

# *Cyprus – The gateway to global investments*

November 2012





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## *Foreword*



Having recently become the second largest economy in the world, China's contribution to global investments is of crucial importance for the restoration of global economic stability and growth. Chinese investments are spread worldwide across all major industries.

Cyprus a long established international financial centre on the Eastern end of the European Union, offers itself as the ideal location through which China can channel its investments anywhere in the world. Cyprus has gained this enviable position through its favourable tax regime and its excellent infrastructure facilities and services. On the taxation side, it offers a combination of low corporation tax together with a wide network of double tax treaties. This helps to maximize after tax returns to investors. At the same time its EU harmonized legislation as well as strong ties with Eastern Europe make it the ideal gateway to European investments.

Our local market also offers attractive investment opportunities to Chinese investors in a variety of sectors such as hotel and tourism, real estate, regional wholesale trading and in our emerging oil and gas industry.

At PwC Cyprus we are continuously developing new service offerings to address the new opportunities and challenges facing our clients. In the operation of the world's international markets we help our clients solve complex business problems while we take pride in our quality services which help to improve transparency, trust and confidence. We share our knowledge and experience with our clients, we listen to them and help them create the value they are looking for.

A stylized, handwritten signature in blue ink, appearing to read 'Evgenios'.

Evgenios C Evgeniou  
CEO  
PwC Cyprus

# Cyprus - The gateway to global investments

## Why choose Cyprus for International Activities

Cyprus today is firmly established as a reputable international financial centre, the ideal bridge between East and West.

An EU member state since May 2004, Cyprus offers a unique experience to investors and trading partners. The strong pro-business attitude, the multi-lingual and highly skilled human capital, the state-of-the-art telecommunications infrastructure and the favourable tax system have made the island one of the most progressive and efficient business locations in Europe.

Cyprus has succeeded in differentiating itself from other financial centres. It provides a unique combination of favourable participation exemption provisions on income emanating from international activities, applies a wide network of double tax treaties and zero withholding taxes on any type of payments made anywhere in the world.

## Strategic Location

Cyprus is situated in the north-eastern basin of the Mediterranean Sea at the crossroads of Europe, Asia and Africa. It is 65 km south of Turkey, 96 km west of Syria, 385 km north of Egypt, 440 km southeast of Greece and 328 km west of Israel. The strategic location of the island has played an important role in its continuing development into a financial centre.

## The Services Sector In Cyprus

The services sector has become increasingly important as indicated by its almost 70% contribution to Gross Domestic Product (GDP) and its share in employment. Services include tourism, banking, accounting, legal, medical,



telecommunications and human capital. The size and rate of growth of this sector, which has been the fastest growing in recent years, has transformed Cyprus into a “service economy”.

The Banking, Legal and Accounting Services in Cyprus closely follow the British pattern. Many Cypriot Banks have branches or rep offices throughout the world and International Banks also have branches on the island. Non-Cypriot citizens have the privilege to open foreign currency and local deposit accounts very easily.

The telecommunications infrastructure of Cyprus is well developed and companies are equipped with the latest technology.

## Low Cost but High Standard of Living

**The Cyprus cost structure is lower than most of the other international financial centres.**

At the same time, the Cyprus standard of living is reflected in the country’s “very high” Human Development Index and its high ranking (23rd in the world) in terms of the quality-of-life index.

# Local Market Opportunities

## Energy

The indications for the presence of significant quantities of hydrocarbons in the exclusive economic zone of Cyprus and the decision to proceed with their exploration may prove to be a tremendous opportunity for the island. Cyprus is expected to have a key role with respect to regional energy issues and Europe's future energy policy.

The Government of Cyprus is planning the construction of an energy center which will eventually include a terminal for the storage of the Island's strategic and operational oil stocks, facilities for their transit and facilities for the import and prospective exploitation of nature gas. Options are also considered for the construction of a pipeline which will transfer gas discovered offshore the island to the natural gas exploitation facilities.

Concurrently, the government of Cyprus is pursuing an active market-opening policy and encouraging renewable energy initiatives through the provision of subsidies. While Cyprus rank first in the world in solar energy use for water heating in households, the first large scale renewable energy projects, such as wind parks and photovoltaic parks have been established. Opportunities also exist for companies involved in desalination engineering.

## Real Estate

While property prices surged in the years prior to the international financial crisis, the Real Estate industry has felt the economic pinch in recent years with a fall in prices and decreased sales. The decline in property price is in turn opening up new opportunities for investors who can currently acquire extraordinary properties at exceptional prices.

