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Cyprus

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TAXATION

Tax year and payment dates

1. When does the official tax year start and finish in your jurisdiction and what are the tax payment dates/deadlines?

Tax year

The tax year in Cyprus is the calendar year (that is, it starts on 1 January and ends on 31 December).

Tax payment and deadlines

Provisional declaration of income. Any income that is not dealt with under the pay as you earn (PAYE) system is dealt with on a self-assessment basis. Individuals must submit, by 1 August, a provisional declaration of their income for the year to the tax authorities. They must pay the resulting tax in three equal instalments no later than:

- 1 August.
- 30 September.
- 31 December.

Payment of the balance due. Different rules apply concerning the payment of the balance of the tax due on income, depending on the circumstances of the individual:

- Individuals who carry on a trade or profession with a turnover for the year of more than EUR70,000 (as at 1 November 2011, US\$1 was about EURO.7) must:
 - prepare audited annual financial statements and pay the balance of tax due on their income by 1 August of the following year; and
 - submit their final personal income tax returns no later than the following 31 December.
- Other individuals must file their personal income tax returns and pay any tax due no later than 30 June of the following year.

In both cases, tax paid late or underpaid will be subject to interest at 9% per annum from the due date.

Special contribution for defence tax (SDC tax). Interest, dividends and rent received by resident individuals are subject to SDC tax. The individual must pay the estimated liability on income received in the first six months of the year by 30 June, and the estimated liability on income received in the second six months by the end of the year, on a self-assessment basis, and include the income on his tax return.

Domicile and residence

2. What concepts determine tax liability in your jurisdiction (for example, domicile and residence)? In what context(s) are they relevant and how do they impact on a taxpayer?

Tax liability is based on residence. Resident individuals and companies are liable to Cyprus tax on worldwide income. Non-residents are liable for Cyprus tax on Cyprus-source income.

Cyprus treats the concepts of residence and domicile in the same way as other common law countries.

Domicile

Domicile is a general legal concept and is distinct from nationality or residence. Broadly, a person's domicile is the place that person thinks of as their permanent home. Domicile is the determining factor as to whether Cyprus succession law applies in a particular case (see *Questions 24 to 26*).

Residence

Individuals are considered to be resident if they are present in Cyprus for more than 183 days in the relevant year. Days of departure and arrival are treated as follows:

- The day of departure from Cyprus counts as a day of residence outside Cyprus.
- The day of arrival in Cyprus counts as a day of residence in Cyprus.
- Arrival in and departure from Cyprus on the same day counts as one day of residence in Cyprus.
- Departure from and return to Cyprus on the same day counts as one day of residence outside Cyprus.

Residence determines liability to most forms of taxation in the private client context (see *Question 6, Taxable income*).

Other

For companies the test of residence and liability to Cyprus tax is based on the locus of management and control.



Taxation on exit

3. Does your jurisdiction impose any tax when a person leaves (for example, an exit tax)? Are there any other consequences of leaving (particularly with regard to individuals domiciled in your jurisdiction)?

As an EU member state, Cyprus does not impose any restrictions on the freedom of movement of EU citizens, or on citizens of other countries leaving Cyprus.

Temporary residents

4. Does your jurisdiction have any particular tax rules affecting temporary residents?

For tax purposes, residence is dealt with on a year-by-year basis. EU citizens and their dependants have the right to live in Cyprus. Nationals of other countries who have lived legally in Cyprus for a continuous period of five years have a right of permanent residence.

Taxes on the gains and income of foreign nationals

5. How are gains on real estate or other assets owned by a foreign national taxed? What are the relevant tax rates?

Capital gains tax (CGT) is charged at 20% on gains from the disposal of:

- Immovable property in Cyprus.
- Shares in companies owning immovable property in Cyprus, unless the shares are listed on a recognised stock exchange.

All other gains are exempt from CGT.

CGT is not charged on gains that are subject to corporation tax. As with corporation tax, CGT is paid by reference to the calendar year, under a self-assessment system.

A gain on the disposal of immovable property in Cyprus is calculated by deducting from the sale price (or the market value in certain circumstances, such as where the revenue authorities do not accept that the sale price was an arm's length price):

- The acquisition cost (or the market value as at 1 January 1980 if the asset was acquired before that date).
- Expenditure that is wholly and exclusively incurred to enhance the asset's value.
- Sale expenses, interest on loans and immovable property tax.

