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# Foreword

I am pleased to introduce our guide to the international tax and business environment in Cyprus.

Cyprus is well placed at the eastern-most point of Europe, occupying a key strategic position at the gateways of Europe, Asia and Africa. Its geographic location together with its tax and business environment make Cyprus the ultimate country for investors and businesses moving into Europe and for European business expanding internationally. Cyprus offers many key benefits that contribute to the success of business and investments and Deloitte in Cyprus is well placed to ensure this success.

Deloitte is known for its values of ethos, integrity, specialised knowledge and professionalism. Our ongoing commitment to continuous investment in our people and our deliverables is the key to our success and our ability to look at business issues from every angle is what sets us apart.

Deloitte in Cyprus can coordinate with the Deloitte member firms around the world and other advisers to assist entrepreneurs and groups investing and operating through companies incorporated and tax resident in Cyprus.



Our Tax and Legal Services team can assist with establishing Cypriot companies to perform functions which can benefit from the favorable tax system and business environment in Cyprus, such as holding companies, financing companies, investment trading companies, intellectual property companies, shipping companies, companies for oil & gas exploration as well as Cypriot fund management companies and collective investment funds.

Deloitte in Cyprus has the ability to offer practical solutions that are adapted to the needs of all businesses. Whether considering establishing in new markets, acquisitions or rationalization of current operations, our professionals can assist in the planning and implementation. Deloitte in Cyprus will ensure that investors and businesses will achieve significant benefits.

We at Deloitte Cyprus look forward to working with you.

**Christis M. Christoforou**  
Chief Executive Officer

# The Cyprus business environment

In recent years Cyprus has been voted as one of the most attractive European tax jurisdictions by major business organisations across Europe. Cyprus has been commended for the stability of its tax law, the consistency in interpreting its tax legislation and its low tax rates.

## Reputation and stability

Cyprus joined the European Union in 2004, resulting in an economy offering a great number of advantages within a common European market. The Euro was adopted by Cyprus as its unit of currency on 1 January 2008, further confirming the country's macro-economic stability and its commitment to low inflation, low interest rates and high growth.

Cyprus participates in the European Union's internal market where there is free movement of goods, services and capital. European citizens are able to conduct business, travel to, and live in Cyprus with no legal restrictions.

Demonstrating a business-friendly environment since the 1970s, Cyprus has attracted foreign investment and capital flows for decades. The country's financial and regulatory environment is harmonized with that of the European Union.

Furthermore, Cyprus tax system is aligned with the framework of the European Union Code of Conduct for business taxation and demonstrates a commitment to the OECD policies against harmful tax practices.

## Strategic location

The island of Cyprus is situated in the eastern Mediterranean at the hub of three continents, linking Europe with Africa and Asia.

Cyprus is one hour by air from Athens, Egypt and Israel, three hours from Dubai and Moscow and four hours from London.

Cyprus is two hours ahead of Greenwich Mean Time (GMT).

## International familiarity Banking & financial regulation

Commercial banking follows the British and European Union models and is of a very high standard. There are currently over 40 Cypriot and international banks operating in Cyprus.

The banking system conforms to EC Directives, under the regulation of the constitutionally independent Central Bank of Cyprus, as integrated with the Eurosystem. The Bank's governance is compatible with the provisions of the Treaty establishing the European Community and the Statute of the European System of Central Banks and of the European Central Bank.

“The Cyprus tax system, combined with the island's first-rate infrastructure, highly skilled workforce and membership of the European Union has made Cyprus the international business hub it is today”

**Pieris Markou**  
Tax & Legal Services Leader

The Cyprus Securities and Exchange Commission (CySEC) supervises and controls the operation of the Cyprus Stock Exchange and the issuers of securities listed on the Exchange.

The Central Bank and CySEC supervise and licence the growing number of investment services companies, collective investment schemes, brokerage firms, investment consultants and mutual fund management companies.

### Legal system

Cyprus has a well-functioning common law legal system based on principles established through historical links with the United Kingdom.

The origin of Cyprus company law and other laws regulating business is the laws of the UK, updated for 21st century business practice and harmonised with EC Directives.

The familiarity of the legal and commercial systems assists international business people in working within the Cypriot commercial environment. English is spoken universally and is the accepted language of business.

### Political respectability

Cyprus has excellent diplomatic and economic relations with the rest of Europe as well as, China, Russia, India, North America and the countries of the Middle East. As a result, Cypriot entities enjoy great respectability around the world.

### Telecommunications

Cyprus has a highly advanced telecommunications infrastructure system with a number of companies providing modern telecommunication products and solutions.