Furthermore, a number of large scale public-private development projects arising –ranging from residential and commercial project to hotel and conference developments and healthcare facilities. For instance, Eco city project, Golf resort project, University campus, the development of Marinas etc.

### Permanent Residence Permit

The Cyprus government has put in place attractive legislation to encourage property investment in Cyprus.

Non-EU citizens, that purchase property in Cyprus of a value exceeding 300.000 Euro, are entitled to apply and receive an immigration permits. (Equivalent to a permanent residence permit).

## Tourism

Tourism Investment is pouring into special interest areas such as medical tourism, sports, nautical and rural tourism, conferences, theme parks and managed attractions.

The Cyprus Tourism Organization supports these investments through several incentives schemes to ensure that the island, with its outstanding Mediterranean climate, glorious beautiful, natural's landscapes, attractive sandy beaches and fascinating history, continues to evolve as a destination of choice in the region.

### Wholesale and region centers

With Cyprus' key location at the crossroads of major international trade between Europe, Asia and Africa making it a nature transshipment and logistic hub, the island is well placed to act as a central depot for distribution to the markets of Europe, the Middle East, the Gulf and North Africa.

# Main features of the Cyprus Tax System

**The tax system of Cyprus is in full compliance with EU requirements and also within the OECD requirements against harmful tax practices.**

The tax system provides to the investors:

- 10% corporation tax - the lowest standard rate in the EU
- exemption from tax of foreign dividend income with easily met conditions
- exemption from tax of profits from foreign permanent establishments (PE) with easily met conditions
- exemption from tax on profit generated from transactions in titles
- exemption from withholding tax on the repatriation of income anywhere in the world either in the form of dividends, interest and on all royalties (except when intellectual property is used in Cyprus)
- extensive double tax treaties network
- access to EU directives
- group loss relief
- The tax payer may apply for a ruling for any matter that he wishes to get the written opinion of the Commissioner of Income Tax
- 80% exemption of royalty income and gains from disposal of intellectual property (IPs)

## Double Tax Treaty network and EU Directives

Cyprus has an extensive network of Double Taxation Treaties. Several others are under negotiation. Where there is no DTT, when appropriate a Cyprus company can benefit from the EU Directives to eliminate withholding taxes when collecting income from the EU. Unilateral tax credit on foreign taxes withheld at source is also available.

The Treaty network covers EU, including UK, France and Germany; most East European countries including Russia, Ukraine, Poland and Romania; USA, Canada, China, Singapore, India, South Africa, as well as Middle East countries, such as Egypt, Kuwait and Qatar.

# Shipping

The Cypriot maritime registry is today one of the largest in the EU and the 10th largest worldwide. Moreover, Cyprus is the biggest third party ship management centre in the EU.

The Cyprus Merchant Shipping Legislation, creates a highly tax efficient harbor for shipping groups and an ideal holding company location.

**It was enacted as from 1 January 2010 and places Cyprus in a very competitive position. Cyprus has become the only EU country with an EU approved Tonnage Tax system that:**

- provides for TT on the net tonnage of the vessels rather than Corporation Tax on the actual profits, regulated by the DMS rather than the Tax Authorities
- grants total tax exemption of profits tax and distribution tax at all levels
- allows mixed activities within a company/group (shipping subject to TT and other subject to 10% corporation tax)
- supports an open registry
- allows split shipmanagement activities (crewing or technical)

The law provides full exemption to shipowners, charterers and shipmanagers from all profit taxes and imposes tonnage tax on the net tonnage of the vessels at the following rates.

<i>Shipowners &amp; charterers</i>		<i>Shipmanagers</i>
Units of net tonnage	€TT per 100 units	€TT per 400 units
0-1.000	36,50	36,50
1.001-10.000	31,03	31,03
10.001-25.000	20,08	20,08
25.001-40.000	12,78	12,78
>40.000	7,30	7,30



It is possible, and quite common, for shipowners, charterers and shipmanagers to invest surplus funds and have non shipping income. Such income, that is not subject to TT, is subject to corporation tax at the normal rate of 10%, the lowest corporation tax rate in the EU. The tax legislation provides for several exemptions that may reduce the effective rate of non shipping income to well below 10%.

