

FOREWORD

I am pleased to introduce a brief guide to the international tax and business environment in Cyprus.

The island of Cyprus is well placed at the eastern-most point of Europe, occupying a key strategic position at the gateway of Europe, Asia and Africa. Its geographic location together with the Cypriot tax and business environment make Cyprus the ultimate country for investors and businesses moving into Europe and for European business expanding internationally. Cyprus offers many key benefits that contribute to the success of business and investments.

We will be pleased to assist with the establishment of Cyprus companies to perform functions that may benefit from the favorable tax system and business environment in Cyprus, such as holding companies, financing companies, investment trading companies, intellectual property holding companies, shipping companies, companies for oil & gas exploration as well as Cypriot fund management companies and collective investment funds.

The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.

THE CYPRUS BUSINESS ENVIRONMENT

In recent years Cyprus has been voted as one of the most attractive European tax jurisdictions by major business organizations across Europe. Cyprus has been commended for the stability of its tax law, the consistency in interpreting its tax legislation and its low tax rates. This accolade shows how the Cyprus tax system, combined with its first-rate infrastructure, highly skilled workforce and membership of the European Union has made Cyprus the international business hub it is today.

Reputation and stability

Cyprus joined the European Union in 2004, resulting in an economy offering a great number of advantages within a common European market. The Euro was adopted by Cyprus as its unit of currency on 1 January 2008, further confirming the country's macro-economic stability and its commitment to low inflation, low interest rates and high growth.

Cyprus participates in the European Union's internal market where there is free movement of goods, services and capital. European citizens are able to conduct business, travel to, and live in Cyprus with no legal restrictions.

Demonstrating a business-friendly environment since the 1970s, Cyprus has attracted foreign investment and capital flows for decades. The country's financial and regulatory environment is harmonized with that of the European Union and the Cyprus tax system is aligned with European principles of equality within the framework of the European Union Code of Conduct for business taxation and demonstrates a commitment by Cyprus to the OECD against harmful tax practices.

Strategic location

Cyprus is an island situated in the eastern Mediterranean at the hub of three continents, linking Europe with the Middle East, Africa and Asia. It is only an hour's flight to Athens, Egypt and Israel, three hours from Dubai and Moscow and four hours from London. Two hours ahead of Greenwich Mean Time (GMT).

International familiarity

Banking & financial regulation

Commercial banking follows the British and European Union models and is of a very high standard. There are currently over 40 Cypriot and international banks operating in Cyprus.

The banking system conforms to EC Directives, under the regulation of the constitutionally independent Central Bank of Cyprus, as integrated with the Euro system. The Bank's governance is compatible with the provisions of the Treaty establishing the European Community and the Statute of the European System of Central Banks and of the European Central Bank.

The Cyprus Securities and Exchange Commission (CySEC) supervises and controls the operation of the Cyprus Stock Exchange and the issuers of securities listed on the Exchange.

The Central Bank and CySEC supervise and license the growing number of investment services companies, collective investment schemes, brokerage firms, investment consultants and mutual fund management companies.

Legal system

Cyprus has a well-functioning common law legal system based on principles established through historical links with the United Kingdom.

The origin of Cyprus company law and other laws regulating business is the laws of the UK, updated for 21st century business practice and harmonized with EC Directives.

The familiarity of the legal and commercial systems assists international business people in working within the Cypriot commercial environment. English is spoken universally and is the accepted language of business.

Political respectability

Cyprus has excellent diplomatic and economic relations with the rest of Europe as well as, China, Russia, India, North America and the countries of the Middle East. As a result, Cypriot entities enjoy great respectability around the world.

Telecommunications

Cyprus has a highly advanced telecommunications infrastructure system with a number of companies providing modern telecommunication products and solutions.

Air transport

The two international airports in Cyprus are served by over 35 international airlines. There are daily flights to other European countries, Russia and the Middle East including major hubs for onward and long haul international destinations. New airport terminals at both Larnaca and Pafos international airports can serve up to 10 million passengers per annum.