These costs and expenses are adjusted by indexation to take account of inflation. The taxpayer can offset, against gains, capital losses on chargeable assets that were incurred in the current year or that have been brought forward from previous years.

Gains on disposals of shares in companies that own immovable property in Cyprus are calculated by first deciding the amount of the share disposal proceeds that are attributable to immovable property in Cyprus. The taxable gain is then calculated as above.

6. How is income received by a foreign national taxed? Is there a withholding tax? What are the income tax rates?

Taxable income

Income tax treatment depends on whether or not the individual is resident in Cyprus for tax purposes (see *Question 2, Residence*). There is no distinction between Cypriots and foreigners in this context.

Residents must pay income tax on their worldwide income, whether that income is remitted to Cyprus or not.

Non-residents are subject to income tax on income accruing or arising from sources in Cyprus concerning:

- Profits or other benefits from:
 - a permanent establishment (that is, a fixed place of business through which its business is wholly or partly carried on) situated in Cyprus;
 - any office or employment exercised in Cyprus.
- Pensions from past employment exercised in Cyprus.
- Rent from property situated in Cyprus.
- Consideration received in respect of any Cypriot trade goodwill, reduced by the cost of that goodwill.
- Gross income that an individual derives from the exercise in Cyprus of any profession or other occupation. This includes the remuneration of public entertainers and the gross receipts of any theatrical, musical or other group of public entertainers.

Withholding taxes

The only withholding taxes apply to:

- Rental payments made to non-residents concerning films shown in Cyprus. These are subject to withholding tax at 5% of the gross payments.
- Royalties or any other payments to non-residents for intellectual or industrial property rights. These are liable to a 10% withholding tax, subject to relief under any applicable double taxation treaty. No tax needs to be withheld if the rights are used exclusively outside Cyprus.

Tax rates

Income tax is charged at progressive rates, according to each band or tranche of income. The current rates are:

- Up to EUR19,500: nil rate.
- EUR19,501 to EUR28,000: 20%.
- EUR28,001 to EUR36,300: 25%.
- Above EUR36,300: 30%.

Husbands and wives are taxed separately.

For the first three calendar years following the start of their employment, individuals taking up residence and employment in Cyprus are entitled to an annual allowance of the lower of:

- EUR8,543.
- 20% of their remuneration.

Individuals receiving pensions from overseas may opt for them to be taxed at 5%. The first EUR3,420 is exempt from tax.

Interest, dividends and profits from the sale of securities are exempt from tax. Interest and dividends (but not profits from the sale of securities) are subject to SDC tax at 10% and 15%, respectively. Where interest is earned in the ordinary course of business or closely connected to the ordinary course of business of an individual, the progressive tax rates of income tax set out above apply.

Rental income is subject to:

- Income tax at 10% on 80% of the gross rent received.
- SDC tax at 3% on 75% of the gross rent received.

Inheritance tax and lifetime gifts

7. What is the basis of the inheritance tax or gift tax regime (or alternative regime if relevant)?

The Estate Duty (Amending) Law of 2000 abolished any form of succession tax on the deaths of persons domiciled in Cyprus occurring on or after 1 January 2000 (see *Question 2, Domicile*).

8. What are the inheritance tax or gift tax rates (or alternative rates if relevant)?

Not applicable (see *Question 7*).

9. Does the inheritance tax or gift tax regime apply to foreign owners of real estate and other assets?

Not applicable (see *Question 7*).

10. Are there any other taxes on death or on lifetime gifts?

There are no taxes on death or on lifetime gifts.

Taxes on buying real estate and other assets

11. Are there any other taxes that a foreign national must consider when buying real estate and other assets in your jurisdiction?

Purchase and gift taxes

The principal ancillary costs of acquiring immovable property in Cyprus are the transfer fee charged by the Department of Lands and Surveys, and stamp duty. These apply equally to Cypriot and non-Cypriot purchasers.

Transfer fee. The transfer fee is charged on each tranche of the value of the property at progressive rates:

- Up to EUR85,430: 3%.
- EUR85,431 to EUR170,860: 5%.
- Above EUR170,860: 8%.

Therefore, the transfer fee on a property with a value of EUR500,000 is EUR33,166.

Stamp duty. Stamp duty on contracts is charged at 0.15% on the first EUR170,860 of the consideration and at 0.2% on any consideration above that sum. Stamp duty on transactions with a consideration above EUR8,585,715 is capped at EUR17,086.

Annual rates

Immovable property tax is payable on 30 September each year. It is calculated on the basis of the market value as at 1 January 1980 of immovable property that the taxpayer owned on the preceding 1 January.

