

*CYPRUS*

*INTERNATIONAL BUSINESS ENTITIES*

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## 1. INTRODUCTION

Cyprus' role in the development and conduct of international business can be traced back to ancient times to the eras of the Greeks, Phoenicians, Egyptians and the Romans. These nations realized the opportunities offered by Cyprus due to its strategic location and Cyprus became a key trading center in the region. This activity left its mark on the island and its people and since then it has become a promising tradition. Today, Cyprus has become a well respected, international business and financial centre that provides significant benefits to International Business Entities and many unique opportunities for investors. Cyprus has a well developed business, legal and professional infrastructure, one of lowest crime rates in the world, government commitment to the international business industry, an advantageous time zone, low operating costs, and generous tax incentives. These factors have all contributed to the phenomenal growth of the financial services industry a key part of which is the international business entities sector. Since 1975, when the concept of an international business entity was first introduced in Cyprus more than 50,000 permits have been issued for the registration of international business enterprises.

In July 2002 new tax legislation has been passed effecting a reform of the Cyprus tax system. The tax reform fully complies with Cyprus commitment to the OECD to eliminate Harmful Tax Practices and is consistent with harmonizing its laws to the EU's legal order and in particular the EU's Code of Conduct and State Aid Rules. The many advantageous features of the new tax system combined with Cyprus network of double tax treaties, coupled with the full acceptance of the tax reform by OECD and the EU significantly enhance the reputation of Cyprus as an international business centre. Of particular importance is the fact that once the features of the tax reform are communicated to the tax administrations of OECD and non-OECD countries Cyprus will in due course no longer be subject to the defensive measures proposed by the OECD on harmful tax practices such as inclusion in black lists, non deductibility of expenses and other discriminatory measures.

Legal entities registered in Cyprus have a choice between operating from the offices of accountants or lawyers as "brass plate" entities or from their own fully fledged offices. A great number of international business entities have opted to physically locate and administer their operations in Cyprus although such a presence is not required for the establishment or operation of an international business entity.

This brochure provides an insight into the significant benefits available to investors and entrepreneurs using Cyprus international business entities as vehicles for their international business activities. It is also intended to familiarize businessmen and professionals with certain legal and fiscal matters associated with the establishment and operation of international business entities. The examples and case studies presented are necessarily of a general nature. In practice, an investor may achieve optimum tax benefits by the use of only one Cyprus international business company. There may be cases where additional tax benefits can accrue by using a Cyprus international business company and another company in another jurisdiction. This publication is not intended to be comprehensive and interested parties are therefore advised to obtain further professional advice. Our firms' professional staff will be pleased to provide you with more information and professional advice in accordance with your individual needs.

## **2. TYPES OF LEGAL ENTITIES**

The term Cyprus International Business Entities (IBEs) refers to entities (whether incorporated or not) established in Cyprus, belonging to foreign individuals or entities. From the corporate legal point of view, the international business entity does not differ in any way from an entity of the same legal form registered in Cyprus and owned by local residents. In fact the term “IBE” is not a legal term but simply a description used for convenience by professionals to describe entities which are wholly owned by aliens and whose activities have a significant international dimension in addition perhaps to local operations. A foreign individual is a person who is not a citizen of Cyprus and does not hold a permit for permanent residence in Cyprus. An international business entity may take any of the following legal forms:

**a) Limited Liability company (IBCs)**

**b) Branch of an overseas company**

**c) General or limited partnership**

The definition for each of the above legal forms is similar to the one given in the Anglo-Saxon Law. For all three legal forms the procedure for establishment is simple and takes about the same time to complete (see Section 8).

## **3. TAX RESIDENCY , ITS EFFECTS AND THE POSSIBILITY OF HAVING OPERATING ACTIVITIES IN CYPRUS**

### **Change of basis for claiming tax jurisdiction**

The pre-2003 tax system based on domicile and registration is abolished. The tax reform has redefined tax jurisdiction to a territorial basis. Under the new system Cyprus tax residents are taxed on their worldwide profits and non-residents only on their Cyprus source income. An individual is considered a tax resident if he resides in Cyprus for more than 183 days in any tax year whereas for a corporation if it has its management and control in the Republic. For corporations this change is significant. No longer will registration in Cyprus qualify the company for tax residency as it must be asserted and proven that management and control is exercised from within Cyprus.

This provision is consistent with the tie-breaker rules of Art 4 of the OECD model tax convention. As a derivative of this change a new category of non – resident companies has emerged in Cyprus similar to the ones existing in the UK and Ireland. Companies registered in Cyprus but managed and controlled from abroad and not having any Cyprus source income will not be subject to any Cyprus taxation. A non Cypriot resident company will not be entitled to any double taxation benefits. The tax reform abolished the two tier system of business taxation – one for domestic companies and a preferential one for IBCs whereas extending the beneficial treatment of international businesses to domestic business as well.

**The foregoing have as a consequence the creation of the following categories of entities based on whether they are taxed in Cyprus or not:**

### **Non resident Cyprus companies**

As discussed earlier tax residency for corporations is based on management and control. So if a Cyprus registered company is controlled and managed from abroad it will not be considered tax resident in Cyprus and hence will not be subject to any Cyprus taxes except on their Cyprus source income. Thus a new type of entity has emerged similar to the UK non-resident company or the Irish non-resident company. These entities will not be of course entitled to any double taxation treaty benefits nor be subject to exchange of information under the present legal system.

### **New tax resident Companies**

There is no distinction in the income tax laws between local or foreign businesses. In fact the term IBC or “offshore” is no longer of significance and hence irrelevant for new companies and for all companies from the year 2006 onwards. Foreign owned entities will no longer be ring-fenced and are now allowed to conduct activities in Cyprus as well (see below).

### **Existing IBCs**

IBC's existing and having income in 2001 (or activated and not having income in 2001 but expecting to derive such in the future) from sources outside of Cyprus may elect to enjoy the pre-2003 offshore tax regime through 2005 (i.e. pay tax at 4,25%). Subsequently the new rules will apply to them. These IBC's if they so elect will not enjoy any of the beneficial features of the new tax regime such as the new re-organisation rules, full exemption from tax on dividends and profit on disposal of shares, etc. The election to continue under the old tax regime is irrevocable and applies for all years through 2005.

### **Conducting local operation in Cyprus**

The Cyprus Companies Laws contain no restriction as to whether a company can have local or international activities unless the company elects to restrict the scope of its activities with a special clause in the Articles of Association. The restriction of having local activities which existed under the old Income Tax Laws for offshore companies has been abolished since there is no distinction between offshore and local companies anymore apart from the ones which opt to take advantage of the transitory rules and thus elected to be governed by the old tax regime (i.e. taxed at 4,25% through 2005). Entities belonging to non-residents can have activities in Cyprus but there are still some restrictions in relation to certain “sensitive” areas. The existing policy and criteria of foreign participation in investments in Cyprus will still apply in such cases and the approval of the Central Bank of Cyprus is required. In the cases where the interest of the foreign investors is to have activities exclusively outside of Cyprus and for this there is special clause in the Articles of Association of the company then the Central Bank will approve the applications without any further requirements. This obligation to restrict the

activities of the company in its Articles does not apply for companies belonging to EU residents.