### Air transport

The two international airports in Cyprus are served by over 35 international airlines. There are daily flights to other European countries, Russia and the Middle East including major hubs for onward and long haul international destinations. New airport terminals at both Larnaca and Pafos international airports can serve up to 10 million passengers per annum.

### Economy

Cyprus is a small and adaptable free-market economy built upon tourism, financial services and real estate, which account for almost 85% of the island's total GDP.

The country's economy has been remarkably resilient following the financial crisis. Cyprus has recently implemented structural reforms across all major sectors of its economy, with progress made in all key objectives set out by the country's international lenders. Despite the short-term challenges, the discovery of significant quantities of natural gas in Cypriot exclusive economic zone raises the prospect of a resurgence of the Cypriot economy in the medium to long term.

### High standard of living – low cost base centre and skilled workforce

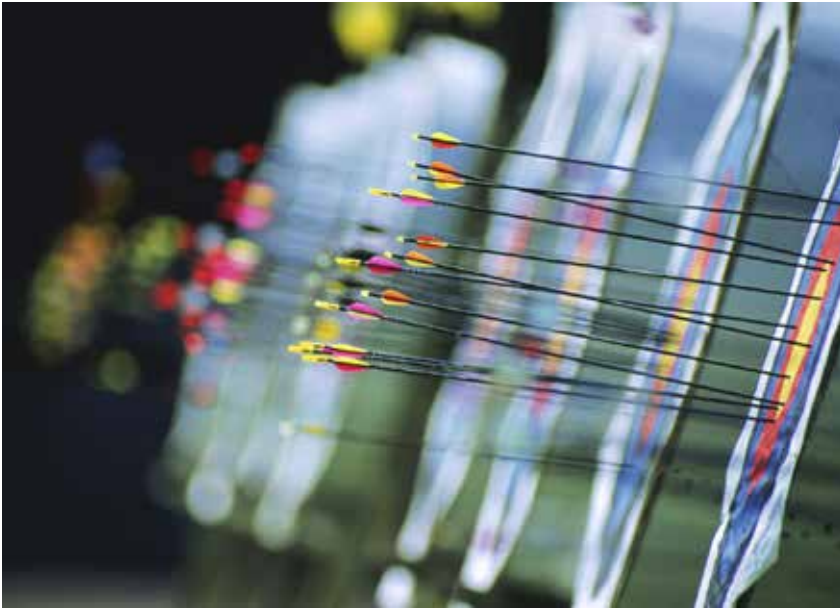
Economic indicators place Cyprus amongst the few international financial centres with low operational costs. At the same time, the island offers a high standard of living with an enjoyable climate and a very low crime rate making it an ideal place to live and conduct business.

The costs of setting-up and maintaining a structure in Cyprus are low when it comes to incorporation costs and fees for meeting Cypriot tax and company law compliance obligations.

The cost of labour, rents and other infrastructure are highly competitive and often lower than in other European countries.

Cyprus has a young and flexible work force, with university education obtained predominantly in the UK and the USA. The island ranks among the leading countries in the world and the highest in the European Union in respect of university graduates in proportion to its population, with the percentage of graduates from tertiary institutions being the highest in the EU.





# The Cyprus tax system

Cyprus is a favourable location for international businesses seeking a tax efficient jurisdiction to set up and operate from.

## **Cyprus's advantageous tax system**

### **Cyprus has all the tax attributes expected from an international financial centre**

The Cyprus tax legislation and its regulation is straight forward in nature. Relations between the business community and the tax authorities are excellent and ensure the efficient taxation of the commercial and financial sector. By providing a transparent and efficient environment, the tax system enhances Cyprus's competitiveness and contributes to making Cyprus an attractive jurisdiction for setting up business operations.

### **Corporate tax rate**

Cyprus has a corporate income tax rate of 12.5%. This is one of the lowest corporate tax rates in the European Union.

### **Exemption from tax for dividend income**

Dividend income is in general exempt from tax irrespective of its source.

Dividends are exempt provided that the company paying the dividend either engages directly or indirectly in more than 50% of activities that give rise to non-investment income or the tax burden on the dividend paying company's income is not lower than 6.25%. Dividends are not considered to be sourced from investment income if they are derived directly or indirectly from trading subsidiaries.

### **No withholding taxes**

Dividends paid to non-resident shareholders are exempt from withholding tax in Cyprus. Also, no withholding tax is imposed on interest paid from Cyprus as well as on royalties paid from Cyprus in respect of intellectual property exploited outside Cyprus. The nil withholding tax rates apply irrespective of whether the recipient is a company or an individual, the country of residence of the recipient or whether a relevant tax treaty exists.

