CIF

Type 3: these investment services companies are authorized to deal for their own account and underwrite, in addition to the services permitted under type 2

The minimum paid up capital requirements for the three types of licences are €213.600, €256.300 and €1.025.200, respectively.

Fifty percent of the share capital must be paid into the CIF's bank account in Cyprus at the time of the submission of the application. The remainder shall be paid into the CIF's bank account in Cyprus at the time before the licence is actually issued.

The application fee is €5.100.

Taxation of CIF

A CIF is subject to Cypriot corporate tax like any other company in Cyprus:

- corporate tax rate of 10 percent
- profits from trading in securities for own account are exempt from taxation
- no withholding tax on payments of dividends, interest and royalties to non residents
- dividend income is exempt, in most cases
- capital gains realized on immovable property held outside Cyprus are not within the scope of capital gains tax.

Procedure for obtaining CIF licence

The business objective of a CIF should be the provision of those investment and non core investment services for which it has received a licence by the CySEC.

CIFs must be licensed by the CySEC, which is the relevant regulatory and supervisory authority. In this respect, a written application to the CySEC must be submitted and accompanied by a number of documents including:

- a) a business plan, which should include a description of the operations, the organizational structure, forecasts for the first two financial years and the names of at least two experienced and reliable persons who shall run the business

- b) draft memorandum and articles of association such as they are expected to be formulated after the granting of the CIF authorization
- c) an excerpt of the criminal record, certificates of non bankruptcy and resumes of the members of the board of directors, the executives and shareholders possessing a qualifying holding, as well as their answers to a questionnaire issued by the CySEC
- d) a draft of the internal regulations (operations manual), depending to the investment and ancillary services which the company proposes to provide
- e) a description of the applicant's computer network and electronic infrastructure
- f) the draft procedures for the prevention, detection and reporting of money laundering and other suspicious activities

The CySEC reserves the right to request the submission, together with the application, of any additional documents not listed above.

If the shareholders possessing a qualified holding in the applicant company (10 percent or more) are legal entities, then the CySEC will also require the details of all natural persons that are ultimate beneficial shareholders.

The CySEC will reach a decision on whether to grant or refuse a CIF authorization within three months from the date of submission of the application. During this period the CySEC may request additional information or clarifications regarding the application submitted.

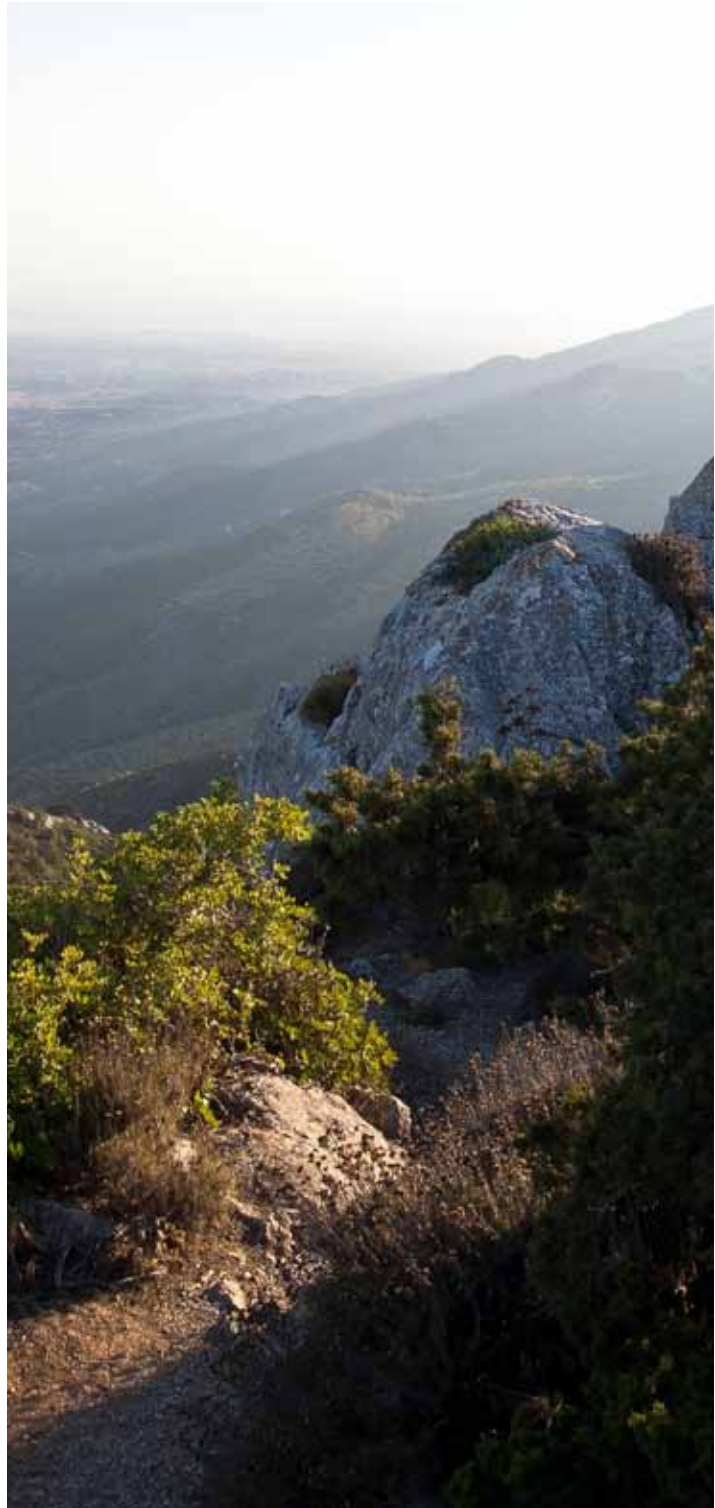
Criteria for successful application

In general, the CySEC must be satisfied that the applicant company has and maintains throughout its operations:

- the minimum capital required under the Act
- shareholders possessing a qualifying holding or otherwise capable of exercising an influence over the management and business strategy, must be fit to ensure the sound and prudent running of the company

- at least two experienced and reliable persons to manage its business, and that the said persons are capable to exercise their duties. One of these two executives should be employed by the company on a full time basis and live in Cyprus. They should both be accessible and available to appear before the Commission with reasonable notice
- full fledged office with established telecommunication and IT network, staffed with employees on a full time/part time basis as described in the applicant's organizational chart
- all executive employees ie Cyprus based general manager, heads of the core services departments and internal auditor, must possess relevant professional competence certificates from the Ministry of Finance of Cyprus. The CIF has an 18 month period subsequent to the issue of the licence to comply with this requirement
- adequate technical and financial resources
- appropriate control and safeguarding arrangement for electronic data processing and adequate internal control mechanisms
- reliability, experience, professional skill and professional diligence of the persons who direct its business
- adequate structures and mechanisms that guarantee the protection of investors' assets and eliminate any conflict of interest that may arise between the company or staff and clients' interests

After the granting of the authorization, the CIF must comply with the on-going obligations provided by the law and the CySEC directives.