#### **4. ADVANTAGES OF CYPRUS INTERNATIONAL BUSINESS ENTITIES**

- **Confidentiality**

Through the use of trustee shareholders (i.e. the shares of the company are registered in the names of trustees who hold the shares on behalf of the true owners) and with the appointment of local directors, one could ensure confidentiality and anonymity of the identity of the ultimate beneficial shareholders.

- **Complete Exemption from Exchange Controls and Movement of Capital**

An IBE is free to maintain bank accounts in any currency in Cyprus or any other country. Such accounts are not subject to exchange controls. This together with the availability of excellent telecommunications and international banking facilities enable the free, speedy and low cost remittance and transfer of funds anywhere in the world.

- **Favourable tax regime and Treaty Benefits**

The many advantageous features of the tax regime of Cyprus which include a low tax rate on profits, no withholding tax on the distribution of such profits to non-residents and Cyprus' extensive network of double tax treaties make international business entities very efficient tools to minimize tax liabilities on cash flows derived anywhere in the world. Additionally IBEs which have been established in the Republic of Cyprus and have activities exclusively outside of Cyprus have no obligation to register for VAT but can voluntarily do so, if it is to their advantage, provided they satisfy certain criteria.

- **Reputable Jurisdiction**

In contrast to some other international business centres, Cyprus International Business Entities will not suffer from identification with a "tax haven" or "offshore" centre country and therefore are free from the disadvantages associated with such operations. Cyprus' high level of economic development and the fact that Cyprus new tax system complies fully with the OECD's mandates and is fully harmonized with the EU's legal order are all important contributing factors to the establishment of Cyprus as a highly reputable international business centre. This reputation combined with the high quality of the business infrastructure, low taxation and a wide network of 33 Treaties for the Avoidance of Double Taxation covering all Central and East European countries (with some very favourable provisions) distinguish Cyprus from the other business centres, especially centres which have opted to operate "zero or low tax" regimes.

The tax planning opportunities available are discussed in greater detail in Sections 5, 6 and 7.

## **5. TAXATION , DOUBLE TAX TREATIES AND TAX PLANNING CASES**

### **Overview: Tax reasons for establishing a Cyprus IBC**

There are significant tax benefits to be gained by establishing an IBC in Cyprus. More specifically through careful tax planning a foreign entity engaged in international business may take advantage of both Cyprus' extensive network of double tax treaties and the favourable tax regime afforded in Cyprus to IBEs and may derive some or all of the tax benefits listed below:

- Tax benefits in the foreign country where the investment is held or the trade is conducted using the tax treaty between Cyprus and that country and thus eliminating or reducing withholding taxes in that country.
- Tax benefits in Cyprus by having exemption from tax or paying a flat low tax of 10% on profits. Further, the profits of the IBC can be distributed to its non-resident shareholders anywhere in the world free of any Cyprus withholding taxes
- Tax benefits in the home country of the investor/businessman by avoiding or reducing the tax on the profits distributed in the home country, if any are due, and in some cases even enjoying tax sparing credits. Further, investors from countries which follow the exemption system or benefit from the EU parent-subsidiary directive may enjoy participation exemption on the dividends received in their home country.

Which of the above benefits will be accruing to an individual investor will of course depend on his particular circumstances. As an example an investor who wants to keep the existence of the Cyprus operations confidential and does not wish to mix the results of the IBC with those of his operations in his home country may take advantage of the first two benefits listed above. Such may be the case of a trader or manufacturer who wants to channel trading commissions or profits on export sales to the IBE.

When minimization of tax liabilities is sought for the whole group additional significant tax savings may be possible. In this case profits from high tax countries are transferred to the IBC through charges such as management charges, royalties, interest, re-invoicing etc. These charges will be reducing the taxable profits and hence taxes in the high tax countries and will be declared as income by the IBC and taxed in Cyprus at a much lower rate. These profits may be then transferred to the home country or remain within the IBC for future reinvestment by the group. Protection will be sought to the relevant double taxation agreements to minimize withholding taxes on the transfer of income between the various countries involved.

As an example, investor from countries which follow the exemption system on dividends such as Austria or Netherlands may incorporate a Cyprus IBC to handle all its licensing/

franchising/export agreements in Russia. In this case all of the benefits listed above may be available to the group.

In the next sections we discuss these tax and treaty benefits in more detail and we illustrate by way of some case studies how foreign investors or entrepreneurs can minimize their tax liabilities.

## TAXATION

The main features of the new tax laws, which have become effective as of 1.1.2003, as applied to companies, are as follows:

1. Their net profits are taxed at a flat rate of 10%. For 2003 and 2004 there will be an additional 5% tax for profits in excess of C£1 million.
2. Tax is applied on the corporations' worldwide income.
3. (a) There is no withholding **income** tax on the payment of dividends to its shareholders. This applies regardless of whether shareholders are resident or non resident.  
  
(b) Dividends distributed to resident shareholders are subject to a 15% special (defence) withholding tax. In case of Cypriot companies which do not distribute their profits in a period of 2 years following the end of a tax year, they will be considered to have distributed 70% of such profits and such deemed distribution will be subject to the above 15% special defence contribution tax. **The above special withholding tax of 15% does not apply when dividends are paid or payable to non – Cypriot residents.**
4. Dividends received are exempted from income tax.
5. 50% of the interest received by corporations, excluding interest received in the context of the ordinary trading activity of the corporation (i.e. banks, interest on debtors) is exempted.
6. Trading profits from disposal of shares and rights thereon in any recognized Stock Exchange are exempted from Cyprus income tax.
7. There are new provisions allowing the carry forward of tax losses indefinitely.
8. There are provisions allowing group relief (between parent and subsidiaries) for transferring tax losses between group companies under certain conditions.
9. There are tax exemptions in the case of reorganisations covering VAT stamp duty, income tax, capital gains tax etc (see 19).
10. Capital gains tax will be imposed only on disposal of property situated in Cyprus. There is a specific provision to exempt from capital gains tax any gain from the disposal of shares.

11. IBCs registered in 2002 will continue to be taxed at 4,25% for 2002 and for 2003 and onwards will be taxed under the new tax regime unless they are non resident in Cyprus. Eligible IBCs registered before 1.1.2002 and **not** opting for the old transitory tax regime (i.e. taxed at 4,25% through 2005) will be taxed at the old rate of 4,25% for 2002 and be subject to the new tax rules from 2003 onwards.
12. Interest received by non residents (companies or individuals) will **not** be subject to any withholding tax. In the case of payments to residents a 10% special “defence” withholding tax is applicable.
13. The income of a permanent establishment abroad will be exempted from Cyprus income tax. Also losses from permanent establishments can be offset against Cyprus income. The above are subject to anti abuse Controlled Foreign Company (CFC) legislation as is the exemption on dividend income. However, the criteria for triggering CFC legislation are very strict.
14. There is no withholding tax on interest paid to non-residents (see also 12) or on payments for intellectual property (royalties) to non residents for use abroad. These exemptions provide significant scope for international tax planning and tax minimisation as these exemptions are available regardless of any double tax treaty. Royalties arising from the use of an asset in Cyprus are subject to 10% withholding tax intellectual property. Rentals on films shown in Cyprus are subject to 5% withholding tax.
15. Unilateral tax relief. Regardless of the existence of any double taxation agreement with a given country and any available double taxation relief, foreign taxes paid abroad can be credited against any Cyprus taxes on the same income.
16. Profits earned by a Cyprus shipping company which owns ships under the Cyprus flag and operates in international waters are exempt from income tax.
17. Profits of ship management companies are taxed at the rate of 4,25% unless the company elects to pay tonnage tax on ships it manages.
18. **Tax deductible expenses:** Generally all expenses incurred wholly and exclusively in generating income for the company are deductible except for the following restrictions:
  - Entertaining expenses exceeding 1% of gross revenue or C£10.000, whichever is the  
lower.
  - Expenses relating to private saloon cars.
  - Interest on assets not used in the business as well as interest on private saloon cars.