### **Notional interest deduction upon the introduction of new equity**

Cypriot companies are entitled to an annual notional interest deduction (NID) upon the introduction of new equity in the form of paid up share capital or share premium. The NID is calculated by multiplying the new equity by a reference rate. The reference rate is equal to the yield of the 10-year government bond (as at 31 December of the prior year) of the country in which the funds are employed in, plus a 3% premium (subject to a minimum rate which is the yield of the 10 year Cyprus government bond, plus a 3% premium). The NID is a tax-allowable deduction against the company's taxable profits but cannot exceed 80% of the taxable profit derived from assets financed by the new equity. Depending on the level of capitalisation of a company, the NID could reduce the effective tax rate of a company to as low as 2.5%.

### **Capital gains and income tax exemption for securities**

Cyprus does not impose income or capital gains tax on the profits and gains derived from the disposal of securities, irrespective of whether the profits and gains are considered to be of a revenue or capital nature.

Securities, as defined in the law, include shares, bonds, debentures, founder's shares and other securities of companies or other legal persons and options over such securities.

### **Capital gains and income tax exemption for real estate**

Cypriot companies can be used to hold real estate or other assets outside Cyprus with no Cypriot capital gains tax implications on disposal of the assets. Capital gains tax only applies to gains on the direct disposal of immovable property situated in Cyprus and under certain circumstances in the indirect disposal of immovable property situated in Cyprus.

### **Foreign exchange neutrality**

Cypriot companies are exempt from taxation on foreign exchange (FX) gains, with the exception of FX gains arising from trading in foreign currencies and related derivatives.

### **Permanent establishment abroad**

Profits of a permanent establishment maintained abroad are generally exempt from tax in Cyprus.

### **Income from intellectual property**

Only 20% of the net profits derived by a Cypriot company from the exploitation or disposal of its intellectual property is subject to tax at the corporate income tax rate of 12.5%. The net profit is calculated after deducting all direct expenses associated with the production of income or profit, including 20% of the acquisition cost of the intellectual property in each of the first five years of ownership.

### **Interest deductibility**

Interest incurred by a Cypriot company for the acquisition of fixed assets used in the business for the generation of taxable income is tax deductible.

### **Thin capitalisation**

Cyprus does not have any thin capitalisation rules or minimum capitalisation requirements.

### **A wide network of tax treaties**

Cyprus has an extensive network of tax treaties, currently with more than 60 countries, including countries in North America, Europe, Africa, the Middle East as well as China, South Africa, India and Russia.

Generally, most treaties provide for reduced or nil rates of withholding tax on dividends, interest and royalties paid from a treaty country and the avoidance of double taxation in the case where a resident of one of the treaty countries derives income from the other treaty country.

### **Unilateral tax credit relief**

Relief for taxes paid abroad is in the form of a tax credit if the respective income is subject to tax in Cyprus. The relief is given unilaterally irrespective of the existence of a tax treaty. Where a treaty is in force, the treaty provisions apply if more beneficial. Where dividend income is received from a



company resident in the European Union or if a tax treaty provides so, an underlying tax credit is also allowed to the Cypriot recipient of the dividend against any tax payable on that income in Cyprus.

#### **Advance rulings and prior approvals**

The Cyprus tax authorities provide advance interpretations of the law under a ruling system.

#### **VAT**

The standard VAT rate is 19%. Reduced VAT rates of 5% and 9% apply to some goods and services.

#### **Capital & net worth taxes, capital & stamp duties**

Cyprus does not have any annual capital taxes, net worth taxes or any significant capital and stamp duties.

#### **Reorganisations**

Cyprus has fully adopted the EC Merger Directive and therefore where a transaction is a "reorganisation", it is exempt from corporate income tax, capital gains tax, stamp duties and property transfer fees.

A reorganisation generally includes a merger, division, part-division, transfer of assets and exchange of shares involving companies which are resident in Cyprus and/or companies which are not resident in Cyprus.

#### **Cross border mergers and re-domiciliation of companies**

Cyprus legislation allows for the merger of two or more EU member companies, whether a merger of Cypriot or Cypriot and non-Cypriot EU member companies and whether the Cypriot company is the surviving company or not. Non-Cypriot companies which are allowed by their jurisdiction of incorporation to deregister in that jurisdiction and register elsewhere are able to become domiciled in Cyprus. Cypriot companies are also permitted

to deregister from the Cypriot Register of Companies and become domiciled in another jurisdiction.

Cross-border and domestic mergers, as well as redomiciliations and tax residency migrations are generally tax neutral, there being no Cypriot "exit taxation" applied to such restructurings.

#### **Liquidation of a Cypriot company**

No capital gains tax, income tax or any other taxes arise on the liquidation of a Cypriot company owned by nonresident shareholders, irrespective of the method of liquidation.