# The Chinese Connection



*Cyprus as an international financial centre is an ideal tax efficient gateway for channeling Chinese investments anywhere in the world as well as for facilitating investment into China itself. The Double Tax Treaty between China and Cyprus strengthens the financial ties of the two countries, enhancing and promoting further the scope for tax efficient investment opportunities.*

## Cyprus Holding Company

A Cyprus holding company is ideal for investments in EU as well as non EU companies. It is widely used as an ultimate or intermediary holding company in a number of structures including the holding of operating, financing, real estate, as well as shipping companies. It is also particularly effective in respect of facilitating successful IPOs in a number of jurisdictions.

## Key Features

### Reduction of foreign taxes

- Foreign taxes on dividends as well as on other payments received by the Cyprus resident companies are eliminated or minimised due to access to an extensive and favourable double tax treaty network and due to access to the EU Parent Subsidiary Directive.
- Foreign taxes on capital gains may be eliminated due to exclusive taxing rights of Cyprus in a large number of double tax treaties.

## Reinvestment of profits

## No taxes on key sources of foreign income of the Holding company

- Unconditional exemption of profit on disposal of shares or other titles held by the Cyprus resident company
- Foreign sourced dividends exempt subject to easily met conditions which do not require any holding period, percentage holding or minimum investment criteria.

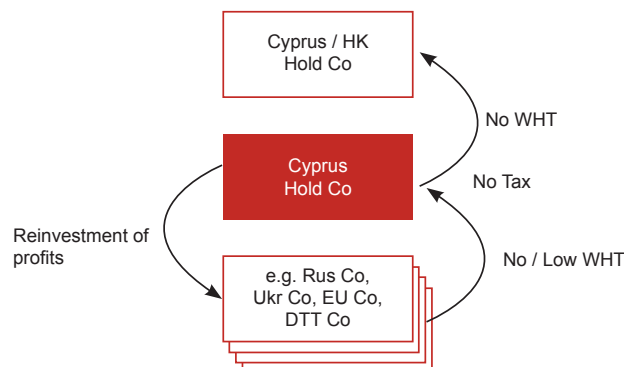
## Tax efficient repatriation of profits

### No taxes on payments to foreign shareholders of the Holding Company:

- On dividends
- Profit on disposal of the holding company
- Proceeds from liquidation or capital reductions

### Additional Benefits

- Reinvestment of profits without any tax leakages in Cyprus
- No Controlled Foreign Companies rules



## Financing, Royalty and Trading Companies

Cyprus tax resident financing, royalty as well as trading companies are used with minimum tax leakage ensuring maximization of the after tax return of the investors.

### Key Features

They enjoy all favourable provisions and benefits relating to holding companies and may be effectively set up on a standalone basis or as subsidiaries of a Cyprus Holding company.

#### Reduction of foreign taxes

- Foreign taxes on interest and royalties are eliminated or minimised due to access to an extensive and tax efficient double tax treaty network and due to access to the EU Interest and Royalties directive.
- Foreign taxes on trading incomes may be eliminated due to exclusive taxing rights of Cyprus through double tax treaties.

### Low taxes on all sources of income

- Trading income, interest and royalty income are taxable at the rate of 10% after deduction of expenses wholly and exclusively incurred for the generation of the income of the company (lowest tax rate in EU).
- Liberal deductibility of expenses.
- Thin spreads of income are acceptable by the tax authorities. (especially for back to back financing the tax authorities have confirmed spreads as low as 0,125% as acceptable under specific circumstances, providing certainty on transactions).
- No thin capitalization rules exist, thus companies may be financed completely with debt resulting to maximum deductibility of interest expense (primarily used for financing structures but widely used for trading and royalty structures).

- Effective tax leakage may be further reduced / eliminated through the use of permanent establishments in other jurisdictions as profits of permanent establishments abroad are exempt from Cyprus income tax subject to easily met conditions.
- For any transactions subject to VAT, the rate is 17% which is the lowest in the EU, however most international transactions with careful planning may fall outside the scope of VAT.
- Any foreign taxes may be credited on taxes in Cyprus on the same income.

