

CYPRUS

AN INTERNATIONAL BUSINESS CENTRE

1. CYPRUS COMPANIES

1.1 INTRODUCTION

Since 1975 when the Government of Cyprus introduced the first incentives for the purpose of encouraging the establishment in Cyprus of companies belonging to non residents, over 245.000 such companies have been registered, making Cyprus one of the world's primary financial and commercial centres.

Following the accession of Cyprus to the European Union on the 1st of May 2004 as a full member state, relevant amendments to the Cyprus Company Law and Tax Law, abolished the dual system of taxation which used to differentiate between companies belonging to non residents, which were taxed at 4,25% on profits, and companies belonging to residents which were taxed at 20% plus.

The new unified system of company taxation introduced a 10% flat corporate rate for all companies which have their management and control in Cyprus.

However, a difference still exists regarding the taxation of individuals when receiving dividends from a Cyprus company. Individuals who are residents of Cyprus are liable to a 15% withholding tax on dividends but non residents are completely exempted from this tax.

The aforesaid changes have been welcomed and have opened the door to a sharp increase of the numbers of international business companies registering in Cyprus, since Cyprus maintains the lowest corporate tax in the European Union and conforms to all the formalities and requirements of the European Union Corporate Laws.

1.2 FISCAL & OTHER ADVANTAGES

The major fiscal or other advantages, for the companies belonging to non residents, are as follows:

- ✓ Taxation at 10% on net profits
- ✓ No Corporate tax on dividend income
- ✓ No withholding tax on dividends
- ✓ A wide network of double tax treaties
- ✓ Full capital gains tax exemption on capital gains, except on the sale of immovable property situated in Cyprus
- ✓ Residence and work permits for foreign employees and permits for their families can be readily obtained
- ✓ Freedom from the stigma surrounding tax heaven countries
- ✓ Freedom from exchange control
- ✓ Membership of most international organisations and maintenance of friendly relations with the majority of developing and developed countries
- ✓ International business branches which are managed and controlled from abroad and international business partners are totally exempt from corporation or income tax
- ✓ Strong infrastructure and a successful economy characterised by traditionally low inflation
- ✓ Cyprus is a member state of Euro Zone
- ✓ Strategic location at the hub of Europe, Asia and Africa

- ✓ Moderate set-up and running costs
- ✓ Highly qualified professional work force
- ✓ Excellent transportation and telecommunications networks
- ✓ Effective judiciary system
- ✓ Highly developed and efficient bank system

1.3 TYPES OF COMPANIES

A company may be established in Cyprus in any of the following forms:

- ✓ Limited liability company registered under the Companies Law CAP. 113 (as amended) (either private or public)
- ✓ Branch of a foreign company, registered in any foreign country, established in Cyprus under S 347 of the Companies Law (as amended)
- ✓ Partnership established under the Partnership Law CAP. 116

1.4 PROCEDURE FOR REGISTRATION

1.4.1 Name of the Company

This is subject to approval by the Registrar of Companies. Names of a general character should be avoided. It is recommended that more than one name should be proposed. Our office keeps available approved names and shelf companies.

1.4.2 Share Capital

It is expressed in Euro or any other currency and it is divided into shares of any value. The authorised share capital is the total capital which the

company is allowed to issue to shareholders. The paid up capital is that part of the authorised which has been actually issued and paid for by the shareholders.

A company with limited liability by shares, implies that the shareholders' liability extends to the unpaid share capital of the company only.

There are no minimum share capital requirements for private companies. For public companies the minimum paid up capital is approximately €25.000.

The paid up capital is a working capital and may be used freely for the purposes of the activities of the company.

1.4.3 Shareholders

A limited liability company may be established with one or more shareholders, while partnerships must have at least two partners.

A foreign corporation may be a shareholder of the company, and in such case its basic incorporation documents should be submitted.

The shareholder can retain his or her anonymity by using nominee shareholders who will hold all shares in trust for the owner.

It is the practice to appoint the law firm which undertakes the formation of the company to settle the nominee shareholding usually through companies fully controlled by it.

If nominee shareholders are used, the beneficial owner should provide the following information to the nominee shareholder:

- ✓ Certified copies of the passport/ identification card of beneficial owner;
- ✓ Certified copy of a utility bill in the name of the beneficial owner for proof of address;

1.4.4 Directors

Every company must have at least one director who may also be a legal entity. In order for the Company to become tax resident in Cyprus, the primary test used by the Tax Authorities of Cyprus is whether the management and control of the Company is in Cyprus. An easy way for the Company to satisfy this requirement is to show that the majority of the Directors / members of the Board are resident in Cyprus (spending more than six months and one day per year in Cyprus and pay taxes in Cyprus) and that the Board meetings take place in Cyprus. For every director the following information is required: full name, nationality, address, profession, and a photocopy of his/her passport. Facilities for appointing local directors are offered by our firm.

1.4.5 Secretary

The company must have a Secretary. The Secretary's role is limited to ministerial functions of non-executive character and always acts on the Directors' instructions.

Since it is the Secretary who keeps the minutes and files relevant notices and reports to the Registrar of Companies, it is advisable that the Secretary to be appointed is a member of our law firm or a company controlled by the law firm.

1.4.6 Main activities to be carried out by the company

Every company has objects clause and thus we should be informed of the main activities to be carried out by the Company.

1.4.7 Employment and Residence Permits

In case where clients wish to obtain employment and residence permits in Cyprus in order to work for the Company, kindly note that according to present laws and regulations, the Company must maintain a fully operational office in Cyprus with full-time staff (there is no minimum or maximum number of employees). Such employees may be non-Cypriots.