#### **Personal tax**

##### **Personal tax rates**

The personal income tax rates are progressive with the maximum tax rate being that of 35% on income exceeding €60,000 per annum.

##### **Relief for overseas employment**

A Cypriot resident working outside Cyprus for a non-Cypriot employer or an overseas branch of a Cypriot employer is exempt from taxation on their remuneration from the rendering of overseas salaried services for an aggregate period in the year of more than 90 days.

##### **Relief for non-residents taking up employment in Cyprus**

Individuals physically present in Cyprus for less than 184 days in a calendar year are taxable in Cyprus only on income derived from sources within Cyprus and employment exercised in Cyprus.

A 50% exemption applies to the remuneration from any employment exercised in Cyprus by an individual who was resident outside Cyprus before the commencement of his /her employment in Cyprus. The exemption applies for a period of 10 years starting from the first year of employment provided that the employment income exceeds €100,000

per annum. For employment commencing during or after 2015, the exemption does not apply in case the employee was a Cyprus tax resident in the preceding tax year or for at least 3 out of the 5 tax years immediately prior to the tax year of commencement of employment.

A 20% exemption or €8,550 (whichever is the lower) applies to the remuneration from any employment exercised in Cyprus by an individual who was resident outside Cyprus before the commencement of his/her employment. This exemption applies for a period of 5 years starting from the tax year following the year of commencement of employment, with the last eligible tax year being 2020.





# The formation & uses of Cyprus companies

## Formation of companies

### The Cypriot company

A Cypriot company can either be a private company established by one or more persons or a public company established by any seven or more persons who cooperate for any legal purpose and form a limited liability company, by signing the Memorandum of Association and by complying with the provisions of the Cyprus Companies Law Cap.113.

A company's constitutional documents are its Memorandum and Articles of Association which specify the activities in

which the company may engage and the means by which it will govern its affairs.

There is no minimum required issued and paid up capital for a private company, however it is common to have share capital of at least €1,000.

Every company must have a company secretary and a registered office address in Cyprus which may also be used as the business address of the company. Although not a requirement, it is common practice for the majority of the directors to be Cypriot residents.

### Company compliance

Every Cypriot company is required to maintain proper books of account and to prepare financial statements in accordance with IFRS.

Furthermore, according to the provisions of the Cyprus Companies Law Cap.113, every private limited-liability company including any small or dormant company shall submit its financial statements to an auditor for auditing.

There are three categories of companies and groups established by the Cyprus Companies Law Cap.113: Small, Medium and Large.

Small and Medium sized groups are exempted from preparing consolidated financial statements unless any of their affiliate companies is a public-interest entity or the consolidated financial statements are prepared according to a different legislation.

The "Board of Directors Report" has been renamed to "Management Report". The management report is to include a fair review of the development and performance of the company's business and of its financial position, together with a description of the principal risks and uncertainties that it faces.

Small companies, the shares of which are not listed in the regulated markets of any EU member state, and which are exempt in accordance with the Cyprus Companies Law Cap.113 from the obligation to prepare consolidated financial statements, are exempt from the obligation to prepare the management report, provided that the requirements concerning the acquisition of their own shares, are included in the notes of the financial statements. Medium-sized companies, the shares of which are not listed in the stock exchange of any EU member state, and which are exempt in accordance with the Cyprus Companies Law Cap.113 from the obligation to prepare consolidated financial statements, are exempt from the obligation concerning the non-financial information. Small sized groups and medium-sized

groups are exempted from preparing the consolidated management report unless the groups are linked with a public-interest entity.

According to the Cyprus Companies Law Cap.113 the company must prepare and submit to the Registrar of Companies and Official Receiver as at the reporting date (as this is determined in the law, the first such date to be the date after the completion of the 18 months of its incorporation) its annual return, which is a statement giving details as to the share capital, the shareholders, the directors and the secretary of the company. This return is accompanied by a copy of the financial statements which were approved at the company's annual general meeting and has to be submitted to the Registrar of Companies and Official Receiver within 28 days from the date of its preparation. Copies of all documents including the financial statements which are presented to the Annual General Meeting of a company may be submitted to the Registrar of Companies in the English language and any other language customary in the international financial sector and which documents have been determined by the Registrar of Companies instructions.

Any required translations are often undertaken by the local advisers at minimal cost.

In accordance with Cypriot tax law, every company is required to submit an annual corporate income tax return.

Deloitte can assist with all aspects of conducting business in Cyprus including arranging for the formation of a Cypriot company, partnership or trust and the ongoing administration and management of an entity.

Deloitte can co-ordinate audit, payroll and bookkeeping services and Deloitte Human Capital Services can provide assistance with recruitment of personnel as well as obtaining work and residence visas, if required.

