

Cyprus strengthens financial centre status

Cyprus has continued to fortify its reputation as an attractive international business centre, firmly planting its feet in the global financial services arena.

Various elements and ingredients need to co-exist in order to constitute a country as a preferred jurisdiction through which investments are structured. Tax reasons, although important, are not the only determining factors. Cyprus offers a balanced combination of both tax and non-tax related elements and established itself as an efficient gateway through which investments are made in and out of Europe. In addition, foreign investors are also attracted to investment opportunities in the island itself.

Cyprus on the White List of OECD

In 2009, Cyprus was included, outright, on the White List of the Organisation for Economic Co-Operation and Development (OECD). This development has further strengthened the competitive advantage and image of Cyprus as a reputable international financial centre.

New Double Tax Treaty Protocol with Russia

During 2010, Russian President Dmitry Medvedev visited Cyprus for a series of high-level talks that culminated with the signing of a new Protocol to the Double Tax Treaty (DTT). The new Protocol is expected to be ratified within 2011 and has been branded as the best that Russia maintains with another country. It retains a number of currently available favourable treaty provisions and allows Cyprus to continue to act as the prime springboard for inward and outward investments in Russia.

More Double Tax Treaties for Cyprus

DTTs are one of the most important elements in international tax structuring. Treaties can help to reduce or eliminate foreign withholding taxes on cross border payments and provide relief so that profits are not taxed twice.

Currently, Cyprus has a DTT network with 45 countries, some of which contain provisions that constitute the treaty they have with Cyprus amongst the best that they maintain with any other country. Examples of such competitive treaties are with Russia, Ukraine and other CIS countries, South Africa and India. Other important treaties that Cyprus has are with the UK, Romania, Bulgaria, Poland, Italy, Germany, Serbia and Montenegro. The Cyprus DTT network continues to grow. During 2010 and in the beginning of 2011, Cyprus initiated and/or concluded negotiations for new treaties or protocols with a number of other countries.

Furthermore, as Cyprus is an EU Member State, it offers access to benefits of relevant EU Directives that can help to eliminate foreign withholding taxes on certain payments from other EU countries, irrespective of whether a DTT exists.

Tax Elements

The Cyprus tax system is one of the most competitive amongst EU Member States. Over the years, it has proven to be very stable. This is of utmost importance to foreign investors. Furthermore, the Cyprus tax system is approved and fully compliant with EU and OECD requirements.

Cyprus has the lowest corporate tax rate in Europe, being a uniform rate of 10%. In addition there are many favourable tax provisions that compliment the low corporate tax rate. The main ones, as applied to foreign investors, are the absence of capital gains tax (except for real estate situated in Cyprus) and inheritance tax. Also exempted from tax are dividend income and profit from the sale of shares. Tax credit is given for foreign tax suffered on the same income and there are no Cyprus withholding taxes on payments to non Cyprus residents. Confidentiality on the identity of owners can easily be preserved through the use of nominees and trusts.

Non-Tax Elements

As real estate development is booming in Cyprus with a variety of good quality projects, Cyprus is undeniably offered for solid physical business presence that can range from a small office to an elaborate office complex.

The important needs of businesses, with or without physical presence in Cyprus, are catered through high level of professional services, advanced telecommunications, related infrastructure as well as the island's robust strong banking system.

As redomiciliation of companies and trusts into and out of Cyprus is now permissible, many foreign companies are already taking advantage of this new law and transfer their domicile to Cyprus.

Relocation of potentially needed foreign staff or executives and their families in Cyprus is also an attractive possibility. Cyprus enjoys more than 320 days of sunshine per year, has a cosmopolitan life and is a safe place to live in. English and Russian speaking schools of high standards exist in all major towns. Cyprus is also a preferred holiday destination of the region and has two state-of-art international airports.

Foreign Confidence in Cyprus

A number of facts clearly indicate foreign confidence in the Cyprus economy and its political stability. Indicatively, over the last few years, many foreign-interest institutions invested in Cyprus banks and there have been a record number of new foreign deposits in Cyprus banks even during the peak of the worldwide financial crisis. The use of the Cyprus company in international structures is on the rise and many multinational groups choose Cyprus to base their Headquarters.

On another note, Qatar is in the final stages of concluding a significant real estate project investment in the island's capital Nicosia while an impressive marina in Limassol is under construction and intended to become one of the most exclusive waterfront developments in the Mediterranean. Moreover, luxury properties and villas have been purchased by foreigners, some of whom have moved to Cyprus, and there has been significant foreign investment in luxurious hotels and elegant golf resorts.

Residence permits and citizenship status of foreigners

Cyprus has modernised its residency and citizenship requirements, as applied to non-Europeans. Non-European citizens can now easily obtain a residency permit by acquiring a private home in Cyprus for their own use, the value of which must exceed €300,000.

Furthermore, the Cyprus government has also adopted a new policy for granting naturalization to non-European foreign investors and businessmen, which in effect means granting them an EU passport. Eligible applicants must fulfil a number of conditions that can mainly be satisfied by high net worth individuals carrying out significant business activities in and through Cyprus.

Conclusion

These developments have further strengthened the island's already robust reputation as an attractive international financial centre and instill even greater confidence into the minds of foreign investors, professionals and persons who wish to buy property in Cyprus. Being a stepping stone to three continents, Cyprus shall continue to play an important role in the EU with equally important ties outside the EU.

By: Petros Rialas, BA, MSc, FCCA, TEP
Director, Head of International Tax Planning Dept

Totalserve Management Ltd

P.O. Box 54425, 3724 Limassol, Cyprus
Tel. + 357 25866000, Fax. + 357 25866001
petros.rials@totalserve.eu
www.totalserve.eu