

The best of onshore 2016 Cyprus and its benefits for Russian investors

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Cyprus

- A politically stable environment.
- A high quality of life in terms of climate, communications, culture and personal security.
- A dependable legal and business infrastructure based on common law.
- A member of the EU and the Eurozone.
- A benign tax environment with a first-class reputation.
- Arguably the most favourable economic citizenship programme in the world.
- All Cyprus companies perform audit in accordance with International Financial Reporting Standards (IFRS)

Cyprus tax features (General)

- Taxation based on residency status
- In line with all OECD requirements
- First adopters of transparency and compliance
- Stable and predictable tax regime
- Availability of tax rulings
- Extensive network of double tax treaties (55)
- 'Most favoured nation' DTTs with Russia and several other countries
- Enjoys and applies all EU Directives

Cyprus tax features – Part 1

- Tax residency based on ‘effective management and control’
- Flat tax rate of 12.5% on trading profits
- Full exemption of any tax on profits derived from disposal of securities
- Full exemption of any tax on inbound dividends (provided passive and emanation test is met)
- Capital gains imposed only on profits derived from the disposal of immovable property situated in Cyprus
- Reduced effective rate of taxation (maximum 2.5%) on profits derived from exploitation of intellectual property
- No CFC or thin capitalisation rules
- Exemption of tax for profits of a foreign permanent establishment (provided passive test is met)

Cyprus tax features – Part 2

- Availability of carry forward of losses (5 years)
- Availability of Group relief (between other Cyprus tax resident companies and as of 2016 also between other members of the Group located not tax resident in Cyprus)
- Tax free re-organisations
- Full enjoyments of all EU Directives
- Tax deductibility of interest paid to acquire a wholly owned subsidiary (even though incomes from such a subsidiary would be completely free of any tax)
- Availability of a 'notional interest deduction' on new equity introduced (discussed later on)
- Nil withholding tax on outbound payments of interest and dividends
- In most cases nil withholding tax on outbound payments of royalties
- Attractive tonnage tax regime for ship owning and ship management companies

The Cyprus economic citizenship scheme

- Successful applicants enjoy all the rights of an EU citizen, including the right to live, work, travel and own property anywhere in the EU, as well as visa-free travel to more than 165 countries
- The applicant's spouse and dependent children up to 28 years of age qualify for citizenship on the basis of the application
- There is no obligation to relinquish existing nationality
- Applicants must be of good character (no criminal record or asset freezing orders) and own a residence in Cyprus with a purchase price of at least €500,000; and either:
 - invest €5 million or more in Cyprus in business or financial assets; or
 - invest €2.5 million or more as a participant in a collective investment scheme with a combined aggregate investment of at least €12.5 million.
- Applications take only a few months to process
- There is no need to be resident in Cyprus during or after the application (the only requirement is for a visit every seven years)

The Cyprus boat and aircraft leasing schemes

- In 2013 Cyprus introduced a scheme to reduce the amount of VAT payable on pleasure vessels to reflect the percentage of their use outside EU waters.
- The VAT reduction is determined solely by the length and the means of propulsion (motor or sail). No detailed records need be kept.
- On a 24-metre vessel with an initial cost of €3 million the saving is in the order of €540,000.
- The aircraft leasing scheme, introduced during 2015, also offers substantial savings of VAT (up to 80 per cent). Like the boat scheme, no detailed records need to be submitted regarding the use of the asset. The exemption percentage is based on two simple factors, namely the type of aircraft (jet, turboprop or piston engine) and its maximum take-off weight.
- The Cyprus schemes generally offer greater simplicity and greater tax savings than schemes offered by other EU countries.