The rates applied to each tranche of value are as follows:

- EURO to EUR120,000: nil rate and cumulative tax at top of band is 0.
- EUR120,000 to EUR170,000: 0.4% and cumulative tax at top of band is EUR200.
- EUR170,000 to EUR300,000: 0.5% and cumulative tax at top of band is EUR850.
- EUR300,000 to EUR500,000: 0.6% and cumulative tax at top of band is EUR2,050.
- EUR500,000 to EUR800,000: 0.7% and cumulative tax at top of band is EUR4,150.
- EUR800,000 and above: 0.8%.

As the tax is based on 1980 values, immovable property tax is rarely payable on normal residential properties.

Council and other service charges, such as water and sewage charges, are also payable. They are much lower than in most European countries.

Wealth taxes

There are no wealth taxes in Cyprus.

Other

There are no other relevant taxes to consider.

12. What tax-advantageous real estate holding structures are available in your jurisdiction for non-resident individuals?

Natural persons, companies, partnerships or trusts can hold property in Cyprus. The choice of structure depends on the taxpayer's objectives. A Cyprus holding company can be a tax-efficient structure. A Cyprus International Trust (see *Question 30*) currently cannot hold real property situated in Cyprus.

Property can be held either absolutely or in shares. The Cyprus government, and the Greek and Turkish religious institutions, such as the Greek Orthodox Church and the Muslim Evkaf, can also own property.



Taxes on overseas real estate and other assets

13. How are residents in your jurisdiction with real estate or other assets overseas taxed?

Income from overseas assets is taxed in the same way as income from assets in Cyprus. Relief for tax paid overseas is available, either under a double tax treaty or, if there is no treaty, in the form of unilateral relief from Cyprus tax (see *Question 14*).

Capital gains on overseas assets are exempt from tax. If a double tax treaty provides that capital gains are taxable only in the country of residence of the taxpayer (as some of Cyprus's older treaties do) this can exempt the gain from taxation altogether.

International tax treaties

14. Is your jurisdiction a party to many double tax treaties with other jurisdictions?

Cyprus has concluded double taxation treaties with 43 jurisdictions (including EU jurisdictions such as Austria, Belgium, Germany, Greece, Malta and the UK, and jurisdictions outside the EU, such as China, India, the Russian Federation and the US). Treaties are under negotiation, or awaiting ratification, with 20 further jurisdictions (including Brazil, Iran, The Netherlands and Spain).

All double taxation treaties provide relief from double taxation by applying the credit method to the taxation of dividends and interest. Tax paid or payable in the other country reduces the liability of Cyprus residents for Cyprus income tax and SDC.

The Cyprus tax authorities will also grant unilateral relief from Cyprus tax on income received from a foreign country with which Cyprus has no double taxation treaty. This relief applies up to the amount of tax paid in the foreign country, and is granted by exemption, credit or deduction.

Cyprus's double taxation treaty network allows international transactions to be structured in a number of tax-efficient ways, particularly when combined with a Cyprus holding company and other fiscally beneficial entities.

WILLS AND ESTATE ADMINISTRATION

Governing law and formalities

15. Is it essential for an owner of assets in your jurisdiction to make a will in your jurisdiction? Does the will have to be governed by the laws of your jurisdiction?

It is strongly advisable for an owner of assets in Cyprus, particularly real property, to make a will in Cyprus. Cyprus law governs the disposal of immovable property in Cyprus, including restrictions regarding the statutory portion (see *Question 24*). It is even advisable for citizens of those Commonwealth countries that are exempt from these forced heirship provisions under section 42 of the Wills and Succession Law (*Cap 195*) (WSL) to make a Cyprus will, as this avoids the need for the re-sealing of an overseas probate. This would otherwise be necessary to allow a representative appointed under a foreign grant of probate to deal with assets in Cyprus.

16. What are the formalities for making a will in your jurisdiction? Do they vary depending on the nationality, residence and/or domicile of the testator?

The testator must have testamentary capacity. The will is not valid unless it is in writing and executed in the following manner (*section 23, WSL*):

- Signed by the testator.
- Signed by some other person:
 - on the testator's behalf;
 - in the testator's presence; and
 - under the testator's direction.
- The signature must be made or acknowledged by the testator in the presence of two or more witnesses present at the same time.
- The witnesses must witness and sign the will in the presence of the testator and of each other, but an attestation clause is unnecessary.
- If the will consists of more than one sheet of paper, each sheet must be signed or initialled by or on behalf of the testator and the witnesses.

