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CYPRUS
FOR
RUSSIAN
BUSINESS

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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.

The protocol to the Russia-Cyprus Double Tax Treaty (DTT) which was signed on 7 October 2010 is effective as of 2013. Ratification of the DTT resulted in the removal of Cyprus from the Russian “blacklist” of offshore jurisdictions. This means that dividends received by Russian companies from Cyprus subsidiaries can qualify for the Russian dividend participation exemption that further strengthens the position of Cyprus as one of the most attractive jurisdictions for Russian investment.

Further, the favourable withholding tax rates applying to cross-border payments of dividend, interest and royalties were ascertained. The business community has welcomed the very positive and important decision not to bring any changes to the withholding rates which existed.

Our publication deals with structures through Cyprus which are tax efficient for Russian business. Cyprus is, for many years, the leading country for Foreign Direct Investments in Russia and this is expected to continue in the foreseeable future.

At Oneworld and Group One, we are continuously enhancing our industry specialization to address the new opportunities and challenges our clients are facing. We help our clients to solve complex problems and we pride ourselves in offering quality services which help to improve trust and confidence. Together with our worldwide network and affiliates we deliver integrated solutions.

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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 percentage 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 communautaire* 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.

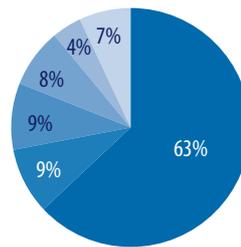
Services sector

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, 10 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

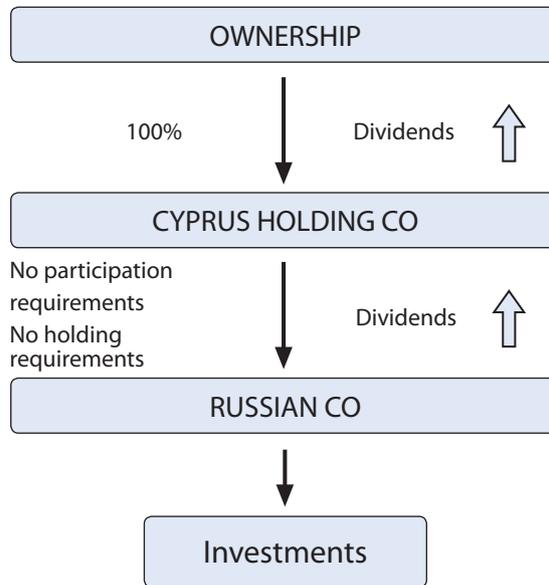
2 Use of Cyprus in International Structures

The Cypriot tax system provides to investors :

- only 10 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

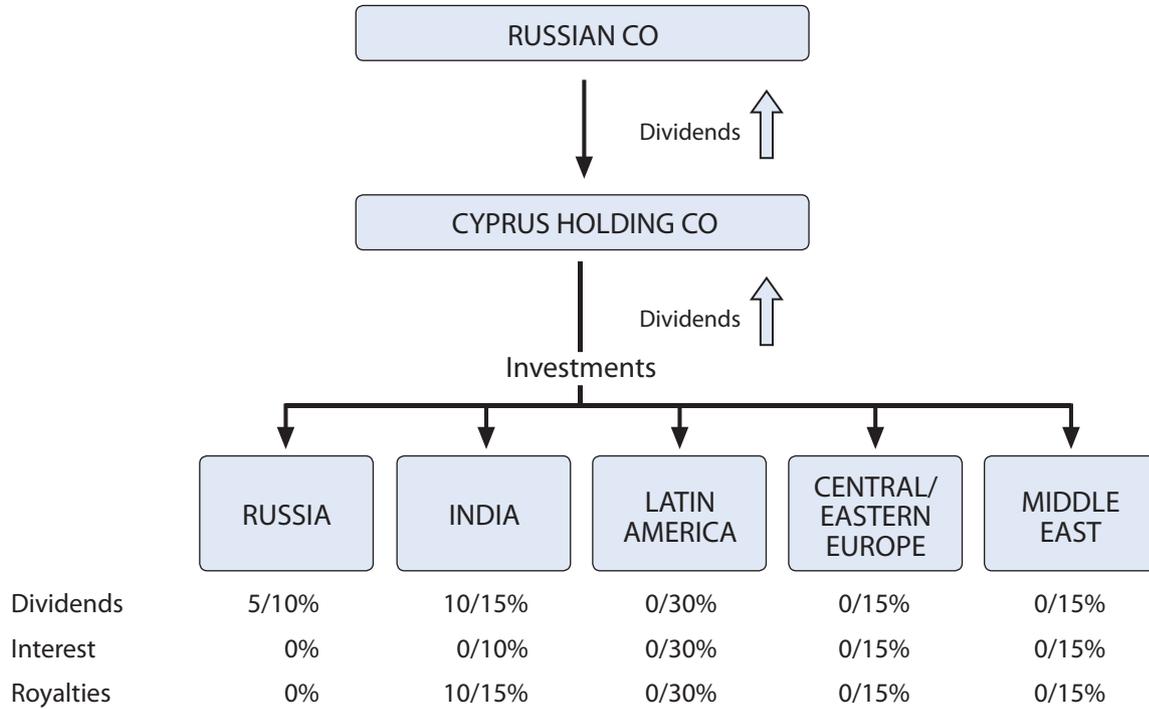
- Corporate tax on worldwide profits: 10%
- Dividends received:
Dividends are not subject to corporation tax and are usually exempt from SDC
- Dividends paid:
0% withholding tax

