CYPRUS FOR IRANIAN BUSINESS

oneworld
GLOBAL BUSINESS SERVICES

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Design
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Foreword

Cyprus offers unique tax opportunities: the lowest corporate tax rate in the EU, a network of favourable double tax treaties, no capital gains on profits from shares and securities and exemption of taxes on foreign dividends received and paid out. A truly significant International Business Centre.

At the beginning of August 2015, the governments of Cyprus and Iran signed a Double Tax Treaty which was verified on 25 August 2015. With the lifting of international sanctions against Iran, Cyprus is now uniquely positioned to act as a gateway for investments both into and from Iran.

The Island is expected to attract Iranian businesses as well as businesses wishing to do business in Iran. Apart from the many legislative and fiscal advantages, the island is also a Member of the European Union as from 1 May 2004.

Our publication deals with opportunities and structures through Cyprus which are tax efficient for Iranian business.

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1 An International Financial Centre

Efficient tax planning has become a very significant factor in commercial decisions and this has led to the development of numerous financial centres in the world.

Cyprus has succeeded in differentiating itself from other financial centres. It has established a favourable tax system with a wide network of Double Tax Treaties (DTT). It also complies fully to all EU Directives. As a result, Cyprus today is firmly established as a reputable, international, financial and commercial regime.

Favourable position

Comprising an area of 9.251 sq km Cyprus is the third largest island in the Mediterranean after Sicily and Sardinia. The strategic location of the island has played an important role in its continuing development into a financial centre.

Cyprus enjoys perhaps the best type of Mediterranean climate with about 340 warm and sunny days a year. The light rainy season is confined to the period between November and March.

Cypriots are highly educated. In fact, Cyprus has one of the highest rates of university graduates per capita in the EU. This ensures an adequate supply of skilled and qualified personnel. Although the native language is Greek, English is commonly used as the business language.

The strong pro-business attitude, the multilingual and highly skilled human capital, the advanced telecommunications infrastructure have made the island one of the most progressive and efficient business locations in Europe.

Foreign investment

Foreign investment has long been considered as one of the most important elements of the country's economic prosperity. The Cyprus government has liberalized the Foreign Direct Investments (FDI) policy for both EU and non-EU nationals. Administrative procedures have been simplified and as far as the minimum level of investment and the percentage of foreign participation are concerned, no limitations apply in almost all sectors of the economy.

Hydrocarbon opportunities

The recent discovery of significant quantities of hydrocarbons within Cyprus' exclusive economic zone, provides the island and Europe with a totally new, exciting opportunity. Cyprus, one of the smallest EU Member States has a role to play in the energy strategy of the EU.

The Council of Ministers has set up a state company to manage the island's participation in the exploration and exploitation of hydrocarbons.

It will be involved in the trade of hydrocarbons and participate in any new infrastructure deemed necessary, such as a natural gas liquefaction terminal and pipelines. It will also represent Cyprus in any collaboration with companies involved in the exploration of hydrocarbons in the island's exclusive economic zone.

Cyprus and the EU

The Republic of Cyprus became a member of the EU as of May 2004.

The accession of Cyprus to the EU and the adoption of the acquis communittaire have created new challenges and opportunities in the business world in Cyprus. Moreover, a number of new funding opportunities became available from EU credits aiming mainly to support the development of business activities in the manufacturing, agriculture and agrotourism sectors as well as human resource upgrading and the development of the rural areas of the island.

Cyprus introduced euro (€) as its official currency as of 1 January 2008.

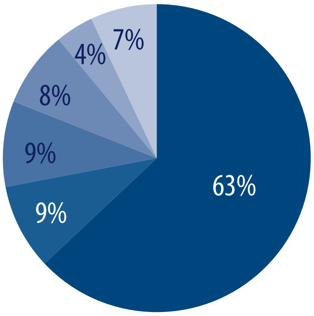
Services sector

The services sector has become increasingly important as reflected by its almost 70 percent

contribution to GDP and its share in employment, while the importance of agriculture and manufacturing has been declining.