The Cyprus International Trust

- A flexible and beneficial asset-holding structure
- Trusts have been a feature of Anglo-Saxon legal systems around the world for almost 1,000 years and have been refined by a vast amount of jurisprudence and case law
- Strong safeguards for settlors and beneficiaries:
 - Reserved powers
 - Appointment of protector
 - Trustees' liability for breach of trust
 - Regulation of fiduciary service providers
 - Assets can be held anywhere in the world

Cyprus international trusts

- Governed exclusively by Cyprus law
- Powerful asset protection features
 - 2 year “hardening period”
 - Intent to defraud required in order to invalidate transfers
 - Claimant must show that he or she was a creditor at the time of transfer
 - Unaffected by matrimonial property or succession laws
- Settlor may reserve powers or retain benefit of assets
- Trusts may exist in perpetuity
- Unfettered investment powers

The 2015 package of tax and investment incentives

- A non-domiciled regime exempting all dividends and passive interest from any form of Cyprus tax
- A complete exemption from capital gains tax on first disposal of any property acquired in Cyprus before the end of 2016
- Reduced transfer fees on property acquired in Cyprus before the end of 2016
- 50% exemption from income tax for individuals taking up employment in Cyprus and earning €100,000 or more per year, for the first 10 years of employment
- 20% exemption for other individuals taking up employment in Cyprus, for up to 5 years
- Notional interest deduction for corporate income tax in respect of new equity capital introduced into Cyprus companies

The “non-domiciled regime”

- Prior to mid-July 2015 individuals tax resident in Cyprus were liable to Special Defence Contribution (SDC) on passive interest received and on dividends (at the rates of 30% and 17% respectively). They were also subject to income tax and Special Defence Contribution on Rental Incomes (SDC at the effective rate of 2.25%).
- Since mid-July 2015 individuals are liable to SDC only if they are both resident and domiciled in Cyprus.
- Domicile is a common-law concept and is the place that a person considers as his or her “home”.
- Application of the ‘non domiciled status’ ensures that eligible individuals are exempt from payment of SDC for a period of 17 years on all interest, dividend and rental incomes (income tax will still remain in force for rental incomes):

For the purposes of determining liability to SDC individuals whose domicile of origin is in a country other than Cyprus will not be deemed to have acquired a domicile of choice in Cyprus unless they have been a tax resident of Cyprus for at least 17 of the preceding 20 years.

The “non-domiciled regime”

- An individual can be domiciled in Cyprus either by domicile of origin or by domicile of choice, as defined by the Wills and Succession Law Cap. 195
- An individual’s domicile is the domicile he or she acquired at birth (domicile of origin) unless he or she subsequently acquires and maintains a different domicile as result of his or her actions (domicile of choice).
- An individual’s domicile of origin is generally that of the father at the time the individual is born. The domicile of origin of an illegitimate child or a child born after the death of the father is the domicile of the mother at the time the child is born.
- A person may acquire a domicile of choice by establishing himself or herself in a country with the intention of living there permanently or indefinitely.

The capital gains tax exemption

- Most categories of assets are outside the scope of capital gains tax.
- Capital gains tax is charged only on disposals of immovable property situated in Cyprus and disposals of shares in unlisted companies to the extent that their value derives from such property.
- In order to stimulate the real estate market a further exemption was introduced in July 2015.
- Any gain on first disposal of immovable property in Cyprus acquired in Cyprus before the end of 2016 is exempt from capital gains tax, regardless of the date of disposal.
- The property must have been acquired on an arm's length basis and not under the foreclosure provisions of the Transfer and Mortgage of Immovable Properties Law.