- 19. Reorganisation rules, mergers and demergers of companies:** The EU Merger directive is incorporated in the Tax Law providing for tax exemption on transfer of assets, mergers, divisions and exchange of shares covering stamp duty, VAT and carry forward of losses etc. The merger laws applies to all cross-border reorganizations including reorganizations involving non EU countries. Although no specific provisions for reorganizations exist in the Cyprus Company Law (expected soon) all types are considered viable. The broad spectrum of these rules are especially important for international tax planning including reorganizations involving other non – EU members and tax havens as the latter are being lately subjected to discriminatory defensive anti-avoidance legislation in high tax countries.

**20. VALUE ADDED TAX (VAT)**

**Overview**

The new VAT legislation does not distinguish between IBCs and other registered businesses in Cyprus. In contrast to the previous legislation, there is no reference to IBCs in the new legislation and as a result IBCs are treated equally for VAT purposes to any other business registered in Cyprus.

VAT is imposed on all supplies of goods or provision of services made within the Republic which are not exempt (taxable transactions). The place of supply for goods is where the goods are located when they are delivered to the client. Services are considered to be rendered in the place where the person who is rendering them belongs (basic rule) unless the services fall within certain categories for which special rules apply. For example, special rules apply for advertising, intellectual property rights, certain professional services, telecommunications which are considered to be rendered in the place where the recipient of the services is considered to belong. The person rendering the services is considered to belong in a given country if he has a business establishment there and not somewhere else or he does not have such an establishment anywhere but his habitual residential place is there (for legal persons this is the country of their registration) or he has such establishments in that country and somewhere else but his establishment more closely connected to the supply is located in the given country. Therefore based on the above, depending on the nature of their supplies and where they belong IBCs could be liable to registration, could be entitled for registration or will neither have the right nor the obligation for registration.

**Liability for Registration**

- IBCs which make taxable supplies within Cyprus are liable to register if the value of their supplies exceeds the registration threshold which is currently C£ 9.000. If taxable supplies are taxed with the standard rate of 15% or reduced rate of VAT they must account for output on these supplies.
- Liability to register may also arise due to the reverse charge provisions for services received from abroad. They must treat such supplies as if they had been supplied by them in Cyprus in the course of their business and account for VAT.

Such VAT, if attributable to taxable supplies, will give rise to the right of deduction as input tax. However, if this is the only sole type of “supply” of an IBC in Cyprus which is not registered and their value exceeds C£ 9.000 p.a. then liability to register for VAT purposes is born.

- If an IBC makes supplies which are taxable under the zero rate of VAT it becomes liable to register if the value of these supplies exceeds C£ 9.000 p.a. despite the fact that no output tax will have to be accounted for.

### **Voluntary registration**

- IBCs established in Cyprus making supplies which are considered to be provided outside of Cyprus have no liability to register for VAT.
- However where an IBC which is not liable to register under the VAT law and provided certain conditions are met (among others business establishment, registration, or management and control in Cyprus etc) it can voluntarily register for VAT if it so desires and be registered from the day on which the request is made or from such earlier date as may be agreed with the VAT office.

The above provisions allow IBCs which have been established in Cyprus to register for VAT, even though, they will not have to account for any output tax. As a result, they will be eligible to recover VAT charged on taxable supplies received and on importation of goods.

It must be noted that IBCs whose taxable turnover does not exceed the C£ 9.000 can also apply for voluntary registration .

### **No liability and no right for registration**

- IBCs which have been established in Cyprus and supply, amongst others, the following services which are exempted from VAT are not liable or entitled for registration:
  - The supply of financial services;
  - Insurance and reinsurance transactions including those performed by insurance agents, brokers, and broker’s agents;
  - Interest receivable;
  - Rents receivable, regarding leasing or letting of immovable property.

## **DOUBLE TAXATION AGREEMENTS**

Double Tax Treaties (“DTTs”) are an important product of the efforts made worldwide to promote and stimulate international trading and investment activity. An international enterprise doing business in more than one country may often find itself in a position where its profits from international operations are subject to taxation in more than one jurisdiction, which, therefore may significantly increase the cost of its operations. To remedy this many countries have concluded bilateral agreements called Double Tax Treaties for the allocation of fiscal jurisdiction. More specifically some of the main objectives of DTTs are to clarify

and determine the taxing rights of each contracting state, to reduce or avoid double taxation, to introduce mechanisms for combating tax avoidance and provisions to facilitate exchange of information and to resolve tax disputes.

Cyprus has concluded an impressive list of DTT's, including treaties with important Eastern and Western nations such as Bulgaria, Canada, China, the CIS States, Czech Republic, India, Hungary, Romania, U.K., U.S.A., and former Yugoslavia. As of this writing, 33 tax treaties are in effect (see appendix A). The importance of these treaties for effective international tax planning is due to the reasons presented in the following paragraphs:

- Cyprus has an extensive network of DTTs with East European, major Western nations and many Asian countries.
- Cyprus is probably the best example of a "treaty haven" country since it combines a low tax regime with an extensive network of double tax treaties which contain favorable provisions and contain very few "anti-treaty shopping" provisions. The latter is an important advantage when compared to the significant "anti-treaty shopping provisions" contained in DTTs concluded between other countries. Consider for example the USA/Netherlands DTT whose 27 page long limitation of benefits article literally reduces to the minimum the tax potential enjoyed traditionally by Dutch companies as investment vehicles in and out of the U.S.A..
- The high esteem and reputation enjoyed by Cyprus with foreign tax jurisdictions means that tax screening requirements usually imposed by other tax jurisdictions, may not be relevant for Cyprus legal entities.

In practical terms, what the combination of these factors means is that in many cases a Cyprus legal entity, owned by non-residents, can receive profits generated in other countries, e.g. Eastern European countries, with minimal or no tax withholding in these countries or in Cyprus. These profits can be paid to the foreign investor without the payment or withholding of any additional tax.

## **TAX PLANNING CASES**

### ***Tax Planning Case No.1: Tax opportunities for companies engaged in export and international trading activities***

Under the common tax practice followed by many countries, profits, including profits from export operations, will be taxed at the normal corporation rates applicable in these countries. Further in many countries, additional tax may be withheld on the distribution of such profits to the shareholders. Thus, the total tax bill payable on these profits can be quite onerous. Alternatively, wherever practicable, Cyprus IBCs may be used to undertake and transfer the profits arising from the international trading activities of such companies whether these take the form of export sales, tendering for foreign projects or purchasing of raw materials or other products as agents thus reducing the tax bill to 10%. On the payment of a dividend there will be no withholding tax in Cyprus and the non-resident shareholders will benefit as such profits will be taxed at only 10%.