Services include banking and financial services, insurance, advertising, legal, architecture and civil engineering, accounting and auditing, consultancy, design, electrical and mechanical engineering, film production, market research, medical, printing and publishing, public relations, education, software development, tourism and related services, telecommunications, transportation and other services.

The size and rate of growth of this sector, which has been the fastest in recent years, has led observers to describe Cyprus as a "service economy".



GDP breakdown by sectors:

- services including tourism 63%
- manufacturing 9%
- transport and communication 9%
- construction 8%
- agriculture 4%
- other 7%

Incentives for locating a business in Cyprus include:

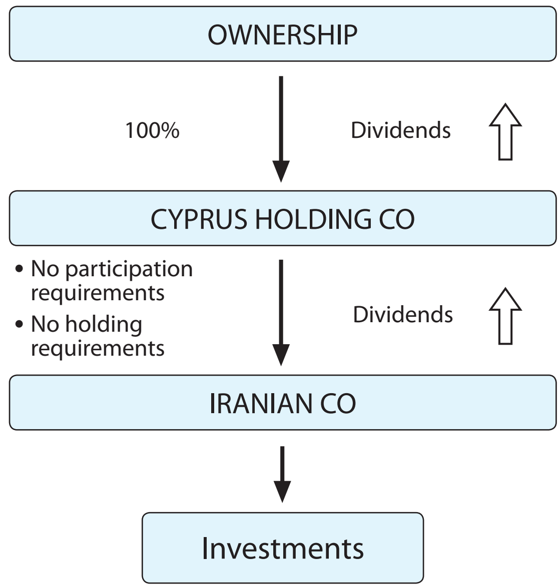
- favourable taxation which includes, inter-alia, 12,5 percent corporation tax, low personal income tax and no capital gains tax on the sale of shares and securities
- a prosperous and resilient economy enjoying long-term stability and growth
- member of the EU and a gateway for the movement of goods inside and outside the EU
- skilled work force, qualified and multilingual
- excellent infrastructure providing easy access by air and sea
- low set-up and operating costs
- simplified procedures for obtaining requisite permits
- a fine place to live and work in, with pleasant climate and high quality of life
- non-domicile advantageous regime
- exemptions from income tax for highly salaries expatriates working in Cyprus

2 Use of Cyprus in International Structures

The Cypriot tax system provides to investors:

- only 12,5 percent corporation tax, the lowest rate in the EU
- exemption from tax of dividend income, in most cases
- exemption from tax of profits from foreign Permanent Establishment (PE), in most cases
- exemption from tax on profits generated from transactions in shares, securities, bonds and units
- exemption from withholding tax on the repatriation of income either in the form of dividends, interest and on almost all royalties
- extensive double tax treaty network
- access to EU Directives
- no thin capitalization rules
- absence of Controlled Foreign Company (CFC) rules, thus exempting foreign income received
- flexible reorganization rules and group relief provisions

Cyprus Holding Company



Cyprus

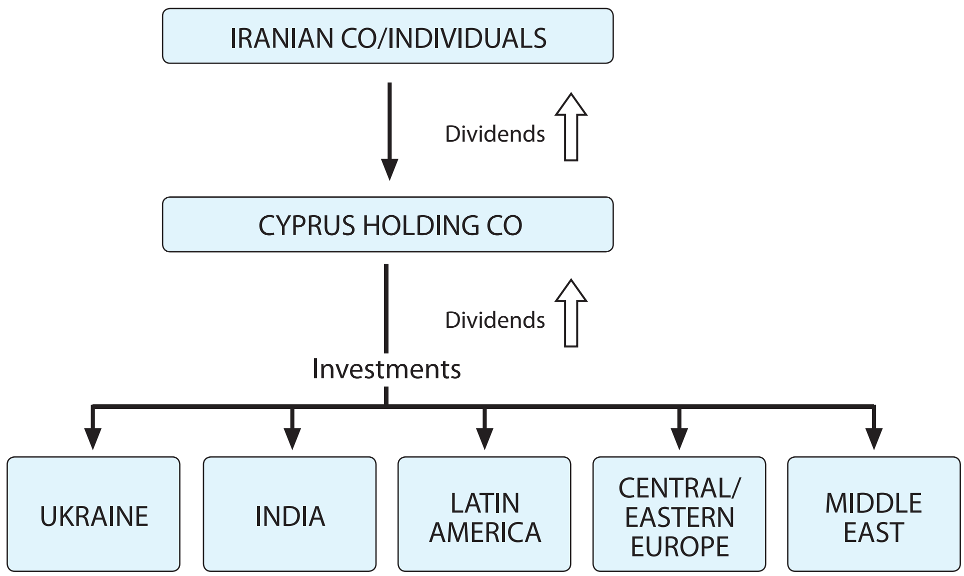
- Corporate tax on worldwide profits: 12,5%
- Dividends received: Dividends are not subject to corporation tax and are usually exempt from SDC
- Dividends paid: 0% withholding tax

