

CYPRUS WELCOMES NEW BUSINESS AS A RESULT OF THE ECONOMIC SUBSTANCE REQUIREMENTS OF OFFSHORE JURISDICTION

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In response to relevant requirements of the EU and the OECD, most traditional offshore jurisdictions have recently enacted, into their domestic laws, “*Economic Substance*” requirements that mainly apply to companies.

Such jurisdictions currently include the British Virgin Islands (BVI), the Cayman Islands, Bermuda, Guernsey, Jersey, Isle of Man, Seychelles, Mauritius and the Bahamas — with more expected to follow suit in due course.

In brief, these new provisions generally require that adequate and relevant economic/business substance is locally established for each relevant activity that each company claims to be carrying out from that offshore jurisdiction. Failure to do so may lead to economic sanctions and an eventual strike-off of the company.

In practice, the actual establishment of offshore substance is expected to be extremely difficult and/or very costly to implement. Likewise, new banking practices worldwide often view such offshore structures with increased scrutiny.

In light of the above, an offshore company which does become subject to these economic substance requirements and who, for various reasons, cannot or does not want to establish such offshore substance must, therefore, look for alternative options. In this case, the real consideration now becomes whether it is time to close the company (and perhaps open a new one elsewhere) and whether to move on from offshore onto onshore. If so, the challenge, then, becomes to identify a suitable onshore jurisdiction. This is where Cyprus comes into play.



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In a nutshell, Cyprus offers a fully compliant, practical, cost competitive, controllable and efficient solution. Furthermore, Cyprus allows inward redomiciliations of foreign companies and can easily facilitate any level of needed substance.

The practical ways to move an offshore company to the jurisdiction of Cyprus and, thus, stop it from being subject to the offshore jurisdiction’s substance requirements are the following:

- Redomicile and move the tax residency of the offshore company to Cyprus.
- Should redomiciliation not be preferred for business or any other reasons, then simply moving the tax residency (management and control as well as base of operations) of the offshore company to Cyprus.

It is not by coincidence that Cyprus continues to be one of the preferred international business centres from where foreigners often conduct their international activities. The island offers attractive corporate, legal and tax regimes, both for corporations and individuals. Then, there is the irrefutable high level of professional services and infrastructure, as well as its convenient geographical location. Last but not least, is the beauty of the island and diverse quality of life that makes it such a nice place to live and work in.

Moreover, Cyprus remains fully compliant with all international guidelines and regulations, whilst, at the same time, it has introduced significant tax and other incentives for foreign individuals (whether these are key employees or high net worth individuals) to physically move and choose to live and work from/in Cyprus.

From a corporate tax perspective, Cyprus has one of the most competitive tax rates in the EU, being a uniform rate of 12.5%. Various types of income (such as dividends, capital gains and gains from sale of shares) are completely tax exempt, thus constituting a company engaged in pure holding or share trading activities as completely tax exempt. Other types of income are entitled to certain partial tax exemptions, thus significantly reducing the overall effective Cyprus tax rate.

Furthermore, Cyprus has access to benefits from all relevant EU Directives and a very good network of double tax treaties. The tax treaties that Cyprus has with certain non-EU countries, such as Russia, Ukraine, India and South Africa, are considered to be the best tax treaties that these countries have with any other country.

All of the above, together with the wide and varied choice of exceptional office facilities for all budgets and the significant cost competitive advantage that Cyprus has over other prime EU jurisdictions, constitutes this European, sunny island as a preferred choice.

To conclude, these new offshore economic substance requirements are unclear, vague and, in most cases, difficult to practically establish, but, most importantly, they are untested! The most obvious alternative for a company to continue operating at its best would be to move it to a practical, already-tested and efficient onshore jurisdiction like Cyprus.

Cyprus has already started welcoming such new business opportunities and is eager and ready for much more.

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