

**DOING
BUSINESS
IN**

CYPRUS



HLB Afxentiou Ltd

foreword

This booklet has been prepared for the use of clients, partners and staff of HLB International member firms. It is designed to give some general information to those contemplating doing business in Cyprus and is not intended to be a comprehensive document. You should consult us, therefore, before taking further action.

HLB Afxentiou Limited and HLB International cannot be held liable for any action or business decision taken on the basis of information in this booklet.

HLB Afxentiou Limited
Chartered Accountants

October 2010

Contents

1	Foreword	1
2	HLB International	3
3	General information	4
4	Types of business organisations	6
5	Taxation	9
6	International business entities	18
7	International Banking Units	21
8	International Financial Services Companies	23
9	International Captive insurance Companies	24
10	International trusts	25
11	International Collective Investment Schemes (ICISs)	26
12	Cyprus Shipping	27
13	HLB Afxentiou Limited	28

Cyprus



1. *HLB International*

HLB International is a fast-growing, dynamic network of independent professional accounting firms and business advisers. Formed in 1969, HLBI ranks in the top 12 international accounting networks, servicing clients through its member firms in over 100 countries. HLB International is a member of the Forum of Firms and is ranked within the top 12 international accounting networks.

Up-to-date information and general assistance on international matters can be obtained from any of the Members of the Board of HLB Afxentiou Limited listed in this booklet or from the Executive Office in London:

**HLB International
Executive Office
21 Ebury Street
London SW1W 0LD
UK**

**Telephone: +44(0)20 7881 1100
Fax: +44(0)20 7881 1109
Email: mailbox@hlbi.com
Website: www.hlbi.com**

HLB International is a world-wide network of independent professional accounting firms and business advisers, each of which is a separate and independent legal entity and as such has no liability for the acts and omissions of any other member. HLB International Limited is an English company limited by guarantee which co-ordinates the international activities of the HLB International network but does not provide, supervise or manage professional services to clients. Accordingly, HLB International Limited has no liability for the acts and omissions of any member of the HLB International network, and vice versa.

2. *General Information*

Location and climate

Cyprus is situated in the eastern Mediterranean sea at the hub of three continents, Europe, Asia and Africa. It spans an area of 9.251 square kilometres and it is the third largest island in the Mediterranean after Sicily and Sardinia. Topographically, the island features forested mountains and sandy beaches. Cyprus' time zone is exactly seven hours ahead of New York and seven hours behind Tokyo. Hence, it is possible to work both with the west and the east when operating from Cyprus during normal working hours.

Cyprus' pleasing Mediterranean climate consists of hot dry summers and mild winters. There are about three hundred and twenty days of sunshine a year. The peak summer months are July and August. The months from November to April produce the largest amount of rainfall and skiing is possible from January to March. In January the minimum and maximum mean temperatures range from 4°C (39°F) to 13°C (55°F), while in August they range from 21°C (70°F) to 36°C (97°F).

Population, languages and currency

The island has a population of approximately 1,061,840 of which 75% are Greek Cypriots and 25% are Turkish Cypriots. Nicosia, the capital, is home to approximately one third of the population and is the business and administrative centre of the island. Limassol, the second largest city, is the island's principal port, industrial and commercial centre and an important tourist resort. Larnaca and Paphos are also important tourist resorts and possess international airports. The official languages are Greek and Turkish but almost everyone speaks English as a second language. English is also widely used in commerce and government.

The unit of currency is the EURO (€).

Political and legal systems

Cyprus is an independent and sovereign republic with a presidential system of government, which is modelled on western democratic systems. Executive power is vested in the President, who is also the Head of State. The President is directly elected for a five-year term of office and is eligible for re-election. The President appoints the Council of Ministers, the main executive instrument of the Republic. Legislative power lies with the House of Representatives, composed of fifty-nine elected members holding office for five years. The democratic multi-party system is based on proportional representation. The legal system is based on the same principles applicable in the United Kingdom and all statutes regulating business matters and procedures are essentially based on English Law. Cyprus company law is almost identical with the British Companies Act 1948. The judicial power of the Republic is exercised by the Judiciary, which is a separate and independent body.

Political problem

Cyprus, following the Turkish invasion in 1974, has been de facto divided into a Government controlled area encompassing around 65% of the area of the island and 35% occupied by the Turkish army. The information contained in this booklet refers only to the areas controlled by the Republic of Cyprus.

The economy

The Cyprus economy is characterised by robustness and macroeconomic stability which is evidenced by the favourable evaluations and comments of the European Commission, the International Monetary Fund and other international organizations.

The Cyprus economy recorded real GDP growth of the order of 3% in the period 2005-2009. It is noteworthy that this growth was achieved in an environment of full employment conditions, low inflation, a stable and strong currency, as well as a relatively low fiscal deficit.

Macroeconomic stability, combined with the progress achieved provided a strong foundation for the accession of Cyprus to the EU, as well as the participation of Cyprus in the euro area.

The cost of living in Cyprus, as well as the quality of life, compares very favourably with other European countries. In a recent survey, the island's per capita Gross Domestic Product was more than €21,000. Taking into consideration other socio-economic indications such as the excellent housing conditions, the pollution-free environment and the low crime rate, it is arguable that the standard of living is better than that reflected by per capita income alone.

Banking and finance

In order to ensure a safe and stable financial system that would preserve public confidence and foster economic stability and growth, Cyprus maintains an effective mechanism of bank regulation and supervision.

The Central Bank of Cyprus, the regulatory monetary body, grants a licence to carry on banking business and exercises supervision, the main objective of which is to minimize systemic risk and preserve the stability of the banking system so as to retain public confidence and to protect depositors.

The Central Bank of Cyprus has always been guided in its supervisory role by the recommendations of the Basle Committee on Banking Supervision and the EU Directives on banking regulation while following up closely new developments and having its prudential functions under constant review to take account of these developments and changing circumstances.

