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## *CYPRUS IS A “COOL” EU HUB IN TIMES OF TURMOIL*

Given today's financial and political uncertainties, heavy taxation and the structural problems facing presently the EU, Cyprus can be utilized as an EU hub for companies and individuals who wish to base their activities in a tax efficient and cost competitive environment, whilst maintaining (or establishing) an EU presence.

The risk of a possible exit of the UK from the EU is a current example that depicts the uncertainties the EU faces. The UK will still need trading, economic and political partners within the EU and a possible Brexit in no way can be interpreted that it terminates cooperation with the EU countries. It simply means that companies currently headquartered in the UK will need to restructure and set up holding entities in an EU member state.

Cyprus is indeed a top option for this, offering many benefits including passporting of its EU membership to its investors as well as being cost competitive and enjoying very low taxes, in comparison to other EU members states. It has adopted euro as its currency since 2008 which ensures monetary stability.



## Cyprus holding companies

The island is a long established reputable and tax efficient financial centre. Investors can reap the benefits of cross border opportunities within the EU by selecting the island to host their investment holding and use it as a springboard to carry out business activities, raise funds or list their shares in EU capital markets of their choice.

The main incentives for locating a business in Cyprus include:

### **Tax benefits**

- 12,5 percent corporation tax, the lowest in the EU
- exemption from tax on dividend income, in most instances
- no tax of profits from foreign Permanent Establishment (PE), in most instances
- exemption from tax on profits from shares, securities, bonds and units
- no withholding tax on the repatriation of income as dividends, interest and royalties
- extensive double tax treaties 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

### **Holding companies**

Holding companies represent the majority of international business entities. The regime is beneficial, remember:

- both dividends received in and paid from Cyprus are exempt
- gains from disposal of shares and bonds are tax exempt

- no thin capitalization rules

### **Financing companies engaged in intra group loans**

Generous tax deductibility of general administration expenses. No withholding tax on payments of interest to non-residents

### **Intellectual property (IP) companies**

The IP regime is one of the most attractive in the EU, the effective tax rate is very low.

### **Other advantages**

- strategic location at the crossroads of Europe, Middle East and Africa
- EU member state and a gateway for the movement of goods in and out of the EU
- high quality professional services
- excellent infrastructure providing easy access by air and sea
- low set up and operating costs

## Cyprus for UK businesses and individuals

The ability to migrate companies to Cyprus opens tax planning dimensions for UK investors and businessmen. UK companies can become tax resident in Cyprus and enjoy the plentiful benefits offered by the Cypriot corporate tax regime. They can also take advantage of a pleasant country which is a financial centre, member of the EU and a fine place to work and live.

It is worth highlighting the following aspects:

- opportunity for UK companies to establish themselves in the EU, through the “passporting” of Cypriot based entities in the EU including the insurance and financial services sectors. A plethora of investment funds, FX companies, asset



management companies and many more have chosen the island as their base to operate under the EU umbrella due to the common EU Directives adopted by the island's regulators

- Cyprus has an educated, multilingual work force with a high standard of professional services in areas such as taxation, law, accounting, banking and finance
- UK trading companies engaged in EU trade can relocate to Cyprus without the need to fully restructure. This can be done by transferring assets and liabilities to a newly incorporated Cyprus company followed by a liquidation of the former UK entity
- Cyprus has concluded favourable tax treaties with more than 60 countries including Russia and other east European countries, India, China etc. Absence of anti avoidance provisions makes a Cypriot company an ideal holding, licensing and investment vehicle
- has a common law legal system similar to the one used in the UK listing at ECM, EU's inexpensive stock exchange which enjoys a simplified regulatory regime and is relatively not subject to the more rigorous listing requirements and on-going obligations on issuers of securities imposed by more regulated markets

## **Structures for UK online business**

### ***Traditional structure using a UK LLP***

A UK LLP gives access to the European market without any tax implications. It consists of two partners, in most cases two offshore companies with no corporation tax. The offshore companies have all the domains, IPs, websites registered on their names and use UK LLP structure, as EU passported company, to register merchants and collect online revenue. The partnership has no obligation to submit financial statements or profit tax returns. The two partners have the

obligation to register with the UK tax authorities and submit tax returns annually. The two partners being offshore companies and UK non tax residents are not subject to any corporation tax.

Moreover, having a UK LLP structure gives access to EU markets and minimizes VAT implications as a consequence of the new EU VAT regulation for online businesses ("MOSS").

### ***Going forward: Cyprus'solution for online businesses***

Following the result of the recent UK referendum and the possible exit of the UK from the EU, the above traditional structure of using a UK LLP for online businesses may not be able to materialize in the future. The main reason being that the UK LLP will lose its EU identity and additional VAT implications will arise for company to company transactions, as it will not fall under to the EU VAT regulation for online businesses ("MOSS"). Consequently, online businesses will need to incorporate an alternative structure using an EU company for trading within the EU.

Cyprus is a viable alternative for online businesses acting, either as a collecting agent or as a holding company within an online business EU structure.

## **Citizenship by Investment**

The Cypriot government has established a number of incentives to attract foreign direct investment into the country. One of these is the citizenship by investment program that grants full Cypriot citizenship to those that invest more than €2.5mn in real estate and who meet certain other requirements. Successful applicants gain the right to live, work and study in all EU member countries.

The applicant must have purchased state bonds of the Republic of Cyprus or invested in property real estate in Cyprus or acquired financial assets of Cyprus companies of at least €2.5mn. Another option is to make a deposit of €5mn with a local bank for a minimum period of 3 years.



In April 2013, the government of Cyprus introduced changes to its citizenship by investment program. The changes include the introduction of the major collective investment (MCI) route which reduces the minimum investment amount from €5mn to €2.5mn when several applicants jointly apply for citizenship with a total minimum investment of €12.5mn.

Benefits of the program include:

- citizenship of an EU member state
- acquire the right to live, work, and study in the 28 EU countries
- acquire the right to security within the European social and legal system
- full citizenship and passports are granted to the applicant and include family members
- a Cypriot passport allows visa free travel to 159 countries around the world
- flexible options with no residence required, approval usually within 90 days
- qualify by acquiring assets in Cyprus, with no requirement to donate wealth

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