Redirecting entitlements

17. What rules apply if beneficiaries redirect their entitlements?

An heir can renounce the estate. In that case he will have no liability for the deceased's debts and will receive no benefit from the estate.

The heir must:

- Make a declaration in the prescribed form.
- File the declaration within three months of the date on which he became aware of:
 - the death of the deceased; and
 - the fact that he was an heir to the deceased.

As there are no succession taxes in Cyprus, this renunciation has no tax implications.

Validity of foreign wills and foreign grants of probate

18. To what extent are wills made in another jurisdiction recognised as valid/enforced in your jurisdiction? Does your jurisdiction recognise a foreign grant of probate (or its equivalent) or are further formalities required?

Validity of foreign wills

A will executed in a foreign country, complying with the formalities required by the WSL and deposited with a Probate Registry in Cyprus is recognised by the Cyprus courts, as meeting the requirements of the Hague Convention.

Any other will is not accepted, and any property in Cyprus must be administered and devolved according to the laws of intestacy.

Validity of foreign grants of probate

There is special provision for persons who (*Probates (Re-Sealing Law)*):

- Die in the UK or in any British Dominion or Commonwealth country; and
- At the time of death, had property in Cyprus.

If probate is granted by a relevant court of a Commonwealth country it may be resealed in Cyprus and the Cyprus court does not enquire further into the validity of the underlying will, and appoints an administrator to administer the estate in Cyprus. The intended administrator must accompany his application to the court with copies of:

- Either the grant of probate and will, or the grant of letters of administration. The issuing court must certify the grant as a true copy.
- A power of attorney given to the foreign executor or administrator.

On completion of the administration, the appointed administrator must file with the court:

- Final accounts of his administration.
- A declaration by the foreign executor or administrator that the administration in Cyprus was carried out to that executor or administrator's satisfaction.

Grants of probate issued in certain other countries can be registered in Cyprus under relevant international conventions or bilateral agreements.

Death of foreign nationals

19. Are there any relevant practical estate administration issues if foreign nationals die in your jurisdiction?

The key issue is whether the deceased left movable or immovable property in Cyprus. In that case, the usual issues apply (see *Questions 24 to 26*).

Administering the estate

20. Who is responsible for administering the estate and in whom does it initially vest?

Direct succession does not take place in Cyprus. The rights and liabilities attaching to the estate of the deceased are vested in the personal representatives (that is, the administrator of his estate or the executor of his will). The duty of the personal representatives is to pass the rights and liabilities to the heirs. The executor

and the administrator derive their powers over the deceased's estate from different sources:

- **Executor.** The executor derives his powers from the deceased's will. The estate is vested in him at the time of the deceased's death.
- **Administrator.** The administrator derives his powers from the order of the court appointing him. At that stage, the estate vests in the administrator. However, the vesting operates as from the date of the deceased's death.

On the grant of probate or administration the personal representative takes the place of the deceased for legal purposes and acquires all the deceased's rights and obligations. He can sue and be sued in all matters concerning the deceased's estate and his administration of it. Pending the grant of administration, the estate vests temporarily in the court, and for small estates the court can make an order for summary administration. In that case, the probate registrar or any other public officer that the court may appoint will act as the administrator.

21. What is the procedure on death in your jurisdiction for tax and other purposes in relation to:

- Establishing title and gathering in assets (including any particular considerations for non-resident executors)?
- Paying taxes?
- Distributing?

Establishing title and gathering in assets

The personal representative must submit to the tax authorities a statement of assets and liabilities of the deceased within six months of the date of his appointment (*Administration of Estates Law, Cap.189 (AEL)*).

Procedure for paying taxes

If there is any liability for unpaid income tax or other forms of tax it must be settled by the personal representative to obtain a tax clearance certificate.

Distributing the estate

After paying any income tax that the deceased owed, and obtaining a clearance certificate from the Inland Revenue, the personal representative can:

- Transfer the immovable properties into the names of the legal heirs.
- Gather any funds of the deceased in bank accounts and distribute them to the heirs.

No transfer fees are payable on the distribution and there are no inheritance taxes in Cyprus (see *Question 7*).



22. Are there any time limits/restrictions/valuation issues that are particularly relevant to an estate with an element in another jurisdiction?

There are no features that are particularly relevant to an estate with a foreign element.