### Common Cypriot companies

#### The investment holding company

A Cypriot investment holding company serves as a perfect gateway to the EU, receiving dividends suffering no withholding tax and paying dividends to shareholders without deduction of withholding tax.

#### The IP holding company

A Cyprus company owning qualifying intangible assets/ intellectual property (IP) can claim 80% of its net profit from the exploitation of such qualifying IP as tax exempt. The net profit is calculated after deducting from the licensing income of the IP, all expenses directly associated with its production. Qualifying IP enjoy an annual capital allowance at the rate of 20% and any profit arising from their disposal also benefits from the 80% exemption.

#### The financing and/or treasury company

A Cypriot company can receive interest on loans to EU group companies with no withholding tax and can pay interest without deduction of withholding tax.

A Cyprus company trading in securities (e.g. shares, bonds, repos) will have no tax liability as income & gains on disposal of such securities are exempt from Cypriot tax.

#### Ship owning & management

Cyprus has the 10<sup>th</sup> largest merchant fleet in the world by registrations.

Specific tax exemptions apply to companies owning ships or managing and employing crews working in international waters. Cyprus has a very competitive tonnage tax regime.

#### Regional employment company

Minimal Cypriot compliance obligations allow offshore employees to be paid from Cyprus without Cypriot tax, social security or other obligations.

# Investment Funds in Cyprus

Following the transposition of the UCITS IV directive into national law in 2012 and the AIFM directive into AIFM and AIF Laws in 2013 and 2014 respectively, Cyprus is able to fully utilize the harmonized European framework on UCITS, AIFs and their managers (UCITS Management companies and AIFMs). The combination of this framework and Cyprus's tax-friendly environment with more than 60 signed Double Tax Treaties, coupled with its very competitive set-up and operating costs for such structures has increased considerably Cyprus's popularity as an International Fund jurisdiction.

Within this transition, all investment related products (UCITS & AIFs) as well as asset managers (Alternative Investment Fund Managers ("AIFMs"), UCITS Management Companies, Cyprus Investment Firms) are now under the regulation of a single supervising authority, the Cyprus Securities and Exchange Commission (CySEC).

## UCITS

UCITS are regarded as one of the most effective asset management tools available, due to their high liquidity and diversification constraints, high degree of regulation and increased levels of investor protection.

Their main objective is the collective investment in transferable securities and/or other liquid financial instruments of capital raised from the public, which

operates on the principle of risk spreading; and the units/shares of which are, at the request of the investor, redeemed or repurchased, directly or indirectly, out of this undertaking's assets.

Emphasizing on transparency and investor protection, UCITS are subject to specific investment restrictions in relation to the type of investment asset and the level of their exposure as detailed in the UCITS Directive.

## UCITS legal framework

UCITS can take one of the following legal forms:

### (i) Variable Capital Investment Company ("VCIC")

- Incorporated under the Cyprus Companies Law and operates as a variable capital investment company by the UCI Law
- Its share capital varies according to the participating investors at any given time
- The share capital of the company is equal to the net asset value (NAV) of the shares of the company at any time
- Legally segregated sub-funds of the VCIC can be created

### (ii) Common Fund

- Constituted as a contractual arrangement
- Has no legal personality while the unit

holders are represented through the Management Company;

- Undivided co-ownership of assets between unitholders.
- The calculation of the value of the units is equal to the net asset value (NAV) at any time

## Management of UCITS

An UCITS can be self-managed (only in the case of a limited company) or appoint a management company.

## Capital requirements

UCITS are subject to minimum capital requirements. The minimum share capital is €200.000 if an external manager is appointed or €300.000 in case of a self-managed fund. The above capital requirements apply for each sub compartment in case of an umbrella structure.

## UCITS Management Company

The Management Company is a limited company by shares

- which has its registered office and central administration within Cyprus
- and its main objective is the management of one or more UCITS.

The Management Company in addition to the management of UCITS or UCI, may provide MiFID related services subject to authorization from CySEC.

### Capital requirements

The minimum share capital is €125,000 and must be fully paid up in cash. If the value of assets managed by the management company exceeds €250 million, the capital of the management company must be increased by 0.02 per cent of the excess over €250 million, up to a maximum increase of €10 million

### AIF Legal Framework

Under the AIF Law, an AIF can take one of the three legal forms

- (i) Investment Company (as with UCITS but governed by the AIF Law)
- (ii) Common fund (as with UCITS but governed by the AIF Law)

(iii) Limited Liability Partnership (LLP)

- A limited partnership registered under the Partnerships Law and Trades Names Law and recognized to operate as an investment limited partnership under the AIF Law
- As with all limited partnerships, there must be a general partner appointed who manages the fund and is responsible for the assets and liabilities of the fund. The limited partner will also be a member of the scheme
- A general partnership can also have corporate entities act as partners

AIFs are widely recognized internationally and can be sold either on a private placement (subject to national private placement rules) or public basis to Retail, Well informed and Professional Investor<sup>1</sup>.