Economy

Cyprus is a small and adaptable free-market economy built upon tourism, financial services and real estate, which account for almost 85% of the island's total GDP.

Despite the challenging economic environment that Cyprus currently faces, the financial assistance recently received from the European Support Mechanism (ESM) fully covers Cyprus' debt repayments and expected budgetary requirements for the near future.

Structural reforms are already taking place both in the banking, sector as well as in the public and private sector that will significantly improve the competitiveness of Cyprus. Despite the current economic short-term challenges, the discovery of significant quantities of natural gas in Cypriot exclusive economic zone raises the prospect of a resurgence of the Cypriot economy in the medium to long term.

High standard of living – low cost base centre and skilled workforce

Economic indicators place Cyprus amongst the few international financial centers with low operational costs. At the same time, the island offers a high standard of living with an enjoyable climate and a very low crime rate making it an ideal place to live and conduct business.

The costs of setting-up and maintaining a structure in Cyprus are low when it comes to incorporation costs and fees for meeting Cypriot tax and company law compliance obligations.

The cost of labor, rents and other infrastructure are highly competitive and often lower than in other European countries.

Cyprus has a young and flexible work force, with university education obtained predominantly in the UK and the USA. The island ranks among the leading countries in the world and the highest in the European Union in respect of university graduates in proportion to its population, with the percentage of graduates from tertiary institutions being the highest in the EU.

THE CYPRUS TAX SYSTEM

Cyprus has become a favored location for international commerce as well as for reputable multinationals seeking a legitimate tax efficient jurisdiction – raising Cyprus to a new level of international business.

Cyprus's advantageous tax system

Cyprus has all the tax attributes expected from an international financial centre

The Cyprus tax legislation and its regulation is predictable and straight forward in nature. Relations between the business community and the tax authorities are excellent and ensure the efficient taxation of the commercial and financial sector. By providing a transparent and efficient environment, the tax system enhances Cyprus's competitiveness and contributes to making Cyprus an attractive jurisdiction in which to structure international operations.

Corporate tax rate

Cyprus has a corporate income tax rate of 12.5%. This is one of the lowest corporate tax rates in the European Union.

Exemption from tax on dividend income

Dividend income is exempt from tax irrespective of its source provided that the company paying the dividend either engages directly or indirectly in more than 50% of activities that give rise to non-investment income or the tax burden on the dividend paying company's income is not lower than 6.25%.

Dividends are not considered to be sourced from investment income if they are derived directly or indirectly from trading subsidiaries.

No withholding taxes

Dividends paid to non-resident shareholders are exempt from withholding tax in Cyprus. Also, no withholding tax is imposed on interest paid from Cyprus as well as on royalties paid from Cyprus in respect of intellectual property exploited outside Cyprus. The nil withholding tax rates apply irrespective of whether the recipient is a body corporate or an individual, the country of residence of the recipient or whether a relevant tax treaty exists.

Capital gains and income tax exemption for securities

Cyprus does not impose income or capital gains tax on the profits and gains derived from the disposal of securities, irrespective of whether the profits and gains are considered to be of a revenue or capital nature. Securities, as defined in the law, include shares, bonds, debentures, founder's shares and other securities of companies or other legal persons and options over such securities.

Capital gains and income tax exemption for real estate

Cypriot companies can be used to hold real estate or other assets outside Cyprus with no Cypriot capital gains tax implications on disposal of the assets as capital gains tax only applies to gains on the disposal of immovable property which is situated in Cyprus or unlisted shares in a company which owns immovable property situated in Cyprus.

Permanent establishment abroad

Profits from a permanent establishment maintained abroad are generally exempt from tax in Cyprus.

Income from intellectual property

Only 20% of the net profits derived by a Cyprus company from the exploitation of its intellectual property are subject to tax at the normal corporate income tax rate of 12.5%. The net profit is calculated after deduction of all costs incurred in earning the income, including 20% of the cost of the intellectual property in each of the first five years of ownership.

