

Jurisdiction Special Focus: Cyprus

Introduction To Cyprus

Cyprus is an independent sovereign republic in the Eastern Mediterranean, with a population of 1,102,000 (July 2010 est), of whom the majority are ethnically Greek, living in the southern part of the island. More than 200,000 Turkish Cypriots and Turkish immigrants live in the northern part of the island, separated from the south by a UN-supervised buffer zone. The official languages in the two zones are Greek and Turkish, but many Cypriots speak English, which is extensively used in business and commerce.

Cyprus is the third largest island in the Mediterranean after Sicily and Sardinia, and has hot dry summers and mild winters. The favorable climate means that a wealth of activities such as sailing (about which more later...), cycling, golf and skiing in the winter are popular with residents and expats alike.

The main cities are Nicosia (the capital and business centre, itself divided by the UN 'green line'), Limassol, Paphos and Larnaca, these last three being coastal cities around which the important tourist industry is concentrated. There are international airports at Larnaca and Paphos, where British immigrants are concentrated. There is a strong Russian community in Limassol.

Cyprus joined the European Union in 2004, although the 'acquis communautaire' is suspended in the northern part of the country.

The Divided Island

Cyprus was a Venetian satrapy in the late middle Ages, but belonged to the Ottoman Empire in the 15th to 19th centuries. From 1878 onwards the island was administered by the British, becoming a colony in 1925. An independence movement led to the creation of a separate Cypriot republic in 1960, but attempts to unify Cyprus with Greece antagonized the Turks, who invaded the island in 1974, leading to the present divided island.

UN troops have remained in the country since 1974 to uphold the truce between the two sides. Whilst restrictions on movement and trade over the demarcation line were lifted following Cyprus's entry into the European Union, it is uncertain when the island will become fully integrated.

Multiple attempts to re-unify the island as a 'bicomunal federation' have failed, most notably the 'Annan' plan in 2004, which was rejected by a high proportion of Greek Cypriots. The root problem is the existence of a large refugee population of Greek Cypriots who lost their homes and land when they were expelled from the north by the Turks. Talks between the two sides under the aegis of the UN have been ongoing for years, but the parties occupy very entrenched positions, and as of 2011 it would be a very optimistic person who expected a resolution in the near future. As time goes by, it becomes more and more likely that there will be a permanent partition of the island. Absent a solution, the EU and the US will have to lean on the Greek Cypriot government very heavily if it is not to

stand in the way of Turkey's EU accession process. The political future of the island is therefore somewhat unclear.

The Culture of Cyprus

The island's location has ensured that it played a full part in Mediterranean history, and its essentially Greek culture is leavened with many other influences. Classical ruins abound, but the most important modern influence has probably been that of the British, whose stay has contributed substantially to the island's Western business environment.

In the South, the currency is the Euro, whereas in the self-styled 'Turkish Republic of Northern Cyprus' (recognized by very few of the international powers other than Turkey), the currency is the Turkish Lira.

The cost of living in Cyprus is reasonable, although there are quite large differences between the north and south due in part to the collapse of the Turkish Lira in early 2001. Compared to the cost of living in Western Europe Southern Cyprus is moderately inexpensive, whereas compared to the Middle East, it is reasonably pricey.

Local newspapers are published in English and Russian, besides of course Greek and Turkish. Radio and television programmes are broadcast in English by the British forces, which retain two large military bases on the island. The local broadcasting authority, CYTA, relays many international television programmes.

The Cyprus Property Sector

Although Cyprus may well be an appropriate location for holding international assets (dealt with below), most incoming investors are interested in Cyprus as a possible home or for 'buy-to-let' investment. There are very many English-speaking developers and estate agents who offer newly-completed or 'off-the-plan' apartments or houses at all levels of the market. Until 2008 there was also a thriving 're-sale' market. Cyprus saw a boom in land and building prices during the years that followed EU accession, with values doubling or even trebling by 2008, when the market paused before tumbling in 2009. Prices are currently about 25-30% off their peak, but there has not yet been a surge in repossessions, probably due to the reluctance of the banks to write off bad loans.

There is a considerable overhang of unsold and uncompleted properties, so that a determined buyer can find very good bargains. Some warnings are in order, however, of which the most important relates to title deeds. These are not automatically issued for newly-built properties in Cyprus; instead it may take up to five or more years for the bureaucracy to issue a deed, and if the bank has lent to a developer who has split up a plot to build houses or apartments, then the title deeds will not pass to the eventual buyer until the bank has been paid off, making re-sale problematic. Lawyers have not been good at advising clients about this problem. There is now much greater awareness of the title deed issue and under pressure from the EU and the UK, the government is finally and very reluctantly putting new legislation into place. A careful buyer will make sure that all necessary title searches have been done, and that for a re-sale, the deed is available.