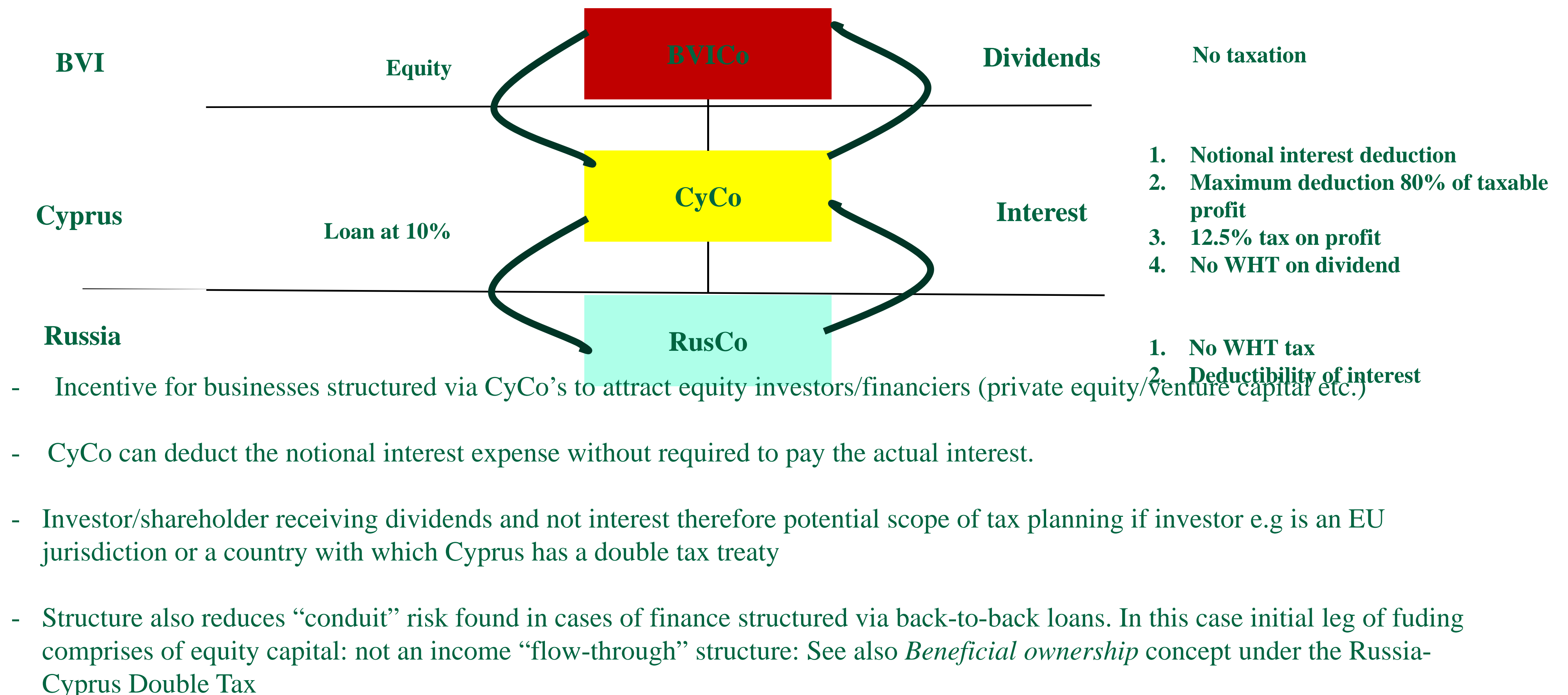
Income tax exemptions for persons relocating to Cyprus

- Individuals taking up employment in Cyprus may claim exemptions from income tax for the first years of employment.
- There are two mutually-exclusive options:
 - A 50% earnings exemption for individuals earning €100,000 or more per year, for up to the first 10 years of employment in Cyprus.
 - A 20% earnings exemption (limited to €8,550) for other employees, for up to 5 years.

Notional interest deduction

- Available in respect of new equity capital (paid-up share capital and share premium) introduced into companies and permanent establishments of foreign companies for the purpose of financing business assets.
- The NID is allowed as a deduction of up to 80% against taxable profit, calculated by applying a reference rate to the new equity. NID is not available in the event of losses and unutilized NID cannot be carried forward to be offset against future years' profits.
- The reference rate is the higher of the 10-year government bond yield of Cyprus or the country in which the assets funded by the new equity are utilized, in each case plus 3 percentage points. For 2015 the reference rate is around 8% for Cyprus; 16% for Russia.
- New equity may be contributed either in cash or in the form of other assets, in which event the NID will be based on the market value of the assets agreed with the tax authorities.
- NID is not available in respect of capitalization of reserves or revaluation of assets or if the transaction concerned has no economic or business purpose.

Notional interest deduction



Summary

- Cyprus offers stability, reliability and an excellent physical and business environment.
- Its citizenship by investment programme is arguably the best in the world.
- It offers significant financial benefits to individuals basing their financial affairs in Cyprus.
- The Cyprus International Trust combines powerful asset protection with a high degree of flexibility and control.
- The 2015 incentive package further enhances the attractions of Cyprus.