Russia

- Dividends paid:
 - 5% withholding tax if the beneficial owner holds at least 20% of the capital of the company paying the dividend or has invested at least € 100.000
 - In all other cases, the withholding tax is 10%

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

Cyprus Holding Company in International Investments

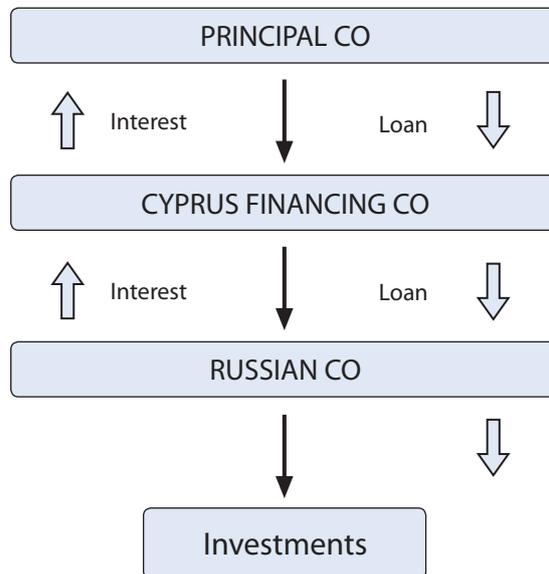


Cyprus

- 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, Russian companies through Cyprus can gain access to jurisdictions with which Russia does not have a double tax treaty. Cyprus is considered a 'passport' for investments.

Cyprus Back to Back Financing Company



Cyprus

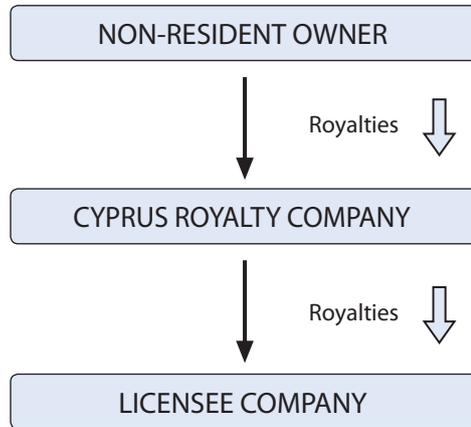
- Interest income received from intra-group lending is taxed at 10% corporation tax on the margin
- No thin capitalisation / no debt to equity restrictions exist
- No transfer pricing legislation in place, however, the arm's length principle applies
- Interest paid to non-resident creditors is not subject to any withholding taxes

As for back-to-back financing minimum interest margin accepted (per contract) 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 Royalty Company