Private Funds ICIS

The International Collective Investment Schemes Law 1999 has provided the requisite legal framework for the registration, regulation of operations and supervision of International Collective Investment Schemes (ICIS).

An ICIS can take one of the following legal forms:

- International fixed capital company
- International variable capital company
- International unit trust scheme
- International investment limited partnership

The sole object of an ICIS is the collective investment of funds of its unit holders.

Clients who set up and operate such schemes include financial services companies, fund managers, investment firms and groups of high net worth individuals with a common investment goal. They include the following circumstances:

- funds for property investments especially in countries having double tax treaties with Cyprus
- accumulation of funds of high net worth individuals in a private fund which is flexible, with minimum regulatory supervision and is tradeable
- investments in securities, bonds and other financial instruments, capitalizing tax free gains
- collective fund of several sub fund portfolios with risk profiles
- fund of a number of other funds or subfunds each with a specific objective, projected target return and risk profile
- fund managers providing an investment tool for their clients

Tax and other advantages

An ICIS is subject to tax in an identical manner to any other Cypriot entity. In short, from a tax perspective the following are of significant importance:

- a) exemption from tax on profits from sale of shares and other financial instruments

- b) corporate tax rate on taxable income is only 10 percent, the lowest in the EU
- c) exemption from tax on foreign dividends received
- d) favourable network of tax treaties with more than 40 countries
- e) absence of withholding taxes for interest payments from Cyprus
- f) absence of withholding taxes on dividend payments made abroad
- g) no thin capitalization rules
- h) relative simplicity and certainty of Cypriot tax regime

Structure of ICIS

Form and objectives

The most commonly used ICIS' legal form is that of an International Variable Capital Company. This is a company whose legal form is more or less the same as a Cyprus international business company, except that it has variable capital. In other words, the shares in the company are issued or redeemed as investors buy in or sell their investment in the fund.

The sole object of an ICIS must be the collective investment of funds of the investors/shareholders. The shares issued by an ICIS must, at the option of the investors, be redeemed or repurchased directly out of the assets of the ICIS. The ICIS may be established with unlimited or limited duration.

Minimum subscription

The minimum subscription by investors in an ICIS, which is marketed solely to experienced investors is €50.000 or equivalent. A private ICIS does not need to have a minimum subscription.

Registration process

An ICIS must be approved by the Central Bank of Cyprus which is the regulatory and supervising authority for the schemes, for their managers and their trustees, if applicable. In this respect, the following must be lodged and met:



Private Funds ICIS

- a written application by the applicant company or its local professional advisors
- preprinted questionnaires need to be completed for the directors and founder members
- standard application must be completed along with the references
- an offering memorandum must be prepared to be approved by the Central Bank of Cyprus (CBC) prior to its circulation to prospective investors
- the directors, the promoters, the managers and the trustees of the scheme are competent, experienced and honest
- the Manager meets the necessary legal requirements and the CBC regulations
- the trustee, where applicable, meets the minimum legal requirements and the CBC regulations

Furthermore, the CBC must be satisfied that the constitutional documentation and the offering memorandum of the scheme contain the information prescribed by the CBC and that they are in an acceptable form.

All private ICIS must have a Manager. If the Manager is a company, it may be incorporated in Cyprus and regulated by the CySEC as a financial services firm. However, if the Manager is not based in Cyprus, the ICIS is required to appoint an Administrator in Cyprus.

In case of a Unit Trust Scheme, besides the need for a Manager, it must also have a Trustee.

The Bank, in exercising the powers conferred to it by section 67 of the ICIS Law (No47(I) of 1999) (the Law), has issued regulations which were cited as "Regulations on Books, Records and Other Documents to be Kept by the Manager of the Schemes and/or its Trustee" and "Regulations on Annual and Half Yearly Reports".

All books and records of the schemes as specified from time to time by the CBC must be maintained in the local jurisdiction.

Every scheme has the obligation to appoint an auditor. An auditor means a person qualified to be appointed as an auditor under the Cyprus Companies Law Cap.113 and approved by the Central Bank. The annual financial statements must be audited. There is no requirement to audit the interim financial statements.

Every scheme is required to make available their annual and half yearly reports within three months of the end of the financial year in the case of the annual report, and within two months of the end of the half year in the case of the half yearly report, respectively.

Recent Enhancements to ICIS

Further enhancements to the law introduced in 2011 stipulate that:

- redemptions of units in ICIS do not constitute a deemed distribution for the purposes of Special Defence Contribution (SDC) tax, which is payable by Cyprus residents on interest, dividends and rent. As a result, redemptions of units do not trigger any tax liability as the Income Tax Law now expressly provides that they are treated as a disposal of securities, which is exempt from tax
- the SDC tax rate for deemed dividend distributions in respect of ICIS has been reduced from 15 (now 20) to 3 percent. This reduction applies both to income and proceeds of liquidation. Unit holders that are not residents of Cyprus are exempt from SDC
- the abolition of the minimum 1 percent participation threshold in the shareholding of a company, will extend the dividend tax exemption to small portfolio holdings and thus benefits ICIS



Mutual Funds UCITS

The UCITS (Undertakings for Collective Investments in Transferable Securities) Law 225, 2002 provides the legal framework for the registration, regulation and marketing of local and foreign funds in Cyprus.

Under this law, UCITS are considered to be any organization whose sole aim is to collectively invest publicly collected capital in transferable securities via stock markets, banking deposits and any other investments whose operation is based on the principal risk of diversification and whose units can be liquidated by the unit holder on request using the assets of the organization.

As such the following are not considered to be UCITS under the law:

- UCITS which are not open ended
- UCITS that do not market to the public in Cyprus or other EU Member States
- UCITS that based on their fund rules or constitutional documents only make their units available to the public in other countries except Cyprus
- UCITS for which, due to their investment and borrowing policy, the rules of the Law 225(I) 2002 are not suitable

Under this law, local UCITS may take the following legal forms:

- Mutual Funds
- Variable Capital Investment companies

Taxation of local UCITS

UCITS are subject to tax like any other entity.