### Intellectual Property “IP” regime

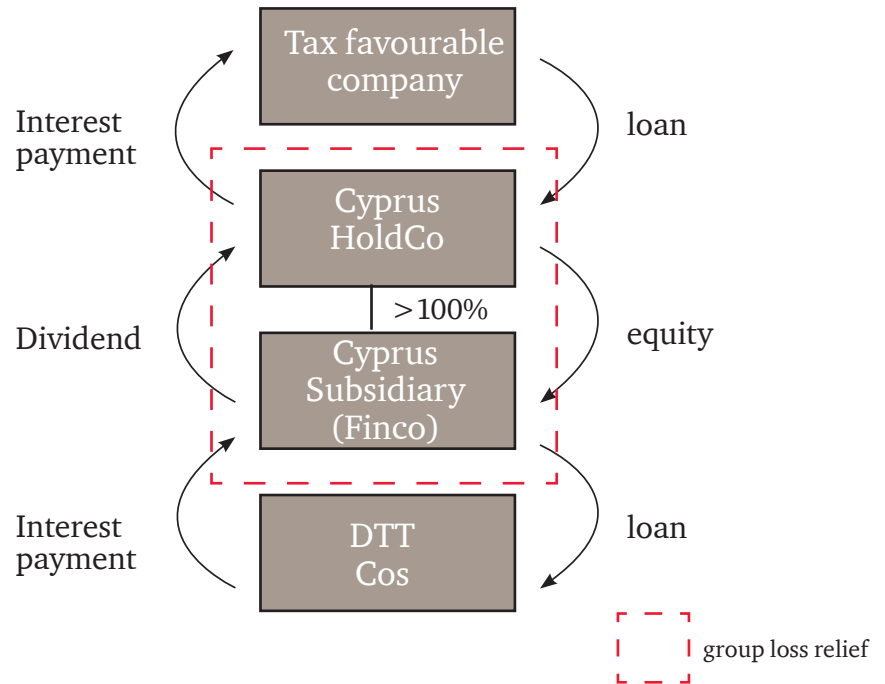
- 80% of income and gains generated from IPs is exempted from taxation. Furthermore direct expenses such as capital allowances and interest are also deductible. Consequently the effective tax rate is less than 2%. We set out below an example of how the effective rate is calculate

IP Revenue	100
Less direct expenses (capital allowances, interest etc)	(30)
Gross profit	70
Less 80% deemed expense	(56)
Taxable income	14
Tax at 10%	1,4
<b>Effective Tax Rate only</b>	<b>1,4%</b>



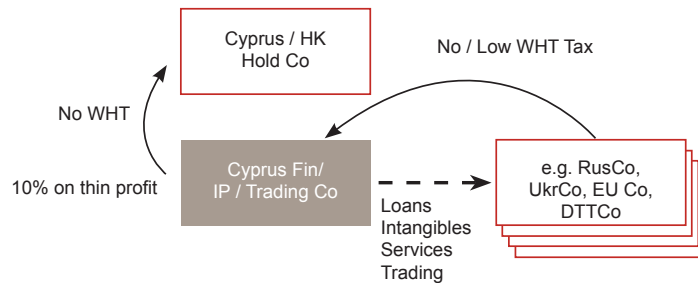
### Financing structures-Double tier Cypriot Structure

- Group financing via Cyprus can be particularly tax efficient. Interest incurred by a Cypriot tax resident company (Cy Holdco) to finance an equity investment to a Cypriot tax resident company (Cy Finco) can be tax deductible => Creating tax loss in Cy Holdco.
- Tax loss of Cy Holdco is set-off against taxable income (interest) of Cy Finco.
- After group relief is claimed a small spread in the range of 0,125%-0,35% is expected to be taxable in Cyprus at 10%
- Cy Finco is 100% equity-financed thus strengthening the argument that Cy Finco is beneficial owner of the interest income.



### Tax efficient extraction of profits

- No taxes on payments of interest and royalties to non residents (with the exception of royalties used in Cyprus).
- No withholding taxes on services received from abroad.



# Setting up and maintaining a Cypriot Holding Company

Although there are no restrictions on the legal form of the holding company in Cyprus, the most commonly used form is the private limited liability company.

There are no legal requirements as to the minimum or maximum share capital of the company. However, it is recommended that the authorised share capital should be at least €10.000 that may conveniently be divided into 10.000 shares of €1 each. Not all of these shares have to be subscribed for, but it is recommended that at least 2.000 shares are issued and fully paid upon incorporation.

## Accounting requirements & filing

Under Cypriot Companies Law Cap.113, financial statements of Cypriot companies are prepared in accordance with the International Financial Reporting Standards (IFRS's). These standards require the Cypriot holding companies to prepare consolidated audited financial statements on an annual basis. Consolidation is not required when the Cypriot holding company is an intermediary holding company and a holding company further up the ownership chain prepares consolidated financial statements under approved accounting standards.

Audited entity accounts must be prepared for company and tax law purposes. Accounts translated in Greek are submitted to the Registrar of Companies with the annual return.

A tax return is submitted to the Income Tax Office for each tax year. The tax year is the calendar year.