### Types of AIF

The AIF Law allows for two different types of AIFs to be registered in Cyprus:

- (i) AIFs with Limited Number of Investors (the "AIFLNI") in the form of a company



(with fixed or variable capital) or a limited partnership. Both legal forms allow for legally segregated sub-funds to be created and the maximum number of investors is limited to 75.

- (ii) AIFs with Unlimited Number of Investors available to Retail, Well Informed and Professional Investors in the form of a company (with fixed or variable capital), a mutual fund, or a limited partnership.

The enactment of the AIF Law has enhanced and replaced the previous International Collective Investment Schemes Law of 1999 (the "ICIS Law"), with existing ICIS required to convert into any of the above mentioned three categories of AIFs or get liquidated.

### Management of AIFs

An AIF can be self-managed (only in the case of a limited company) or appoint a management company.

### Capital requirements

AIFs are subject to minimum capital requirements. The minimum share capital is €125,000 for externally managed funds

or €300,000 in case of a self-managed fund. The above capital requirements apply for each sub compartment in case of an umbrella structure. For an AIFLNI there are no capital requirements.

### AIFLNI

An AIFLNI is often referred to as a "Private Label Fund" and can have up to a maximum of 75 investors, also known as unit-holders, and can only be marketed to Well Informed and Professional Investors.

The AIF Law defines Well Informed investors as those who either Invest a minimum of €125,000 in the AIF, or are confirmed as being experienced investors by a Cypriot or EU credit institution or investment firm or a UCITS management company.

The main advantages offered to the investors in an AIFLNI are:

- No investment restrictions
- No diversification requirements
- Low setup and maintenance costs
- No formal leveraging restrictions

<sup>1</sup> Professional Investor is any investor that is considered or may be treated on request as a professional client within the meaning as defined in the Markets in Financial Instruments Directive (MiFID), transposing into the Provision of Investment Services, the Exercise of Investment Activities and the Operation of Regulated Markets and Other Related Matters Law.

- No requirement to appoint an external investment manager, subject to certain conditions

### Main Characteristics of AIF Law

The AIF Law introduces a range of new structuring options for funds such as:

- Umbrella structures with multiple investment compartments which allow the management of different pool of assets under different investment strategies and objectives
- Possibility for public offering of shares/ units
- Possibility of listing in Stock Exchange

### Taxation and other advantages of an Investment Fund in Cyprus

Generally, there are no specific provisions or special modes of taxation in the Cyprus tax laws regarding AIFs. The taxation of a fund follows the Cyprus tax law regarding the type of its legal entity. Therefore, LLPs and common funds are treated as tax transparent structures whereas Investment companies are non-transparent.

The following tax advantages afforded by the Cyprus tax laws will apply to Investment Funds:

- Exemption from tax on profits from disposal of shares and other financial instruments
- No withholding tax on interest and dividend payments made to non-Cyprus tax residents
- Dividends deemed to be distributed by an AIF to Cyprus tax residents are subject to 3% special contribution for defence
- No withholding tax on redemption of units
- Can obtain a tax residency certificate
- Enhanced image and creation of substance
- A wide network of Double Tax Treaties is

in place with more than 60 countries

- In practice most AIFs generate only exempt forms of income, hence are not subject to Cyprus tax
- Active interest income (interest income which is connected with the business activity of the company) is subject to the corporate income tax rate of 12.5% as regular trading income after the deduction of any relevant expenses.

### AIFM

The Alternative Investment Fund Managers Law of 2013, transposing the Alternative Investment Fund Managers Directive (Directive 2011/61/EU; "AIFMD") into Cyprus Law aims to reduce systemic risk and enhance investor protection while providing guidance with regard to authorization, capital requirements, operating conditions and depositary's increased responsibilities.

An investment fund manager shall be authorized as an AIFM if:

- its registered offices and central management are located in Cyprus;
- it is a legal person whose regular business is managing one or more AIFs irrespective of their legal framework
- the aggregate assets under management (AuM) of all AIFs managed exceeds (Threshold Conditions):
  - (i) €100 million (including leverage), or
  - (ii) €500 million (without leverage but with a lockup period of 5 years).

### Proposed Amendments in the Legislation

The below significant amendments are expected to be voted into Law by the Parliament to strengthen the fund regime in Cyprus and expand the legal and regulatory framework

- Registered Alternative Investment Fund  
The new proposed Law will provide

for an unregulated AIF where the AIF should not be subject to authorization but to registration with the CySEC. Such structures shall be externally managed and supervised via their External Manager. There are also marketing restrictions for such funds.