Whilst there are no hard and fast rules governing the purchase method of property in Cyprus, one will typically buy through an agent or developer, or a partnership of both. Agents typically charge the buyer a commission of 5%, although an extra 3% may be charged if a developer is also involved. However, fees have become more negotiable as the market has cooled. There is nothing to stop a buyer dealing directly with a seller, but this is not recommended as the land registry system is somewhat bureaucratic and best tackled by a professional representative.

Legal fees are likely to be in the region of EUR1,200 for a normal transaction. Obtaining finance for a property purchased in Cyprus was reasonably straightforward until 2009, when the banks became more cautious. Thanks to the country's British connections, most bank staff speaks reasonably fluent English. Typically, Cypriot banks will lend between 60% and 80% of the value of the property with the term usually fixed at seven to ten years, although longer repayment periods can be negotiated. As things stand, it would be very difficult to obtain a Cyprus mortgage from a non-Cyprus bank. The Cypriot property lending market did not see the excesses that took place in the UK and it has not been necessary for the government to support the banks, which are apparently stable, although one could worry about the overhang of bad property lending.

In 2011, about EUR200,000 would buy you a detached three bedroom dwelling, although expect to pay more to get near the beach.

Sample prices from estate agent web sites for the south (2011):

Two-bedroom apartment, 80 sq m, with balcony and communal swimming pool, EUR80,000;

2 bedroom, 2 storey maisonette in small complex including swimming pool, EUR130,000;

3-bedroom house with swimming pool, EUR160,000;

Family (4 bedroom) house, big garden, etc EUR250,000;

Recently built (or off plan) high specification villa EUR400,000.

Real Estate Taxes

Real estate transfer tax is payable on the transfer of a freehold into the name of the buyer and is levied on a progressive scale between 3% and 8%.

There is an annual real estate tax based on the 'cadastral' value of property, which is usually far less than the current market value (it can be divided between multiple owners): the rates are:

up to EUR170,860 - nil;

from EUR170,861 to EUR427,150 - 2.5%;

from EUR427,151 to EUR854,301 - 3.5%;

over EUR854,301 - 4%.

The immovable property tax is paid on 30th September every year.

A buyer is liable for stamp duty. This is currently charged at a rate of 0.15% on the first EUR170,000, and 0.2% above this threshold.

Depending on the size of the property, local authority taxes range from 0.1% to 0.5% per annum to cover refuse collection, sewerage, street lighting etc.

If, as a Cyprus taxpayer or resident, you decide to rent out your Cyprus property when you are not staying in it, be prepared to pay tax on the income of between 20-25% if you purchased it through some form of company, or between 20-45% as an individual.

Individual non-resident homeowners cannot claim all of the deductions that are available to companies, but can deduct a notional 20% on the rental income independent of whether any expenses are incurred in deriving the rental income.

Few countries tax their citizens purely on a territorial basis (that is, only on income obtained from within the country of residence), and rental income from a property let in Cyprus will almost certainly attract income tax in your home state should you choose to remain there, not to mention capital gains tax when the property is sold on.

Income Taxation In Cyprus

Non-residents of Cyprus are taxed in Cyprus on employment income (including benefits), in relation to services rendered in Cyprus, profits from a business activity which is carried out through a permanent establishment in Cyprus, rentals from immovable property situated in Cyprus, and pensions in respect of employment exercised in Cyprus, with the exception of pension paid from a fund established by the Government or local authority.

Chargeable income (after all allowances) is taxed (2011) as follows:

- up to EUR19,500 nil
- from EUR19,50-28,000 20%
- from EUR28,001-36,300 25%
- above EUR36,300 30%

Pension income is charged at 5% on amounts over EUR3,417 pa provided that the individual is neither Cypriot, nor has economic activity on the island.

A 'Special Defence Contribution' tax applies to foreign-source interest and dividends received by a resident individual at 10% and 15% respectively.

Capital gains tax is charged at the rate of 20% on gains arising from the disposal of immovable property in Cyprus or the disposal of shares of companies which own immovable property in Cyprus. Gains from the sale of shares listed on the stock exchange are excluded from capital gains tax. The base date for calculating the acquisition cost of real property is 1st January, 1980 or any later date of acquisition.

The taxable gain is the difference between the proceeds of sale and the original cost of the property plus the cost of improvements cost, adjusted for inflation from the date of acquisition.

Some disposals are exempt from taxation, including transfer by reason of death and gifts between relatives. There are some circumstances in which rollover relief is available if a gain is used for the purchase of a further property.

The first EUR85,430 (at the time of writing) of a gain made an individual on disposal of a personal property is exempt from tax. This exemption is available only once.

Capital gains tax does not apply to profits from the sale of overseas real estate by non-residents, by offshore entities, or by residents who were not resident when they purchased the asset.