Cyprus Royalty Company

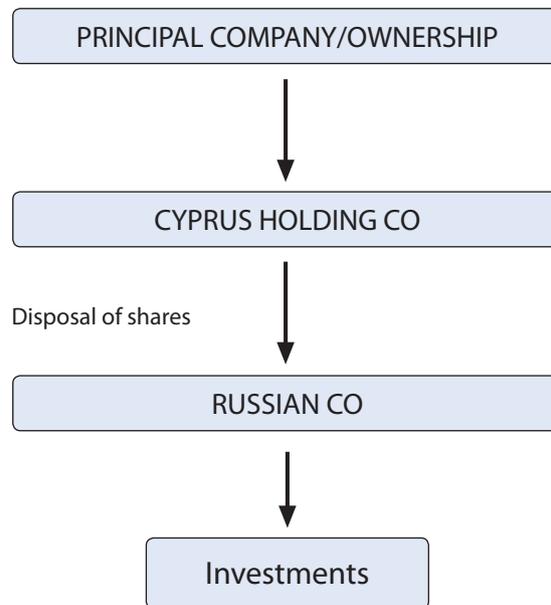
- Sublicenses Intellectual Property Rights (IP)

Cyprus

- Net royalty profits are subject to 10% corporation tax. From 1 January 2012, 80% of any income (net of direct expenses) generated from IP rights owned by Cypriot resident companies are exempt from corporation tax, thus the effective tax is less than 2%
- 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



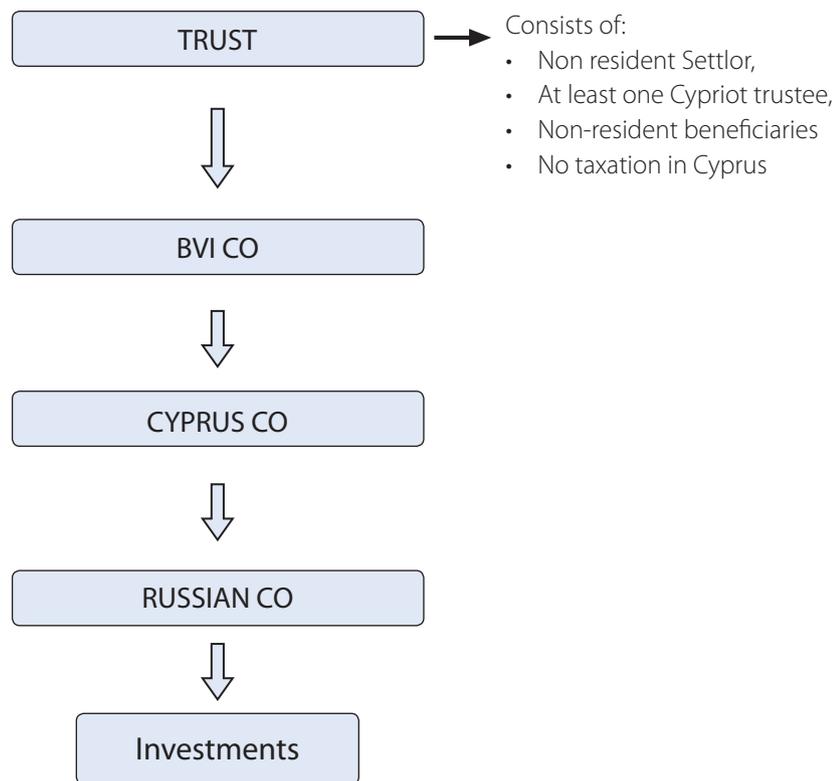
Disposal of shares is not in any way taxable under the capital gains tax or corporation tax provisions in Cyprus:

- Cyprus companies investing in Russia are in a position to gain additional business benefits from the capital gains treatment where there is a disposal of shares held in the Russian 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
- As of 2017, gains deriving from the alienation of immovable property situated in one of the Contracting States may be taxed at the state where the property is situated. As a solution one could follow a share sale instead of asset sale by using two Cyprus companies (one superimposed over the other) holding the asset and selling the shares of the intermediate company or use a listed company in Cyprus which is exempt



