

Cyprus is no longer offshore

An interview with Andreas Neocleous, one of the leading lawyers in Europe, has convinced the correspondent of "Parliamentary newspaper" that this is the case.

The heat that erupted in Central Russia in the last month of the summer may seem a paradise compared to the Cyprus heat. However, for the small island-state, 40 degrees in the shade is the usual temperature in August. However, because of the high humidity of the Mediterranean climate, the effect is even more pronounced. I set out to discover what attracts Russians here, apart from relaxation on the beach. About 50 thousand of our fellow citizens are permanently located in Cyprus, and many more visit on business.

At the crossroad of international routes

Those who are in Cyprus for business are not there solely to relax. For decades now, the country has attracted the big fish of the business world, partly due to its strategic location at the crossroads of Europe, Asia and Africa. However, location alone is not the decisive factor: the "climate", metaphorically speaking, is equally important. Cyprus's benign economic and legal environment make it an extremely beneficial place to do business, even from thousands of kilometers away. It is little surprise that business giants such as Google, Apple, Starbucks and Vodafone are established here. In addition there are many Russian-owned companies, including many of the largest and most important.

The word "offshore" has become an emotive term, a bogeyman used to scare the children. It is only natural and logical for businesses to organise their affairs so that they pay no more tax than they have to. "Offshore" has become associated in the public mind with illegitimate activities and tax evasion, at least in the common understanding.

This is a misperception of the offshore sector, especially the offshore sector in Cyprus, Andreas Neocleous, the head of Cyprus's largest law firm, Andreas Neocleous & Co, says with a slight smile. Our corporate taxes are among the lowest in the European Union, but at 12.5 percent of the company's profits they are not unduly low. Gains on the sale of securities are exempt from tax. Nevertheless, it is impossible to avoid the payment of taxes or to conceal financial transactions. For a start, the law of Cyprus makes it possible to lift banking secrecy or business confidentiality in appropriate circumstances. Secondly, the double tax agreement between Cyprus and Russia, requires each country's tax authorities to provide information to the other's when requested. However, this is not the point. Cyprus is not "offshore" in the sense that people commonly understand, and has not been so for many years. My country is attractive for global and Russian businesses for other reasons.

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We are talking with Andreas at his firm's main office in Limassol, which is the base for about a hundred lawyers and consultants in various fields of international business law. However, we could also hold our discussion in Moscow. Andreas opened a representative office there in the early nineties, and in Russia he is considered an important personality.

- "You cannot imagine" – he recalls those times – "the attention the financial world was paying to the economic reforms in Russia. A huge market was developing, that for obvious reasons was not prepared for the specific characteristics of global business, and together with this, a large and untapped business potential."

The Neocleous law firm developed into a leading mentor and lawyer for newly-formed Russian companies. Dozens of meetings per day, in Moscow and other Russian cities, lectures, seminars and training events. "Sometimes," says Andreas Neocleous, "the load was such that we had to postpone meetings, even with senior government officials." Of course, he also wanted the Russians to settle in Cyprus, especially in view of the strong affinity between the island-state and Russia, which dated back to Soviet Union times and was not only economic and political but also cultural. Following the successful struggle for independence from the British Crown (incidentally, Andreas actively participated in this fight in the mid-fifties and indeed was imprisoned for several years as a result): the USSR was one of the first countries in the world to recognise the new Republic of Cyprus in 1960. It was also a firm supporter of the Republic following the tragic events of 1974, when Cyprus was divided into north and south parts.

"The Russians and Cypriots have a lot in common," says Andreas Neocleous. "First of all, they have the same mentality, which is based on the same religion and cultural roots starting from antiquity. I am not even talking about the present, which has united us even more through roads with entering the country without a visa and, of course, through the extensive business relationships that exist. Did not you feel it when you first visited Cyprus?"

I admit that I felt it from Larnaca airport. It was as if there was no long flight from one country to another, but that I had merely moved from one Russian region to another. Everywhere Russian speech, posters and signs in Russian language and very friendly people. The only exception was the oppressive heat, which was quickly relieved by a dip in the sea.

The payment for the conditions

Important as the feelings of warmth, comfort and friendliness, in which Cyprus is rich, may be, they are not the only factors that make Cyprus a good place to do business. Andreas believes that the local legal system is a major factor in Cyprus's competitiveness as a jurisdiction. It is primarily based on English law and fosters the application of English law principles in business.

"Our legal framework," says Andreas, "helps to expedite business decisions, helps to avoid lengthy procedures, provides flexibility in doing business and gives overseas investors confidence to invest in unfamiliar territory. Added to that, of course, is the impeccable worldwide reputation that the Cyprus jurisdiction has earned over many years. That is probably the decisive reason why Cyprus is attractive for the foreign companies, including Russian companies, rather than the relatively low taxes."

- "Indeed," I am trying to disagree, "but the tax revenues remain in your country and this is why Russia started its deoffshorisation initiative, so that the payment of taxes is not made somewhere else, but at home.

- "The taxes of the companies registered in Cyprus," he counters, "are rather in the nature of a symbolic fee for the business environment. They effectively cover the costs of providing the infrastructure needed to create a basis for serious investment. A simple example: Cyprus is among the three countries which make the largest investment in the economy of Russia. Investments into Russia via Cyprus have reached, if I am not mistaken, 80 billion US dollars. Furthermore, the majority of this is Russian money, that is money that came from the Russian companies with the help of the Cyprus International Financial Centre. In relation to the deoffshorisation, its purpose, as I understand it, is to achieve the maximum transparency in overseas businesses. However, there are no transparency issues regarding companies operating in Cyprus. As I have already mentioned, the existing agreement between Russia and Cyprus, includes a clear and effective mechanism for the exchange of tax information between two countries, and in early 2013 the Russian tax authorities removed Cyprus from their black list of the offshore zones. I think that this is highly significant."

Well, it is hard to disagree with Andreas, although the issue of offshore business has not been fully settled and Cyprus is not the only country operating as an international financial centre. However, it is no longer an offshore centre in the way that many people misinterpret the term. Nevertheless, this does not affect the economic attractiveness of the Cyprus jurisdiction and thanks to the explanations of Andreas Neocleous I now know why.

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