Interest deductibility

Interest incurred by a Cypriot company is generally deductible if incurred in respect of funding the acquisition of assets used in a business which derives taxable income. Practice statements and case law provide further guidance on deductibility of interest.

Thin capitalization

Cyprus does not have any thin capitalization rules or minimum capitalization requirements.

A wide network of tax treaties

Cyprus boasts an extensive network of tax treaties, currently with more than 50 countries, including countries in North America, Western and Eastern Europe as well as emerging markets such as China, India and Russia.

Generally, most treaties provide for reduced or nil rates of withholding tax on dividends, interest and royalties paid from the treaty country and the avoidance of double taxation in the case where a resident in one of the treaty countries derives income from the other treaty country.

Unilateral tax credit relief

Relief for taxes paid abroad is in the form of a tax credit if the respective income is subject to tax in Cyprus. The relief is given unilaterally irrespective of the existence of a double tax treaty. Where a treaty is in force, the treaty provisions apply if more beneficial. Where dividend income is received from a company resident in the European Union or if a tax treaty provides, an underlying tax credit is also allowed to the Cypriot recipient of the dividend against any tax payable on that income.

Advance rulings and prior approvals

The Cyprus tax authorities provide advance interpretations of the law under a ruling system.

VAT

The headline Cypriot VAT rate is 19%. Reduced VAT rates of 5% and 9% apply to some goods and services.

Capital & net worth taxes, capital & stamp duties

Cyprus does not have any annual capital taxes and net worth taxes and there are no significant capital and stamp duties.

Reorganizations

Cyprus has fully adopted the EC Merger Directive and therefore where a transaction is "reorganization", it is exempt from corporate income tax, capital gains tax, stamp duties and property transfer fees.

Reorganization generally includes a merger, division, part-division, transfer of assets and exchange of shares involving companies which are resident in Cyprus and/or companies which are not resident in Cyprus.

Cross border mergers and re-domiciliation of companies

Cyprus legislation allows for the merger of two or more EU member companies, whether a merger of Cypriot or Cypriot and non-Cypriot EU member companies and whether the Cypriot company is the surviving company or not. Non-Cypriot companies which are allowed by their jurisdiction of incorporation to deregister in that jurisdiction and register elsewhere are able to become domiciled in Cyprus. Cypriot companies are also permitted to deregister from the Cypriot Register of Companies and become domiciled in another jurisdiction.

Cross-border and domestic mergers, as well as the redomiciliation and change in jurisdiction of tax residency are generally tax neutral, there being no Cypriot "exit taxation" applied to such restructures.

Liquidation of a Cypriot company

No capital gains tax, income tax or any other taxes arise on the liquidation of a Cypriot company owned by nonresident shareholders, irrespective of the method of liquidation.

Personal tax

Personal tax rates

The personal tax rates are progressive and reach a top marginal tax rate of 35% on income in excess of €60,000 per annum. An individual pays an additional special contribution for services performed in Cyprus of up to 1.75% their salary and up to 3.5% of earnings from self-employment.

Relief for overseas employment

A Cypriot resident working outside Cyprus for a non- Cypriot employer is exempt from taxation on their salary that is attributable to their overseas duties if these duties result in spending more than 90 days outside Cyprus in a calendar year.

Relief for non-residents taking up employment in Cyprus

Individuals physically present in Cyprus for less than 184 days in a calendar year are taxable in Cyprus only on income derived from sources within, and employment exercised in Cyprus.

A non-resident taking up employment and becoming resident in Cyprus will be given a 20% tax-fee allowance (capped at €8,550) on employment income for the three years following the year of becoming resident in Cyprus.

A 50% exemption applies to the employment income of an individual that takes up employment in Cyprus where that person was previously non-resident. This exemption applies for a period of 5 years starting from the first year of employment provided that the annual employment income of the employee exceeds €100,000 per annum.