Transport and telecommunications

Due to its location and up-to-date seaport facilities, Cyprus has become an important shipping centre. The two major multi-purpose ports of Limassol and Larnaca serve both containerised and breakbulk cargo. In addition, there is the industrial port of Vassiliiko serving the cement export industry. Transit cargoes enjoy preferential treatment such as minimal customs formalities, free trade facilities, berthing priority and special rates for long-term storage.

There is a wide network for air routes connecting Cyprus with Europe, America, Asia and Africa.

Cyprus is a regional telecommunication services centre, boasting one of the most advanced networks of high quality optical fibre submarine cables and satellite links in Europe. The island's success as a telecommunication hub in the eastern Mediterranean and Middle East region is due, first and foremost, to the strength of its international network and the superb regional and international connectivity it offers. Nearly every country in the world can be reached through the automatic system, while all other countries may be reached via the operator twenty-four hours a day. There are also telegraph, telex, facsimile, data transmission, internet and mobile phone and paging facilities available.

International associations

Cyprus has become a full member of the European Union since 1 May 2004 and of the Eurozone as of 1 January 2008. It is also a member of the United Nations, the Commonwealth and the Council of Europe. Cyprus has diplomatic relations with a very large number of countries and is a signatory to a large number of international conventions, including forty-four treaties for the avoidance of double taxation.

3. *Types of Business Organisations*

Introduction

Cyprus is considered to be an international business centre. The island's entrepreneurial environment and support facilities compare favourably with those of the best established centres in the world and since the introduction of the first incentives in 1975, a large number of international business entities have been registered in Cyprus.

International business entities in Cyprus conduct a diverse range of business abroad including: marketing of consumer goods, transit and entrepot trade, holding of property and securities, business consulting and services, distribution and repair of equipment, architecture and town planning, electrical and mechanical engineering, road and airport construction, hotel ownership and management, travel and tourism, personnel recruitment and training, advertising design and graphics, maintenance of computer hardware and software, patent and trademark registration, gathering and distribution of news, shipmanagement and other maritime services, general and captive insurance, as well as international commercial banking.

A significant number of international business entities maintain fully-fledged administrative offices in Cyprus for the purpose of conducting their regional or world-wide affairs. These entities employ a large number of expatriates and Cypriots. International business entities registered in Cyprus can either operate from their own management headquarters or from the offices of lawyers or accountants.

HLB Afxentiou Limited has a large portfolio of international business clients in Cyprus and administers operations for hundreds of international business entities.

International business entities may be registered in Cyprus in the following legal forms under Cyprus company law which is almost identical to the United Kingdom's former Companies Act 1948:

- Limited company
- Partnership
- Branch

Limited companies make up the vast majority of international business entities registered in Cyprus. Branches and partnerships constitute only a small percentage, mainly because their legal status and financial liabilities are ultimately the same as those of their beneficial owners.

Limited company

The liability of a private company's members is limited either by shares or by guarantee. If a company is limited by shares, the liability of its members is limited to the nominal value of the shares subscribed to by them and if the shares are fully paid up, then the shareholders are not liable to contribute further. If a company is limited by guarantee, the liability of its members is limited to the amount to which they have agreed to subscribe in the case of liquidation. Companies limited by guarantee are usually formed by non-profit-making businesses.

A private limited company means a company which by its articles:

- Prohibits the issue of bearer shares
- Prohibits any invitation to the public to subscribe for its shares or debentures
- Limits the number of its members to a maximum of fifty with a minimum of one

More stringent regulations from the Registrar of Companies and more requirements by law govern public companies. International business entities are always registered as private companies because this legal form enjoys comparatively inexpensive formation procedures, consensus of a few shareholders, control over the membership and uncomplicated reporting requirements. Public companies

cannot take advantage of these benefits. Many international business entities are subsidiaries or branches of well-known international corporations whose shares are traded on recognised stock exchanges abroad.

Partnership

A partnership can be either general or limited and comprises two or more persons aiming to profit by carrying on a common business.

Each of the partners of a general partnership is liable severally and jointly with the remaining partners for all debts and obligations of the firm. Furthermore, after a partner's death, his estate is also liable for all debts and obligations and is subject to prior payment of his separate debts.

Limited partnerships comprise general and limited partners. The one or more general partners are liable for all debts and obligations of the firm and one or more limited partners must, at the time of entering into such a partnership, contribute a stated amount to its capital or property valued. The limited partners are not liable for debts and obligations of the firm above the amount contributed. A limited partner may neither take part in the management of the partnership nor bind it. A company can become a partner with another company or with individuals, provided that it is authorised by its articles.

Branch

A branch of a foreign company may be registered in Cyprus with the Registrar of Companies under the relevant section of the Companies Law. A branch does not constitute a legal entity different from that of its founding overseas company.

Obligation to maintain accounting records and prepare audited financial statements

The directors are obliged to ensure that the company maintains accounting records which enable the preparation of financial statements that present a true and fair view

of the company's financial position and performance in accordance with International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS). The law also requires certain disclosures and prescribes information that must be provided in the director's report. The audited financial statements are required to be filed with the Registrar of Companies within twelve months of the financial year end.

The accounting records must be held either at the registered office or at another place in Cyprus and must always be available for inspection by the directors. Even if the book keeping function is maintained outside Cyprus, arrangements should be made for the accounting records to be sent to Cyprus at regular intervals, not exceeding six months.

Exemption from consolidated accounts

"Groups" are exempted from the requirement to prepare consolidated accounts, unless:

1. they are public companies
2. the preparation of consolidated accounts is governed by other specific legislation, or
3. they exceed any two of the following three criteria:
 - (a) total balance sheet assets of €17,500,000
 - (b) total turnover of €35,000,000
 - (c) total number of employees 250

4. Taxation

Corporation tax

All companies tax resident of Cyprus are taxed on all their income accrued or derived from all sources in Cyprus and abroad. A non-Cyprus tax resident company is taxed on income accrued or derived from a business activity which is carried out through a permanent establishment in Cyprus.

A company is resident in Cyprus if it is controlled and managed in Cyprus.

The corporate tax rate is 10% on taxable profits.

Treatment of dividends

Dividends which are paid by Cyprus companies to non-Cypriot resident shareholders are tax free in Cyprus.