## ***Tax planning Case No.2: Tax opportunities with East Europe: Routing profits from East Europe through Cyprus to Europe and North America***

The double tax treaties concluded between Central and East European countries and Cyprus provide for excellent benefits as they provide for very low or zero withholding tax on interest, dividends and royalties payable in these countries on cash flows coming from an entity established there to its Cyprus parent company. Subsequently, these flows are taxed at the level of the Cyprus IBC at the low tax rate of 10% . As perhaps no other jurisdiction offers this unique combination of low treaty rates and low tax on profits it is not surprising that many foreign companies from North America and Europe are using Cyprus IBCs as intermediaries to hold their investments in the former USSR countries.

Alternatively, Cyprus IBCs may be used as intermediaries for converting certain types of income from Central and East European countries such as royalties and interest into dividends which can be distributed to the shareholders of the Cyprus company free from any Cyprus tax. Under this scenario the Cyprus IBC is used as the ultimate financing or licensing entity for investments in these countries.

In the above scenario, royalties and interest payments will be deductible as business expenses in the books of the paying company thus lowering the tax bill in the investee country. As protection is offered by the various Cyprus DTTs there will be a very low or zero withholding tax on the payment of these types of income to the Cyprus parent. The cash flows received by the Cyprus parent will be taxed at the maximum rate of only 10%.

Further, except in the case of dividends which are exempted from Cyprus tax, any withholding taxes paid in the investee countries will be offset against any Cyprus tax. If desired the profits can be distributed to the shareholders of the Cyprus parent free from any withholding tax in Cyprus or accumulated in the Cyprus company for reinvestment purposes. In the case where the profits are distributed to the shareholders of the Cyprus company such profits may not be subject to tax if the home country follows the exemption method or such treatment is applicable due to the provisions for the Cyprus taxed home country DTT or because of the applicability of the EU parent/subsidiary directive once Cyprus enters the EU in 2004 or if they are, tax sparing credits may be available depending on the legislation of the country of collection and the applicable DTT.

As Cyprus does not impose any withholding on royalties and interest paid to non-residents regardless of the existence of a double tax treaty with the country of residency of the recipient of such payments interesting tax possibilities may be available if such payments are structured to be made from Cyprus to a tax haven. In such cases, payments to the tax haven entity which will be acting as the master licensor/franchisor (in the case of royalties) or the ultimate financing entity (in the cast of interest payments) will be fully deductible in the books of the Cyprus IBC thus significantly reducing the Cyprus tax bill as well as the overall tax bill.

In conclusion, Cyprus IBCs can find good uses as holding, finance or royalty companies with significant tax advantages to foreign investors doing business in Central and East European countries. The extent of these tax advantages will depend of course on the applicable DTT between Cyprus and the relevant country. A detailed list of withholding rates and a summary of Cyprus DTTs is given in Appendix A. For example, the Cyprus / Bulgaria DTT provides

for 5% withholding rates on dividends, 10% for royalties and 7% for interest whereas the DTTs concluded between Cyprus and the Czech Republic, Hungary, Poland and Romania provide for significantly reduced withholding treaty rates on some of these types of income. In all of these treaties the tax withheld in the investee countries will be offset against any Cyprus tax.

Armenia, Kurghystan, Moldova, Turkmenistan and Ukraine apply the former USSR-Cyprus treaty which provide for zero withholding rates on dividends, interest and royalties. The treaty with Russia provides zero withholding tax for interest and royalties paid to Cyprus and 5% for dividends from holdings in excess of USD100.000. Needless to say these treaties offer a significant potential for international tax planning through Cyprus.

**Tax Planning Case No.3: Tax opportunities with Near East: Routing profits from Syria and Egypt and other countries through Cyprus to other countries**

Cyprus has concluded Double Tax Treaties with Syria and Egypt which have very recently come into effect. Both treaties provide for advantageous withholding taxes on dividends, interest and royalties. Cyprus companies can be used as intermediaries to hold investments and transfer profits made by foreign companies in these countries the same way as it was discussed in tax planning case No.2. For certain types of income the withholding tax provided in the treaties is equal or higher than the Cyprus profit tax therefore because of the tax credit attached to these payments no Cyprus profit tax will be payable. (i.e. The Cyprus Syria DTT provides for a 10% tax on interest and royalties and the Cyprus – Egypt DTT provides for 15% for dividends and interest and 10% for royalties). Even with countries with which Cyprus has not concluded a DTT (such as Israel) there is scope for tax planning as any withholding tax imposed by the investee country will be offset against Cyprus profit tax due to the unilateral tax credit given by Cyprus for all foreign income taxes paid.

**Tax Planning Case No.4: Tax opportunities with India : Routing profits from India through Cyprus to other countries**

Traditionally, foreign participation in Indian companies was effected through the use of offshore companies in Mauritius and seeking protection under the Mauritius / India DTT which provides for very attractive withholding rates on income. The Cyprus / India DTT offers for certain types of income equal and on other types of income lower withholding taxes. A comparison of the withholding rates provided by the two DTTs will help clarify this:

	<u>Comparative Double Tax Treaty Rates</u>	
	<u>Mauritius/India</u>	<u>Cyprus/India</u>
Dividends (shareholding less than 10%)	15%	15%
Dividends (all other cases)	5%	10%
Interest	20% (*)	10%
Royalties	15%	15%

(\*) In the case of interest derived by a bank in Mauritius the DTT provides a nil withholding rate.

As it can be seen the Cyprus / India DTT is an attractive alternative to the Mauritius / India DTT as it offers equal treatment on royalties and portfolio dividends and it provides a lower withholding rate on interest income. As a result, from this factor alone, Cyprus can be considered a better jurisdiction for portfolio investment or finance companies.

## **6. THE PARENT / SUBSIDIARY COMPANIES EUROPEAN UNION DIRECTIVE**

The application of the parent / subsidiary companies Council of Europe directive of different E.U. member states is of significant importance to the Cyprus subsidiary companies where 25% of their capital is controlled by another E.U. member state company given Cyprus entry into the E.U. in the year 2004.

Under the above directive the double taxation of income distribution is avoided between parent and subsidiary companies belonging to different EU member states. This tax treatment when the low taxation of profits in Cyprus, is taken into account and in conjunction with Cyprus tax treaty benefits (see section 5) makes the use of Cyprus intermediary companies extremely attractive as profits accruing from non-EU countries can be first exposed (and if necessary “converted” into dividends) to low taxation in Cyprus and subsequently distributed in the form of dividends to the holding parent company in another member state with no further taxation in that state.

More importantly with Cyprus accession into the EU, Cyprus holding companies shall have an additional particularly strong tool in their arsenal for international tax minimization. Provided the conditions of the Parent/Subsidiary Directive in the home country are met dividends from other European countries can be repatriated to Cyprus with zero withholding tax rates in such EU countries and then based on local legislation be exempted from income tax in Cyprus. Considering EU’s expected significant enlargement with a number of other Eastern European nations the scope of using Cyprus IBCs as investment holding companies for international tax minimization can be significant. Such combination of tax benefits is currently unparalleled in the EU and is expected that Cyprus IBCs shall be one of the most popular investment holding vehicles worldwide.

## **7. ACTIVITIES OF CYPRUS INTERNATIONAL BUSINESS ENTITIES**

The activities in which Cyprus IBCs are engaged are many and quite diversified whether their beneficiaries are multinational companies or private investors. Indeed the uses of an IBC to private investors, even investors of modest means, are almost limitless. The following paragraphs explain briefly some of the most common activities which foreign investors have found that their conduct through a Cyprus IBC is advantageous. Further, a brief discussion also is given of activities which due to their nature present peculiarities and merit mention here.