Briefly what is significant for UCITS are:

- exemptions from tax on foreign dividends
- exemptions from tax on profit from sale of securities as defined by Cyprus Tax Authorities
- no withholding tax on income repatriation by the UCITS
- relatively simple Cypriot tax regime
- Cyprus has the lowest corporate tax in the EU

Setting up and operating UCITS

To set up and operate a mutual fund in Cyprus, the permission of the Cyprus Securities and Exchange Commission (CySEC) is required. The submission of the application to the CySEC is made by the fund management company that will manage the assets of the mutual fund. This application must meet certain minimum criteria:

- both the fund manager and the custodian of the UCITS need to meet the criteria set out by the CySEC for such organizations, and need to have sufficient internal controls to protect the unit holders
- the fund manager must be a CySEC licensed institution which has sufficient own reserves, appropriately experienced and trained staff and the necessary technical and constitutional infrastructure to manage the assets of the mutual fund
- the custodian must be a bank or a company based in Cyprus approved by the CySEC. The custodian may subcontract certain duties such as the custody of foreign securities to a foreign licensed custodian. The custodian needs to ensure that all activities including buying, selling, settlement and valuation of units are undertaken within the requirements set out by the law, the regulations and the fund rules
- fund rules must be approved by the CySEC and are required to include, amongst other things, the name of the fund, fund manager and custodian, the economic and investment targets, the economic and investment and borrowing policy, the types of permitted transferable securities, the management fees payable by unit holders on purchase and redemption of units, costs paid by the fund to the fund manager and custodian and the permitted expenses that can be deducted from the assets of the fund
- the name and information memorandum of the fund shall be approved by the CySEC
- the minimum capital is €1.706.000 which must be deposited within three months of receiving the licence



Mutual Funds UCITS

Procedure to set up and operate a Variable Capital Investment Company

To set up and operate a variable capital investment company the permission of the CySEC is required. The application must meet criteria similar to those required for a mutual fund and in addition:

- the constitutional documents of the company must state that the company is a variable capital investment company and must disclose the investment and borrowing policy of the company, as well as the types of transferable securities, banking deposits and other investments that it may invest its capital in
- custody of the assets is assigned to an approved custodian, although the CySEC may give permission to the company not to appoint a custodian if the company meets certain criteria set by the law
- management of the assets is assigned to a CySEC licensed fund manager, although the CySEC may give permission to the company not to appoint a fund manager if the company meets certain criteria set by the law

Procedure for the registration of foreign UCITS

The CySEC requires all foreign UCITS which qualify under the relevant EU directive based in another EU member state that wish to market their units/shares in Cyprus to apply to the CySEC for registration.

In this respect a written application to the CySEC must be submitted by the foreign UCITS with the following information:

- duly certified power of attorney by the foreign UCITS for submission to the CySEC of the required documents
- attestation by the competent authorities in the state of domicile confirming that the foreign UCITS fulfils the conditions set out by EU Directive 85/611/EEC
- fund rules or instruments of incorporation
- latest prospectus

- latest annual and half yearly report
- detailed information on the arrangements made for the marketing, issue and redemption of units/shares in Cyprus
- information on the sales representative of the foreign UCITS in Cyprus to ensure that the marketing and redemption of units/shares in the Republic is carried out in accordance to the provisions of the Cyprus law

The application should be submitted jointly with a chosen representative.

The financial year of a UCITS has the duration of a calendar year. The first financial year ends at 31 December of the calendar year in which the UCITS started their operations.

The annual reports shall be audited according to International Standards on Auditing (ISA).

The annual and half yearly reports must be submitted to the CySEC and placed at the disposal of unit holders within two months from the end of the period to which they refer.





International Trusts CIT

Nature of a 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. An individual or company can be appointed as a *Protector* of the trust.

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. In other words, the trustees are under a binding obligation to deal with the trust property in accordance with the law and the directions set out in the trust document.

The law grants the settlor the right to reserve certain powers or to exercise control as the trust protector or enforcer.

The trust property can include all kinds of assets situated anywhere in the world.

The most common types of Cyprus International Trusts (CITs) include:

- Discretionary trusts
- Fixed trusts
- Charitable trusts
- Purpose trusts
- Protective trusts

Definition

The law defines a CIT as being a trust in respect of which:

- the settlor is not a permanent resident of Cyprus during the calendar year immediately preceding the creation of a trust
- no beneficiary other than a charitable institution is a permanent resident of Cyprus during the calendar year immediately preceding the creation of a trust

- 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 companies or partnerships. In fact, this provides unique opportunities for a wide range of investors.

Advantages

A CIT has many advantages including:

- it can exist in perpetuity
- its income can be accumulated for the entire duration of the trust
- if its terms so provide, the law applicable to it can be changed to a foreign law, provided that the new law recognizes the validity of the trust and the interests of the beneficiaries
- asset protection is the cornerstone of the International Trust Law. The current legislation is designed to limit the power of creditors to set aside transfers of assets into a trust. The law makes it difficult to invalidate the trust even in the event of a settlor's bankruptcy unless clearly fraudulent intention was behind the creditor
- confidentiality is an additional feature of the International Trust Law of Cyprus which ensures that the trustee, the protector, enforcer may not disclose to any person any information or documents in relation to the name of the settlor or any of the beneficiaries, the consultations or reasoning of the trustee regarding the exercise of his power, discretion or duties and the accounts of the CIT
- if the beneficiary is a Cyprus resident the income and the profits of a CIT derived from a source within and outside Cyprus are subject to relevant Cyprus tax laws. If the beneficiary is not a Cyprus resident, only income acquired and the profit made from any sources within Cyprus are subject to Cyprus tax laws.



International Trusts CIT

- no law, Cypriot or foreign, relating to inheritance or succession affect any transfer or disposition in favour of the trust in any way or otherwise affect its validity. Subject to the terms of the trust, the trusts' validity, management, disposition of property, the variations or the exercise of the functions of the trustee/protector are determined by Cyprus law and are not affected by the applications of any foreign law.
- significant tax privileges include:
 - dividends, interest exempt from tax
 - gains on disposal of assets being tax free
- all or any part of the trust funds may be invested anywhere, so long as the trustee exercises the diligence and prudence that a reasonable person would be expected to exercise in making investments
- Cypriot law allows a trust to relocate its jurisdiction providing flexibility to respond to changes in personal circumstances or fiscal law
- it is exempt from registration under any law
- an individual who wishes to divest himself of personal assets for fiscal or other reasons, can achieve that by transferring them to CIT
- an individual who wishes to keep the ownership of a company anonymous and confidential, can do this by setting up a discretionary Cypriot trust to own the shares in the company
- an individual who has or may have income arising from overseas, which he or she does not wish to remit to his country of residence, can arrange for such income to be directed to the trustees of a Cyprus based settlement and be held in a discretionary trust in accordance with his wishes
- an individual with assets outside his country of residence-which country may in future extend its exchange control restrictions to include remittance of overseas funds - may wish to retain the flexibility of overseas funds by transferring them to a discretionary trust

Use of trusts

CITs are commonly used for the following purposes:

- an individual, through the use of a Cypriot trust, can ensure that minors, mentally impaired persons or persons unable to deal with the management of the individual's estate are well provided for, even after the individual's death
- an individual, through the use of a Cypriot trust, can arrange to be inherited by persons, who due to the legislation of the individual's country, would otherwise be excluded from the inheritance

Regulation

Professional trustee services are provided by trust and corporate service companies that comprise of accountants and lawyers whose professional conduct is regulated by their professional bodies.

For purposes of further harmonisation with EU *acqui*, a legislative framework regulating the provision of trustee and company management services is currently under consideration.