Dividends which are paid by Cyprus companies to Cyprus resident individual shareholders are subject to 15% defence contribution (defence tax). No taxes are withheld from dividend payments to Cyprus resident corporate shareholders.

Deemed distribution of dividends

If a Cyprus company does not pay a dividend to its shareholders within two years from the end of the tax year then:

- 70% of its accounting profit (as adjusted for deemed dividend distribution purposes) is deemed distributed
- The deemed distribution which is attributed to Cypriot resident shareholders is subject to 15% defence contribution (defence tax)
- The deemed distribution is reduced by the actual dividends paid from the profits of the relevant tax year within the two years following the relevant tax year.

Treatment of interest

Interest which is earned in Cyprus is tax free if it is paid to a non Cyprus resident.

Interest not arising from the ordinary activities or closely related to the ordinary activities of the company, is subject to 10% defence contribution (defence tax) if it is paid to Cyprus residents.

Treatment of gains from trading in shares or other equities

The profits of a Cyprus company from trading in shares and other equities are tax free in Cyprus.

Dividends generated abroad and received in Cyprus

Dividends which are paid by a foreign company to a Cyprus resident company are tax free in Cyprus provided that:

- (i) the paying company's activities are not directly or indirectly more than 50% from investment activities, OR,
- (ii) the corporation tax rate of the paying company is not substantially less than the Cyprus tax burden.

This renders Cyprus an ideal place for setting up holding companies.

Treatment of royalties

Royalty payments which are sub-licensed outside Cyprus are tax free in Cyprus.

Shipping and ship management companies

Ship owners, ship charterers and ship managers are subject to a competitive tonnage tax, which is calculated based on

the net tonnage of the vessels that they possess, charter or manage respectively. They also enjoy income tax exemption on dividend income and interest income deriving from qualifying shipping activities as well as on gains deriving from the alienation of ships. They can also take advantage of no taxes on the crew salaries and no stamp duties on mortgage documents.

Non-designated vessels and/or shipping activities are subject to tax under the ordinary corporate tax rate of 10%.

Company losses and group relief

Tax losses can be set off against profits of the same tax year and any unutilized losses can be carried forward and set off against future profits without any time restriction.

The tax losses of a company can be set off against the profit of another company of the same group when the companies are tax residents of Cyprus. A company is a member of the same group if:

- (a) is a 75% subsidiary of the other, or
- (b) each company is a 75% subsidiary of a third company

Tax administration

Tax year

The tax year is the calendar year, but corporations and unincorporated business entities may elect an accounting year ending on a date other than 31 December. In such a case, the taxable income is apportioned to the tax year from two accounting periods.

Filing of tax returns

Companies which follow the calendar year for their tax year must file an income tax return and financial statements within twelve months of their year end.

Collection of tax

The tax on employees' salaries is collected under the PAYE system. PAYE is paid by the end of the month following the relevant

month. The tax on corporate profits is collected by means of a temporary assessment filed during the tax year. It is paid in three equal installments on 1 August, 30 September and 31 December. The final tax liability is paid on 1 August in the following fiscal year.

Capital gains tax

Residents of Cyprus are liable to capital gains tax only on their disposals of immovable property which is situated in Cyprus.

Capital Gains Tax is imposed at the tax rate of 20% on gains from the disposal of immovable property situated in Cyprus including gains from the disposal of shares in companies which own such immovable property excluding shares listed in any recognised stock exchange.

Estate duty

There is no estate duty tax in Cyprus.

Immovable Property Tax

Immovable Property Tax is imposed on the market value of the immovable property as at 1 January 1980 and applies to the immovable property owned by the taxpayer on 1 January of each year. This tax is payable on 30 September each year.

Both individuals and legal entities are liable for Immovable Property Tax.

Tax rates table

Property value €	rate %	tax €	accumulated tax €
0–170,860	0	0	0
70,861–427,150	2.5	641	641
427,151–854,300	3.5	1,495	2,136
Over 854,300	4		

Stamp duty

The following table gives the amount or rate of duty payable on certain documents:

Receipts – or sums of €3.42 - €34.17	€0.03
Receipts – or sums over €34.17	€0.07
Letters of Credit	€1.71
Letters of Guarantee	€3.42
Bills of Exchange (payable within three days on demand or at sight)	€0.85
Contracts	0.15%
– up to €170,860	0.2% (maximum fee €17,086)
– over €170,860	
– without fixed sum	€34.17
Customs Declaration Documents	€17.09 - €34.17
Bills of Lading	€3.42
Charterparty	€17.09
Powers of Attorney – general	€5.13
– limited	€1.71
Certified copies of contracts and documents	€1.71
Company reorganisation documents	Exempted

Transfer fees by the Department of Land and Surveys

The fees charged by the Department of Land and Surveys for transfers of immovable property are as follows:

Tax rates

Value €	Rate %	Fee €	Accumulated fee €
Up to 85,430	3	2,563	2,563
85,431 – 170,860	5	4,272	6,835
Over 170,860	8		

In the case of property transferred to a family company, transfer fees are refundable after five years if the property remains with the company and the shareholders remain the same.

On the transfer of immovable property from a family company to its shareholders as well as on transfers by donation between spouses, spouses and children or relatives up to third degree of kindred, transfer fees are calculated on the estimated value of property appearing on the title deed at the following rates:

- Transfer to a spouse 8%
- Transfer to children 4%
- Transfer to relative 8%

In the case of companies' reorganisations, the transfers of immovable property are not subject to transfer fees by the Department of Land and Surveys.

Value added tax

VAT is imposed on the provision of goods and services in Cyprus, as well as on the acquisition of goods from the European Union and the importation of goods into Cyprus.