- **TRADING COMPANIES**

A Cyprus IBC can be a very attractive operating vehicle for companies engaged in international trade because of the low tax rate charged on profits, the tax free distribution of profits to the ultimate non resident shareholders of the company and the anonymity and confidentiality provided. An IBC can be established for this purpose to handle all international trade aspects of a foreign entity and manage all cash flows arising from its activities. These activities may include the export transactions of a manufacturing entity, the purchasing of raw materials and other trading goods, bidding for projects in other countries, the operation of commission agencies, international distribution agreements, marketing and market research. As an example a Cyprus IBC may be set up and held as the purchasing or export agent of a foreign entity. All profits arising from transactions or commissions charged by the international business entity to the foreign entity for services rendered will be taxed at the low rate of 10% thus significantly reducing the tax bill of the foreign entity.

- **ROYALTY COMPANIES**

Cyprus IBCs can be used to convert profits derived from investments made in other countries, usually developing countries such as countries in East Europe, Middle East, India and China to name a few, to royalties received by the Cyprus parent. The royalties paid to the Cypriot company will be deductible in the books of the foreign subsidiary and will be used to reduce its tax liability. The royalties can be then repatriated, if desired, without any additional tax to the ultimate non-resident shareholders or accumulated in the Cyprus company for future reinvestment. In essence, Cyprus IBCs can be used as licensing companies of a foreign entity investing in the above mentioned countries through the transfer of technology and know-how and the collection of royalties.

As was explained in Case Study No.2 of section 5 the low or nil withholding tax rates available through the double tax treaties concluded between Cyprus and many countries, as well as the low tax regime enjoyed by Cyprus entities can be advantageous in the above structure. Therefore, the tax cost of doing business in these countries can be significantly reduced and as a result this aspect of tax planning has grown significantly in recent years.

- **FINANCE COMPANIES**

When investment in foreign countries involves the use of debt alone or in addition to other types of capital, Cyprus IBCs can be very beneficial to companies operating in high tax countries to expose interest payments received from the capital invested to the low tax rate in Cyprus. Depending on the country in which the investment is made, the foreign investor may be able to collect the interest payments in Cyprus at nil or reduced withholding tax rates by utilizing the applicable DTT. As explained in the Tax Planning Cases (section 5, above) and Royalty Companies above, if desired the interest payments can be then distributed in the form of dividends to the shareholders of the Cyprus company free of any further withholding tax.

- **INVESTMENT / HOLDING COMPANIES**

Profit distributions received from countries with which Cyprus has concluded double tax treaties can be obtained by a Cyprus IBCs at nil or reduced withholding rates. Specifically for distributions from Russia, Czech Republic, certain former USSR countries (i.e. Ukraine, Armenia etc) Bulgaria, Hungary, Poland, South Africa and India, substantial benefits may be available. Although some of these countries have a very good network of double tax treaties, the withholding tax rates under treaties among these nations and other countries are in many cases higher. When the low treaty rates offered by the Cyprus double tax treaties are combined with the low tax regime applicable to Cyprus IBCs the tax benefits are substantial and in some cases are unique as was discussed in more detail in the Tax Planning Cases of section 5. As discussed in Section 6, significant tax benefits may be available to Cyprus holding companies investing in other European countries through the operation of the Parent/Subsidiary directive once Cyprus becomes a full member of the E.U.

- **CAPTIVE INSURANCE COMPANIES**

Captive insurance companies (“captives”) are established by non-insurance companies or by associations of various entities for the purpose of insuring against the risks of the group to which they belong. The establishment of a captive may enable the group to save on premiums, to improve on cash flows, and to cover risks that their normal insurers do not cover.

While the operation of insurance companies is strictly regulated in Cyprus, captives, if certain conditions are met, may be incorporated and operated under more favourable operating conditions such as reduced minimum capital, no requirement to invest in approved investments and no requirement to maintain solvency margins or deposits with the Central Bank of Cyprus.

In addition, captives enjoy the same tax treatment enjoyed by all other Cyprus companies such as the low rate of tax and no withholding tax on the distribution of dividends to non residents. Further, significant tax savings may be derived from Cyprus' extensive network of double tax treaties.

- **INTERNATIONAL BANKING UNITS (IBUs)**

IBUs can be established in Cyprus and licensed to carry out banking operations. Although the Central Bank of Cyprus, which is the supervisory body, welcomes the establishment of IBUs a Banking License is issued only to subsidiaries or branches of banks who enjoy a sound reputation in the international community and are established in countries where there is adequate banking supervision.

There are significant advantages for the establishment of an IBU in Cyprus. Although some inspection and supervision is exercised by the Central Bank, IBUs exclusively conducting their business with non residents are exempt from most monetary policy and other credit regulations applicable to banks engaged in onshore operations. Further all the tax advantages mentioned for other types of entities also apply to IBUs. Other attractions include the absence of any withholding tax on interest paid on deposits owned by non residents.

### **INTERNATIONAL COLLECTIVE INVESTMENTS SCHEMES (“ICIS”)**

Until May 1999, Cyprus lacked the necessary regulatory and statutory framework to capture this important other end of the market to allow funds to be incorporated herein and operate in a manner consistent with the needs of international investors.

Recognizing the need for such a framework, in 1999, Cyprus has enacted the Cyprus International Collective Investment Schemes Law allowing all types of international investment schemes (ICISs) to be established in Cyprus. This new legislation allows ICISs to operate in a friendly environment in line with most modern legislations whereas at the same time it provides for effective regulation and affords investors the necessary protection.

An ICIS can take one of various legal forms, namely, an international fixed capital company, an international variable capital company, an international unit trust scheme, or an international investment limited partnership. Out of these forms of particular importance is the possibility to establish open-ended legal entities not previously possible, a disadvantage often cited by international investors and managers as a major obstacle for choosing Cyprus as the appropriate jurisdiction to domicile a fund. An ICIS can be structured for the purpose of been marketed internationally either to the public at large, or solely to sophisticated investors. Further it is possible for a fund to be designated as a private ICIS provided some conditions are met. There are provisions in the law governing the operation of each of the various types of ICISs mentioned above and some of the general conditions applicable to all

ICISs may be waived by the Central Bank of Cyprus. Under the law the Central Bank has been designated as the authority for the recognition, regulation and supervision of all ICISs. The law contains provisions and conditions for recognized ICISs, their managers and trustees and the Central Bank may issue regulations to specify investment restrictions, directions and code of conduct.

Under the Cyprus Income Tax Laws the net income of ICIS is subject to tax in Cyprus at the rate currently applicable for all Cyprus International Business Companies of 10%. However, by special provision in the tax laws dividends as well as the profits or gains earned from the sale of stocks, bonds or other securities is exempt from tax whether of a capital or trading nature.

Further dividends or other distributions made by an ICIS to its non resident unit holders or shareholders are free from further taxation such as withholding taxes.

Of particular importance are the possibilities for extensive international tax planning offered to ICISs from Cyprus' extensive network of double tax treaties. Cyprus at present has in force 33 double tax treaties most of them following the OECD model. Tax resident ICISs will fall under the scope of the treaties and will be able to claim tax treaty benefits usually either in the form of claiming zero or lower than normal withholding taxes on dividends or interest earned in the countries with which Cyprus has double tax treaties. At the same time they will be able to claim a credit against Cyprus tax for any taxes paid in the countries in which the income originated and with which Cyprus has concluded double tax treaties.