23. Is it possible for a beneficiary to challenge a will/the executors/the administrators?

The court has wide powers to resolve issues arising in connection with estates under section 53 of the AEL. Personal representatives, creditors, beneficiaries, next of kin and persons claiming through creditors or beneficiaries can apply to the court by originating summons for the determination of any of the following issues:

- Any question affecting the rights or interests of the person claiming to be creditor, beneficiary, next of kin or heir at law.
- The identification of any class of creditors or beneficiaries.
- An account provided by the personal representatives.
- Payment into court of funds held by the personal representatives.
- Direction of the executors to do, or to refrain from doing, any particular act.
- Approval of any sale, purchase, compromise or other transaction.
- Determination of any question arising in the administration of the estate.

SUCCESSION REGIMES

24. What is the succession regime in your jurisdiction (for example, is there a forced heirship regime)?

The law of succession is incorporated in a number of enactments, the most significant of which are the:

- WSL.
- AEL.

The WSL deals with both wills and intestacy. The part dealing with wills is based on the English Wills Act of 1837. The part dealing with intestacy is based on the Italian Civil Code and reflects continental law (see *Question 28*).

Under the WSL, part of the deceased person's net estate (statutory portion) must be reserved for close relatives who are alive at the time of the deceased person's death. Close relatives are the deceased person's:

- Spouse.
- Children, or where the children died in the deceased's lifetime, the descendants of those children.

The statutory portion is distributed according to the rules set out in the WSL (these also apply in the absence of a valid will or to any part of the estate that is not otherwise disposed of). The proportion of the net estate taken up by the statutory portion varies according to which relatives survive:

- A living child or a descendant of a child: the statutory portion is 75% of the estate's net value.
- A spouse or a parent, but not any children or their descendants: the statutory portion is 50% of the estate's net value.
- No surviving spouse, parent, child or descendant of a child: the statutory portion is reduced to nil and all the estate can be disposed of by will.

The statutory portion is paid in accordance with the intestacy rules (see *Question 28*).

The remaining amount of the net estate (disposable portion) can be disposed of by will. A will that purports to dispose of more than the disposable portion of the testator's estate is not invalid. However, the disposition will be reduced proportionally so that it is limited to the disposable portion. The disposition will not be reduced where the testator leaves a surviving spouse but no children or descendants of children, and leaves more than the disposable portion, up to the value of his estate, to the surviving spouse.

The forced heirship provisions do not apply to anyone who was born, or whose father was born, in the UK or most Commonwealth countries. Such individuals can dispose of all their property by will. Other non-Cypriots can only dispose of movable property without having to reserve a statutory portion.

Cyprus law does not recognise forced heirship claims against trust assets. The law relating to inheritance or succession in Cyprus or in any other country does not in any way affect any transfer or disposition of assets to a Cyprus International Trust or the validity of the trust (*International Trusts Law, 1992*).

Forced heirship regimes

25. What are the main characteristics of the forced heirship regime, if any, in your jurisdiction?

The forced heirship regime is described above (see *Question 24*).

Avoiding the regime

It is easy to avoid the forced heirship provisions. Individuals who enter Cyprus to take up permanent residence can establish a Cyprus International Trust under International Trusts Law before becoming resident in Cyprus. If a Cyprus International Trust is not an option (for example, because the individual is a permanent resident of Cyprus) a local trust should provide a way around the forced heirship provisions, but without a Cyprus International Trust's tax benefits or enhanced asset protection.

Assets received by beneficiaries in other jurisdictions

The forced heirship regime takes into account assets received by beneficiaries in other jurisdictions. The forced heirship rights are mandatory on the forced heir.

Mandatory or variable

The forced heirship rights are mandatory on the forced heir.

Real estate or other assets owned by foreign nationals

26. Are real estate or other assets owned by a foreign national subject to your succession laws or the laws of the foreign national's original country?

Immovable property

Cyprus law, as the law where the property is sited (*lex rei sitae*), governs the disposal of immovable property in Cyprus. Therefore the restrictions imposed by Cyprus law on the statutory portion apply regardless of the testator's domicile at the time of death, except for citizens of Commonwealth countries falling within the scope of section 42 of the WSL (see *Question 23*).

Movable property

The law of the domicile of the testator at the time of his death governs the disposal of movable property, even where the testator was a Cypriot. Where the testator was domiciled in Cyprus at the time of his death, the rules set out in the WSL apply (see *Question 24*).