VAT rates

- Zero (0%)
- Reduced (5%)
- Reduced (8%)
- Standard (15%)

Zero rate (0%)

- Supplies of goods to other EU Member States
- Exports
- Food
- Medicines

Reduced rate of 5%

- Funeral services and supply of coffins
- Road sweeping, garbage collection and recycling
- Services of authors, composers, artists and critics of works of art
- Supply of fertilizers, insecticides and fungicides
- Supply of animal foodstuffs and seeds
- Supply of live animals of a kind generally used for human consumption
- Newspapers, magazines and books
- Non-bottled water
- Gas
- Transfer of persons and their luggage on a rural or city bus
- Various goods to be used by handicapped persons
- Ice-cream, yogurt ice-cream and similar products
- Salted or spicy products made from potato
- Dry roasted or spicy nuts
- Hairdressing services
- Bottled water, ready-made drinks, juices excluding soft drinks, alcoholic drinks, beer and wine
- Repair and maintenance of private households

after three years of first residence

- The letting of camping sites and caravan parks
- Supply of vaccines for medical and veterinary (with certain exemptions)
- Entry fees to theatres, circus, festivals, luna parks, concerts, museums, zoos, cinemas, exhibitions and similar cultural events and related places
- Entry fees at sports events and fees for using athletic centres
- Supplies in the course of catering by school canteens
- Accommodation in hotels, tourist lodgements and any other similar lodgements including the provision of holiday lodgements.

Reduced rate of 8%

- Rural and private taxi transport services
- Tourist, excursion and long distance bus services
- All restaurant services and any similar catering services (excluding the supply of alcoholic drinks, beer and wine) .

Exemptions:

- Rent
- Medical services
- Insurance and financial services
- Disposal of used immovable property
- Educational services
- Postal services

Personal Income Tax

Basis of taxation

All Cyprus tax residents are taxed on all income accrued or derived from all sources in Cyprus and abroad. Individuals who are not tax residents of Cyprus are taxed on income accrued or derived from sources in Cyprus.

An individual is tax resident in Cyprus if he/she spends more than 183 days in the country in any one year.

Personal tax rates

The following income tax rates apply to individuals:

Chargeable income EURO €	rate %	tax €	accumulated tax €
0 – 19,500	0	0	0
19,501 – 28,000	20	1,700	1,700
28,001 – 36,300	25	2,075	3,775
Over 36,300	30		

Chargeable income is calculated after deducting income tax exemptions and allowances.

Treatment of foreign pensions

Foreign pensions are taxed at the rate of 5%. An annual exemption of €3,420 is granted.

Exemptions

Type of Income	Exemption
Interest	100%
Dividends	100%
Remuneration from any office or employment exercised in Cyprus by an individual who was not resident of Cyprus before the commencement of employment for a period of 3 years commencing from 1st January following the year of commencement of the employment	20% of income with a maximum amount of €8,550 annually
Remuneration from salaried services rendered outside Cyprus for more than 90 days in a tax year to a non-Cyprus resident employer or to a foreign permanent establishment of a Cyprus resident employer	100%
Profits of a permanent establishment abroad under certain conditions	100%
Lump sum received by way of retiring gratuity, computation of pension or compensation for death or injuries	100%
Capital sums accruing to individuals from any payments to approved funds (e.g. provident funds)	100%
Profits from the sale of securities	100%

Tax Deductions

Type	Deduction
Contributions to trade unions or professional bodies	100%
Loss of current year and previous years	100%
Rental income from buildings	20% of rental income
Interest in respect to the acquisition of a building for rental purposes	100%
Donations to approved charities with receipts	100%
Expenditure incurred for the maintenance of a building under the Preservation Order	Up to €700, €1,100 or €1,200 per square meter (depending on the size of the building)
Social Insurance, provident fund, medical fund, pension fund contributions and life insurance premiums (the allowable annual life insurance premium is restricted to 7% of the insured amount)	Up to 1/6 of the taxable income

Tax treaties withholding tax tables

The following tables give a summary of the withholding taxes provided by the double tax treaties entered into by Cyprus:

Received in Cyprus

	Dividends %	Interest %	Royalties %
Armenia (27)	0	0	0
Austria	10	0	0
Belarus	5 (4)	5	5
Belgium	10 (1)	10 (16)	0
Bulgaria	5 (19)	7 (25)	10 (20)
Canada	15	15 (7)	10 (11)
China	10	10	10
Czech Republic (29)	10	10 (8)	5 (14)
Denmark	10 (1)	10 (9)	0
Egypt	15	15	10
France	10 (2)	10 (9)	0 (26)
Germany	10 (1)	10 (8)	0 (26)
Greece	25 (21)	10	0 (12)
Hungary	5 (1)	10 (8)	0
India	10 (2)	10 (8)	15 (15)
Ireland	0	0	0 (12)
Italy	15	10	0
Kuwait	10	10 (8)	5 (14)
Kyrgyzstan (27)	0	0	0
Lebanon	5	5 (16)	0
Malta	0 (22)	10 (8)	10
Mauritius	0	0	0
Moldova	5 (19)	5	5
Montenegro (28)	10	10	10

Norway	5 (3)	0	0
Poland	10	10 (8)	5
Qatar (30)	0	0	5
Romania	10	10 (8)	5 (14)
Russia	5 (6)	0	0
San Marino	0	0	0
Serbia (28)	10	10	10
Seychelles	0	0	5
Singapore	0	10 (23)	10
Slovakia (29)	10	10 (8)	5 (14)
Slovenia (28)	10	10	10
South Africa	0	0	0
Sweden	5 (1)	10 (8)	0
Syria	0 (1)	10 (8)	15 (13)
Tajikistan (27)	0	0	0
Thailand	10	10 (17)	5 (18)
Ukraine (27)	0	0	0
United Kingdom	0 (24)	10	0 (26)
United States	15 (5)	10 (10)	0
Uzbekistan (27)	0	0	0