## Shareholders

Under Cypriot law, every company, limited by shares, must have at least one shareholder.

## Appointment of Directors

Companies are managed and controlled by the board of directors. Under Cypriot Company Law, a Cypriot private company must have at least one director. In all other cases at least two directors are required.

Management and control of a company determines under Cypriot tax legislation the tax status of the company. Therefore, the venue of its meetings is significant for tax purposes.

## The role of the company secretary

The company secretary's role is to keep the company in good order with the Registrar of Companies, prepare and file annual returns, effect changes in the directors, shareholders, memorandum and articles share capital etc, prepare and keep minutes of all directors meetings and communicate with the Registrar of Companies on behalf of the company.

## Period needed for Registering a Company

The formation and registration procedures, including various administrative needs such as printing of the company's letterheads, opening of statutory books and the opening of the required bank accounts, up to the time the certificate of incorporation is issued, can normally be completed within a period of one week.

## *PwC in Cyprus*



*We are striving to offer our clients the value they are looking for, value that is based on the knowledge that our teams draw from 180.000 experts in 158 countries and based on experience adapted to local needs. PwC Cyprus focuses on two main areas: Assurance & Advisory Services and Tax & Legal Services. We work closely with our clients. We ask questions. We listen. We learn what they want to do, where they want to go. From all our international knowledge we share with them the piece that is more suitable for them and thus we support them on how to achieve their goals.*

*In the operation of the world's capital markets we play an important role and as business advisors we help our clients solve complex business problems. We aim to improve their ability to manage risk and improve performance. At the same time we take pride in our quality services which help to improve transparency, trust and consistency of business processes.*

*Our position is strengthened with our almost 1.000 professionals and our offices throughout Cyprus.*

### ***Assurance & Advisory Services***

Our Financial Assurance services comprise of statutory and regulatory audit services, which include evaluation of information systems, advisory services for capital market transactions, accounting and regulatory issues for all types of businesses through specialist industry divisions:

Financial Services (FS), Consumer and Industrial Products and Services (CIPS) and Technology, Information, Communications, Entertainment and Media (TICE).

Our Risk Assurance Consulting (RAC) offers expertise on internal audit services, internal controls optimisation, corporate governance and reporting, as well as assurance and advisory services related to security and controls of information technology systems including Enterprise Resource Planning (ERP) systems (e.g. SAP, Oracle, Navision), Project Implementation Assurance (PIA), Computer Assisted Audit Techniques (CAATs), Spreadsheet Integrity and IT Risk Diagnostic and Benchmarking. A particular focus of the team is in supporting the financial services industry on matters related to regulatory compliance, licensing and risk management.

Our Performance Improvement Consulting (PIC) is offering specialist advisory services on strategy and operational effectiveness, process improvement, cost reduction, people and change and sustainability issues.

Our Deals & Corporate Finance (DCF) provides consulting on M&A's, valuations, feasibility studies, transactions support and crisis management.

### ***Tax & Legal Services***

Our PwC network's tax and legal services include Global Compliance Services, Direct and Indirect Tax Services, Services to Small and Medium Enterprises and Legal Services.

### ***Global Compliance Services***

Comprising the whole spectrum of company administration and corporate statutory compliance services, bookkeeping, accounting and payroll services as well as specialised services such as private client services, advice on establishment and administration of local and international business companies, collective investment schemes, UCITS, investment firms and trusts.

#### ***Direct tax services***

Corporate: Advisory Services for tax planning, international tax structuring, mergers and buyouts and other business issues, tax returns administration, agreement with Tax Authorities and obtaining tax rulings.

Personal: Tax planning, completion submission and agreement of tax returns, tax services to expatriates, pensioners and other non-Cypriot individuals.

#### ***Indirect Tax Services***

VAT: Advisory services for VAT, VAT recovery and VAT minimisation and tax compliance (administration of VAT returns, communication with VAT authorities, agreement of disputed assessments, etc).

### ***Services to Small and Medium Enterprises (SME)***

The Services to Small and Medium Enterprises are addressed to individuals, small and medium - sized enterprises with local activity and cover the whole spectrum of accounting, tax, VAT, family business and financial structuring and statutory compliance services.

### ***Legal Services***

The legal firm, full member of the PwC international network, offers legal services that cover the whole spectrum of corporate and business law, including advising and representing clients in M&A transactions, re-organizations, European Union law and Competition law, setting up and regulating private companies, setting up joint ventures and other forms of businesses and carrying out legal due diligence.

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