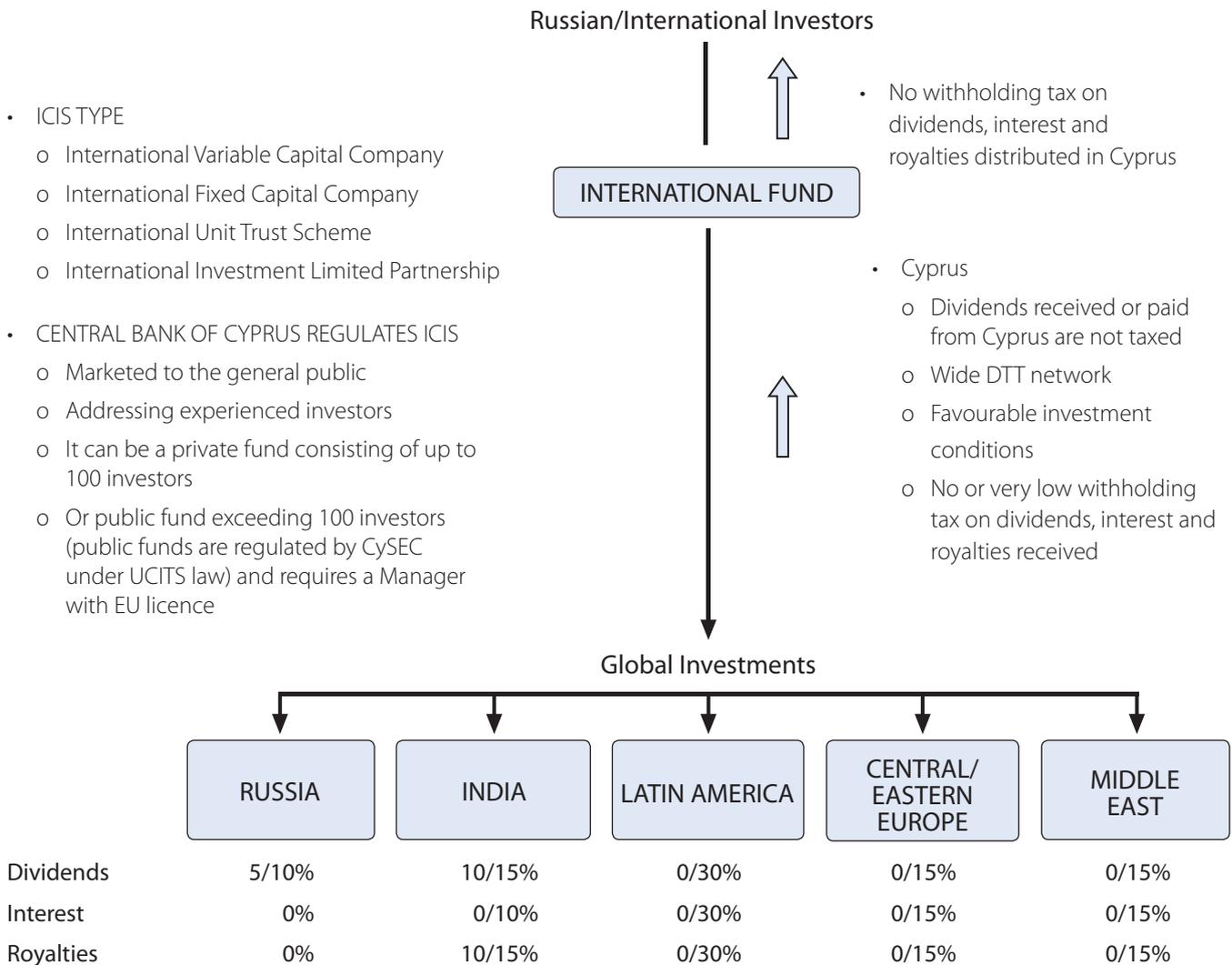
Cyprus International Trust (CIT)

- 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



- 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

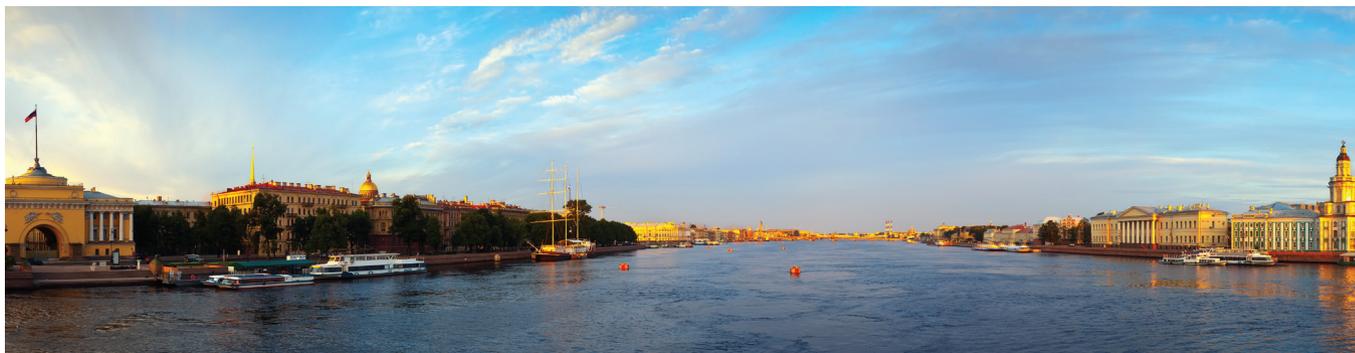
Collective Investment Vehicle (Private Fund)



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



3 Cyprus - Russia Double Tax Treaty



Withholding tax rates – no changes

One of the most beneficial as well as key aspects of the Double Tax Treaty (DTT) is the favourable withholding tax rates applying to cross-border payments of dividend, interest and royalties.

