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CORPORATE AND TRUST - TAX AND LEGAL - BUSINESS ADVISORY - ACCOUNTING - FINANCIAL MANAGEMENT

International Trusts in Cyprus

The nature of a Trust

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.

In law, the Trustees are the owners of the trust property, although they may not deal with it as absolute owners but rather in accordance with the provisions of the law relating to trusts and the rights of the beneficiaries as set out in the trust documents. In other words, the trustees are under a binding obligation to deal with the trust property in accordance with the law and the direction set out in the trust document.

The trust property can include all kinds of assets situated anywhere in the world.

The most common types of Cypriot international trusts include:

- Discretionary Trusts
- Fixed Trusts
- Charitable Trusts
- Protective Trusts

Tax aspects

International trusts are governed by the International Trusts Law of Cyprus. International trusts are not taxed in Cyprus.

In fact, Cypriot international trusts enjoy important tax advantages, providing significant tax planning opportunities to interested parties. The following advantages are indicative of the possible options for tax minimisation:

- All income, whether trading or otherwise, of an international trust (ie 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 also neither taxable nor subject to withholding tax provided that the beneficiaries are not tax resident in Cyprus. Even though a trust with shares in a Cypriot company may not be an international trust, the exemption relies on the fact that Cypriot tax is imposed only on Cyprus residents. As the beneficiaries are not residents of Cyprus, no tax is imposed on the distributions made to the trust
- 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 settled and the income earned is abroad, even if he is a beneficiary
- An international trust created for estate duty planning purposes would not be subject to estate duty in Cyprus

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For further information on the topics of the issue please contact Savvas Shiatis or George Hadjipavlou

Tel +357 22495707 Fax +357 22493000
reception@oneworldweb.net

- Trusts are usually used by wealthy individuals for the purpose of protecting their estate from inheritance or capital gains taxes in their home country. They can also be used by expatriates settling into a trust before repatriating assets acquired while working abroad, to protect such assets from the tax of their home country.

Other aspects

There are many situations other than saving in taxes where Cypriot trusts can prove advantageous. These include the following:

- an individual, through the use of a Cypriot trust, can ensure that minors, mentally impaired persons or persons unable to deal with the management of the individual's estate are well provided for, even after the individual's death
- an individual, through the use of a Cypriot trust, can arrange to be inherited by persons, who due to the legislation of the individual's country, would otherwise be excluded from the inheritance
- an individual who wishes to divest himself of personal assets for fiscal or other reasons can achieve that by transferring them to a Cypriot international trust
- an individual who wishes to keep the ownership of a company anonymous and confidential, can do this by setting up a discretionary Cypriot trust to own the shares in the company
- an individual who has or may have income arising overseas, which they do not wish to remit to their country of residence, can arrange for such income to be directed to the trustees of a Cyprus based settlement and be held in a discretionary trust in accordance with their wishes
- an individual with assets outside their country of residence – which country may in future extend its exchange control restrictions to include remittance of overseas funds – may wish to retain the flexibility of overseas funds by transferring them to a discretionary trust

Other advantages

In addition to the tax and other aspects set out above there are other favourable factors for creating a trust in Cyprus

The favourable legal system relating to trusts together with the advantageous geographic position of the island make Cyprus a particularly attractive trust location.



Cypriot international trusts are not subject to exchange control. Bank deposits with Cypriot banks, either local or international, or with any bank around the world, are also not subject to exchange control. The absence of exchange controls and the availability of excellent telecommunications and international banking services, make Cyprus a convenient base for the remittance and transfer of funds

The presence of a number of reputable international fund management companies on the island and the high standing of the legal and accounting professions ensure the availability of expert advice as well as the competent management services required for the proper operation of a trust.

There are no registration or reporting requirements for trusts established in Cyprus nor are the names of the trust or of the persons referred to in the Trust Deed disclosed. Cypriot law is flexible in that it allows the removal of a trust from its jurisdiction and vice versa. This could be important in cases where a change in circumstances may render such a transfer advantageous for fiscal or other reasons.

Costs

The approximate cost for setting up a trust in Cyprus is in the order of €2.500 in addition to a stamp duty of €450. Professional charges for trustees services provided by our office are calculated strictly on a time basis at rates which compare favourable with most parts of the world. The charges are calculated as a percentage of the trust property or on a flat fee. Experience has shown that the annual charges involved for the administration of a simple trust would be around €1.750.



