

Cyprus an International Business Center



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introduction



Despite the severe drawback of the financial and banking crisis on the economy, the international business community continue to cast a vote of confidence and view Cyprus as the preferred hub and international business center that best service their strategic plans.

The reasons that attracted global investors for the past decades to Cyprus not only are still valid, but are continuously enhanced by structural reforms brought about by the Cyprus Government.

What makes Cyprus a destination of choice for international businesses, their executives and individuals, is the combination of key ingredients that all together create a formidable proposal not easy to ignore:

- Strategic Location
- European Union Member
- Attractive Tax Environment
- Extensive Double Tax Treaties Network
- Robust and Transparent Regulatory Environment
- High Quality Professional Services
- Availability of Human Talent
- Low Set-up and operation costs
- Well developed Infrastructure
- Quality of Life and Climate

This booklet gives a brief description of the general characteristics of Cyprus and

provides a comprehensive account of the advantages that contributed to its evolution as an international business centre for international corporations.

The booklet is by no means intended to provide an exhaustive detailed guide. Interested corporate entities or individuals planning to invest or expand their activities in Cyprus are kindly asked to seek professional advice before proceeding with their plans.

Our experienced senior executives will be pleased to meet with interested parties, listen carefully and offer advice tailored to their corporate or individual needs.

Cyprus

in brief



Location and Population

Cyprus, with an area of 9,251 sq km and coordinates at 35 N and 33 E, lies at the crossroads of Europe, Africa and Asia at the crux of the busy shipping and air routes linking the three continents.

The population of Cyprus is about 860,000. The capital of Cyprus is Lefkosia (Nicosia), situated in the heart of the island with a population of approximately 336,000. The second largest city is Lemesos (Limassol), on the south coast with a population of approximately 240,000 and the island's major port. Larnaca and Paphos are the third and fourth largest cities, each with a new airport, situated on the south east and south west coasts respectively.

Government

Since 1960 Cyprus is an independent state member of the United Nations, with a presidential system of government. The executive authority is vested in the President who is elected for a five year term by universal vote, and exercised by a Council of Ministers appointed by the President. The legislative authority is exercised by the House of Representatives. House members are elected by universal vote every five years. The administration of Justice is exercised by the Judiciary, which is a separate and independent body.

International Relations

Cyprus is a member of many international organisations including the United Nations (1960), the Council of Europe (1961), the Commonwealth (1961), the World Bank (1962), the International Monetary Fund (1962), the World Trade Organization (1995), and the European Union (2004). Cyprus is represented through diplomatic missions in over 40 countries.

Language and Education

The official languages in Cyprus are Greek and Turkish. English is widely spoken by the local population and used mostly in international business communications.

Cyprus has a young, well-educated talent pool. There are 339 public and 29 private primary schools and 127 public and 39 private secondary schools (2010/11).

In the higher education there are two public and five private Universities. In addition, more than 30 colleges offer more than 200 accredited study programs at tertiary level.

Legal System

Cyprus has a comprehensive, modern and forward looking legal and regulatory framework. It is based on the Common Law legal system that is widely recognised as highly reliable and effective. As a member of the European Union, Cyprus has also harmonised its legalisation with the European Union Legal Order.

Infrastructure

The local infrastructure is ideally suited for businesspeople who need to get things done. Thanks to its modern road network, extensive port facilities and two new international airports, travel and transport in and beyond Cyprus is fast, efficient and economical.

Considerable investment has been made into transforming the island into a major telecommunications hub in the region, through an extensive cable and satellite network.



why Cyprus



Over the last decades international businesses and high net-worth individuals have been using Cyprus for various reasons, according to their particular needs, profile and goals. However diverse the approach and the needs are, there is a consensus that Cyprus has a solid core of advantages which, all agree cannot be ignored.

Strategic Location

Cyprus, the third largest island in the Mediterranean is strategically positioned at the crossroads of Europe, Asia and Africa. Being a member of the European Union and with its traditional trade and friendly relations with the neighbouring countries as well as with Russia and the former CIS countries, is the ideal hub to serve as a springboard for investments, trade and international business activities between Europe, Asia, Russia, the former CIS countries, Middle East and Africa.

European Union Member

Since 2004 Cyprus is a member of the European Union, affording access to an internal market of 500 million people. Cyprus companies have direct access, or may establish their operations and offer goods and services or may invest in any country member of the EU and of the European Economic Area, without restriction.