27. Do your courts apply the doctrine of *renvoi* in relation to succession to immovable property?

This situation cannot arise as Cyprus law always governs the disposal of immovable property located in Cyprus (see *Question 26, Immovable property*).

INTESTACY

28. What different succession rules, if any, apply to the intestate?

The rules of intestacy apply if there is no valid will and to any part of the estate not disposed of by will (see *Question 24*). No distinction is made between movable and immovable property.

The persons entitled to succeed to the estate of a deceased person are divided into four classes:

- **First class.** This comprises the:
 - legitimate children of the deceased living at his death; and
 - descendants, living at the time of the death of the deceased, of any of the deceased's legitimate children who died in his lifetime.
- **Second class.** This comprises the father, mother, brothers and sisters of the deceased. It makes a distinction between the:
 - heirs living at the time of the death of the deceased; and
 - descendants of brothers or sisters who died in the deceased's lifetime.

- **Third class.** This comprises the ancestors (that is, grandparents and more remote lineal ancestors) of the deceased nearest in degree of kindred, living at the time of his death.
- **Fourth class.** This comprises the nearest relatives of the deceased living at the time of his death, up to the sixth degree of kindred (more remote relatives are excluded).

Distribution takes place after the deduction of the share of the surviving spouse (see *below*). The heirs of each class generally succeed equally. However, in the first and second classes the succession is *per stirpes*. This means that the heirs of the deceased will inherit equally and the descendants of each heir will inherit their parent's share. In the third and fourth classes, the succession is *per capita*. This means that all the heirs of those classes will inherit equally. The persons of one class exclude persons of a subsequent class.

The estate of an individual who dies leaving no spouse and no relative within the sixth degree of kindred will become the property of the Republic of Cyprus.

The share of the net value of the estate (that is, after the debts and liabilities of the estate have been discharged) allocated to the surviving spouse varies according to the number and nature of other relatives surviving the deceased, as follows:

- **Where the deceased has left a child or descendant of a child.** The surviving spouse's share is equal to the share of each child.
- **Where the deceased has left no child or descendant, but has an ancestor or descendant of an ancestor within the third degree of kindred as set out in Schedule II of the WSL.** The surviving spouse is entitled to 50% of the net estate.
- **Where the deceased is survived by an ancestor or descendant of the fourth degree of kindred, but no closer relative.** The surviving spouse's share is 75% of the net estate.
- **Where there is no relative within the fourth degree of kindred or closer who survives.** The surviving spouse is entitled to the entire net estate.

When more than one lawful wife survives the deceased, the share given to the wife will be divided equally between the wives (*section 44, WSL*).

Property that the surviving spouse receives from the deceased under a marriage contract is not taken into account in calculating the surviving spouse's entitlement (*section 45, WSL*).

29. Is it possible for beneficiaries to challenge the adequacy of their provision under the intestacy rules?

This is not possible.



TRUSTS

30. Are trusts (or an alternative structure) recognised in your jurisdiction?

Type of trust and taxation

Trusts are a well-established concept in Cyprus. The Trustee Law of 1955 (*Cap 193*), which mirrors the UK's Trustee Act 1925, is the basic law dealing with the trust relationship. The International Trusts Law is based on the Trustee Law 1955 and governs international trusts. International trusts are defined as trusts in which:

- The settlor is not a permanent resident of Cyprus.
- No beneficiary (other than a charity) is a permanent resident of Cyprus.
- The trust property does not include any real property situated in Cyprus.
- There is at least one trustee resident in Cyprus at all times.

A trust will still qualify as an international trust even if the settlor or the local trustee or a beneficiary (or any combination of these) is a Cyprus International Business Company (a company without domestic business activities) or partnership.

Domestic trusts are treated as transparent vehicles for income tax purposes (that is, tax is levied on the trust as a proxy for the beneficiaries, as if its income were income of the beneficiaries). Trustees are required to:

- Make returns to the Inland Revenue.
- Pay any tax due on the trust income.
- Supply details of trust beneficiaries and accounts.

The income and the profits of an international trust derived or deemed to be derived from a source outside Cyprus are completely exempt from income tax or any other tax imposed in Cyprus, such as capital gains tax or SDC tax (*section 12, International Trusts Law*).

An international trust provides a number of valuable tax planning opportunities. For example, a non-Cypriot who creates an international trust in Cyprus with himself as beneficiary and subsequently settles in Cyprus is effectively exempt from Cyprus tax if all the trust's property is outside Cyprus and its income is derived from overseas. Further, the beneficiaries of an international trust are also exempt from payment of income tax on any monies they receive from the trustees.

