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A message from Andreas Neocleous - Cyprus remains open for business	Coming in the aftermath of the Second World War, one of the primary aims of the founders of the EU was to prevent a recurrence of war between European nations. The Treaty of Rome, which established the European Economic Community, proclaimed its prime purpose as "ever closer union among the European peoples" and its intention "to confirm the solidarity which binds Europe".
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How prophetic those words proved to be. Many would argue that one of the principal reasons for the maligning of the Cyprus business sector and the draconian terms on which international financial assistance was made available in March this year was the success of the business services sector in Cyprus, which motivated certain other European countries to take advantage of the opportunity to handicap a rival that they were finding it hard to compete with. This is borne out by the fact that since the Eurogroup decisions regarding Cyprus became known, the Cyprus media have been flooded with advertisements from professional and financial services firms in Northern Europe seeking to attract away the very same deposits and business that they had previously claimed were tainted.

Nevertheless, despite the damage inflicted on our banking system Cyprus remains among the most attractive international financial centres in Europe and, indeed, in the world, offering an unrivalled environment for cross-border investment both into and from Russia, Central and Eastern Europe, India, the rest of Asia and elsewhere.

Cyprus has a stable, reliable commercial and legal infrastructure, a robust and open legal system based on common law, which investors are familiar with, excellent professional and financial services and a simple, transparent tax regime based on low rates of tax. At 12½ per cent Cyprus's corporate tax rate is among the lowest in Europe and securities, including shares, units in funds, GDRs and many other instruments, are exempt from corporate taxes.

Since the dissolution of the Soviet Union, Russia and Central and Eastern Europe have become the most important destinations for investment via Cyprus. They are also a significant source of investment via Cyprus. Not only are there strong cultural links based on a common Orthodox religious heritage, but there are also substantial financial incentives for businesses in Russia and Central and Eastern Europe to establish Cyprus holding and finance structures. The double tax agreements between Cyprus on the one hand and Russia and its neighbours on the other generate significant savings in withholding taxes. Furthermore, the exemption of capital gains on shares (including shares in "property-rich" companies) from tax provides the potential for a tax-free exit.

Cyprus also offers the potential for a tax-free exit from investments in India, since under the double tax agreement between the two countries any capital gains on disposal of shares is taxable only in the country of residence of the disponent of the shares. Among India's other double taxation agreement partners, only Mauritius offers the same benefit, and the Indian government is seeking to renegotiate its agreement with Mauritius in order to restrict it.

In addition to these particular benefits for investments in Central and Eastern Europe and India, Cyprus also offers substantial tax benefits for certain activities or sectors. It has an intellectual property rights "box" that exempts 80% of income derived from intellectual profits from taxation, resulting in an effective tax rate of less than 2½ per cent on such income, by far the lowest in Europe. Gains on disposal can be fully sheltered from tax of any kind. In most cases immediate economic and tax savings can be made by transferring intellectual rights currently held by entities located in low or no tax jurisdictions to Cyprus resident companies.

Another sector in which Cyprus offers particular savings is international shipping and ship management activities. Its EU-approved tonnage tax system provides for taxation on the basis of the tonnage of vessels

operated or managed, offering substantial savings compared with taxation based on actual profits, together with a wide range of tax exemptions relating to shipping activities.

The Cyprus International Trust provides a secure and tax-effective "wrapper" for investments in Cyprus or elsewhere. The International Trusts Law of 1992 was completely updated and modernised in 2012 and gives settlors unrivalled flexibility, control and asset protection. A new regulatory regime, introduced in December 2012, provides effective oversight of trust and fiduciary service providers, giving complete security.

The recent downsizing of the banking sector in Cyprus affected only the customers of the two largest domestic banks. Its effects were unnecessarily severe due to the arbitrary deadlines imposed from outside Cyprus. Nevertheless, since there is no requirement for Cyprus companies, trusts or other entities to maintain bank accounts in Cyprus, recent events do not in any way diminish the benefits of Cyprus holding and finance structures and trusts, which continue to provide a secure, tax-effective framework for cross-border investment.

The government is determined to maintain Cyprus's competitiveness in this regard. It is clear that our European partners cannot be relied upon to support us, and we must take responsibility for ourselves. The recent disbursement of the first tranche of funds under the European Stability Mechanism marks the first step on the road to rebuilding our economy.

Cyprus's history as a mercantile nation reaches back beyond Biblical times. Over the course of those five millennia Cyprus has faced many times of adversity and has overcome them all. My colleagues and I are confident that the advantages of doing business in Cyprus and the quality of the services available here will be apparent, notwithstanding recent setbacks.

