

Cyprus as a base for investing in Russia*September 2003***Taxation**

Cyprus companies are taxed at the rate of 10% on their taxable income. All expenses incurred in earning the income are tax deductible.

Capital gains are tax free in Cyprus (except on immovable property located in Cyprus) or on shares representing immovable property located in Cyprus.

The provision of services and the sales of goods by the Cyprus company are outside the scope of Cyprus Value Added Tax.

There is no withholding tax on the payment of dividends, interest, royalties and management fees from a Cyprus company to non-residents.

Expatriate employees of a Cyprus company are taxed as follows:

- Working in Cyprus – taxed at rates between 0%-30%
- Working outside Cyprus – exempt
- There is no estate duty, annual capital taxes or wealth taxes

The treaty with Russia

The old treaty between Cyprus and the USSR was applicable until 31st December 1999. A new treaty is now applicable as from 1st January 2000.

Under the treaty are no withholding taxes on the payment of:

- Interest
- Management fees
- Royalties
- Leasing of equipment

In relation to dividends the treaty provides for 5% withholding tax if the investment is greater than US\$100.000 otherwise 10% is applicable.

Income from movable property, including capital gains, is not subject to tax in Russia. Income from immovable property, including capital gains, is taxed in Russia.

The treaty applies to persons (individuals or corporations) which are taxed in Cyprus by reason of domicile, incorporation or place of management.

A tax exemption certificate is required to be obtained from the Russian tax authorities, which is given on the basis of tax certificate obtained from the Cyprus tax authorities.

Structuring the investment activity

The investor sets up a Cyprus company, either by himself or together with other interested parties.

The Cyprus subsidiary becomes the partner in a Russian joint stock company.

The Russian Joint Stock company becomes the operating company in Russia, which generates all income.

The Russian Joint Stock company pays Russian taxes on its profits and distributes the dividend to its shareholders at reduced withholding taxes. Russian taxation may be reduced by charging management fees, interest, royalties etc.

The Cyprus company will pay Cyprus income tax on the dividend received but it will claim a tax credit for the 5% tax paid in Russia. It can then distribute the after tax profits to its shareholder without any withholding tax.

The investor can sometimes treat the dividend as exempt surplus and not pay any tax in his country (e.g. Canadian investor).

Many different structures can be set up. These are to be designed taking into consideration the merits of each case.

Matters to be considered

Avoidance of permanent establishment in Russia by making sure that no services are provided in Russia by employees of the Cyprus company.

Avoidance of having mind and management in the investors country.

Maintenance of an office in Cyprus where administrative services are provided.

Employment of personnel in Cyprus either expatriate or local.

The majority of the Board of Directors are residents of Cyprus.

Bank accounts are maintained and operated from Cyprus.

Keeping of accounting records is carried out in Cyprus and all documents are kept in Cyprus.

Advantages offered by Cyprus to companies establishing offices in Cyprus

Availability of office and housing accommodation at very competitive rates and of high standard.

Telecommunication facilities rank amongst the best in the world.

Air connections with Europe, Russia and the Middle East.

Qualified personnel at very competitive rates. Salaries are about 60% of rates in Europe.

Excellent climate and very high standard of living and education facilities.

Working permits are easily granted to expatriate employees.

NOTES:

The above is intended to provide a brief guide only. It is essential that appropriate professional advice is obtained. Totalserve Management Ltd will be glad to assist you in this respect. Please do not hesitate to contact us.