

**Opportunities for businesses and persons around the world  
to reduce their tax costs by exploiting  
international tax planning and other possibilities offered by Cyprus**

Cyprus offers tremendous possibilities for international tax planning. Businesses and persons around the world can easily and quickly take advantage of these possibilities and thereby substantially reduce or even eliminate their tax burden.

The purpose of this memorandum is two-fold:

- (1) To provide an overview of how these opportunities arise and to give practical examples of how businesses and investors may benefit from them.
- (2) To provide information about the firm Tserkezos & Co and its ability to help clients take advantage of the aforementioned possibilities by providing personal one-stop service.

The information contained herein should not be taken as advice on legal, tax, investment or other matters and is by no means sufficient for someone to base decisions on. It is strongly recommended that interested parties seek specialist professional advice before acting. In this context, the firm Tserkezos & Co will be delighted to be of assistance. Persons seeking further information should contact our offices (see below for contact details).

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**Overview of opportunities presented by Cyprus in International Tax Planning**

Consider the **example** of a company in Asia that manufactures goods and exports them to other countries (e.g. to the EU). The company's profits are subject to tax at say 30%. Now consider the possibility of the Asian company establishing a Cyprus company and channelling (re-invoicing) its exports through this company so that all taxable profits arise in the Cyprus company instead of the Asian company (i.e. every time there is a sale, the Asian company invoices the Cyprus company at cost, which in turn invoices the ultimate customer for the full price). **Profits will now be subject to Cyprus tax (10%) instead of 30%.** If for example annual profits after tax before establishing the Cyprus company were \$100.000, they will now become almost \$130.000 i.e. a 30% increase! [The 10% tax payable in Cyprus may be partly or even completely avoided by adopting a more complex tax structure].

The above is just an indicative example. In practice, **the scope for tax planning via Cyprus is almost unlimited** and caters for practically any business activity: trade, investments, services etc.

Internationally, **Cyprus is viewed as a reputable tax incentive country** as opposed to tax haven jurisdictions, which are viewed with suspicion. Cyprus entities used in offshore tax structures are thus viewed favourably both by tax authorities and by customers and other business partners.

To take full advantage of the opportunities that Cyprus offers it is usually necessary to establish an unmanned presence on the island e.g. a company. There are currently over **54.000 international business companies registered here** of which only 1100 maintain staffed offices.



## Cyprus, a leading international business centre

1. Cyprus has been a leading business center since the 1970s. Numerous companies and individuals from around the world have chosen to conduct their business through Cyprus in order to benefit from its many advantages, namely:
  - **Generous tax regime** (see below)
  - **Strategic location** (at the crossroads of Europe, Asia and Africa)
  - **Stable and sophisticated business environment** (see below)
2. The type of international business conducted via Cyprus includes trade, marketing & distribution, investments, financing, banking, insurance, shipping, engineering, construction, consulting, media etc.
3. **Generous tax regime**
  - **Low tax rates** e.g. the basic corporate tax rate is 10% (lowest in the European Union), while in most countries this is well over 30%.
  - Cyprus has **Double Tax Treaties** with 33 countries (including many Eastern and Central European countries). According to the treaties there is low or in some cases no withholding tax on dividends, interest and royalties paid from these countries to Cyprus. This makes **Cyprus entities ideal for holding and managing international investments**. Interest & royalties are allowable tax expenses in most countries. Therefore, the payment of interest or royalties from high tax countries to Cyprus essentially results in the transfer of taxable profits to Cyprus where they will be taxed at low tax rates.
  - There is no withholding tax on dividends, interest or royalties paid by Cyprus companies to non-resident shareholders. This makes it **easy to transfer profits accumulating in Cyprus companies to another country**. Many, however, choose to invest such profits in the numerous international investment products available through Cyprus or in Cyprus immovable property.
  - Employer **contributions** (e.g. social insurance) are around 10% (in many other countries these are over 30%) making it very attractive for companies to base their staff in Cyprus.
4. **Stable and sophisticated business environment.**
  - Cyprus Authorities (i.e. Central Bank) observe **strict confidentiality** regarding the identity of the beneficial owners of international business entities registered on the island.
  - Cyprus International Business Entities **are exempt from exchange controls**.
  - Non-Cypriots can obtain **residence and work permits**.
  - Non-Cypriots can **acquire immovable property** in Cyprus.
  - Advantageous **geographical location** (crossroads of 3 continents) and **time zone**.
  - **Robust free enterprise economy with social and political stability**.
  - Highly **developed and efficient banking & legal system**.
  - Excellent international and local **transport and telecom facilities**.
  - **Imminent membership of the EU** (Cyprus will become a gateway into the EU).
  - Abundance of **cheap, educated and highly skilled workforce**
  - **Low establishment and operating costs** for businesses.
  - Tax legislation has been **EU-harmonized** (no changes expected in foreseeable future).



## Indicative examples of international tax planning via Cyprus

### Example

### Benefit

#### **1 Trading Company**

A Russian importing company establishes a Cyprus trading company. The Cyprus company undertakes all the purchases of imported goods and then sells them to the Russian company. Physically the goods go directly from the country of origin to Russia (i.e. they do not come via Cyprus).