Paid from Cyprus*

	Dividends %	Interest %	Royalties %
Non-treaty countries**	0	0	0
Armenia (27)	0	0	0
Austria	10	0	0
Belarus	5 (4)	5	5
Belgium	10 (1)	10 (16)	0
Bulgaria	5 (19)	7 (25)	10 (20)
Canada	15	15 (7)	10 (11)
China	10	10	10
Czech Republic (29)	10	10 (8)	5 (14)
Denmark	10 (1)	10 (9)	0
Egypt	15	15	10
France	10 (2)	10 (9)	0 (26)
Germany	10 (1)	10 (8)	0 (26)
Greece	25 (21)	10	0 (12)
Hungary	5 (1)	10 (8)	0
India	10 (2)	10 (8)	15 (15)
Ireland	0	0	0 (12)
Italy	15	10	0
Kuwait	10	10 (8)	5 (14)
Kyrgyzstan (27)	0	0	0
Lebanon	5	5 (16)	0
Malta	0 (22)	10 (8)	10
Mauritius	0	0	0
Moldova	5 (19)	5	5
Montenegro (28)	10	10	10
Norway	5 (3)	0	0
Poland	10	10 (8)	5
Qatar (30)	0	0	0
Romania	10	10 (8)	5 (14)
Russia	5 (6)	0	0
San Marino	0	0	0
Serbia (28)	10	10	10
Seychelles	0	0	5
Singapore	0	10 (23)	10
Slovakia (29)	10	10 (8)	5 (14)
Slovenia (28)	10	10	10
South Africa	0	0	0
Sweden	5 (1)	10 (8)	0
Syria	0 (1)	10 (8)	15 (13)
Tajikistan (27)	0	0	0
Thailand	10	10 (17)	5 (18)
Ukraine (27)	0	0	0
United Kingdom	0 (24)	10	0 (26)
United States	15 (5)	10 (10)	0
Uzbekistan (27)	0	0	0

Notes

- * Payments of dividends and interest to non-residents are exempt from withholding tax in Cyprus according to the Cyprus Legislation. Royalties granted for use outside of Cyprus are also free of withholding tax in Cyprus.
 - ** In the case where royalties are earned on rights used within Cyprus there is a withholding tax of 10% and 5% on film and TV royalties.
1. 15% if receipts are from a company controlling less than 25% of voting rights
 2. 15% if receipts are from a company controlling less than 10% of voting rights
 3. Nil if paid to a company controlling at least 50% of voting rights
 4. This rate applies if the amount invested exceeds €200,000 regardless of the share of voting rights. The rate of 10% applies if the dividend paid is to an individual holding at least 25% of the paying share capital. In all other cases the rate of 15% applies.
 5. 5% if receipts are from a company controlling at least 10% of voting rights
 6. 10% if receipts are from a company that has invested less than US\$100,000 (as from 1 January 2011 expected to be €100,000)
 7. Nil if paid to the government or as a guarantee of exports
 8. Nil if paid to the government, bank or financial institution
 9. Nil if paid to the government or relating to the sale on credit of any industrial, commercial or scientific equipment or of any individual from one business to another or in any way of a loan given by a bank or if as a guarantee from the government or other public organization
 10. Nil if paid to the government, to a bank or financial institution or relating to debts from the sale of property or the supply of services or relating to obligations of loans secured or guaranteed by the government
 11. Nil applies for any literary, dramatic, musical or artistic work except films produced for TV presentation
 12. 5% on film royalties shown on TV
 13. 10% for literary, artistic, scientific and film royalties
 14. Nil for literary, artistic or scientific royalties including films
 15. 10% for payments of a technical, management or consulting nature
 16. Nil if paid to the government, political division or local authority, national bank, or any institution with a capital owned entirely by the government, political divisions or local authorities, or interest from deposits in financial institutions
 17. 10% on interest received from financial institutions or paid in relation to industrial, commercial or scientific equipment, or on any sale of goods between the two companies
 18. 10% on royalties for the use of information relating to industrial, commercial or scientific equipment. 15% on patents, trademarks, designs or models, plans, secret formulae or processes
 19. 10% if received from a company holding less than 25% of capital
 20. The rate does not apply where 25% or more of the share capital of a Cypriot company is owned directly or not by a resident in Bulgaria who pays for the rights and the Cypriot company pays tax at a lower rate
 21. The treaty provides for a rate of 25% but local legislation provides for a withholding tax rate of 0%
 22. The treaty provides that tax on the gross amount of dividends will not exceed the tax suffered by the profits from which the dividends derived
 23. 7% if paid to a bank or a similar financial institution. 0% if paid to the government
 24. The treaty provides for a 15% withholding tax but the local legislation provides for a rate of 0%
 25. Nil if paid to, or is guaranteed by the government, other public organisation or the Central Bank
 26. 5% for film rights, including films shown on TV
 27. The treaty between Cyprus and the USSR still applies
 28. The treaty between Cyprus and Yugoslavia still applies
 29. The treaty between Cyprus and Czechoslovakia still applies
 30. Not yet in force

6. *International Business Entities*

Introduction

The island is established as one of the world's primary financial and commercial international business centres.

An international business entity is essentially a business owned by foreigners, registered in Cyprus, but operating outside the island, although such an entity may well be managed from its own office in Cyprus. The low taxes, low operating costs and the facilities and concessions extended to international businesses, constitute the most important advantages which have attracted a great number of foreign companies and individuals to operate under the international business status.

International business appeal

The main advantages are summarized below:

- Only 10% corporation tax which is the lowest standard rate in the EU
- Zero tax on dividends received
- No withholding tax on dividends, interest and royalties paid to non-residents of Cyprus
- A wide network of double tax treaties
- Full capital gains tax exemption on capital gains, except on the sale of immovable property situated in Cyprus or of shares in non-listed companies that own such property
- Access to EU directives
- Membership of most international organizations and maintenance of friendly relations with the majority of developing and developed countries
- Geographic location at the cross-roads of Europe, Asia and Africa
- Low set-up and running costs

- Highly qualified professionals
- Freedom from exchange control
- An excellent telecommunication system
- Social, cultural and recreational facilities
- Pleasant climate

The Cyprus government's positive attitude towards international business in Cyprus, and its liberal and constructive approach, have contributed significantly to the development of Cyprus as a commercial, financial and business centre.

International business regulations

Anonymity of the non-resident investor can be secured by using nominee shareholders. The names of nominee shareholders appear on the public records kept at the Department of the Official Receiver and Registrar. Information on individual international business entities is kept confidential and only mass data is published occasionally to enable the public to appreciate the advances made in this sector.