ENHANCEMENTS OF THE INTERNATIONAL TRUST LAW 2012

The latest amendments to the International Trust Law adopted in March 2012 have enhanced the efficiency and competitiveness of a CIT 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 the following:

Flexible definition

- 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 investment in immovable property in Cyprus has been lifted. It is now possible for the trust property to include real estate in Cyprus

Additional protection against application of foreign laws or foreign judicial/administrative decisions

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. Asset protection in the context of bankruptcy/liquidation applies to the extent that it is proven in court that the trust was not made with the intention to defraud the creditor. The burden or proof lies with the creditor



- 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. It is also protected against judicial or administrative decisions of other jurisdictions which are based on foreign inheritance laws or other laws regulating personal relationships

Jurisdiction

The amendments to the law clarify the issue of the choice of law that will govern the trust and confer express powers on the courts to assert jurisdiction. The main aspects of the new provisions are:

- the new law grants the settlor the authority to choose the law that will govern the trust. If in an explicit or implied manner the Cyprus law is chosen this shall be effective and conclusive
- if a choice of law has not been made but the Cyprus law is closely connected to the trust, again the application of Cyprus law will be valid and conclusive
- the law confers jurisdiction to the Cyprus courts if the law that governs the trust is the law of Cyprus. Further, the law allows Cyprus courts to assert jurisdiction if certain conditions are met, such as, any of the trust assets are located in Cyprus, the management of the trust is carried out in Cyprus, the trustee is a Cyprus resident etc

Settlor's powers

The settlor is entitled to reserve powers to himself in respect of any beneficial interest in the trust property or any of the powers he exercises as a

settlor, or conferred on him in his capacity as the trust protector or enforcer. For instance, the settlor may vary the terms of the trust, distribute or dispose income or capital of the trust property and appoint or remove a trustee.

Perpetuity

The old rule on the duration of the trusts for a maximum of 100 years from the date of creation has been abolished. Trusts created after the amendment of the law may exist in perpetuity. Subject to any express terms of the trust, any payment or disposition of income or capital of the trust to another trust is not invalidated by reason of that other trust continuing to be valid when the first trust is terminated.

Confidentiality

No disclosure of information is permitted unless a request is submitted by the beneficiary (in regards to specific category of information) or a court order for disclosure of information is issued. In such cases the law provides specifically for the conditions which should be met for the issuance of a court order and for the category of documents and information which may be disclosed.

No registration

There is no obligation to register the trust.

Taxation

If the beneficiary is a Cyprus resident the income and the profits of the trust earned from sources within or 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.



Setting up Process

Registration procedure

Before any other steps are taken with regard to the incorporation of a company, the Registrar of Companies must be approached to ascertain whether the name by which the company is proposed to be incorporated is acceptable. The Registrar will not accept a name, if:

- it is too similar to the name of an existing company
- it is considered to be misleading (for example if the name of a company with small resources suggests that it is trading on a great scale or over a wide field)
- it suggests a royal connection (for example names containing such words as “Royal”, “King”, “Queen”, “Crown” etc)
- it includes any of the following words: “Imperial”, “National”, “Corporation”, “Commonwealth”, “Cooperative”

Bearing in mind the above restrictions it is desirable to submit for approval to the Registrar two or three alternatives to the first choice of name, as experience has shown that this can save time.

Where the proposed Cyprus company is intended to have a similar name to that of its parent company, the Registrar will require the consent of the parent company for the use of such name.

Filing of the memorandum and articles of association

To effect registration of a company the memorandum and articles of association must be submitted for filing with the Registrar of Companies.

Memorandum of association

The memorandum must contain the following information:

- the name of the company with “limited” as the last word
- the situation of the registered office
- the objects of the company, which is suggested to be as wide as possible to enable the

company to engage in any kind of business or activity without this being ultra vires (beyond the powers of the company) and, therefore, void

- a statement that the liability of the members is limited by shares or by guarantee
- the amount of the share capital
- the subscribers of the memorandum together with the number of shares for which they have subscribed

Care must be taken that the first few object clauses are tailored to the specific circumstances and main business objects of the company.

Articles of association

The articles contain rules governing the internal management of the company and regulating the rights of its members among themselves. The articles may be altered or added to by means of a special resolution, which requires a majority vote of over 75 percent of the members. The articles deal with matters such as:

- General meetings of the company
- Voting rights of members
- Transfer of shares
- Appointment and powers of directors
- Dividend distribution
- Accounts and audit

Share capital requirements

There is no legal requirement as to the minimum or maximum share capital of the company. It is recommended that the authorized share capital should be at least €1.000 which may conveniently be divided into 1.000 shares of €1 each.

Shareholders

Under Cyprus law, every company limited by shares must have at least one shareholder. If anonymity is required, the shares may be held by nominee companies in trust for the beneficial owners without public disclosure of the owners' identity.

Setting up Process

The incorporation agent is required to confirm the identity of the shareholders and to obtain bank and other references confirming their good standing and repute.

Appointment of directors

The manner of appointment of directors is laid down in the articles of association. Whatever these may provide, the ultimate control for the appointment and removal of directors vests with the members of the company. The articles of association may, in certain cases, name the first directors of the company, who thus become directors from the date of incorporation. Alternatively, and more commonly, the articles may provide that the names of the first directors be determined by the subscribers to the memorandum, who in fact are the first members.

From a tax planning point of view, it is often required that the company is shown to be managed and controlled in Cyprus and, accordingly, it is recommended that the majority of the directors appointed are Cyprus residents. Board meetings should also be held in Cyprus. It is sometimes desirable that expatriate directors are also appointed, but it is advisable that the number of the intended overseas directors resident in a particular country are always below the minimum number necessary to constitute a quorum. With regard to the appointment of directors, the following particulars are required:

- full name
- residential address
- date of birth
- nationality
- occupation
- passport number for expatriate, ID number for Cypriot, registration number for company

Corporate documents

It is recommended to ensure that upon the incorporation of the company, its beneficial owners or other appropriate officials are provided with copies of all corporate documents, properly legalized and translated where appropriate, from Greek into English or any other language requested. Such corporate documents normally comprise:

- certificate of incorporation

- memorandum and articles of association
- certificate stating the company's registered office address
- certificates of directors, secretary and shareholders
- share certificates
- statutory and other necessary minutes of the meetings of the directors and shareholders
- letterheads, invoices and other stationery of the company
- any other documents pertaining to the company's activities up to date of its establishment

Stamp duty

Stamp duty is payable on the registration of a company and its level depend on the authorised share capital of the company. Stamp duty payable is as follows:

Authorized capital	Stamp duty
Fixed sum	€102,5
Plus stamp duty of	0,6% on the amount of authorized share capital

A table showing total stamp duty payable for a sample of levels of authorized share capital is given below:

Authorized capital	Stamp duty
€ 10.000	€ 162
€ 100.000	€ 702
€ 500.000	€ 3.102
€ 1.000.000	€ 6.102

Issued capital	Stamp duty
For all amounts	€ 17

Appointment of secretary

The appointment of the secretary is made by the directors and the articles of association should normally contain an appropriate provision to this effect. The existence of a secretary is a requirement of the law. For practical purposes, a corporate body



(ie a company) may be appointed as secretary. A number of companies which can act as secretaries to Cyprus companies are available and operate satisfactorily.