Concerning capital gains from the sale of investment securities, all Cyprus' treaties containing a capital gains clause (the treaties with Norway and the UK do not) specify that gains from the alienation of such property shall be taxable in the country the alienator is a tax resident. As a result an ICIS being tax resident of Cyprus in most cases shall not be subject to tax on capital gains in the country the gains were derived but will be subject to Cyprus taxation which currently exempts such gains from tax.

- **REAL ESTATE OWNERSHIP**

A Cyprus IBC can be set up to purchase, hold or trade in titles of real estate assets. Such company will of course enjoy the same tax regime enjoyed by other Cyprus companies explained in earlier sections. There will be no capital gains tax on the sale of the property of the company nor will there be any capital gains tax on the disposal or transfer of the shares of the IBC. Further, there will be full estate duty exemption on inheritance of the shares in the IBC.

The tax benefits outlined above combined with the secrecy and flexibility offered by the Cyprus IBC as a vehicle for holding investments as well as the solid reputation enjoyed by Cyprus with foreign tax jurisdictions all make the use of a Cyprus IBC an attractive alternative to the other entities predominantly used in the past for this purpose (Liberian, Panamanian entities etc) which in recent years have come under significant anti "offshore" legislation attack from OECD member countries.

- **INTERNATIONAL TRUSTS**

International trusts are governed by the International Trust Laws of Cyprus. An International trust is a trust whereby, the settlor is not a permanent resident of Cyprus, no beneficiary, other than a charitable institution, is a permanent resident of Cyprus, the trust property does not include immovable property in Cyprus and at least one trustee is a resident of Cyprus. In respect of the latter Cyprus IBCs qualify as residents of Cyprus. The provisions of this law coupled with the advantages enjoyed by IBCs in Cyprus make Cyprus international trusts valuable tools for international tax and estate planning purposes. The most important advantages of establishing a trust in Cyprus are presented in the following paragraphs.

#### **International Trusts and Taxation**

There are significant tax advantages associated with Cyprus international trusts. International trusts are not subject to income or capital gains tax in Cyprus. In the case of individuals who wish to retire in Cyprus and create an international trust in Cyprus they will be exempt from tax even if they are beneficiaries. There is no estate duty or inheritance tax in Cyprus. The only payment which must be made, is a stamp duty of CY£250,- payable once and for all at the time of the creation of a trust. The dividends, interest, royalties and other income received by international trusts from Cyprus IBCs are not subject to tax nor are they subject to withholding tax. Significant tax benefits can be derived in the case a trust has assets and activities in multiple jurisdictions through the use of the favourable provisions of the Cyprus double tax treaties with many countries. In this case in order to obtain a "person" status and hence be covered under the provisions of the DTTs it may be possible that the trust is established as a Cyprus IBC having trading, investment as well as trustee functions as its main objects.

#### **Irrevocability/Asset Protection**

The period for challenging a trust by a creditor is short and limited to two years. The burden of proof for showing that the trust was made in order to defraud the creditor lies with the creditor. In addition, no foreign law relating to inheritance or succession will invalidate a Cyprus international trust.

#### **Confidentiality**

There is no need for any kind of registration except in the case where the trust owns shares in a Cyprus IBC. In such cases it needs to register with the Central Bank of Cyprus which however is bound by confidentiality laws. Further, there are no reporting requirements. The

names of the trust or of the persons disclosed in the Trust Deed are not disclosed. The duty of confidentiality is imposed by the Law on trustees.

### **Change of Law**

The Cyprus trust laws are flexible in that they allow the law applicable to an international trust to be changed to a foreign law and also they allow an existing foreign trust to select Cyprus Law, if the foreign law itself recognizes such a change. This flexibility is important to have in case changes in fiscal or other parameters may render such a transfer advantageous.

### **No Exchange Control and Free Movement of Capital**

International trusts are not subject to exchange controls and there are no restrictions on the movement of capital.

#### **• SHIPPING COMPANIES AND YACHTS**

There are significant advantages associated with the registration and operation of a shipping company in Cyprus. Through the conclusion of double tax treaties and signing of numerous bilateral and international agreements, the island's own well-established maritime infrastructure and the governments' dedicated efforts to the development of the shipping industry Cyprus has experienced a phenomenal growth in this sector. Today with a fleet flying the Cyprus flag at over 25 million tons and with a large number of ship management companies having their own offices on the island, Cyprus is ranked amongst the largest maritime centers in the world.

Some of the most important tax and other incentives available to shipping companies are as follows:

- Shipping companies registered in Cyprus which owns or charters ships under the Cyprus flag and operate in international waters are completely exempt from income tax on the profits from any shipping activity.
- No capital gains tax is payable on the sale or transfer of a ship or shares in a shipping company.
- No estate duty is payable on the inheritance of shares in a shipping company.
- No income tax is payable on the earnings of officers and crew of Cyprus ships operating in international waters.
- No stamp duty is payable on bills of sale and mortgages on ships and related documents.
- IBCs, engaged in other shipping activities (e.g. ship management) are taxed the same way as other IBCs and additionally ship management companies are taxed at the rate of 4,25% unless the company elects to pay tonnage tax on the ships it manages.

- The fees for the registration of a ship are substantially lower than in other countries and the annual tonnage tax is very competitive when compared to other countries. Fees and taxes payable are based on the type of registration (i.e. provisional or permanent), gross tonnage and age of ships. The Cyprus legislation permits the practice of parallel (bareboat) registration.
- Shipowning companies are not required to submit annual audited financial statements. Other shipping companies are however required to do so.
- The Cyprus legislation allows the provisional registration of a ship which affords time to the applicant to prepare to apply for permanent registration.

Benefits similar to those enjoyed by shipowning companies may be also available to persons wishing to register a yacht under the Cyprus flag. This may be possible if the yacht is acquired by a Cyprus physical or legal entity. For foreign persons this may be possible by establishing a "yacht owning company" and transferring the yacht to this company by signing a bill of sale.

- **OTHER ACTIVITIES**

The activities discussed above are not exhaustive. They have been selectively discussed either because they are frequently encountered and are of general interest or because they present peculiarities.

Other activities in which many IBCs are engaged include employment and recruitment, engineering and construction, printing and publishing, provision of professional services, re-invoicing and many others.

## **8. ESTABLISHMENT OF INTERNATIONAL BUSINESS ENTITIES**

The following steps or decisions need to be taken to establish an IBC:

### **Name of the Company**

The name of the company should be first decided and an application will be made to the Registrar of Companies for approval of the name. The name of the company should not contain offensive words or names that intend to give a misleading impression of the activities of the company. Further no name will be approved which is similar to names already approved or registered. Therefore it is advisable to submit to the Registrar a number of names to expedite the approval process.

### **Memorandum and Articles of Association and Activities of the Company**

Every company registered in Cyprus must have a Memorandum and Articles of Association setting out the permissible activities and the rules to be adhered regarding the internal management of the company. These will be appropriately drafted once a decision has been reached about the intended activities of the company.

### **Share Capital**

In general (except in certain special cases) there is a no minimum share capital requirement imposed by legislation for a Cyprus IBC. In practice, however, most companies are established with issued and paid up share capital of C£ 1,000.