To ensure that clients are in full compliance with statutory matters, HLB Afxentiou Limited can recommend suitable secretarial companies which undertake to act as company secretary. The firm can also recommend trustee and nominee companies to hold shares and other property in trust for clients who may wish to remain anonymous

International business limited companies

An application has to be made to the Registrar of Companies for the formation of an international business company. The Registrar of Companies requires the following:

- To approve the name of the company
- Memorandum and articles of association must be submitted for filing.

Share capital requirements

There are no minimum authorised and issued share capital requirements. However, a share capital of €2,000 is recommended.

Shareholders

At least one registered is required for whom the following information is required:

- Full name
- Nationality
- Address
- Number of shares to be held
- Bank reference letter

Appointment of directors

From a tax planning point of view, it may be important that the company's management and control is from Cyprus. If this is the case, it is recommended that the majority of directors appointed should be Cyprus residents. The following information is required for each director:

- Full name
- Nationality
- Address
- Occupation
- Bank reference letter

Appointment of secretary and registered office

The existence of a secretary and a registered office address are mandatory and secretarial companies are allowed to act as secretaries for international business companies.

Formation, annual and administrative costs

The formation and registration procedures are normally completed within a period of a week. For total formation costs for a company including all out of pocket expenses, as well as for annual domiciliary costs required for running a company, i.e. directors, secretary, nominee companies and registered office address, please contact the CEO of our Firm. Professional fees are based on the time spent and the standard of the accountant/consultant involved and are very reasonable by European standards.

EU residents

No formalities are required for an investment in a Cyprus company.

Work permits

EU citizens may work in Cyprus but they must obtain a residence permit which is normally granted on application.

A work permit is required for third party nationals wishing to work in Cyprus, and is granted by a specific employer.

Work permits are normally issued for a period of one year and can be renewed.

International business partnerships

The formation and registration procedure to set up an international business partnership is similar to that of an international business company. The advantage of a partnership is that its profits are not taxable. Partnerships are not very often used, because of the disadvantage of the partners having unlimited liability.

Where investors wish to maintain the advantage of a nil position and at the same time enjoy limited liability, it is possible to set up a limited liability partnership. Under this set-up, individual partners can be limited liability partners, while a Cyprus international business company can be the general partner with unlimited liability as far as the partnership is concerned.

Partnership documents

The partners should have full partnership documents, upon the registration of the partnership. These documents normally comprise:

- Certificate of registration
- List of partners and their authority to bind the partnership
- Letterheads, invoices and other partnership stationery
- Any other information and documentation pertaining to the partnership's activities from the date of its establishment.

Formation and other costs

For the formation costs for a partnership including out of pocket expenses such as stamp duties, please contact the CEO of our Firm. Fees for professional services for the administration of the partnership are based on the actual time spent.

International business branches

To set up an international business branch, an application must be made to the Registrar of Companies as for an international business company, but within one month of establishment, the branch must also file the following documents and information with the Registrar of Companies:

- Certified copy of the charter, memorandum and articles of association or other instrument defining the constitution of the company (translated into Greek)
- Particulars of the directors and secretary of the branch
- Name and address of at least one person resident in Cyprus, authorised to accept, on behalf of the branch, any notices required to be served.

The above documents must be certified and apostilled in the country of origin by a notary public. Alternatively, certification is required both by a notary public and the consul of the Republic of Cyprus in that country.

Formation and administrative costs

For the formation costs of an international business branch, please contact the CEO of our Firm. Professional fees for the administration of the branch are again based on time spent.

7. *International Banking Units*

Introduction

The term "International Banking Unit" ("IBU") is not a legal term but it is used to describe those banks which are owned by non-residents and which deal primarily with non-residents and in currencies other than the Cyprus pound.

International banking expertise

HLB Afxentiou Limited is closely involved in providing audit and other services to international banking units and, indeed, it has a large clientele. In this respect, the firm has built up a wealth of experience in the field of banking.

Application for a banking licence

Applications for establishing an IBU must be submitted to the Central Bank of Cyprus in accordance with the provisions of the Banking Law of 1997. Such applications should be supported by relevant documents and information prescribed by the Central Bank of Cyprus. Banking business licences are granted subject to certain conditions, which depend on various factors such as the applicant's intended legal form, its financial standing and its international reputation.

IBUs - subsidiaries and branches

IBUs can be established in Cyprus either as subsidiaries or branches of foreign banks. The main differences between a branch and a subsidiary company are as follows:

- The supervision exercised by the Central Bank of Cyprus on the banking operations of a branch may be less stringent than in

the case of a subsidiary.

- If the IBU is a branch, it is not subject to any liquidity or capital to risk asset ratios. An IBU operating as a subsidiary of a foreign bank will normally be subject to such ratios.

IBUs - representative offices

These offices do not obtain a banking licence and are not allowed to carry out banking business. Their function is to provide a liaison between clients and their head office or branches abroad.

As in the case of IBUs, the Central Bank of Cyprus will only grant a permit for a representative office to recognised banks enjoying a good reputation internationally.

ABUs

Administered Banking Units (ABUs) may only be established as branches or subsidiaries of foreign incorporated banks, to be registered in Cyprus. ABUs are required to carry on banking business in their own name, but their day-to-day administration should be carried out, on their behalf, by another bank known as the "administering bank" which is already licensed by the Central Bank to operate in or from within Cyprus.

Applications for the establishment of ABUs are the same as those for IBUs. ABUs should operate wholly on an international basis and their dealings should be with non-residents of Cyprus and denominated in currencies other than the Cyprus pound.

ABUs are expected to operate as if they had a full physical presence in Cyprus. Their

books and records should be kept in Cyprus and all documents and correspondence relating to their banking business should be in English.

An ABU must enter into a written management agreement with its administering bank. ABUs pay an annual fee to the Central Bank of Cyprus.

Taxation of IBUs

IBUs are subject to corporation tax at 10%. Of specific relevance to IBUs is the absence of any withholding tax on interest paid to non-resident depositors.