- "Mini" Managers  
The new proposed Law will provide for a lighter regime for AIFMs where the cumulative AIFs under management fall below the threshold conditions specified above. The "Mini" Managers should not be subject to full authorization but to registration with the CySEC.

### Fund Hosting

Fund hosting is the service where a Fund Manager can setup a "fund hotel" other fund managers can be hosted or "park" their funds under this umbrella. The AIFM would delegate back to these fund managers the portfolio management activity (subject to appropriate licensing certifications) whilst the AIFM maintains the risk management activity and overall ultimate responsibility for the structure.

Cyprus can offer an attractive platform for such service in the base of its EU-compliant framework, coupled with its tax and cost-effectiveness and its highly qualified and internationally experienced professionals. Such platform would enable the hosted fund managers to market their funds and raise capital in Europe in an AIFMD-compliant manner<sup>2</sup>.

<sup>2</sup> Marketing in the EU is subject to marketing rules as per the relevant UCITS and AIFM Directives and national laws

# Cyprus international trusts

## Trusts

A trust is an attractive and effective structure for wealth protection preservation for future generations. Trust structures are also increasingly used for commercial and charitable purposes.

The defining features of a trust comprise:

1. a confidential identifiable legal arrangement created by a settlor
2. an equitable obligation or obligations
3. binding trustees to deal with property (the trust assets)
4. to which the trustees hold the legal title but hold it separately from the trustees' own property
5. for the benefit of beneficiaries (who may include settlors and trustees) and
  - who include a beneficiary or beneficiaries who hold equitable interests or rights in equity and
  - to whom the trustees owe fiduciary (and other fundamental) duties
6. and/or for the benefit of a charitable object

The settlor places property or assets into a trust at its establishment and has the right to add more property or assets at a later date. A settlor may also declare in the trust deed how the trust's property and income should be used.

## The Cyprus international trust

In Cyprus, trust law is contained in both statute and case law with many of the principles of equity and English law that have a history of hundreds of years. The primary law for Cyprus international trusts is the International Trust Law of 1992-2012.

The law defines a Cyprus international trust as a trust where:

- the settlor is not a resident of Cyprus in the year preceding the year of settlement of the trust
- the beneficiaries are not residents of Cyprus in the year preceding the year of settlement of the trust
- at least one of the trustees is a permanent resident of Cyprus

The settlor may retain or be granted powers, rights and interests in the trust property allowing great flexibility to adopt to changes in circumstances or objectives.

The validity of a Cyprus international trust and the disposition of property to the trust is protected against claims brought for contravention of any foreign laws nor are they affected by the inheritance or succession laws of Cyprus or of any foreign jurisdiction.

The procedure for establishing an international trust in Cyprus is straight forward and can be arranged in a relatively short period of time.

## Taxation of trusts

Cyprus international trusts enjoy a tax status that provides significant opportunities.

- non-resident beneficiaries are subject to tax in Cyprus an income and profits of the trust derived only from sources within Cyprus
- resident beneficiaries are subject to tax in Cyprus an income and profits of the trust derived from sources within and outside Cyprus

# Cyprus shipping

Today Cyprus ranks 10<sup>th</sup> in the world with over 1,000 ships exceeding 20 million gross tonnage

## The Cyprus Shipping Industry

Deloitte is amongst the leaders in providing professional services to the Shipping Community in Cyprus and has an excellent reputation in shipping worldwide. Our clients include the world's largest ship management and shipping companies operating through Cyprus as well as leading shipping lines, cruise lines, ferries, ports and port authorities.

The development of Cyprus into an international maritime centre began in 1963 when the government offered the first incentives aimed at the encouragement of ship ownership and the registration of vessels under the Cyprus flag.

The accession of Cyprus to the European Union in 2004 boosted further the

registration of vessels in the Cyprus Registry as Cyprus is one of only two countries in the European Union with an "Open Registry".

In 2010 a new tonnage tax system was introduced with approval of the European Commission. This tonnage tax system includes most of the favourable features found in tonnage tax systems of other EU countries and provides incentives and benefits to all three main sectors of the shipping industry, being ship owners, charterers and ship managers.

In summary, advantages of the Cyprus tonnage tax system include: no income tax on shipping profits including profits from the sale of ships, no tax on dividends paid from shipping profits, no estate duty or capital gains tax; no income tax in Cyprus for foreign crew; no stamp duty on documents or mortgage deeds.

Today Cyprus ranks 10<sup>th</sup> in the world with over 1,000 ships exceeding 20 million gross tonnage. In addition to tax incentives and the country's excellent geographical position, this achievement is due to the cost competitiveness of the Cypriot Ship Registry, the Island's well-developed maritime infrastructure, its excellent international relations as well as the high standard of services offered to international shipping.