Registered office

Every company must have a registered office from the day it commences business or within 14 days after its incorporation, whichever is earlier. The registered office is the place where writs, summonses, notices, orders and other official documents can be served upon the company. It is at the registered office where the company's register of members is kept, unless the company informs the Registrar of Companies of another place.

Certificate of incorporation

Once the Registrar of Companies has been satisfied that the documents lodged in relation to a proposed company are in order, a certificate of incorporation will be issued, whereupon the company becomes a corporate body, having an independent legal existence quite distinct from the shareholders composing it.

Bankers, currencies and signatories

The company may open bank accounts with any bank and in any currency and money transfers can be effected without foreign exchange restrictions. Bank signatories can be provided locally.

Formation costs

Total formation costs for a company with an authorized share capital of €1.000 including lawyers' and accountants' fees, and all other out of pocket expenses such as stamp duties etc, are estimated to be €3.000. Fees for services such as opening of bank accounts, issuing powers of attorney or providing tax advice are additional to the formation costs.

Management and control

Under Cyprus tax law, a company is considered to be a Cyprus tax resident if its management and control is carried out from Cyprus. In general, the Cyprus Tax Authorities adopt a liberal attitude accepting that management and control is exercised from Cyprus unless residence is claimed by another country. It is therefore important, especially where a number of jurisdictions are involved, each with different requirements

regarding substance, to ensure that the Cypriot companies are managed and controlled from Cyprus.

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

- majority of the board members are residents in Cyprus
- regular meetings to be held in Cyprus, say every 3-4 months and maybe more regularly if deemed necessary
- major decisions and contracts should be approved by the board in Cyprus
- major contracts should as far as possible be signed in Cyprus
- in certain circumstances, it is advisable that a company keeps an office or virtual office in Cyprus

Day to day management

We, are capable of dealing with all day to day activities of any company, such as bank account monitoring, processing of bank transfers, payroll preparation, invoicing, preparation and review of agreements, bookkeeping, preparation of management reports and statutory financial statements, company secretarial and administration, tax and financial advice and other accounting and business administration.

Audit requirements

All Cypriot registered entities are required to prepare financial statements taking into consideration subsidiaries in accordance with the International Financial Reporting Standards (IFRS) as adopted in the EU and issued by the International Accounting Standards Board (IASB). Cyprus has no special local accounting rules but adherence to IFRS is mandatory.

IFRS have been the Generally Accepted Accounting Standards in Cyprus for over three decades and there is substantial local expertise in the area.

Auditors apply International Standards on Auditing (ISA) in carrying audits of financial statements. They include the examinations of financial statements and attesting to the truth and fairness for statutory audit purposes.



Redomiciliation

As from 28 July 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, and
- Cyprus registered companies can be redomiciled abroad

A summary of the provisions of this law concerning foreign companies to be redomiciled in Cyprus is covered here. This enactment opens new dimensions to international investors and traders as foreign companies can be redomiciled in Cyprus and benefit from the favourable provisions of the Cypriot legislation.

Application for redomiciliation

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 in Cyprus to be registered in Cyprus as a continuing company pursuant to the provisions of the Companies Law Cap 113.

The application must be submitted together with the following documents:

- Resolution or a similar document authorizing the foreign company to register in Cyprus as a continued legal body
- Copy of the constituent document of the foreign company (Certificate of Incorporation and/or Memorandum and Articles and Association or as the case may be)
- Certificate of good standing
- An affidavit made by the board of directors of the foreign company confirming the following:
 - a) the current name of the foreign company and the name under which it will continue its existence in Cyprus
 - b) the country or jurisdiction where the foreign company is registered
 - c) date of registration of the foreign company

- d) the resolution authorizing the registration and continuation of the existence of the foreign company in Cyprus
- e) that the foreign company gave an official notice according to the laws of the country or jurisdiction as to its decision to be redomiciled in Cyprus
- f) that no criminal or administrative procedures have been commenced against the foreign company

- Affidavit by a duly authorized director of the foreign company confirming the financial good standing and solvency of the foreign company
- List of directors of the foreign company and/or the secretary and/or the managers of the foreign company
- List of the shareholders/members of the foreign company
- Such other documents as the Registrar of Companies in Cyprus may deem appropriate

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

Any foreign company which will undertake any activity for which a licence is required in Cyprus, must obtain such a licence according to the requirements of Cyprus law. Such companies include investment firms, insurance companies and banking institutions.

Public companies

In case the foreign company is a public company, then the following must be produced in addition to the above:

- the prospectus of the foreign company, once the shares have been offered to the public
- if it is listed in a stock exchange, evidence of consent of the foreign stock exchange allowing redomiciliation in Cyprus
- list of present shareholders duly certified

Redomiciliation

Registration in Cyprus

As soon as the Registrar of Companies is satisfied that the documents lodged are in accordance with the law, he certifies that the foreign company is temporarily registered as a continued entity in Cyprus.

Temporary registration

From the date of the issue of the temporary registration, the foreign company:

- is considered as a legal entity duly incorporated according to the laws of Cyprus and is temporarily registered in the Republic for the purpose of the Companies' Law Cap 113
- 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:

- a) to damage or affect the continuance of the foreign company as a legal body
- b) to affect the property of the foreign company and the way this company will maintain its assets, rights and obligations
- c) to render ineffective any legal or other procedures filed or to be filed against the foreign company
- d) to acquit or prohibit from any conviction, judgment, opinion, debt, order or liability against the foreign company or its officials or shareholders
- e) to create a new legal entity

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 removed from the register of the country of initial incorporation so that it can be permanently registered in Cyprus.



Securitization



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Securitization is the funding and risk transferring method of choice for an increasing number of issuers and one of the largest growing contributor to the global capital markets.

Although securitization transactions as they are known today were made popular in the US, non US transactions are taking a bigger share of the overall securitization markets. Securitization may be of interest to any large corporation that owns suitable financial assets, whether a pool of debts or revenue streams.

For the banking system, securitization allows for lower liquidity ratios and risks linked to financial sectors and regions. As for companies and households, it facilitates better financing conditions.

What is securitization

Securitization is a type of structure financing in which a pool of financial assests is transferred from an originating company to a Special Purpose Vehicle (SPV). This SPV subsequently issues debt packages solely backed by the assets transferred and payments derived from those assets.

Historically, asset securitization began with the structures financing of mortgage pools in the 1970s. Over the years, the transactions were structured more and more efficiently and loan originators replicated

Securitization

the process to other types of loans. Today, we recognize many types of collateral as receivables (including mortgage backed property, rent) as well as different types of CDO, Auto, Credit Card or Consumer Loans.