Cyprus Key Economic Indicators

		2002	2003	2004	2005	2006	2007
International Reserves	€ million	2.975	2.765	2.992	3.671	4.456	3.970
Current Account Balance	% of GDP	-3.7	-2.2	-5.0	-5.6	-5.9	-6.0
Inflation Rate	%	2.80	4.14	2.29	2.56	2.49	2.40
Registered Unemployed	%	3.1	3.5	3.6	3.7	3.6	3.1
Gross Domestic Product (at current prices)	€ million	10.970	11.740	12.635	13.442	14.297	15.503
Gross Domestic Product (real growth)	% change	2.0	1.8	4.2	3.9	3.8	4.4
Gross Domestic Product Per Capita	€	15.460	16.292	17.144	17.736	18.568	19.092
Gross Domestic Product Per Capita	EU 25=100	82.6	85.2	87.6	88.9	88.4	90.0

Conversion of Share Capital to Euro

Cyprus has entered the eurozone on 1 January 2008 after it had passed all requisite legislation to satisfy EU requirements for the transition to the euro.

As a result of this monetary change, all companies in Cyprus whose share capital is denominated in Cypriot pounds are required to convert their share capital into euro. They are required to pass a resolution in a general meeting to change their share capital to euro and suitably amend their Memorandum and Articles of

Association. This is fairly straightforward. Notice of the change must be filed with the Registrar of Companies, who has agreed to waive any fee for the registration.

The conversion to euro must be filed with the Registrar of Companies latest by the end of 2008. If any company is late, the Registrar will not accept any resolutions unless it is accompanied with a Court order authorising the conversion.



New Registrations

Cyprus is an attractive place for direct investment and setting up. Indicative of this are the tables with new registrations set-out below.

The strategic location of the island, its excellent climate, the well developed infrastructure and the plentiful supply of high quality, well trained labour are some of the advantages Cyprus has to offer. In addition, the favourable tax regime makes Cyprus an ideal location for manufacturers, especially those with Middle East and north African export activities.

Investors aim in maximising after tax return on investment. Therefore, investment structures which have the least tax leakage are preferred by investors and are recommended by the advisors. As such, a Cypriot investment vehicle can in many cases collect income, which is a charge against high tax income. Foreign withholding tax is eliminated or reduced under double tax treaties or under EU directives. The rate of tax in Cyprus is low. The income can then be repatriated in any form the investor wishes without any Cypriot withholding tax.

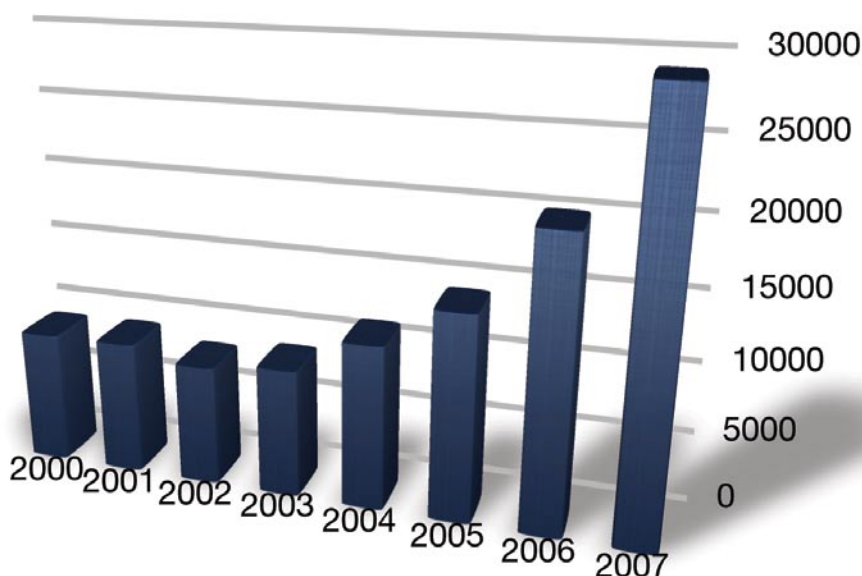
This investment vehicle is suitable both for EU inbound or outbound investments. There are no investment activities that are inappropriate for the Cypriot tax environment. However, there are investment activities which are ideally suited to Cypriot tax environment such as:

- holding companies
- finance companies
- royalty companies
- investment funds
- south Europe, Middle East, central and eastern Europe
- head office operations

European enlargement and the accession of Cyprus opened up a new gate to investors. Cyprus is no longer just the traditionally strong link of investments in and out of Central and Eastern Europe and Russia, but it is also a strong connecting link of investments in or out of the EU.