Cyprus membership to the EU, combined with its advanced infrastructure in the shipping sector; the deep sea port facilities and the close proximity to the Suez canal, offer a sound platform and a natural hub for international trade and logistics operations to and from the European Union.

Attractive Tax Environment

Cyprus has a simple, transparent and attractive tax regime fully compliant with EU and OECD standards having the following main characteristics:

- General corporate tax rate of 12.5% on profits and one of the lowest effective corporate tax rates in the EU;
- Dividend income, profits from overseas permanent establishments and profits from the sale of securities are exempt from tax;
- No withholding tax on dividend, interest and royalty paid from Cyprus;
- Unilateral credit relief for foreign taxes;
- No capital gains tax/ except on real estate situated in Cyprus;
- No detailed transfer pricing rates (arm's length principle only);
- Group loss relief;
- No wealth taxes and only minimal stamp duties;
- Most international transactions are free of VAT charge;
- 80% exemption of royalty income and gains from disposal of intellectual property;
- Wide network of favourable Double Tax Treaties with fifty key jurisdictions.
- Generous tax exemptions for non-resident individuals taking up highly paid employment in Cyprus.



Extensive Network of Double Tax Treaties

Cyprus international tax environment is greatly enhanced by a wide network of Double Taxation Treaties with 50 countries.

Among these countries, a number of important key jurisdictions are included in North America, Europe and the emerging economies of Russia and China and India. In general the main provisions in these treaties refer to avoidance of double taxation for income earned by a resident in one of the treaty signatories, having operations/ activities in the other treaty country and to reduced or zero rate of withholding tax on dividends, interest and royalties paid from the treaty signatory.

Robust and Transparent Legal and Regulatory Environment

Cyprus has a robust, transparent and well functioning legal system based on the Common Law system of England, due to historical reasons. Furthermore, as a result of Cyprus accession to the European Union, its legislation has been harmonised with the EU legal order providing reliability and certainty to international businesses and individuals who invest or establish their operations and trade activities in Cyprus.

In addition, Cyprus as a member of various international bodies and organisations, is signatory or has ratified a large number of international instruments, treaties and conventions which also compliment and enhance the transparency and reliability of the system.

High Quality Professional Services

Cyprus evolution into a widely recognised international business center is due to a great extend to the high standard of services offered by its legal, accounting and other professionals that have been offering services to international investors over the last decades.

International leading consultancy and accounting firms have a strong presence in Cyprus enhancing the Island's reputation as an international business services center. In addition, a strong regulatory framework is in place and vigorously implemented by the competent Authorities who are licensing and supervising the activities of companies and individuals providing professional services in regulated areas and activities, ensuring strict adherence to the highest professional standards.

Availability of Human Talent

Perhaps the most valuable resource Cyprus has, is the young well educated talent pool.

Recognising the importance of a well educated human capital, Cyprus has been investing in developing and upgrading its educational system by streamlining policies and taking measures specified by European Standards and guidelines.

In addition the majority of University graduates have studies abroad, mostly in the United Kingdom, United States and Europe in fields such as business administration, accounting, law, science, medicine and engineering. Usually they compliment their studies with valuable international working experience by taking up employment for short periods of 2-3 years before repatriating.

This human talent is readily available to serve international businesses at very competitive rates.

Low set-up and operating costs

Cyprus as an international business hub in the European Union offers the opportunity to companies and individuals to relocate or set-up new business operations at very competitive rates compared to other Western European countries.

Well educated and trained human capital is readily available at considerably lower rates, whilst the cost for acquiring or leasing of property, as well as for hiring professional support and utility services compare very favourably vis-à-vis other European business centers.

Well Developed Infrastructure

The local infrastructure is ideally suited for business people who need to get things done swiftly and efficiently. Thanks to its modern road network, extensive port facilities and two new international airports, travel and transport in and beyond Cyprus is fast, efficient and economical.

The coastal resorts of Larnaca and Paphos each operate new international airports serving flights to and from both Europe, the Middle East and the Gulf Area.

Limassol and Larnaca are both bustling ports, with proximity to the Suez canal, working around the clock to serve the island's considerable import and export markets. Considerable investment has been made into transforming the island into a major telecommunications hub in the region. By building upon its technologically advanced infrastructure, Cyprus has established an extensive telecommunications network, both in terms of cable and satellite, which ranks amongst the most advanced in the world.