Iran

- Dividends paid:
  - 5% withholding tax if the beneficial owner holds at least 25% of the capital of the company paying the dividend
  - In all other cases, the withholding tax is 10%
- 5% withholding tax on interest paid
- 6% withholding tax on royalties paid

- From a Cyprus perspective, no participation or holding requirements exist in order to obtain tax benefits. Incoming dividends from Iran are exempt from Cyprus corporation tax and are usually exempt from the Special Defence Contribution (SDC) provided that no more than 50% of the Iranian entity's activities arise from investment income or the foreign tax rate is not significantly lower than the tax payable in Cyprus (lower than 6,25%)
- 5/10% withholding tax is imposed on dividends distributed by the Iranian company according to the DTT in place
- The Cyprus Company is liable to a 12,5% corporation tax on its worldwide income

Cyprus Holding Company in International Investments



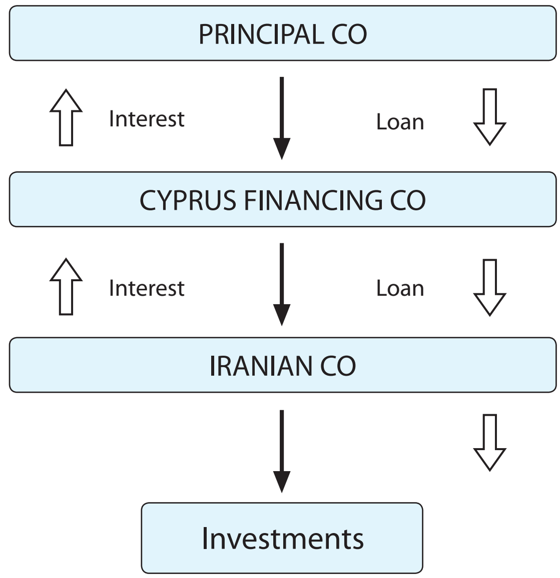
	UKRAINE	INDIA	LATIN AMERICA	CENTRAL/ EASTERN EUROPE	MIDDLE EAST
Dividends	5/10%	10/15%	0/30%	0/15%	0/15%
Interest	0%	0/10%	0/30%	0/15%	0/15%
Royalties	0%	10/15%	0/30%	0/15%	0/15%

Cyprus

- Dividends paid:
  0% withholding tax in Cyprus
- Dividends received:
  - 0% withholding tax (taxed with low or no withholding taxes at the level of the subsidiaries)
  - Dividends are not subject to corporation tax

From an international investment perspective, Iranian companies through Cyprus can gain access to jurisdictions with which Iran does not have a double tax treaty. Cyprus is considered a 'passport' for investments.

Cyprus Back to Back Financing Company



Cyprus

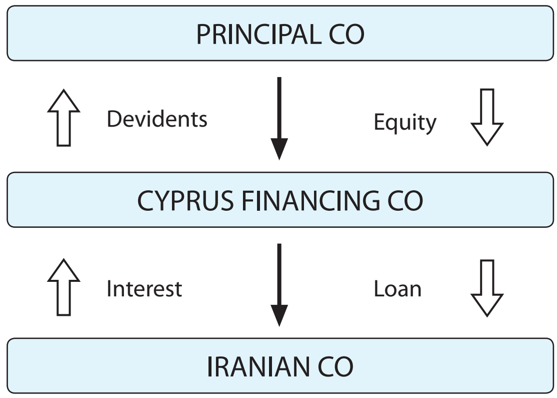
- Interest income received from intra-group lending is taxed at 12,5% corporation tax on the interest margin
- No thin capitalization / no debt to equity restrictions exist
- No transfer pricing legislation in place, however, the arm's length principle applies
- Interest paid to non-resident creditors is not subject to any withholding taxes