### **Shareholders**

The legal minimum number of shareholders is one. The name, address, nationality, occupation, passport/identity card details and proposed shareholdings in the share capital of the company needs to be provided for each of the ultimate shareholders. In the case where anonymity of shareholders is desired we can provide local nominee shareholders. Also when it is desired that the company will have only one ultimate shareholder we can use a local nominee to provide for the second shareholder.

Note: In the case of nominee shareholders complete confidentiality may be maintained as to the identity of the ultimate shareholders of the company as no public authority in Cyprus is informed of their identity.

## **Directors**

A company by Cyprus Law must have at least one director. The name, address, nationality, passport/identity card details, and occupation of the proposed director(s) needs to be provided. If anonymity is desired local directors can be appointed and we can provide the services of these directors. In certain cases when it is important to show that management and control is exercised from within Cyprus it is also recommended that the number of resident directors to be equal or above the minimum number necessary to constitute quorum as stated in the Articles of the company.

## **Company Secretary and Registered Office**

A company by Cyprus Law must have a secretary and a registered office in Cyprus which may be also used as the business address of the company. Both of these services can be provided by us.

## **Bank Reference**

Bank references need to be provided in the format given in Appendix B in connection with the ultimate shareholders' financial standing, character and business integrity. A bank or similar reference is normally needed for every ultimate shareholder in order to comply with money laundering and due diligence requirements and procedure.

## **Formation Procedure and Time Required to Complete**

The information requested in paragraphs above needs to be furnished to us before we can proceed to form the company. After a name is chosen and approved by the Registrar of Companies the Memorandum and Articles of the company are drafted and an application for the incorporation of the company is made to the Registrar.

## **9. OPERATION AND ADMINISTRATION OF INTERNATIONAL BUSINESS ENTITIES**

- **ACCOUNTING AND LEGAL ASPECTS AND CERTAIN FILING REQUIREMENTS**

### **Accounting Records**

It is a legal requirement that every company should keep books of account to record its transactions and enable the preparation of financial statements. At a minimum these books of account must show sales and purchases, moneys received and paid and the assets and liabilities of the company. The keeping of the books of account is done in accordance with internationally accepted accounting practices.

### **Annual Return**

It is a legal requirement that an annual return be filed by every company at least once a year with the Registrar of Companies containing certain required information such as on the amounts of shares and debentures, shareholders, directors, secretary, registered office, indebtedness of the company. The annual return is signed by a director and the secretary of the company.

### **Audit**

The Companies Law requires that a statutory audit be performed for every company once a year. The audit is conducted in accordance with International Auditing Standards. The auditor of the company is appointed by its shareholders and is required to report to the shareholders on the fairness of the financial statements of the company and whether these comply with the requirements of the Companies Law.

### **Directors' Report and Financial Statements**

It is a legal requirement that every company should prepare yearly a directors' report and financial statements comprising a profit and loss account, a balance sheet and supplementary notes. The Companies Law require certain minimum information to be disclosed therein. The directors of the company are legally responsible for the preparation and the contents of the accounts.

### **Other filing requirements**

IBCs carrying on regulated activities (i.e. banking) are subject to additional reporting and filing requirements.

- **TAXATION ASPECTS**

### **Filing Requirements**

Corporation tax returns must be filed annually with the Income Tax Office for every fiscal year by every company. These are due by the end of the following year. Together with its return a company must also enclose copies of the company's audited financial statements, auditors' report, and tax computations.

### **Payment of Taxation**

Companies are required to estimate their taxable income well in advance of the end of the fiscal year and submit a provisional assessment by 1 August of the same year. Based on this provisional assessment companies are required to pay their estimated tax in three equal installments. These installments are due on 1 August, 30 September and 31 December, respectively, and are on account of the final tax liability. Penalties will be levied for substantial understatement of tax on provisional assessments. The balance of the tax for a year of assessment together with a self-assessment form for the year is due on or before 1 August of the following year.

Penalties may apply for the late submission of the required documents to the Tax Authorities and interest charges apply for the late payment of taxes.

## **10. OUR FIRM'S SERVICES**

We offer a comprehensive range of services which are designed to meet your specific needs. Below is an indicative list together with some explanatory notes which should be used as a guide for the range of our services and the assistance we can offer you.

- **ESTABLISHMENT AND ADMINISTRATION OF INTERNATIONAL BUSINESS ENTITIES**

### **Establishment**

We can assist with all formation aspects of IBCs and other entities in Cyprus. In addition through the offices of our affiliated international organization, Mossack Fonseca & Co, one of the leading offshore corporate services provider worldwide with we offer formation and full administration services for all important international , offshore jurisdictions. Where complete confidentiality and secrecy is required we can provide nominee shareholders. We can also provide the registered office of the company as well as full secretarial services.

### **Administration and Bookkeeping**

We also manage the day-to-day affairs of the company consistent with the wishes of the owners. On the request of the client we provide local nominee directors and officers. We would normally do all the bookkeeping of the client either on a manual or on a computerized accounting system and prepare periodic trial balances and other management reports. Further we provide an annual report and financial statements together with tax computations. We will also submit the audited financial statements of the company as well as prepare and submit all other required returns to the appropriate Authorities.

We also undertake on behalf of these managed companies other activities which may be required by the owners such as invoicing, documents preparation and operation of bank accounts consistent with the wishes of the owners. We can also assist in obtaining the necessary certificates necessary for the grant and renewal of employment permits for the company's expatriate personnel.

- **TAXATION AND LEGAL**

Taxation and legal support are important parameters for the success of every business enterprise. We can assist you in the following areas:

- advising on the most efficient structure for companies and groups of companies,

- advising on personal and business tax planning,
- communicating and negotiating with the Tax Authorities in Cyprus and in certain other selected jurisdictions concerning any tax matter,
- preparation and submission of tax computations and required tax returns for businesses and individuals and assisting in the proper payment of tax liabilities.
- Through our in-house affiliated law firm full corporate and commercial legal services may be offered to our clients such as drafting and reviewing commercial contracts and corporate documentation, assistance and advice on Mergers and Acquisitions, assistance with IPOs and public tenders, advice on corporate and tax law, re-organisations and restructuring to name a few.

- **FINANCIAL AND MANAGEMENT CONSULTANCY**

Our philosophy is dedication to quality service and commitment to innovation . Drawing from the extensive international and local experiences and knowledge of our professionals we ensure that we fulfill the expectations of our clients and satisfy their current and future financial needs. An indicative list of some of the areas we can assist you is given below:

- Business strategy and planning
- Financial planning and control
- Investment appraisal and preparation of feasibility studies
- Reorganizations and restructurings
- Privatisations
- Assisting with the procedure of going public on the local exchange
- Security and portfolio analysis
- Mergers and acquisitions
- Information technology consulting including security and effectiveness of information systems.
- Structuring, implementation and reviewing of accounting and internal control systems

- **AUDITING SERVICES**

We have established a close relationship with an internationally affiliated auditing firm in Cyprus having a fully statutory license so that our clients are offered full auditing services to comply with their Cyprus statutory requirements and any other special needs they may have. Such services include the performance of statutory audits in accordance with International Auditing Standards as well as special reviews and other investigations. As part of the involvement of the audit professionals in the engagements clients may also be advised on certain commercial and other matters which come to their attention. The firm also maintains good working relationships with other international audit firms to assist certain clients who because of their reporting needs require a “Big 4” audit.