Company Registrations

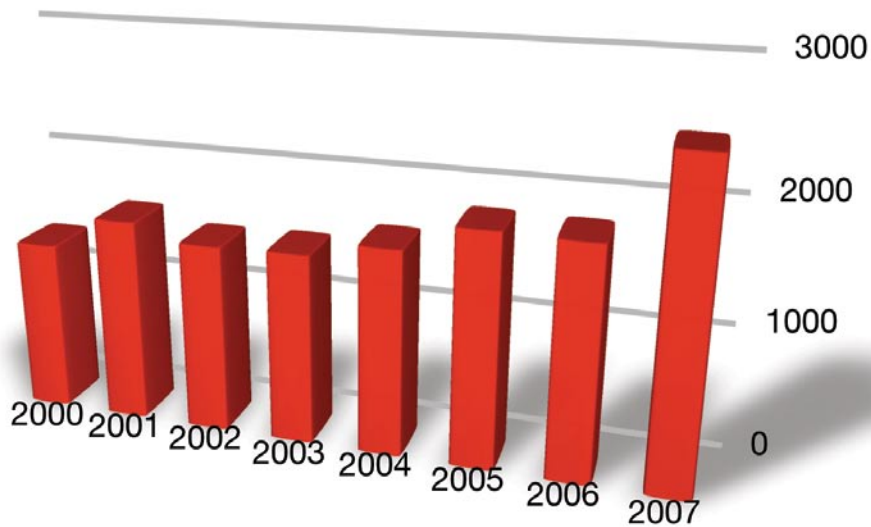
Year	2000	2001	2002	2003	2004	2005	2006	2007
New Companies	9.362	9.432	8.496	9.080	11.586	14.494	20.280	29.145





Business Names and Partnerships

Year	2000	2001	2002	2003	2004	2005	2006	2007
New Formations	1.355	1.618	1.496	1.508	1.627	1.836	1.824	1.929



Personal Tax Rates

The taxable income scale for individuals for the year 2007 has been amended and new taxable income scale for individuals has been introduced for the year 2008. The amendments for the year 2007 as well as the new

tax scale for 2008 are set out below. The taxable income scale for 2007 is presented in Cyprus pounds, whereas the taxable income scale for 2008 is presented in EURO.

For the year 2007	
Chargeable Income	Tax rate %
Up to £10.750	Nil
£10.751 - £15.750	20%
£15.751 - £20.600	25%
£20.601 - and above	30%

For the year 2008	
Chargeable Income	Tax rate %
Up to €19.500	Nil
€19.501 - €28.000	20%
€28.801 - €36.300	25%
€36.301 - and above	30%



DOUBLE TAX TREATIES

Paid to Cyprus

The table below provides a summary of the withholding taxes applicable for payments to Cypriot companies from double tax treaty countries.

Paid to Cyprus	Dividends	Interest	Royalties
	%	%	%
Austria	10	-	-
Armenia	-	-	-
Belarus	10/5	5	5
Belgium	10/5	10	-
Bulgaria	5/10	-/7	10
Canada	15	-/15	-/10
China	10	10	10
Czech Republic	10	-/10	-/5
Denmark	10/15	-/10	-
Egypt	15	15	10
France	10/15	-/10	-/5
Germany	10/15	-/10	-/5
Greece	25	10	-/5
Hungary	5/15	-/10	-
India	10/15	-/10	10/15
Ireland	-	-	-/5
Italy	15	10	-
Kuwait	10	-/10	-/5
Kyrgyzstan	-	-	-
Lebanon	5	5	-
Malta	-	-/10	10
Mauritius	-	-	-
Moldova	-	-	-
Norway	-/5	-	-
Poland	10	-/10	5
Romania	10	-/10	-/5
Russia	5/10	-	-
Seychelles	-	-	5
Singapore	-	7/10	10
Slovakia	10	-/10	-/5
Slovenia	10	10	10
South Africa	-	-	-
Sweden	-/15	-/10	-
Syria	-/15	-/10	10/15
Tajikistan	-	-	-
Thailand	10	10/15	5/10/15
Ukraine	-	-	-
United Kingdom	15	10	-/5
United States of America	5/15	-/10	-
Uzbekistan	-	-	-
Former Yugoslavia*	10	10	10

*includes Serbia and Montenegro

Paid to Cyprus

No withholding taxes exist for dividend, interest or royalty payments which are made to non tax residents of Cyprus

Oneworld Ltd

70 JF Kennedy Avenue

1st floor, PO Box 27171

CY 1641 Nicosia, Cyprus

Tel +357 22495707

Fax +357 22493000

E-mail reception@oneworldweb.net

Our Services:

- Corporate and Trust
- Tax and Legal
- Accounting and VAT
- Business Advisory
- Corporate Finance
- Estate Planning
- Internal Audit and Risk Management
- Corporate Governance
- Specialised Services