Fast track economic citizenship program

Cyprus has introduced an "economic citizenship" programme, granting accelerated citizenship to applicants who satisfy one or more of the following criteria:

- ≡ The applicant has invested at least €3 million in Cyprus, comprising €2 million in the Development and Investments Fund and €500,000 each in the Research and Development Fund and the Solidarity and Employment fund. These deposits should be for a minimum of five years.
- ≡ The applicant has invested at least €5 million in Cyprus in the following:
 - ≡ acquisition of immovable property (residential properties, commercial properties, hotels, and other similar types of properties which are under construction or complete). Undeveloped land does not qualify;
 - ≡ acquisition of businesses or companies;
 - ≡ acquisition of shares of public companies registered in Cyprus;
 - ≡ acquisition of financial assets such as bonds issued by the Republic of Cyprus including bonds to be issued by the Solidarity Fund in accordance with the National Solidarity Fund Law of 2013;
 - ≡ participation in a company or a joint venture which has undertaken the execution of a project in Cyprus.
- ≡ The applicant has significant business activities in Cyprus, being a substantial shareholder of a company incorporated and doing business in Cyprus, the principal offices of which are situated in Cyprus, which employs at least ten Cypriot citizens and which has paid at least €500,000 per year to public revenues over the preceding five years. Up to two applications for naturalisation may be submitted in respect of each such company.
- ≡ The applicant was the holder of deposits in Bank of Cyprus or Laiki Bank at 15 March 2013 and incurred losses of €3 million or more as a result of the measures imposed on the two banks during March 2013.

Apart from satisfying the criteria set out above, the applicant must have a clean criminal record and be the owner of a permanent residence in Cyprus with a value of €500,000 or more excluding VAT.

Further information: [Christos Vezouvios](#)

New double taxation agreement between Spain and Cyprus

On 14 February the Spanish ambassador and the Cyprus Minister of Finance signed a double taxation agreement between Spain and Cyprus.

The agreement has been under negotiation for several years. Little progress was made until 2009, as a result of Cyprus having been included in the Spanish authorities' so-called black list of tax havens, despite the fact that it complied with all relevant information exchange requirements, resulting in Cyprus-resident companies being denied certain Spanish tax benefits and exemptions. In 2009 the Spanish authorities removed the restrictions and

progress in the negotiations regarding the double taxation agreement resumed.

The signing of the agreement is expected to lead to a substantial expansion of economic ties and reciprocal investment activities between the two countries. The agreement, like all of Cyprus's double tax agreements, is based on the OECD Model Treaty. As soon as details are available we will publish them on our website, including the date the agreement takes effect, which is likely to be 1 January 2014. Until the new agreement takes effect unilateral relief for Spanish taxes paid will continue to be available under domestic tax legislation.

Further information: [Elias Neocleous](#)

Changes to tax rates

In accordance with the requirements of its international lenders, Cyprus has made a number of changes to tax rates.

Increase in the corporate tax rate

With effect from 1 January 2013 the corporate tax rate has been increased from 10% to 12½%.

Transfer and carry forward of tax losses by credit institutions

With effect from 25 March 2013, in the event of a transfer of operations, assets, rights or obligations from one credit institution to another under the Credit Institutions Resolution Law, any accumulated losses of the transferor at the date of the transfer are transferred to the acquirer and may be used by it for up to fifteen years from the end of the year in which the transfer took place.

Increase in special contribution for defence on interest payable by residents

The rate of special contribution for defence, commonly referred to as SDC tax, on interest has been increased to 30%. The increase will apply to interest received or credited from 29 April 2013. SDC tax is payable only by tax residents of Cyprus; non-resident individuals and companies are completely exempt. Interest on corporate financing or loan arrangements is subject to income tax rather than SDC tax.

Annual levy on bank deposits

With effect from 1 January 2013 the levy payable by banks on customer deposits has been increased from 0.11% to 0.15%. No levy is payable on inter-bank deposits. The levy is not deductible for the purpose of calculating taxable profits. It will, however, reduce the amount of profits subject to deemed dividend distribution.

Limited impact

The changes do not detract from Cyprus's attractiveness as a holding company jurisdiction. Even after the increase, Cyprus's corporate tax rate is one of the lowest in the EU and the increase should not materially affect most holding companies. Furthermore, the other benefits of the Cyprus holding company regime such as the tax free flow of dividends through Cyprus and the beneficial exit opportunities offered by Cyprus's favourable national tax legislation and wide network of double tax agreements remain intact. In this connection it should be noted that a number of reports elsewhere have mistakenly referred to an increase in capital gains tax. This is due to a misinterpretation and incorrect translation of the increase in SDC tax on interest. Cyprus does not impose capital gains tax, except on gains deriving from real estate in Cyprus.