Furthermore the office of the Company cannot be on the same premises as a residence but must be in separate and independent premises. It should also be stressed that a company is not permitted to share an office with another company except if both companies have the same shareholders.

1.4.8 Registered Office

The registered office should be an address in Cyprus. In case the company does not wish to open an office in Cyprus then our Law Office can act as the official registered office of the company in Cyprus.

1.4.9 Costs

Our normal charge for the incorporation of a company with authorised share capital of Euro 1.000 -2000 is Euro 2.500. These will be the only charges during the year of incorporation of the company.

For the next and every following year our annual fees shall be Euro 700 - for maintaining the company, complying with all relevant legislation in Cyprus, handling any routine matter which may arise and acting as the company's secretary and registered office.

Furthermore, if our office is required to provide directors for the company we charge annual directorial fees of Euro 600 - per director. If we are required to provide nominee shareholders we further charge Euro 200 - per annum, irrespective of the number of shareholders provided.

1.4.10 Time Considerations

The incorporation of a Cyprus company may be obtained in eight days from the moment we receive all the information and documents required. Our firm always maintains a choice of ready made (shelf) companies which are immediately available.

Please do not hesitate to contact us for any further clarifications needed.

2. CYPRUS INTERNATIONAL TRUSTS

In July 1992, Cyprus enacted the International Trusts Law 69(I)/92 (the "Law"). The Law regulates the establishment and administration of international trusts and is designed to complete the spectrum of services Cyprus offers as an offshore center. It should be noted that since Cyprus is a common law jurisdiction the concept of trusts has always been part of its law. Thus, the object of the Law has been to modernize and update the existing legal framework and to introduce tax incentives.

The most important provisions of the Law are:

2.1 Conditions

Section 2 of the Law defines the conditions necessary for a trust to be considered international and thus come under the ambit of the Law. In that regard it is necessary that:

- a. The settlor and beneficiaries are not permanent residents of Cyprus.
- b. At least one of the trustees is a permanent resident of Cyprus, and
- c. The trust property does not include any immovable property situated in Cyprus.

A trust shall not fail to qualify as an international trust by reason only that either the settlor or the trustee or any one or more of the beneficiaries is

a Cyprus company belonging to non residents. This facility, as explained hereunder, can offer unique opportunities to a wide range of investors.

2.2 Taxation

Section 12(1) provides that the income and gains of a trust derived or deemed to derive outside Cyprus shall be exempt of all Cyprus taxes and that there shall be no estate duty in respect of assets belonging to the trust. All income and profits derived from trust property outside the Republic are exempt of all taxation while the trust property is not subject to estate duty or other inheritance tax. It should be noted that the wording of the section is such that the trust is liable to taxation in Cyprus (though its foreign income is taxed at zero rate) thus preserving the possibility of arguing that it is a resident for the purpose of the various tax treaties.

2.3 Applicable Law

Section 9 allows for the change of the law of the trust to and from the law of the Republic of Cyprus, if such change is authorized by the terms of the trust itself.

2.4 Asset Protection

Sections 3(2) and 3(3) provide that no trust shall be void unless and to the extent that it is proven in Court by a creditor that at the time of the transfer to the trust this was done with intent to defraud, the burden of proof lying with the creditor. No action may be brought against the trustee after two years from the date of the transfer.

2.5 Confidentiality

Questions of confidentiality are dealt with by section 11 which prohibits any of the trustees or any other person including government officials of Cyprus from disclosing any information about the trust. Sections 11(2) and 11(3) provide that a Court may by order allow disclosure of information where such disclosure is of paramount importance to the outcome of the particular civil or criminal proceedings.

3. PENSIONERS

Non resident individuals who choose to retire in Cyprus may profit from extremely interesting tax incentives.

4. INHERITANCE TAX

There is no inheritance tax in Cyprus.

LIST OF CYPRUS DOUBLE TAX TREATIES WITH OTHER COUNTRIES

Currently in force:

- Azerbaijan
- Armenia
- Austria
- Belarus
- Belgium
- Bulgaria
- Canada
- China
- Czech Republic
- Denmark
- Egypt
- France
- Germany
- Greece
- Uzbekistan
- Russia and former CIS Republics (except Kazakhstan)
- Hungary
- India
- Ireland
- Italy
- Kuwait
- Kyrgyzstan
- Lebanon
- Malta
- Mauritius
- Moldova
- Norway
- Poland
- Qatar
- Romania
- Serbia and Montenegro
- San Marino
- Seychelles
- Singapore
- Slovakia
- Slovenia
- South Africa
- Sweden
- Malta
- Tanzhikistan
- Thailand
- Ukraine
- United Kingdom and Northern Ireland
- United Arab Emirates
- U.S.A

Awaiting Ratification:

- Finland
- Japan

AN INTERNATIONAL
BUSINESS CENTRE

THE MULTI FAMILY OFFICE

Awaiting Signature:

- Algeria
- Iran



THE MULTI FAMILY OFFICE

ABOUT BKMS

With over a decade worth of experience and a prominent network of international clients, BKMS has established a reputation that speaks for itself. BKMS is covering a broad spectrum of industries, taking into account the required accounting treatment and tax implications as well as the challenging international regulatory framework. Client Trust and loyalty are the very fundament of every commitment undertaken by BKMS. Adherence to a strict policy of professionalism therefore results in continuously successful developments. BKMS is regulated by Cyprus Securities and Exchange Commission Registration No 96/196.

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