Quality of Life and Climate

In addition to being a business friendly location, Cyprus is also a well known holiday resort visited by almost two and a half million people every year. Investors and business executives, resident in Cyprus, enjoy an enviable standard of living, more than 320 days of sunshine every year, a mild Mediterranean climate, first class local wine and tasteful local cuisine based on the Mediterranean diet. A high standard of health services and international education facilities allow investors to conduct their business having peace of mind with their family members living in Cyprus.

It is of no surprise that Cyprus, because of its high standard of living, ranks 23rd in the world among 169 countries in terms of quality of life index (Human Development Index), which is a measure of the standard of living of a country.

setting -up a business



International Corporations and High Net - Worth individuals choose Cyprus as a transparent and tax efficient jurisdiction for setting – up legal entities through which they implement their overall strategy to invest in Cyprus or into Europe, Asia, Middle East and Africa, or to mitigate tax exposure and manage wealth.

The main types of legal entities used are:

- Cyprus Company
- Branch of a Foreign Company
- Partnership
- Sole Proprietor / Trader
- Cyprus International Trust

Legal Forms of Companies

A Cyprus company can be formed under the Companies Law, Cap 113, and subsequent amendments.

The most common is the limited liability company by shares which can take the form of Public or Private Limited Company.

The **Public Limited Company** by shares is the main vehicle used for IPO's and listings in the regulated or unregulated stock market, as it is permitted to offer its shares and other titles to the public. The minimum number of shareholders is seven, with no maximum and it has at least two Directors.

The **Private Limited Company** by shares can be formed by one or more persons and there is an upper limit of 50 shareholders. The right to transfer its shares is restricted by its articles of association which also prohibit any invitation to the public to subscribe for its shares or debentures. This is the most popular corporate vehicle used by international business entities which presents a number of advantages (less set-up time and expenses, control over the membership, simple reporting obligations).

A **branch** of a foreign company may be registered under the Cyprus Companies Law and it is not a separate legal entity from its founding foreign company. Within one month of its establishment, a branch has to file with the Registrar of Companies a certified copy of the Charter, Memorandum and Articles of the Company, particulars of the Directors and Secretary of the Company and the name and address of at least one person resident in Cyprus authorised to accept on behalf of the Company of any notice.

A **partnership** may be formed in Cyprus under the Partnerships and Business Names Law by at least two, but not more than twenty persons. It may be either general or limited and a company may be a member of a partnership. A partner of a general partnership is liable jointly and severally with all the other partners for all the debts and obligations of the partnership incurred while a partner. In a limited partnership, a limited partner contributes a certain amount to the capital and he is not liable beyond that amount.

A **sole proprietor/trader** may be a Cypriot or non Cypriot and he may register a business name under the Partnership and Business Names Law, and carry on business in Cyprus. Non-EU nationals will need to secure prior permission under the Aliens and Immigration legislation.

Cyprus International Trust (CIT)

Generally, a trust is an obligation established by an individual (settlor) and binding a person (trustee) to manage property (trust property) for the benefit of persons (beneficiaries). International Trusts in Cyprus are regulated by the International Trusts Law, 1992, as amended by the International Trusts (Amendment) Law of 2012.

A CIT is one where the settlor and beneficiaries (other than charitable institutions) are non-residents, and trust property does not include any immovable property in Cyprus and at least one of the trustees during the whole duration of the trust is a permanent resident in Cyprus. The most important advantages of CIT are:

- Trusts and beneficiaries are exempted from taxation
- Trusts are allowed to be moved to and from Cyprus jurisdiction
- Confidentiality. The identity of the settlor does not have to be revealed, and there is no obligation to file accounts or tax returns.

The use of CIT is popular in international business planning as well as in individual wealth management planning.



the Cyprus tax system



Efficient Tax Planning streamlined with the overall business strategy is a prerequisite in optimising returns to shareholders and laying down the necessary conditions for future company growth and sustainability.

Cyprus, with a simple transparent tax regime fully compliant with EU and OECD standards, complemented and enhanced by an extensive network of favourable Double Tax Treaties with 50 key jurisdictions, offers an ideal and sound platform for businesses, looking to initiate or expand their international activities. On the other hand high net-worth individuals considering the management of their wealth can also take advantage of the same platform in implementing structures for tax optimisation and asset protection.