\* \* \*

As no conventional list of services can be all-inclusive or relate solely to your particular needs the matters discussed above should be used as a basis for further discussion to determine exactly your individual needs and how we can assist you.

For more information please contact:

Geoffrey Magistrate  
Director

Tel.: +357 25 339280 / 274 000  
Fax: +357 25 339316

Email: [g.magistrate@ergoserve.biz](mailto:g.magistrate@ergoserve.biz)

Ergoserve/Marketing Docs/Brochures/Current/CYIBC – English. Dec 03

**APPENDIX A****DOUBLE TAX TREATIES****SUMMARY OF MAIN TREATY WITHHOLDING TAX RATES**

non residents                      Paid to residents of Cyprus                      Paid from Cyprus to

<b>Country</b>	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>	<b>Dividends(1)</b>	<b>Interest</b>	<b>Royalties</b>
Austria	10%	nil	nil	10%	nil	nil
Belarus	5%(20)	5%	5%	5%(20)	5%	5%
Belgium	15% (17)	10%(9)	nil	15%(17)	15%(9)	nil
Bulgaria	5% (18)	7%(9) (19)	10%(19)	5%	7%(9)	10%
Canada	15%	15% (21)	10% (22)	15%	15%(21)	10%(22)
China	10%	10%	10% (2)	10%	10%	10%(2)
C.I.S. (Ex-USSR)(25)	nil	nil	nil	nil	nil	nil
Czech and Slovak Republics	10%	10%	5%(2)	10%	10%	5% (2)
Denmark	10%(3)	10%	nil	10%(3)	10%	nil
Egypt	15%	15%	10%	15%	15%	10%
France	10%(4)	10%	nil (5)(8)	10% (4)	10%	nil (5)(8)
Germany	15%(6)	10%	nil (5)(8)	15%	10%	nil (5)(8)
Greece	25%	10%	nil (7)	25%	10%	nil (7)
Hungary	5%(10)	10%(9)	nil	0%	10%(9)	nil
India	10%(4)	10%	15%	10%(4)	10%	15%
Ireland	nil	nil	nil (7)	nil	nil	nil (7)
Italy	15%	10%	nil	nil	10%	nil
Kuwait	10%	10%(9)	5% (2)	10%	10%(9)	5%(2)
Malta	nil	10%	10%	15%	10%	10%
Mauritius	nil	nil	nil	nil	nil	nil
Norway	5% (11)	nil	nil	nil	25%	nil
Poland	10%	10%	5%	10%	10%	5%
Romania	10%	10%	5%(2)	10%	10%	5%(2)
Russia	5%(26)	nil	nil	5%(26)	nil	nil
Singapore	nil	10%(9)(26)	10%	nil	10%(9)(26)	10%
South Africa	nil	nil	nil	nil	nil	nil
Sweden	5% (10)	10%(9)	nil	5%(10)	10%(9)	nil
Syria	15%(12)	10%	10%	15% (12)	10%	10%(13)
Thailand	10%	15%(27)	5%(28)	10%	15%(27)	5%(28)
United Kingdom	15%(14)	10%	nil (5)	nil	10%	nil (5)
United States	5% (24)	10%	nil	nil	10%	nil
Yugoslavia	10%	10%	10%	10%	10%	10%
Other countries	(16)	(16)	(16)	nil (1)	nil (15)	10%(23)

NOTE: The numbers in brackets refer to the explanations on the next page.

## **Explanations to Notes**

1. There is a no withholding tax on dividends paid to non-Cypriot resident shareholders.
2. Nil if royalties are on literary, artistic or scientific work including cinematographic films and films or tapes for television or radio broadcasting.
3. 10% if recipient is a company with at least 25% direct share interest and 15% in all other cases.
4. 10% if recipient is a company with at least 10% direct share interest and 15% in all other cases.
5. 5% on cinematographic films including films and video tapes for television films.
6. 10% if recipient is a company with at least 25% direct share interest. If recipient is a company with more than 25% direct or indirect share interest and the German corporation tax on distributed profits is lower than that on undistributed profits while the difference between the two rates is 15% or more, the rate is 27% (15% in all other cases).
7. 5% on cinematographic films not including television films.
8. Nil if royalties are copyright and other literary, dramatic, musical or artistic work not including film or videotape royalties.
9. Nil if received by Government institutions or by any person in respect of debts guaranteed or financed by Government or financial institutions wholly owned by the Government.
10. 5% if recipient is a company with at least 25% direct share interest and 15% in all other cases.
11. Nil if received by a company which controls, directly or indirectly, not less than 50% of the voting power.
12. Nil if received by a company which controls, directly or indirectly, not less than 25% of the voting power.
13. 15% for patent, trademark, design or model, plan, secret formula or process or any copyright or scientific work, or industrial, commercial equipment or information.
14. A resident of Cyprus other than a company which either alone or together with one or more associated companies controls directly or indirectly at least 10% of the voting power, is entitled to a tax credit in respect of the dividend. Where a resident of Cyprus is entitled to a tax credit, tax may also be charged on the aggregate of the cash

dividend and the tax credit at a rate not exceeding 15%. In this case any excess tax credit is repayable. Where the recipient is not entitled to a tax credit, the cash dividend is exempt from any tax.

15. Cyprus does not impose withholding tax on interest paid to non residents.
16. At the rate applicable in accordance with domestic law.
17. 10% if received by a company holding at least 25% of the capital.
18. This rate applies to companies holding directly at least 25% of the share capital otherwise it is 10%.
19. This rate does not apply if the payment is made to a Cyprus IBE by a resident of Bulgaria owning directly or indirectly at least 25% of the share capital of the Cyprus IBE.
20. If investment is less than ECU200.000, dividends are subject to 15 per cent withholding tax which is reduced to 10 per cent if the recipient company controls 25 per cent or more of the paying company.
21. Nil if paid to a Government or for export guarantee.
22. Nil on literary, dramatic, musical or artistic work
23. Cyprus does not impose withholding tax on royalties paid to non-residents when the rights are for use outside of Cyprus.
24. 7 per cent if paid to bank or financial institution.
25. Armenia, Kurghystan, Moldova, Turkmenistan and Ukraine apply the former USSR/Cyprus treaty.
26. 10 per cent if dividend paid by a company in which the beneficial owner has invested less than US\$100.000
27. 10 per cent on interest received by a financial institution or when it relates to sale on credit of any industrial, commercial or scientific equipment or of merchandise.
28. This rate applies for any copyright of literary, dramatic, musical, artistic or scientific work. A 10 per cent rate applies for industrial, commercial or scientific equipment. A 15 per cent applies for patents, trade marks, designs or models, plans, secret formulate or processes.

(ON BANK'S / OR REFEREE LETTERHEAD)

Appendix B

Specimen Bank Reference Letter

To Whom It May Concern

We hereby certify that

Mr/Mrs/Messrs. \_\_\_\_\_

---

is/are a customer/(s) of our Bank/us and to the best of our knowledge he/she/they/is/are honest, credible, trustworthy and punctual in his/her/their engagements and obligations.

The above certificate is given at the request of

Mr/Mrs/Messrs \_\_\_\_\_

---

and without any guarantee or responsibility on our part.

Signature: \_\_\_\_\_ Date: \_\_\_\_\_