The business community has welcomed the very positive and important decision not to bring any changes to the current withholding rates which will continue to apply as follows :

Dividends	5%*
Interest	0%
Royalties	0%

*10% withholding tax applies if the direct investment is less than €100.000.

New definition for dividends

The DTT clarifies that distributions from mutual funds and similar collective investment vehicles (other than real estate investment trusts or real estate investment funds or similar vehicles primarily investing in immovable property) will be subject to the normal withholding tax rates applying to dividends ie 5%/10%. This clarifies an uncertainty that existed regarding the withholding tax rates that should apply on such distributions.

The definition of dividends has also been extended to cover distributions from shares held in the form of Depositary Receipts.

New definition for interest

The substantially aligned with the OECD definition of “interest” clarifies, inter alia, that the term “interest” also covers income from debt-claims of every kind, whether or not secured by mortgage and whether or not carrying a right to participate in the debtor’s profits but it does not include penalty charges for late payment or interest which is reclassified as dividends by virtue of other provisions.

Exchange of information

This article has been revised in line with article 26 of the OECD Model Tax Convention on Income and Capital and reflects the changes that have already been introduced in the Cypriot tax legislation since 2008.

The changes are towards alignment to OECD policy standards on fiscal transparency and exchange of information on taxation matters.

Limitation of treaty benefits

The limitation of benefits introduced does not

apply to companies incorporated in Russia or Cyprus.

Limitation of benefits applies to tax residents of Russia or Cyprus which are not companies registered in either of the two states and only in case where the tax authorities of the two countries agree that one of the main purposes of the company was to obtain the benefits of the agreement.

Other changes

The DTT introduces a clarification of the existing "tie-breaker" clause in relation to residency so that in cases where the effective management cannot be determined, the tax authorities of Russia and Cyprus should consult between them and come to a mutual agreement in this respect.

The DTT extends the definition of Permanent Establishment to cover activities of an enterprise resident in one country through services performed by individuals present in the other country for more than 183 days in a 12 month period, with certain specific criteria having to be met prior to such services being deemed to give a rise to a Permanent Establishment in the other country.

Income received through a real estate investment trust, a real estate investment fund or similar collective investment vehicle which is organized under Russian laws primarily for the purposes of

investing in immovable property would be treated as "Income from Immovable Property" as per article 6 of the DTT and may be subject to tax in the country where the immovable property is situated.

In general, capital gains from the disposal of shares remain under the exclusive taxing right of the country of residence of the seller.

The important change relates to disposals, by a resident of one country, of shares in companies which derive a substantial part of their value (more than 50%) from immovable property situated in the other country. In this particular case, the country in which the immovable property is situated will also have a right to tax the resulting gain. This change is in line with the OECD Model Tax Convention on Income and Capital. This change will come into effect four years after the date the Protocol will come into force i.e. it will be applicable from 2017.

Cyprus was removed from the so-called "black list" (Russian Ministry of Finance Order No. 108n of 13 November 2007), which currently lists 42 countries.

This means that the zero corporate profits tax rate applies to dividends received in Russia from Cypriot sources.

Sale of non-listed shares represent a significant change, for which taxpayers have been given a four-year grace period.

Starting from 2017, income of Cypriot companies from sale of shares of Russian companies owning Russian immovable property will be taxed in Russia.

Oneworld Ltd/Group One

At Oneworld we deal in solutions. Although a significant proportion of our business is corporate registration and administration, many clients now come to us for a complete solution and for many we also provide creation and administration of trusts, international tax advice, accounting and payroll, VAT and customs, corporate finance, valuations and related services.

Like our clients, we maintain the highest professional standards and code of conduct. Our due diligence procedures more than meet the requirements of the highly regulated jurisdictions in which we work.

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