The instrument creating an international trust is subject to stamp duty of EUR427 (*section 12(2), International Trusts Law*).

Applicable law

The laws of Cyprus govern trusts settled in Cyprus. However, the law applicable to an international trust can be expressly changed to a foreign law provided that the new law recognises the validity of the trust and the interests of the beneficiaries (*section 9, International Trusts Law*). A trust established in a foreign jurisdiction can, under its terms, select Cyprus law provided that this complies with the law of the foreign jurisdiction.

Residence of trusts

As a trust is not a legal entity, its residence is regarded as the place of residence of the trustees. In the case of local trusts, the Trustee Law gives a court the power to appoint a new trustee where a trustee remains out of Cyprus for more than one year. It is therefore unlikely that a court would appoint a non-resident trustee.

The Cyprus International Trusts Law requires that at least one trustee is a permanent resident of Cyprus.

31. Does your jurisdiction recognise trusts that are governed by another jurisdiction's laws and are created for foreign persons?

Cyprus law recognises trusts created for foreign persons that are governed by the law of another jurisdiction, provided that the relevant domestic legal requirements are met (*see Question 30*).

32. What are the tax consequences of trustees (for example, of an English trust) becoming resident in/leaving your jurisdiction?

There are no specific statutory provisions in Cyprus tax legislation regulating the migration of trusts to or from Cyprus.

Provided that no immovable property in Cyprus is involved, the migration of trusts does not give rise to any exit or similar taxes.

33. If your jurisdiction has its own trust law:

- Does the law provide specifically for the creation of non-charitable purpose trusts?
- Does the law restrict the perpetuity period within which gifts in trusts must vest, or the period during which income may be accumulated?
- Can the trust document restrict the beneficiaries' rights to information about the trust?

Purpose trusts

As far as local trusts are concerned, only charitable purpose trusts and analogous fixed category non-charitable purpose trusts (for example, for the maintenance of family tombs), are permitted. A Cyprus International Trust can be a purpose trust provided that it is not a perpetual trust, or provided that the document creating the trust specifies the event or events on which the trust terminates and provides for the disposition of net assets on termination.

Perpetuities and accumulations

As far as local trusts are concerned, the perpetuity periods of Cyprus trusts are based on the old English equity principles, so that no trust, except for charitable trusts, can continue in perpetuity. Trusts endure for either the period of the life or lives-in-being, plus 21 years, or, where there is no life in being, merely for 21 years. The accumulation period of a trust can be extended to include the entire perpetuity period.

A Cyprus International Trust can remain in force for up to 100 years, despite any statutory provision of Cyprus or any other country to the contrary. Charitable trusts, as defined in section 7 of the International Trusts Law, and purpose trusts can continue indefinitely. The income of an international trust can be accumulated for the entire duration of the trust.

Beneficiaries' rights to information

Under the general law, trustees have an equitable duty to provide beneficiaries with trust information, including the terms of the trust, particulars of the trust property and how it is invested and the accounts of the trust.

Under the International Trusts Law, the trustees' duty is limited to disclosing any document or information relating to or forming part of the accounts of the international trust. A beneficiary with a fixed share is entitled to such disclosure, but a discretionary beneficiary may only be so entitled from the time when the trustees have exercised their discretion in his favour.

Despite the general obligation of confidentiality, trustees can disclose trust information if they have a bona fide belief that disclosure is necessary in the exercise of their fiduciary duties or powers and that this will not prejudice the interests of the beneficiaries.

34. Does the law in your jurisdiction recognise claims against trust assets by the spouse/civil partner of a settlor or beneficiary on the dissolution of the marriage/partnership?

Cyprus law does not recognise such claims in the context of validly constituted trusts.

35. To what extent does the law of your jurisdiction allow trusts to be used to shelter assets from the creditors of a settlor or beneficiary?

The Cyprus International Trust is an extremely powerful asset protection tool, for the following reasons:

- Regardless of any bankruptcy or liquidation laws in Cyprus or in any other country, whether the trust is voluntary and without consideration, or it being made for the benefit of the settlor or his family members, the trust is not void or voidable. This is the case unless it is proved to the court that the trust was made with intent to defraud persons who were creditors of the settlor at the time when the payment or transfer of assets was made to the trust (*International Trusts Law*). The burden of proof of the settlor's intent to defraud lies with the person who is seeking to annul the transfer.
- Any action for avoidance of the trust must be made within two years from the date of transfer or disposal of the assets to the trust.