As for back-to-back financing minimum interest margin (per contact) accepted by the Cyprus Tax Authorities is as shown:

Less than €50m:	0,35 %
€50m – €200m:	0,25 %
Over €200m:	0,125%

Cyprus companies can be utilized as finance investment vehicles suitable for financing groups of companies, leading to an efficient accumulation of interest income.

Cyprus Financing Company



- With the introduction of Notional Interest Deduction (NID), a deemed expense is allowed on the taxable income of a company resident in Cyprus
- It is calculated, by multiplying a "reference interest rate" on the New Capital that is issued by the company
- "New capital" means the capital that has been contributed to the company after 1 January 2015
- "Reference interest rate" is the ten year government bond rate of return of the State that the new capital is invested in, increased by 3%
- The allowable deemed expense on New Capital cannot exceed 80% of the taxable income

Cyprus

- Interest income received from intra-group lending is taxed at 12,5% corporation tax on the interest margin
- Cyprus Financing Co can claim NID on equity contributed by the Principal
- 80% maximum NID reducing effective tax rate in Cyprus to 2,5%
- Interest paid by the Iranian Company to Cyprus Financing Co is subject to 5% withholding tax

Since Cyprus Financing Co received the funds in the form of equity and then lends the funds to Iranian Co, no beneficial ownership issues should arise in Iran.

Cyprus Royalty Companies

NON-RESIDENT OWNER

↓ Royalties

CYPRUS ROYALTY COMPANY

↓ Royalties

IRANIAN LICENSEE COMPANY

Cyprus Royalty Company

- Sub-licenses Intellectual Property Rights (IP)

Cyprus

- Net royalty profits are subject to 12,5% corporation tax. From 1 January 2012, 80% of any income and capital gains (net of direct expenses) generated from IP rights owned by Cypriot resident companies will be exempt from corporation tax, thus the effective tax is less than 2,5%
- 80% of profit from the disposal of IP by Cypriot resident companies is exempt from corporation tax
- Gains on the sale of shares of a royalty Company are exempt from corporation tax
- Royalty payments are exempt from any withholding taxes provided that these rights are exercised outside Cyprus
- A Cypriot sublicensing company may be interposed between the non-resident beneficial owner company and the licensee company which will exercise the rights on the IP obtained. Royalty payments are received with respect to the licenses on the IP rights which are granted

Capital Gains Exemption

PRINCIPAL COMPANY/OWNERSHIP

↓

CYPRUS HOLDING CO

Disposal of shares ↓

IRANIAN CO

↓

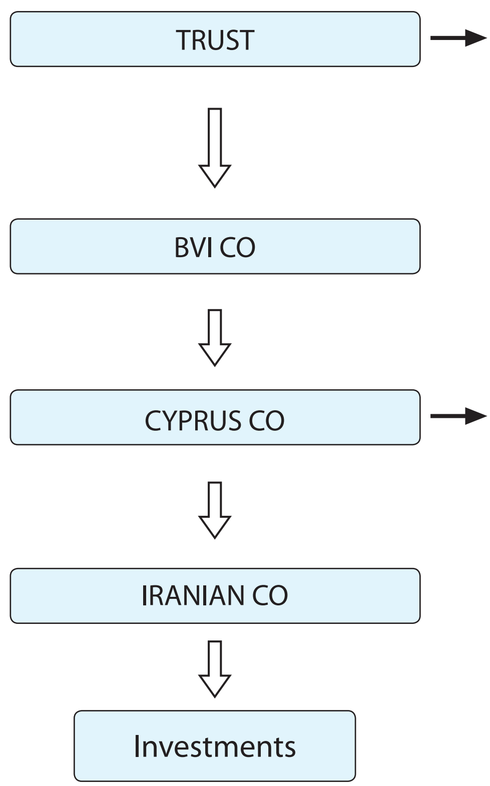
Investments

Disposal of shares is not in any way taxable under the capital gains tax or corporation tax provisions in Cyprus:

- Cyprus companies investing in Iran are in a position to gain additional business benefits from the capital gains treatment where there is a disposal of shares held in the Iranian Company
- In Cyprus, capital gains deriving from the disposal of shares are not subject to capital gains tax if no immovable property situated in Cyprus is involved
- Any gain derived by Cyprus Holding Co from the alienation of immovable property situated in Iran may be taxed in Iran
- Any gain from the alienation of shares, deriving more than 50% of the value ("property rich companies") directly or indirectly from immovable property situated in Iran may be taxed in Iran

Cyprus International Trust (CIT)

- Cyprus International Trusts (CIT) are efficient business and wealth management instruments, as well as instruments to be used for the protection of assets
- The assets and interests of the beneficiaries of the CIT are safeguarded from interference by life's various obstacles including divorces and separations
- A CIT serves the purposes for the securing of inheritance
- The duration of a CIT is not subject to any limitation



- Non resident Settlor
- At least one Cypriot trustee
- Non-resident beneficiaries
- No taxation in Cyprus

Cyprus taxation regime:
- No inheritance or estate duty tax
- No withholding taxes on dividends received by Iranian Co
- No withholding taxes on dividends, royalties, interest paid from Cyprus
- 12,5% tax on net profits

- Exempt from income tax, capital gains tax, SDC or any other taxes in Cyprus
- Exempt from estate duty or inheritance tax
- Have no reporting requirements
- Dividends, interest or royalties received by CIT are not taxable and not subject to any withholding tax
- Exempt from exchange control restrictions
- Exempt from any trust capital received in Cyprus by a foreign resident beneficiary
- Discreet and protected by recent legislation

Collective Investment Vehicle (AIF)

Iranian/International Investors

- No withholding tax on dividends, interest and royalties distributed in Cyprus

INTERNATIONAL FUND

- AIF TYPE
  - Variable Capital Company
  - Fixed Capital Company
  - Limited Liability Partnership
  - Common Fund
- CYPRUS SECURITY AND EXCHANGE COMMISSION (CySEC): REGULATES AIFs
  - Marketed to the general public
  - Addressing experienced investors
  - It can be a private fund consisting of up to 75 investors
  - Or public fund exceeding 75 investors (public funds are regulated by CySEC under UCITS law) and requires a Manager with EU licence

- Cyprus
  - Dividends received or paid from Cyprus are not taxed
  - Wide DTT network
  - Favourable investment conditions
  - Nil or very low withholding tax on dividends, interest and royalties received

Global Investments

	IRAN	UKRAINE	INDIA	LATIN AMERICA	CENTRAL/ EASTERN EUROPE	MIDDLE EAST
Dividends	5/10%	5/10%	10/15%	0/30%	0/15%	0/15%
Interest	5%	2%	0/10%	0/30%	0/15%	0/15%
Royalties	6%	0/5%	10/15%	0/30%	0/15%	0/15%

Collective Investment Funds can invest not only in investment instruments in Iran but in almost every other part of the world including India, Latin America, China, the Middle East, and Central and Eastern Europe.

3 Cyprus - Iran Double Tax Treaty

On 4 August 2015, a Double Tax Treaty ("DTT" / "Treaty") was signed between Cyprus and Iran. The Treaty was ratified and published on 25 August 2015.

The provisions of the Treaty apply:

1. In the case of Iran, to income tax;

2. In the case of Cyprus, to (i) income tax; (ii) corporate income tax (iii) special contribution for defense tax; and (iv) capital gains tax

The DTT is based on the OECD Model Tax Convention on Income and on Capital of 2010 (the "OECD Model").

The most significant provisions of the treaty are the following:

Place of effective management

Article 4 of the Treaty ('Resident') follows the OECD Model and provides for 'place of effective management' test to determine tax residency status of a company in both Cyprus and Iran.