Individuals

An individual resident in Cyprus is liable to tax on all of his worldwide income, irrespective of whether it is remitted in Cyprus. Non resident individuals are liable to income tax in Cyprus on income sourced in Cyprus.

An individual is considered to be resident for taxation purposes if he is present in Cyprus for more than 183 days in the year under consideration.

The tax rates for individuals are progressive starting from 20% and ending at 35% as detailed in the following table:

ANNUAL INCOME	RATE	TAX	CUMULATIVE TAX
€	%	€	€
0 – 19.500	0%	Nil	Nil
19.501 – 28.000	20%	1.700	1.700
28.001 – 36.300	25%	2.075	3.775
36.301 – 60.000	30%	7.110	10.885
60.001 – above	35%		

A non-resident who takes up employment and becomes resident is permitted a 20% tax free allowance, with a maximum of €8.550, on his employment income for a period of three years, following the year of becoming resident.

A non-resident, who takes up employment in Cyprus, earning an annual employment income exceeding €100.000, is allowed a 50% tax exemption on this income for a period of five years.

Companies

A company resident in Cyprus is liable to tax on all worldwide income.

A company is regarded as resident in Cyprus if it is managed and controlled in Cyprus.

Non-resident companies are liable to tax on Cyprus – source income.

In both cases, there is a single tax rate of 12.5% , which is one of the lowest in the European Union.

Branches of foreign companies in Cyprus are liable to tax on worldwide income if their management and control is in Cyprus. Otherwise all the branch income is not taxable in Cyprus.

Tax exemptions

The following exemptions are provided under the Cyprus Corporate Tax System.

- Dividend income received from Cyprus or from abroad, is exempt (subject to certain restrictions);
- Profits from the disposal of shares, bonds, debentures or other securities;
- Capital gains from sale of property outside Cyprus;
- Profits earned from a permanent establishment abroad, subject to certain restrictions.

No Withholding Tax

No withholding taxes apply with respect to:

- Dividends paid to non-resident shareholders, corporate or individuals;
- Interest paid from Cyprus to non-resident companies or individuals;
- Royalties paid from Cyprus to non-resident companies or individuals except in cases where the relevant intellectual property is used in Cyprus, the withholding tax rate being at 10%;
- Capital gains or income on the liquidation of a Cypriot holding Company.

Group Loss Relief and Losses Carried Forward

Group loss relief. Loss of one group company may be set off against the profits of another group company. Two companies will qualify for group loss relief, if both are residents of Cyprus and have been members of the group for the whole tax year and the group ownership exceeds 75%. Losses of a tax year can only be set off against profits of the same year.

Losses carried forward. Losses incurred in any tax year on any trade or business, irrespective of whether it is carried on in Cyprus or abroad, and not set off against income from other sources, can be carried forward and set off against profits of the next five years.

The New Tonnage Tax System (TTS)

As from 2010 a new attractive tonnage tax system (TTS) is in place which can be utilised, subject to certain conditions, by the shipping sector and covering the three main international maritime activities, namely ship-owning, ship management and chartering. Under the new TTS:

- No tax is imposed on profits from shipping activities, other than tonnage tax;
- No tax is imposed on profits from the sale of ships;
- No tax is imposed on dividend paid from shipping profits;
- No estate duty or capital gains tax is imposed.

Cyprus Companies in tax planning



There are a number of uses of Cyprus companies for tax efficient planning:

- Holding Company;
- Finance Company;
- Trading Company;
- Intellectual Property Holding Company;
- Ship Owning and Management Company;
- Regional Employment Company;
- Real Estate Company;
- Securities Trading Company;
- Financial Services Company.

The above forms of companies are structured so as to be in accord with the overall business strategic planning, allowing for maximum tax efficiency by combining the advantages of the Cyprus Tax System, underpinned by the wide range of Cyprus Double Tax Treaties with fifty jurisdictions and the EU Parent Subsidiary Directive implemented by all the 28 EU member – States.



Joannides + Co Ltd

is a leading firm of public accountants and tax advisors that has 35 years of experience in providing audit and advisory services in Cyprus. We can assist in analysing fund promoters' objectives, determining the most suitable and tax efficient form of AIF and in the setting up and ongoing administration and compliance process of the AIF.

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