The transfer pricing between the Russian company and the Cyprus company is such that all the profit arises in Cyprus (where it will be taxed at 10%) instead of Russia (where it would probably be taxed at a much higher rate).

#### **2 Royalty Company**

A business that has know-how or other intangible property (e.g. software, patents, copyrights, trademarks) and exploits this internationally (e.g. in Russia) establishes a Cyprus royalty company to which it assigns the intangible property. All royalties from the ultimate licensees (e.g. clients or own operations) are paid to the Cyprus company.

Royalties are usually considered a tax-deductible expense in the country of the licensees. Furthermore, royalties are paid to the Cyprus company after the deduction of little or even no withholding tax in the country of the licensees. Therefore, taxable profits from the exploitation of the property are efficiently transferred to Cyprus, where they will be taxed at low rates.

#### **3 Financing Company**

A Cyprus financing company is established and used to fund investments in Central and Eastern Europe by providing loans.

Loan interest is usually considered a tax-deductible expense in the country of the investment (e.g. Russia). Furthermore, interest is paid to the Cyprus company after the deduction of little or even no withholding tax in the country of origin. Therefore, the taxable profits from the investment are efficiently transferred from the country of the investment (e.g. Russia) to Cyprus, where they will be taxed at low rates.

#### **4 Real Estate Company**

Real estate investor (who invests in real estate internationally e.g. in Russia) establishes Cyprus company and uses it to hold such real estate property.

The Cyprus company can buy and sell property that is situated outside Cyprus without paying any capital gains tax. Furthermore, non-resident shareholders of the Cyprus company can transfer or sell their shares without paying any capital gains tax in Cyprus and without paying any stamp duty in their country of residence. The net income from the property arises in Cyprus, where it is taxed at low tax rates.

#### **6 Payroll Company**

An organisation that engages in the provision of services internationally establishes a Cyprus company to employ the people who work internationally. The Cyprus company pays the salaries and charges a management fee to its holding company.

The cost of employing the staff is reduced as employer contributions are avoided (Cyprus companies do not pay employer contributions in relation to staff who are non-residents of Cyprus). The net salary received by the staff is higher as they do not have to pay Cyprus tax. Through the management fee, taxable profits of the organisation are transferred to Cyprus, where they are taxed at low rates.



## How Tserkezos & Co can help you benefit from opportunities offered by Cyprus

1. We provide a one-stop solution to businesses and individuals seeking to exploit **international tax planning and other opportunities involving Cyprus**. More specifically, we provide the following:
  - **General guidance:** We help clients identify how they can use Cyprus to minimise their tax costs. In most cases, this involves registering and operating a Cyprus company. [Note: According to Cyprus Law, it is not necessary to have offices or staff in Cyprus. Actually, 99% of Cyprus offshore companies do not have offices or staff in Cyprus.]
  - **Registration:** This takes about 2 weeks and includes the preparation of various documents & applications and the securing of licenses from several Authorities (e.g. Central Bank of Cyprus, Office of the Registrar for Companies, Tax Authorities).
  - **Administration & Banking:** We undertake any administrative tasks that the client requires e.g. we will issue invoices, open bank accounts for the company or its owners, arrange for Internet banking, arrange for VISA cards, arrange bank transfers. We can also arrange for work and residence permits.
  - **Bookkeeping:** Cyprus companies are required to maintain proper accounting records. We will maintain computerised accounting records.
  - **Audit & Financial Reporting:** Cyprus companies must prepare annual accounts in accordance with International Accounting Standards. Certified auditors (i.e. members of the Institute of Certified Public Accountants of Cyprus) must audit these accounts.
  - **Taxation:** This includes the preparation & submission of annual tax returns to the Inland Revenue and the preparation & submission of quarterly returns to the VAT Authorities.
2. Tserkezos & Co is a Chartered Accountancy firm, dedicated to helping its clients minimise their tax costs, protect their assets, develop their business and generally manage their financial affairs. With offices in Cyprus (Nicosia) and Switzerland (Zurich), we provide sound and structured advice through a comprehensive range of professional services, under absolute confidentiality.
3. Our team comprises experienced, well-qualified and talented professionals. They bring together many years of experience gained from holding senior and top management positions locally and internationally. They hold internationally respected professional qualifications (e.g. membership of the Institute of Chartered Accountants in England and Wales and the Institute of Certified Public Accountants of Cyprus), and out-standing academic qualifications (e.g. Masters in Business Administration, Degrees in Economics / Law / Engineering) from leading universities around the world (e.g. University of Cambridge, University of Glamorgan, University of Bath).
4. We are committed to the provision of **personal service** of the **highest quality** where clients feel comfortable to contact us at any time and receive immediate and total attention under **absolute confidentiality**.
5. Our offices in Nicosia (capital of Cyprus) on the prestigious Demostheni Severi Avenue (where the Presidential Palace is located), serve as an ideal base from where our overseas clients can co-ordinate their business affairs while in Cyprus.