

# Island of INCENTIVES

*With the implementation of new regulations such as the OECD Common Reporting Standard and FATCA on the one hand, and tax authorities applying increasingly stringent measures on the other hand, maneuvering in today's challenging financial environment has become considerably more difficult. Thus, both individual and corporate investors are turning towards substance solutions, with Cyprus clearly emerging as a preferred jurisdiction among those seeking to optimize their international tax exposure.*

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There is no legislative definition of "substance"; however, the implementation is based on practical standards which include, among other things, Tax Residency and/or Citizenship for individual investors, and real physical presence for corporate investors.

#### SUBSTANCE SOLUTIONS FOR CORPORATE INVESTORS

The mere fact that a company is incorporated in a certain jurisdiction and pays taxes in that same jurisdiction on its worldwide income is no longer sufficient to guarantee a company's access to the full treaty benefits offered through the expanding and favourable DTT network that the relevant jurisdiction has to offer. Another country is free to impose its own substance rules – for example, as a result of local CFC rules. In such cases, the onus is on the relevant company (including its foreign beneficiaries) to demonstrate to the foreign authorities that it is conducting real business from, in, or through that specific jurisdiction.

That can be achieved in many ways, such as – but not limited to – maintaining a real physical presence in Cyprus, with distinct offices; employment of qualified senior management located in Cyprus; maintaining of accounting records in Cyprus; and the operation of bank accounts with at least one Cypriot bank signatory.

Once a company complies with the practical standards of substance and becomes tax resident in Cyprus, it will be taxed on its worldwide income accrued or arising from sources both within and outside Cyprus at a flat rate of 12.5%. Other benefits include, among others:

- Tax exemption on foreign dividend income;
- No thin capitalisation rules;
- Tax exemption on capital gains from the sale of immovable property located outside Cyprus and on the sale of qualified securities;
- No withholding tax on outward payments (dividends, interest, royalties) to non-Cyprus tax residents (companies or individuals);
- IP box regime with only 2.5% effective taxation.

The owners of the company can benefit from an attractive combination of Cyprus citizenship by investment alongside the tax residency non-domiciled.

#### THE CYPRUS TAX RESIDENCY NON-DOMICILED

The new 'non-domiciled' rules allow individuals who

are not domiciled in Cyprus, as per the requirements set out in the relevant legislation, to be exempted from payment of the special defense tax on dividends, interest and rental income, despite the fact that they may be Cypriot tax residents. This exemption applies to income even if derived from sources within Cyprus, and regardless of whether such income is used in Cyprus.

#### KEY BENEFITS

- Tax exemption of 50% of the remuneration from any employment exercised in Cyprus (when the remuneration exceeds €100,000 per annum);
- Tax exemption of 20% of the remuneration or €8,550 (whichever is lower) from any employment exercised in Cyprus;
- Income tax exemption for overseas employment exceeding 90 days;
- Nil/reduced withholding tax on income received from abroad;
- Exemption from capital gains tax (CGT) on the sale of non-Cypriot real estate.

#### CYPRIOI CITIZENSHIP BY WAY OF INVESTMENT

The Cyprus citizenship programme by way of investment is now easier to apply for as the required investment has been reduced down to €2 million for all applicants. Allowing a variety of investment options for a minimum of three years, without any element of donation, together with the acquisition of residential property worth at least €500,000, the Cyprus citizenship programme stands out as one of the most attractive programmes in the EU.

#### KEY BENEFITS

- Visa-free travel to more than 150 countries in the world, including all the European Union countries, Canada and Australia among others;
- Protection by EU legislation and regulations;
- Dual-citizenship permitted;
- Combination of tax incentives for investors who were granted the citizenship.

As the above provides only a general overview, professional assessment and guidance is absolutely necessary to achieve the desired results in compliance with current legislation.

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