For further details on the shipping industry in Cyprus, please refer to our publication Shipping in Cyprus. All our publications are available at [www.deloitte.com/cy](http://www.deloitte.com/cy).



# Our Services

Delivering outstanding service to all clients wherever they operate is our top priority. Our client service teams, under the leadership of a Lead Client Service Partner, help create powerful business solutions for organisations operating all over the world.

We, at Deloitte, offer our clients a broad range of fully integrated services in areas that include Audit, Tax, Consulting and Financial Advisory.

This integrated approach combines insight and innovation with business knowledge and industry expertise to help our clients exceed their expectations.

## **Audit & Risk Advisory Services**

In today's changing global economy, businesses need trusted advisors. Because our audit professionals take time to understand our clients' business and needs, we help them identify major risks and opportunities over and above performing the traditional financial reporting function. Deloitte in Cyprus offers our clients a broad range of audit and enterprise risk services.

Our high quality audit services focus on attest services ranging from financial to non-financial matters and other related audit and advisory services. In delivering these services we adhere to the highest standards of independence, professional objectivity and technical excellence. Our audit services include statutory audits of financial statements, non-statutory audits and other attest opinions, International Financial Reporting Standards (IFRS) services and governance services.

Our Risk Advisory Services team helps clients manage risk and uncertainty, from the boardroom to the network. Deloitte

professionals provide a broad array of services that allow clients around the globe to better measure, manage and control risk to enhance the reliability of systems and processes throughout their enterprise. Our Risk Advisory Services include control and assurance, internal audit and security & privacy.

## **Tax & Legal**

The provision of taxation services is core to Deloitte's business both in Cyprus and in the international arena.

Deloitte has one of the largest teams of taxation experts in Cyprus, providing a full range of business and personal taxation services.

Our Tax Services team keeps our clients up to speed on the developments that may affect their business, help them interpret their significance and integrate tax considerations into their strategy.

We are proud to provide quality taxation advice and services to large multinational groups, corporations, owner-managed businesses, entrepreneurs and high net wealth individuals in Cyprus and throughout the world.

Together with our network of selected independent lawyers specialising in corporate law and other legal matters our Tax Services team offers legal services to clients and address any legal matters that may affect their business.

## **Business Process Solutions**

Our Business Process Solutions team provides a broad range of professional services which are tailored to support both international and local clients with offices in Cyprus and also clients who elect to outsource specific accounting and administration processes.

Our team of highly trained and suitably qualified accounting professionals, recognise the specific needs of our clients and offer an extensive range of accounting and administrative services, providing the necessary assistance and professional support to enable our clients efficiently.

Deloitte professionals can arrange for the formation of a Cypriot company, partnership or trust as well as the provision of corporate and secretarial services ensuring that these fully comply with their statutory obligations.

We can coordinate the undertaking of increases in company share capital, statutory reductions in capital, mergers and demergers as well as other corporate restructuring and voluntary liquidations of companies.

Our Business Process Solutions include accounting and payroll, contract administrative and other, tax compliance and formation & administration of companies, partnerships and trusts.





### Consulting Services

Our consultants help our clients improve business performance and increase shareholder value. We combine expert business strategy and financial skills with the ability to deliver major information technology and business change programmes.

Our Consulting Services team provides solutions for enterprise applications, technology integration, strategy and operations as well as human capital advisory services.

### Wealth Advisory Services

Our Wealth Advisory team has the resources and capabilities to deal with all aspects of the financial affairs of the high net worth client under one roof and to look after the client's finances on a long term basis. We like to think that for our clients we become their family finance director, someone who can be relied upon to see

that their financial affairs are always in order.

Our team provides practical and imaginative wealth advisory solutions combining sound investment advice, with tax efficient structures and long term succession planning. In addition our team provides transaction advice, international advice as well as family office services.

### Investment Fund Services

Our Investment Fund Services team which includes investment, tax, wealth advisory, accounting, audit, corporate finance and consulting specialists provides tailor made multi-disciplinary solutions to investment funds.

The team can assist with the formation of a fund, ongoing tax consulting and compliance, audit, investment compliance and the raising and introduction of capital.

### Financial Advisory Services

Our Financial Advisory Services professionals provide strategic and financial advisory services to clients throughout every phase of the economic cycle. By managing our service offerings, we can extract synergies from our deep specialisation to provide added value to our clients.

Our Financial Advisory Services team provides corporate finance, M&A transaction and valuation services. The team also undertakes reorganisation, forensic and dispute resolution services and advice on grants & incentives.

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