Due to the repackaging, new fungible financial assets are created that benefit from a portfolio effect. Acquisition, classification, collateralization, composition, pooling and distribution are functions within this process. From an originator's perspective, securitization enables specific ownership risks to be transferred to parties more able to manage these risks, allows the capital market to be accessed with higher debt ratings than their general corporate rating, and provides other benefits.

Nature of the SPV

The law allows the securitization vehicle to either take the legal form of a company or that of a securitization fund run by a Management Company.

The main characteristics are:

- **securitization company**

The by laws of the of the SPV may entitle the board of directors to create one or more separate

compartments with corresponding liabilities, so that the result of each pool is not influenced by the risks and liabilities of other compartments. Each compartment can be liquidated separately.

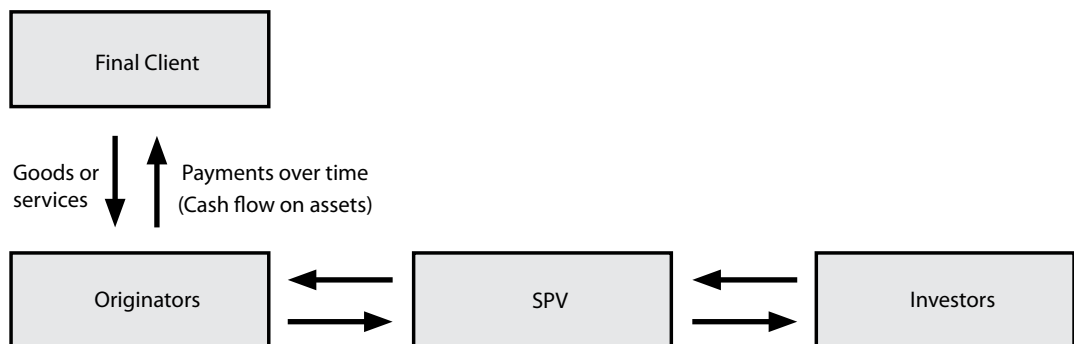
- **securitization fund**

The SPV can be organized in a pure contractual form as a securitization fund. The fund does not have a legal personality. It will, however, be entitled to issue units representing the rights of investors and issued according to the management rules. In the absence of a legal personality, the fund may be organized as a co ownership or a trust. In both cases, the fund will be managed by a Management Company, which will be a commercial company with a legal personality. As for the securitization company, the capital may be split into compartments, which may be liquidated separately.

Securitization vehicles issuing securities to the public on a regular basis fall under the supervision of the Cyprus Securities and Exchange Commission (CySEC) which grants the authorization to the former to perform their activities. The supervision by the CySEC extends to the following aspects:

- approval of the by laws or management rules of the SPV and the Management Company
- the CySEC should be notified about the

Securitization may be described as a financing structure that allows for the conversion of receivables and other assets into tradeable securities via a Special Purpose Vehicle (SPV)



board members of the SPV and the Management Company as well as of the shareholders of the Management Company

- the assets of the SPV need to be held in custody

No regulatory formalities are provided for the securitization vehicles issuing securities in a private placement.

Benefits of securitization

Below is a listing of the common benefits of securitization. However, securitizations are structured financings and it is important that potential issuers understand the range of options and related implications to make informed decisions. While these benefits have varying degrees of importance for different originators, the common hallmark of securitizations is the desire for lower capital cost.

For originators

Securitization improves return on capital by converting an on balance sheet lending business into an off balance sheet fee income stream that is less capital intensive. Depending on the type of structure used, securitization may have the following benefits:

- provide efficient access to capital markets
- minimize issuer specific limitations on ability to raise capital
- convert illiquid assets to cash
- diversify and target funding sources, investor base and transaction structures
- raise capital to generate additional assets or apply to other more valuable uses. For example, it allows lines of credit to be recycled quickly to generate additional assets as well as free long term capital for related or broader uses

- generate earnings
- complete mergers and acquisitions, divestitures etc done efficiently
- transfer risk to third parties

For investors

- broad possible combinations of yield and risk. Securitized assets offer a combination of attractive yields (compared with other instruments of similar quality), increasing secondary market liquidity and, generally, more protection by way of collateral coverages and/or guarantees by entities with high and stable credit ratings
- higher returns

For borrowers

- better credit terms. Borrowers benefit from the increasing availability of credit terms, which lenders may not have provided if they had kept the loans on their balance sheets. For example, lenders can extend fixed rate debt, which many consumers prefer over variable rate debt. Without overexposing the existence of a market for mortgage backed securities, credit card lenders can originate very large loan pools for a diverse customer base, at lower rates



IP and Royalties



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

- patents that protect inventions or new processes
- trademarks that relate to the names of products and perhaps also to their design and packaging
- copyright, which attaches to any original creative idea expressed in words or pictures
- image rights

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 client who has a new IP right, when there is little difference between the fiscal book value and the real value of that IP right and 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 entities.

How it works

Consider the following approach:

- the client who owns the IP right donates or sells it to an offshore company
- this is ideally done when the property is still of minimal value
- the offshore company licenses some or all of the rights for the use of the property to an

onshore intermediary or agency company created in a jurisdiction offering tax benefits

- the onshore intermediary entity then exploits the rights by licensing their use in various countries
- royalty fees are passed to the onshore intermediary entity, which may be subject to a zero or low withholding tax due to double tax treaty benefits
- the onshore intermediary entity retains a fee for the work done in negotiating contracts etc and will pay tax on this sum
- finally, the onshore intermediary company remits the balance to the offshore company free of any further withholding taxes

IP in Cyprus

When choosing where to set up the intermediary company, it is important to consider several issues. For example, to study the applicable corporate taxes, double tax treaties, the cost of setting up the company and any capital requirements.

Many use Cyprus for royalty routing structures because it offers the following tax advantages:

- no withholding taxes on payment of royalties when distributed out of Cyprus, provided that the holder is not a Cyprus resident and the property 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

- the EU Directive on Interest and Royalties providing for nil withholding taxes between EU countries and which extends also to Cyprus
- Cyprus corporate tax rate is at 10 percent, the lowest within the EU
- the licence fee retained by the onshore intermediary company will typically be 5 percent

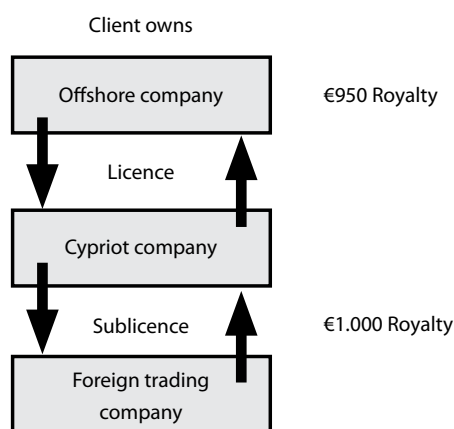
Other advantages of Cyprus include:

- competitive fees
- fast incorporation
- low capital requirements

Practical example

- an EU software company is developing software for which it intends to register the patent rights
- the company registers the patent not under its own name but under the name of a 100 percent owned offshore company
- the offshore company registered in, for example, the British Virgin Islands, then enters into a licence agreement with a Cypriot company for the offshore company's EU patent rights
- the Cypriot company now has the exclusive ability to exploit these rights in the EU
- the Cypriot company then enters into contracts with EU customers, through which it exploits the rights that it now owns
- contract 1 is with, say, an Italian software company for the right to subscribe to the software rights
- the income passes fully to the Cypriot company without withholding taxes between EU Member States
- contract 2 with a Russian software company for the same right. The income passes fully to the Cypriot company from Russia without any withholding taxes, in accordance with the double tax treaty
- the Cypriot company retains a 5 percent licence fee and pays tax on this income but it will be able to pass 95 percent to the offshore company where no further tax will be levied

If the EU software company had negotiated these contracts directly it could have suffered, say, 25 percent corporate tax in its home jurisdiction. Also, the EU software company will pay the Cypriot company for the right to utilize the patent. This will be considered as an expense for the EU software company and consequently the taxable profit will be reduced. Further, if the EU software company sells the rights, any gains will be taxed at going rates. However, if the offshore company sells the rights, the capital gains tax is nil.



Enhancements to the IP Legislation

New provisions in the liquidation enable Cyprus to enhance its position as an IP holding and financing location.

The new Income Tax Law provisions, that came into effect in 2012, offer generous exemptions from tax of income related to IP. More specifically:

- 80 percent exemption from income tax on the net profit (net of any direct expenses) arising from the exploitation of IP, owned by Cyprus resident companies
- 80 percent exemption from income tax on the net profit (net of any direct expenses) arising from the disposal of IP
- effective tax rate of 2 percent or less
- any expenditure of a capital nature for the acquisition or development of IP will be claimed as a deduction in the tax year in which it was incurred and the immediate four years following, on a straight line basis



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Cyprus Stock Exchange (CSE)

Cyprus has three EU regulated exchange markets, the Main, the Alternative and the Parallel Markets of the Cyprus Stock Exchange (CSE). The regulatory authority for these markets is the Cyprus Securities and Exchange Commission (CySEC).

	Regulated Markets			Non-Regulated Market ECM
	Main	Parallel	Alternative	
Admission Criteria				
Minimum Market Capitalisation	€15m	€6.8m	€1m	NO
Equity Capital	€13.6m (2 previous years)	€8.5m (2 previous years)	€1m (2 years before listing)	NO
Dispersion	25% (1000)	20% (300)	10% (100)	NO
Minimum Financial Track Record	4 years with positive net position in the year preceding listing	3 years with positive net position	2 years	2 years (if applicable)
Mandatory Adoption of Corporate Governance Code	Fully	Partially	NO	NO
On-Going Obligations				
Financial Reporting	<ul style="list-style-type: none"> Annual audited accounts Semi-annual report under IAS 34 Quarterly accounts 	<ul style="list-style-type: none"> Annual audited accounts Semi-annual report under IAS 34 	<ul style="list-style-type: none"> Annual audited accounts Semi-annual report under IAS 34 	<ul style="list-style-type: none"> Annual audited accounts Semi-annual report under IAS 34
Interim Management Statements	Within every six month period of the financial year	Within every six month period of the financial year	Within every six month period of the financial year	NO
Announcement of Dates of Board of Directors' Meetings	10 days before meeting	10 days before meeting	10 days before meeting	NO
Publication and Submission of Dispersion Report	Last working day of each quarter in the calendar year	Last working day of each quarter in the calendar year	Last working day of each quarter in the calendar year	Last working day of the calendar year
Profit Warning Announcement	Within 2 months of the period end	Within 2 months of the period end	Within 2 months of the period end	NO
Announcement of Dealings Between the Listed Entity and Member of Management	Next working day	Next working day	Next working day	NO
Maintain a NOMAD	N/A	N/A	N/A	YES
Maintain Website	YES	YES	NO	NO

Opportunities with the ECM and bond listing in the CSE are discussed in the the pages that follow.

NON REGULATED MARKET ECM

In September 2009 CSE launched a new market called the Emerging Companies Market ("ECM"). ECM is governed by a simplified regulatory environment which has been specifically designed for the needs of small and emerging companies.

ECM companies are governed by the regulative decisions of the CSE which set out the requirements and guidance for companies quoted or wishing to be quoted on ECM.

Targeted market

ECM is aimed at:

- private companies seeking funding and easy access to the secondary market
- investors seeking new type of investment, vehicles taking into account the higher risks of the ECM
- public companies not wishing to incur the higher costs of regulated markets

Suitability considerations

Planning and good preparation are crucial to a successful flotation. The following are the key suitability issues that need to be addressed:

- preparation of a well thoughtout and constructed, attractive investor plan
- suitability of existing capital and organizational structure
- establishing an experienced board of directors and management team
- corporate governance implications
- suitability of financial track record
- quality of management information and financial reporting procedures
- tax planning
- legal issues

Eligibility for admission

A company must meet the listing requirements as set out in the regulative decisions of the CSE.

The main requirements are set out below:

- trading records and audited financial statements for at least two years preceding application, if applicable
- newly established companies can be admitted to the ECM, provided that the Council of the CSE is satisfied that investors are provided with adequate information to enable them to assess properly the value of the titles
- the issuer should be a public company, with a satisfactory number of investors
- no minimum market capitalization restrictions
- no minimum shareholder equity restrictions
- appointed and retention of a Nominated Advisor ("NOMAD")*
- no minimum dispersion (no minimum numbers of shares to be in public hands)
- production of an admission document

Ways to obtain a listing

- by public offer: if the offer is higher than €2.5 million and is addressed to more than 100 potential investors, a Prospectus and an approval from the CySEC are required. In addition document needs to be filed and be approved by the CSE
- by private placement, if the offer is:
 - only addressed to institutional investors, or
 - to fewer than 100 potential investors or funds raised are less than €2.5 million, no prospectus is required, only an admission document which needs no approval from the CySEC

* the NOMAD must be registered with the CSE. Oneworld ltd is an approved NOMAD

Cyprus Stock Exchange (CSE)



BOND LISTING IN CSE

The CSE allows private and public companies domiciled in any jurisdiction to issue bonds and list them expeditiously.

It is ideal for:

- promoters who wish to raise money and operate through an approved regulatory structure
- promoters who have lined up pension funds and institutional investors to invest in their project or company whose charter allows them to invest only in listed titles trading on recognized stock exchanges
- companies that believe they can borrow on better terms than those offered by banks while offering a better return to investors
- newly founded companies with little financial history who wish to borrow against securitized assets which serve as collateral

CSE's ECM is similar to the AIM for the London Stock Exchange, with the added advantage that it is a Multilateral Trading Facility (MTF) as defined by the EU's Markets for Financial Instruments Directive (MiFID) and operated by an EU regulated Stock Exchange. Main features:

- minimum amount of the bonds is €200,000
- the Bond Registry is maintained by the CSE in electronic format
- a Trustee is appointed to protect the rights and interests of bond holders

As soon as a bond is listed, the CSE will provide an ISIN code making the bond accessible by professional investors with trading access to the CSE. The listing process is fast, taking 2 weeks to complete and the fees are very competitive equally when compared to EU jurisdictions.