- Cyprus is not a party to the arrangements set out in Section 426(4) and (5) of the Insolvency Act 1986, under which British courts and the courts of certain other jurisdictions are required to assist each other in insolvency cases. This gives Cyprus a distinct advantage over many other Commonwealth countries, in particular the Caribbean islands and Bermuda.
- The Charitable Uses Act 1601 (also known as the Statute of Elizabeth), which invalidates arrangements made to hide assets from future creditors, is expressly excluded in Cyprus.

OWNERSHIP AND FAMILIAL RELATIONSHIPS

Co-ownership

36. What are the laws regarding co-ownership and how do they impact on taxes, succession and estate administration?

The concept of joint ownership of property does not exist in Cyprus law. Co-owners can hold property in specified shares. On the death of a co-owner, his share in the property will devolve in accordance with his will or the rules of intestacy.

Familial relationships

37. What matrimonial regimes in trust or succession law exist in your jurisdiction? Are the rights of cohabitants/civil partners in real estate or other assets protected by law?

A share in the statutory portion and the undisposed portion of a deceased spouse is available to the surviving spouse (see *Questions 24 and 28*).

The law does not protect the rights of cohabitants or civil partners in property or other assets.

38. Is there a form of recognised relationship for same-sex couples and how are they treated for tax and succession purposes?

There is no form of recognised relationship for same-sex couples.

39. How are the following terms defined in law:

- Married?
 - Divorced?
 - Adopted?
 - Legitimate?
 - Civil partnership?
-

Married

This means a person who has duly and legally completed a wedding ceremony (whether civil or religious). The term married is not statutorily defined. Cyprus does not recognise same-sex marriages.



Divorced

This describes an individual whose marriage has been legally dissolved by a judgment of a court of competent jurisdiction.

Adopted

This means a person who has been adopted under an adoption order recognised by Cyprus law, particularly the Adoption Law of 1995.

Legitimate

This means a child born in lawful wedlock. However, for most purposes there is no distinction between legitimate and illegitimate children since Cyprus is a signatory to the European Convention on the Legal Status of Children Born Out of Wedlock, which was ratified by Law 50 of 1979. Article 9 of the Convention provides that a child born out of wedlock will have the same right of succession to the estate of its father and its mother and of a member of its father's or mother's family as if it had been born in wedlock. The WSL is not applied in the event of inconsistency with any obligation imposed by treaty (*section 54, WSL*).

Civil partnership

Civil partnerships are not recognised in Cyprus.

Minority

40. What rules apply during the period when an heir is a minor? Can a minor own assets and who can deal with those assets on the minor's behalf?

The personal representative can transfer immovable properties into the name of minor heirs and can deposit funds in bank accounts opened in their name. Thereafter, disposal of the immovable properties or of the funds in the name of the minor heir can be effected only with the court's leave. To obtain leave, the applicant must prove to the court's satisfaction that the disposal is for the minor's benefit.

CAPACITY AND POWER OF ATTORNEY

41. What procedures apply when a person loses capacity? Does your jurisdiction recognise powers of attorney (or their equivalent) made under the law of other jurisdictions?

A person who is not of sound mind, memory, and understanding or who has not completed the age of 18 years cannot make a valid will (*section 22, WSL* and *section 42, Administration of Estates Rules 1955*).

PROPOSALS FOR REFORM

42. Are there any proposals to reform private client law in your jurisdiction?

A revised draft Regulation of Fiduciaries, Administration Businesses and Company Directors Law was published for consultation in 2010 and is expected to be enacted soon. Under the proposed new law, individuals or companies offering trustee or company management services on a commercial basis will require authorisation as fit and proper and will be subject to detailed record keeping, accounting and regular monitoring requirements.

In March 2011 a draft law to amend the Cyprus International Trusts Law was published. It aims to bring the International Trusts Law completely up to date and removes a number of unnecessary or outdated restrictions, particularly the prohibition on investment in real estate in Cyprus. It also removes any doubt over settlors' subsequent ability to relocate to Cyprus. The proposed changes will result in a modern trust law which provides an attractive environment in which would-be investors can exercise their rights of free movement, in full compliance with EU Law and Cyprus's obligations as a member state.



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We recognise that each of our clients is unique, with particular business concerns, and we exercise a personal commitment to all our clients to understand their objectives rapidly and effectively and to expedite solutions by means of clear and practical legal advice and action.

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