Further information: [Philippos Aristotelous](#)

Shipping - tonnage tax declarations

The Department of Merchant Shipping recently announced that with effect from the 2012 tax year, all owners of foreign ships, charterers and ship managers participating in the tonnage tax system must submit a declaration by their legal representative or auditor in the prescribed form, together with their tonnage tax declaration.

The declaration confirms that the company concerned was a tax resident of Cyprus for the relevant year, sets out the tonnage of qualifying and non-qualifying ships and confirms that any non-qualifying income has been appropriately accounted for and declared.

The relevant form, Form MSTT8, can be downloaded from the Department of Merchant Shipping's website. If the declaration is signed by a director or secretary of the registered owner or bareboat charterer, it must be accompanied by a certificate issued by the registrar of companies listing the directors and secretary. If the declaration is signed by a person acting in the capacity of an authorised representative, a valid power of attorney in favour of the signatory must also be submitted. Owners, charterers and ship managers that have already submitted their 2012 tonnage tax declaration must provide the additional declaration as soon as possible.

Further information: [Vasileios Psyras](#)

News about our firm

Top ratings across the board from Legal 500 and Chambers & Partners

For a fifth successive year we have maintained our top-tier ranking in every practice area (banking and finance, mergers and acquisitions, dispute resolution, EU and competition, intellectual property, shipping, real estate and tax) in the latest Legal 500 rankings, a distinction achieved by very few firms worldwide.

The latest edition of Chambers Europe Guide, published on 26 April, shows Andreas Neocleous & Co LLC continuing to lead the Cyprus legal services market, maintaining our top-tier ranking in all five areas (corporate and commercial, dispute resolution, construction and real estate, shipping and taxation) assessed by Chambers & Partners. No other firm comes close to matching this achievement.

Legal 500 and Chambers & Partners are among the most respected organisations researching the market for legal services, carrying out rigorous research and analysis of the legal market in all the major jurisdictions and identifying the leading lawyers and law firms through interviews with thousands of lawyers and their clients. Their reputation is based on the independence, objectivity and rigour of their research: no-one can buy their way into the rankings.

Commenting on the rankings Andreas Neocleous, chairman of the firm, said, "I should like to express my gratitude to my colleagues for their effort and dedication, and to our clients for their continued trust and confidence in us. At these difficult times for our country we are more than ever determined to provide the best possible service for our clients and maintain confidence in Cyprus as a reliable international business centre."

Elias Neocleous appointed to the board of the Cyprus Investment Promotion Agency

Elias Neocleous, head of the firm's corporate and commercial department, has been appointed by the Cyprus government to the board of directors of the Cyprus Investment Promotion Agency ("CIPA"), a company funded by the government with the threefold mission of promoting Cyprus as an attractive international investment centre in priority growth sectors, advocating reform in Cyprus required to improve the regulatory and business environment and infrastructure and providing investor support with after care and further development services.

Commenting on his appointment, Elias said, "The reconstruction of our economy is a task of national importance and I am honoured to have been entrusted with this responsibility at this crucial time in our country's history. I hope that by sharing my practical, first-hand experience of what international businesses require I can help to improve the attractiveness of Cyprus for overseas investors so as to create new opportunities and put the economy on the road to recovery."

Recent publications

The following are a selection of our publications since the previous edition of this newsletter. They may be viewed by following the links below or by visiting the publications section of our website, which is constantly updated and contains a wealth of useful information on recent developments in Cyprus law.

- ≡ [Cyprus chapter of "Holding Regimes 2013"](#)
- ≡ [Cyprus chapter of "PLC Corporate Real Estate Handbook 2012/13"](#)
- ≡ [Cyprus chapter of "PLC Private client guide"](#)
- ≡ [Cyprus chapter of "Anti-Corruption Regulation 2013"](#)
- ≡ [Cyprus chapter of "International Comparative Legal Guide to Mergers & Acquisitions 2013 Edition"](#)
- ≡ [Cyprus chapter of "International Comparative Legal Guide to Litigation & Dispute Resolution 2013 Edition"](#)
- ≡ [Cyprus chapter of "Trademark Practice and Forms"](#)
- ≡ [Cyprus chapter of "International Execution against Judgment Debtors"](#)



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