Companies interested to list their bonds on the ECM need to maintain a CSE approved Nominated Advisor (Nomad) to handle the listing procedures. Oneworld Ltd is an approved (and experienced) Nomad.

Procedure to List Bonds

Documents

A legal entity, incorporated in a jurisdiction, is eligible to issue and then list its bonds on the ECM. It will need to provide the following original or apostilled documents:

- certificate of incorporation
- certificate of share capital
- list of shareholders
- list of directors
- registered address

2 year history or 3 year business plan

Existing companies may list their bonds based on a prior 2-year history, provided audited accounts are in accordance with International Accounting Standards. For new companies, bonds may be listed based on a future business plan with financial projections covering 3 years.

Major shareholders

Major shareholders of private or public companies will have to provide their identity details as well as recent utility bills. If shareholders are legal entities, full corporate documents are required. All information provided is open to public scrutiny. The CSE allows the appointment of nominee shareholders and directors.

Board of directors

Curriculum vitae, educational and business background of directors in addition to their identification and proof of address documents need to be provided to the CSE.

Other officers

Companies listed in the ECM need to appoint an approved Nomad who will be responsible for their listing.

The company also needs to appoint a Trustee, maintain a registered address, appoint a legal advisor, auditor, and disclose its bankers.



Cyprus Stock Exchange (CSE)

Private placement

The issuer can issue its bonds privately through a private placement and then list the bonds on the ECM of the CSE provided the minimum amount is €200.000.

The issuer can complete the procedures for a bond listing for larger amounts and thereafter list the bonds in increments of €200.000.

IPO

If the company wishes to hold an Initial Public Offering (IPO) after its application is approved, then it may do so up to €2.4m with simplified procedures. The submission of an admission document suffices.

If the amount exceeds €2.4m, the company needs to prepare a prospectus and submit to the CySEC for approval.

Trustee

A trustee will need to be appointed and a Trust agreement signed between the issuer and the trustee. The trustee can be a lawyer or a fiduciary company.

Admission document

The admission document is prepared by the approved Nomad in cooperation with the client and covers the following:

- company history
- major shareholders
- directors
- officers
- terms of the bond issue
- 2 year prior history or 3 year future projections (for new companies)
- reasons for seeking listing
- future plans, including business plan with use of funds
- risk analysis and risk warnings

Nomad

The role of the Nomad is critical to the listing process as it is for the Nomad to determine the company's suitability for an ECM Admission. The Nomad is responsible for the compliance with the ECM Rules on and following admission. The ECM Rules are published by the CSE and set out the rules and responsibilities that an ECM listed company must comply with.

Reporting requirements

All companies that have listed securities on the ECM are required to comply with ongoing obligations. The key ones include:

- audited accounts within 4 months following financial year end
- 6 month interim management accounts 2 months thereafter
- corporate matters including notification for any AGM/EGM, bonus share issues, mergers and acquisitions, changes in directors, major shareholder transactions
- announcements with major impact on the bond price must be notified to the CSE
- prompt payment of dues and obligations to CSE, Nomad and professionals



Oneworld & Group One

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At Oneworld, we provide solutions to clients. A significant proportion of our business is trust and corporate registration and administration for private individuals. Many corporate and institutional clients come to us for a complete solution and for many we also set up and administer their individualized tax efficient structures. We also render international tax advice, financial advisory, accounting and payroll, VAT and customs, corporate finance and other pertinent services.

Like our clients, we maintain the highest professional standards, code of conduct and integrity. Our due diligence procedures more than meet the requirements of the highly regulated jurisdictions in which we work. Our staff are trained comprehensively in anti money laundering and "know your client" procedures. As one would expect, confidentiality is paramount in all our dealings, and our staff are bound by law to maintain professional confidence.

We are one of the leading global business 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, company secretaries as well as a highly trained and knowledgeable corporate and support staff.

Oneworld is part of Group One

Our Services

Corporate and Trust

- Company and Trust Formation
- Domiciliary and Management
- International Structuring
- Registrar and Shareholders
- Intellectual Property
- Fund Administration

Tax and Legal

- International Tax
- EU Direct Tax
- Transfer Pricing
- Legal Services
- Legal Support

Business Advisory

- Internal Audit
- Regulatory Compliance
- Corporate Strategy
- Performance Management
- HR Management
- IT Services

Financial Advisory

- Corporate Finance
- Listings
- Financial Due Diligence
- Business Recovery
- Mergers and Acquisitions
- Venture Capital

Global Compliance

- Accounting Services and Reporting
- VAT Registration
- HR and Payroll
- Fund Valuation Services

Business Centre

Oneworld provides cost-effective offices and meeting rooms on flexible terms, all backed up by a fully trained support team and state of the art IT and telecom infrastructure. So whether you are starting up a new business venture or setting up a temporary office, we can provide you with flexible support solutions enabling you to match your office and meeting room space to your business needs, which is the key to success.

Facilities include:

- ISDN enabled, high speed
- Video-conferencing facilities
- Controlled temperature
- Lifts serving all floors
- Secure high speed internet access
- Voice mail services
- Virtual office plus

All offices are fully furnished and equipped with high speed internet access and telephones.

- Virtual office

You can establish a local business presence wherever you need to be. We enable you to match your office and meeting room space to your business needs.

- Telephone answering

Your local phone number is answered in your company's name and calls are handled according to your exact instructions. The caller can leave a message or we shall forward the call to you, wherever you are.

- Mailbox plus

You can establish a local presence. Your business contacts and clients can send you mail at any of our world class business address, and we will forward it to the destination of your choice.



Group One entities include:

One Plus Capital Ltd (OPC)

OPC offers the financial services to private, corporate and institutional clients in Cyprus and Europe (“EU passporting”).

Main services:

- Brokerage
- Portfolio Management
- Investment Advisory
- Corporate Finance
- Custody
- Foreign Exchange

Our investment and asset managers handle client investment needs. They propose solutions based on each client’s specific investment needs, investment profile and performance targets.

www.onepluscapital.net

One Plus Family MFO Ltd

An increasing number of high net worth individuals all over the world are opting for a family office to administer their wealth. Our experience in professional services for many years and in financial services is made available to you and we make sure you receive a dedicated and personable service. Our team will consist of dedicated corporate and fiduciary advisors, private lawyers, international tax consultants, financial advisors and administrators who will be looking after your affairs on a day to day basis. We can arrange to report to you and do valuations at set intervals.

Main services:

- Family office services to selected high net worth individuals
- Working with your professionals for your private needs

[www.oneworldweb.net/family office](http://www.oneworldweb.net/family%20office)

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GROUP ONE

Thinking Ahead of Tomorrow