Taxes covered

The DTT applies to taxes on income (including income from alienation of movable or immovable property). In the case of Iran, the Treaty covers only corporate and personal income taxes whereas in the case of Cyprus it also covers Special Defense Tax and Capital Gains Tax.

General definitions

Article 3 of the Convention provides definitions of the terms "Cyprus" and "Iran". The term "Cyprus" explicitly includes the contiguous zone, the exclusive economic zone and the continental shelf as an area within which Cyprus may exercise sovereign rights or jurisdiction. This may be particularly important given the recent discovery of hydrocarbons in Cyprus' exclusive economic zone.

Income from immovable property

Article 6 of the Treaty is in accordance with OECD Model and explicitly excludes ships, boats and aircrafts from the definition of immovable property for the purposes of the DTT. Profit from the sale of shares in 'property rich' companies is not covered under 'Immovable property' or 'Capital gains' articles and should still fall under article 'Other income' and, thus, be taxed in a Contracting State ("CS") where the alienator is resident.

Permanent establishment

Article 5 of the Treaty adjusts the definition of 'permanent establishment' to be in accordance with the OECD Model and to include place of management, place of exploration and extraction of natural resources. A building site/ construction or installation project (or supervisory activities thereof) will be considered 'permanent establishment' only if it lasts more than 12 months.

Dividends

The Cyprus-Iran Treaty provides for a 5% withholding tax on dividend payments made by a resident of one CS to a resident of the other CS. Under the Treaty, the withholding tax rate will be limited to 5% if the beneficial owner holds at least 25% of the capital of the dividend paying company. In case these conditions are not met, withholding tax will be at 10%.

If dividends do not meet the exemption criteria and are subject to tax in Cyprus, a tax credit is granted for the full amount of tax paid.

Interest

The Cyprus-Iran Treaty provides for a 5% withholding tax on interest received from sources in a CS by a resident of the other CS. Under the Treaty the withholding tax rate will be limited to 5% provided the beneficial owner of the interest income is resident in the other CS.

Royalties

Under the Cyprus-Iran Treaty payments for copyrights and licenses received from sources in a CS by a resident of the other CS are subject to withholding tax. Under the Treaty the withholding tax rate is 6% in case of royalties in respect of copyright of scientific work, any patent, trade mark, secret formula, process or information concerning industrial, commercial or scientific experience and 10% for the rest of the royalties (i.e. films etc.).

Cyprus is the most favourable jurisdiction in EU for royalties as the effective tax rate is less than 2,5% on net profits.

Elimination of double taxation

The Convention introduces a tax credit method of tax relief and also provides for a tax sparing credit, i.e. income which is exempt from tax in one CS may be taken into account by the other CS in calculating the amount of tax on the remaining income.

Exchange of information

The agreement provides for the exchange of that information which is "necessary", rather than "foreseeably" relevant for carrying out its terms.

The significance of this wording and how is interpreted will become clearer over time.

The final two paragraphs of the OECD Model Convention's information exchange provision do not appear in the agreement. These paragraphs force one Contracting State to gather information requested by the other – even though the first State may not need the information itself – and not to decline requests for information on the grounds that it is held by a bank.

Mutual assistance

The OECD Model Convention provision on mutual assistance in the collection of taxes is not included in the agreement.

Taxation of gains on shares

Gains from the disposal of immovable property may be taxed in the country where the immovable property is situated.

Gains from the disposal of shares deriving more than 50% of their value from immovable property may be taxed in the country in which the immovable property is situated.

Entry in force

The Treaty will come into force once it is ratified by the appropriate bodies in both Cyprus and Iran in accordance with their domestic procedures and once the ratification instruments are exchanged by the two countries.

Cyprus ratified the agreement on 25 August 2015, but Iran has not yet done so. Its provisions will take effect in Cyprus on January 1, 2015 and in Iran on the following Farvardin 1 (the first day of the year according to Iran's official calendar, which occurs around March 21). The agreement may be terminated by notice given by either Contracting State at least five years after the agreement has entered into force.

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