An IBU is classified as non-resident for exchange control purposes. As such, it can operate freely without any exchange control restrictions provided, of course, it does business in foreign currency and with non-residents only.

Anti-money-laundering measures

Banks as well as other persons engaged in financial business are required to adhere to prescribed procedures for customer identification, record keeping and internal reporting, as well as to ensure that employees handling financial business are aware of their obligations under the Law and receive adequate training designed to assist them in recognizing money laundering transactions. They are also required to appoint properly qualified persons as "Money Laundering Compliance Officers". Failure to comply with these requirements amounts to an offence punishable with imprisonment, a fine or both.

The Central Bank of Cyprus' requirements under the provisions of the Prevention and suppression of Money laundering Activities Law are as follows:

- Banks should seek and obtain satisfactory evidence of a customer's identity at the time of establishing an account relationship and prior to the execution of any banking transactions.

- The identification of both personal and corporate customers (companies) should be made by obtaining documents issued by reputable sources
- Identity of the natural persons who are the company's ultimate beneficial shareholders and controllers and in all cases the identity of all signatories to the account.
- Banks are prohibited from accepting cash deposits in foreign currency notes from a customer or group of connected customers without the prior written approval of the Central Bank of Cyprus.

8. *International Financial Services Companies*

Introduction

An International Financial Services Company (IFC) is a company whose main object is to provide international financial services. IFCs can operate in three forms:

- An international branch of an overseas company registered in Cyprus.
- An international company incorporated in Cyprus.
- An international partnership registered in Cyprus.

Financial services

The IFCs international financial services may include:

Dealing in investments

Buying, selling or subscribing for investments or underwriting investments, either as a principal or as an agent, or offering to make arrangements with a view to another person:

- Buying, selling, subscribing for or underwriting a particular investments, or
- Participating in the buying, selling or subscribing for investments or underwriting investments.

Managing investments

Managing, or offering or agreeing to manage assets belonging to another person, if:

- Those assets consist of or include investments, or
- The arrangements for their management are such that those assets may consist of or include investments at the discretion of the person managing or offering or agreeing to manage them.

Investment advice

Giving, offering to give or agreeing to give,

to persons in their capacity as investors or potential investors, advice on the merits of their:

- Purchasing, selling, subscribing for or underwriting an investment, or
- Exercising any right conferred by an investment to acquire, dispose of, underwrite or convert an investment.

Establishing collective investment schemes

Establishing, operating or winding up a collective investment scheme (including acting as manager or trustee of such a scheme).

Taxation

These companies are subject to Cypriot corporate tax like any other company in Cyprus, i.e.10% corporation tax; no withholding tax on payments of dividend, interest and royalties to non-residents; and no tax on profits from trading in securities for own account.

Obtaining a license

These companies are licensed by the Cyprus Securities and Exchange Commission (CySEC), which is the relevant regulatory and supervisory authority.

A written application to the CySEC should be submitted, accompanied by a number of documents which include a business plan, draft Articles of Association, a draft organisational chart, draft manual of the internal regulations, draft manual that includes prevention, detection and reporting procedures of money laundering activities, resumes of the directors, shareholders and executives, certificates of non-bankruptcy and an excerpt of criminal record, if any.

9. *International Captive Insurance Companies*

An international captive insurance company is an insurance company which has its own captive business emanating from the parent company or association of companies or individuals. It is a subsidiary company established by a non-insurance parent company for the purpose of participating in the risks of the parent and its associates. It is owned beneficially by non-residents of Cyprus and carries on business exclusively outside of the island. The risks assumed by the captive can be all, or part of those which could otherwise have been insured in the normal way. Captives can also be used to insure risk for which insurance coverage is not generally obtainable or where the cover available is costly. There are also certain types of risks which are more suitable for captive treatment than others, for example, those related to property.

A captive can underwrite, at acceptable costs, risks for which it is extremely difficult to obtain coverage at an economical price on the conventional insurance market. Such risks often include loss or damage resulting from flood, earthquake, labour strikes, pollution and war.

A captive insurance company has the advantage of direct access to reinsurance markets which enjoy much lower acquisition costs than direct insurers and can therefore provide risk coverage at a lower cost.

Formation

Certain conditions must be fulfilled:

- Adequate cover regarding claims
- Adequate cover means that re-insurance or adequate guarantees by the parent company

must exist for covering insurance claims by third parties, notwithstanding any other claims by the parent or associated companies. Alternatively, a bank guarantee from a bank in Cyprus will suffice.

- The captive not to obtain finance from local sources.
- All local expenses of the captive to be covered by funds to be imported from external sources.
- Tax is levied on chargeable annual profits at 10%.

Formation and other costs

For the formation costs for an international captive insurance company including out of pocket expenses, please contact the CEO of our Firm. Fees for professional services of an administrative nature are based on the actual time spent.

10. *International Trusts*

A trust is established by an individual, the Settlor, and is a means whereby property, the Trust Property, is held by one or more persons the Trustees, for the benefit of another or others, the Beneficiaries, or for specified purposes. The Settlor can be a Trustee and the Settlor and the Trustees or any of them can be Beneficiaries.

The most common types of Cypriot international trusts include fixed trusts, purpose trusts, discretionary trusts, protective trusts and charitable trusts.

Trusts have traditionally been very important tax planning devices. Even today, a very high proportion of tax saving schemes involves trusts.

International trusts are governed by the International Trusts Law of Cyprus. International trusts are not taxed in Cyprus. In fact, Cyprus international trusts enjoy important tax advantages, providing significant tax planning possibilities. The following advantages are indicative of their possible options for tax minimisation.

- Income, whether trading or otherwise, of an international Trust (i.e. a Trust whose property is located and income is derived from outside Cyprus) is not taxable in Cyprus.
- Dividends, interest or other income received by a Trust from a Cyprus International Business Company are neither taxable nor subject to withholding tax.
- Gains on the disposal of the assets of an International Trust are not subject to capital gains tax in Cyprus.
- An alien who creates an international Trust in Cyprus and retires in Cyprus is still exempt from tax if all the property is settled and the

income earned is abroad, even if he/she is a beneficiary.

Fiduciary legislation

There is legislation in the pipeline to govern the establishment and regulation of fiduciary and trust companies which conforms to the EU legislation and it is suspected to be passed into law this year.

Formation and other costs

For the formation and other costs for an international trust in Cyprus including stamp duties, please contact the CEO of our Firm. Fees for professional services for the administration of the trust are based on the actual time spent.

Professional trustee services are provided by trust and corporate service companies that comprise of accountants and lawyers whose professional conduct is regulated by their professional bodies.

11. International Collective Investment Schemes (ICISs)

The sole object of an ICIS is the collective investment of funds of the unitholders.

ICISs can take the following legal forms:

- International fixed capital company
- International variable capital company
- International unit trust scheme, and
- International investment limited partnership

ICISs are liable to corporation tax similar to all other legal entities depending on the legal status of the ICISs. Benefits include:

- 10% corporation tax rate
- Exemption from tax on profits from sale of shares and other financial instruments
- Exemption from tax on foreign dividends received
- No withholding taxes on interest and dividend payments made abroad
- A wide network of double tax treaties

Registration

A written application to the Central Bank should be submitted.

ICISs should be approved by the Central Bank of Cyprus which is the regulatory and supervising authority for these schemes.

Formation and other costs

For the formation costs for the establishment of an ICIS including out of pocket expenses such as stamp duties, please contact the CEO of our Firm. Fees for professional services of an administrative nature are based on the actual time spent.

12. Cyprus Shipping

Ship owners, ship charterers and ship managers are subject to a competitive tonnage tax which is calculated based on the net tonnage of the vessels that they possess charter or manage respectively.

Ship owners, ship charterers and ship managers must fulfil a number of requirements in order to qualify under the new regime. Different conditions apply according to the categories, having as a basic and common requirement that the ships and the activities undertaken must also qualify under the new regime.

In light with the above, qualifying ships are the seagoing vessels, certified under the applicable international or national rules and regulations; registered in the ship register of any state, being a member of the International Maritime Organisation and the International Labour Organisation, which is recognised by Cyprus. Non-qualifying vessels are also listed under the Law.

Qualifying shipping activities include any commercial business or activity which constitutes maritime transport, crew management or technical management of qualifying vessels. Maritime transport, by definition, is limited to the carriage of goods and passengers, and includes ancillary services, including but not limited to hotel and catering services, entertainment activities, on board retail activities exercised on a qualifying vessel, and so forth. Activities such as towage, dredging and underwater wiring are also included.

Further to the above, all qualifying parties under the Cypriot Tonnage Tax Scheme may also enjoy an income tax exemption on dividend income and interest income deriving from qualifying shipping activities, as well as for gains deriving from the alienation of ships.

In addition to the new Cyprus tonnage tax scheme, the shipping industry can also benefit from full exemption from exchange control restrictions for non-residents, no taxes on the crew salaries, no stamp duties on mortgage documents, strategic geographic location which makes it easier to contact businesses and easy accessibility.

Developments in merchant shipping are expected to increase Cyprus' shipping industry activities as well as the number of ships and shipping companies registered in Cyprus.

13. *HLB Afxentiou Limited*

HLB Afxentiou Limited, Chartered Accountants, was originally established as a partnership in 1997 and since then, the Firm has experienced significant growth. As from 1 January 2007, the Firm has been incorporated. Today it is ranked among the largest accounting and advisory organisations in Cyprus. HLB Afxentiou Limited is a member Firm of HLB International, a worldwide organisation of accounting firms and business advisers.

Formed in 1969, HLBI assists clients to do business in over 100 countries, represented by more than 1,750 partners and 13,400 staff in over 440 offices. With 6 Members of the Board and over 70 staff working from our offices in Nicosia, Limassol and Larnaca, the Firm provides premium quality professional services to a wide range of businesses ranging from the small owner-managed business to large multinational groups and listed companies in the Stock Exchange. We serve clients from all over the world.

The Firm's specialised departments provide the following services: audit & assurance, financial advisory, business consulting, taxation and accounting. Members of the Board and staff possess considerable expertise and sound technical knowledge in their fields. This, together with the leading-edge technology applied by the Firm, enables us to provide value added service.

HLB AFXENTIOU LIMITED – Members of the Board and Office locations

HLB Afxentiou Limited- Members of the Board and Office locations

Nicosia Headquarters

Members of the Board:

Costas A Afxentiou, CEO
Vassos C Theophylactou
Polyvios A Polyviou
Stelios C Prodromitis
Marios F Hadjihannas
Yiannis P Soteriou

Palaceview House
Corner of Prodromos Avenue &
Zinonos Kitieos 2
CY-2064 Nicosia, Cyprus
P O Box 16006, CY-2085 Nicosia, Cyprus
Telephone: +357 22002700
facsimile: +357 22002800
email: nicosia@hlb.com.cy
website: www.hlb.com.cy

Larnaca office

Contact:

Nick Plastiras, Associate Partner

Livadhiotis Building No 5
Office Suites 104-106-107
10 Gr. Afxentiou Ave.
CY-6023 Larnaca, Cyprus
P O Box 42631, CY-6501 Larnaca, Cyprus
telephone +357 24620600
facsimile +357 24620601
email: larnaca@hlb.com.cy

Limassol office

Contact:


Costas A Afxentiou, CEO
Stelios Christou, Senior Manager

Emelle Building
2nd Floor, Office 21
135 Arch. Makarios III Ave.,
CY-3050 Limassol, Cyprus
P O Box 53791, CY-3317 Limassol, Cyprus
telephone +357 25736433
facsimile +357 25736257
email: limassol@hlb.com.cy



Palaceview House, Corner of Prodromos Str. & Zinonos Kiteios, CY-2064 Nicosia, Cyprus
P.O. Box 16006, CY-2085 Nicosia, Cyprus

☎ +357 22002700, 📠 +357 22002800. Website: www.hlb.com.cy. ✉ nicosia@hlb.com.cy

HLB Afxentiou Limited is a member of  International. A world-wide network of independent accounting firms and business advisors