A gain on the disposal of property held by a non-resident (and acquired with the importation of foreign currency between August 1980-July 1990) is not subject to CGT.

Cyprus As A Location For Your Assets

So is Cyprus an appropriate location for your assets? If you are a globetrotting career expat or have a substantial liquid net worth which you would like to protect from harm, the answer may well be yes. Cyprus is well known for its financial sector, and the particular expertise on the island is in the formation and management of offshore holding, investment, and trading companies, both for expats and corporations. There are a number of reasons why the country is especially suitable for the groups previously mentioned, and here we take a look at just a few of them:

Favourable Location. Cyprus is often referred to as a 'European country in the Middle East', and many people are under the illusion that the island is actually European. In fact it is located in the north-eastern corner of the Mediterranean, and is effectively at the crossroads of Europe, Africa and Asia. This strategic position has played a large part in its development into a base for expatriates, retirees, and also international business.

Double Tax Treaties: Unusually for an offshore jurisdiction, Cyprus has a great many double tax treaties (over 40), which can make life a great deal easier for both resident and non-resident expats with financial concerns and responsibilities outside the country. There are more than 40 treaties in all in place, with several more in the pipeline. Most follow the OECD model, although the US-Cyprus treaty follows the most recent US agreements.

Cyprus has double taxation agreements in place with countries including (deep breath...): (* Indicates that the treaty is awaiting ratification) Armenia (*), Austria, Belgium (*), Bulgaria, Canada, China, CIS (Former USSR), Czech Republic, Denmark, Egypt, Germany, Finland (*), France, Greece, Hungary, India, Ireland, Italy, Japan (*), Kuwait, Malta, Norway, Poland, Romania, Russia, Singapore (*), Slovakia, South Africa (*), Sweden, Syria, Thailand (*), Ukraine (*), United Kingdom, United States, Former Yugoslavia (Serbia and Montenegro).

Tax Sparing Provisions: In addition to the vast (by offshore jurisdiction standards, anyway) network of double tax treaties, Cyprus also has a number of tax sparing provisions in place, whereby if the tax is spared in Cyprus, it can still be credited against the expat's tax liability in his home country. These additional arrangements are in place between Cyprus and Canada, Czech Republic, Denmark, Germany, Greece, India, Ireland, Italy, Malta, Romania, Slovakia, Sweden, Syria, United Kingdom, Former Yugoslavia.

Efficient Regulation: The financial sector is regulated by the Central Bank, and neither individuals nor corporate entities are subject to exchange controls.

Good Infrastructure. Cyprus has a good, European standard infrastructure, and in the business world, English is widely spoken. However, a word of warning - for offshore

jurisdictions, Cyprus is a relatively, although not prohibitively expensive location, and some documents need to be filed in Greek.

Developed E-Commerce System: The Cypriot government says that the island is the communications hub for the Middle Eastern region (although don't they all?). However, the e-commerce situation in Cyprus can certainly stand up against that of most other offshore jurisdictions, and the Cyprus Telecommunications Authority boasts a virtually all-digital network. Should you decide to locate your assets in Cyprus, you should experience no problems in communicating with your bank or asset manager electronically.

Established Stock Exchange: The Cyprus Stock Exchange (CSE) began operations in 1996, and is governed by the Stock Exchange Council. The market has had a few problems in the past, but things seem to be on the up now. In 2007, the CSE and the Athens Stock Exchange launched a new, common trading platform. Market capitalization is approximately EUR20bn. The Cyprus Stock Exchange launched a fully automated online settlement and clearing system in 2002.

Types Of Asset Protection Vehicles Available: As previously mentioned, Cyprus is famed for its expertise in the formation of companies for holding, investment and trading purposes. As a result, there are a great many variations on the theme. However, probably the most suitable vehicles for a non-resident expatriate would be the International Business Company and the International Trust.

There is nowadays no distinction in taxation terms between an International Business Company and a regular Cyprus limited company; both pay 10% profits tax, the lowest rate in the EU.

In July, 2002, as part of the Income Tax Act No. 118(I) of 2002, Parliament approved the uniform 10% corporate tax rate, to apply to both onshore and offshore companies, plus a 2% levy on wage bills (meant to subsidize pensioners), and a 'Special Contribution' related to defense which in effect applies the 10% corporate tax rate to inter-company dividend and interest payments. In other respects, dividends are exempt from tax.

However, profits from activities of a permanent establishment situated outside Cyprus are completely exempt. This exemption will not apply to a Cyprus company if: (i) its foreign permanent establishment directly or indirectly engages in more than fifty per cent (50%) of its activities in producing investment income, and (ii) the foreign tax burden is substantially lower than that in Cyprus.

Dividends are exempted from tax; however, new provisions have been introduced under the Special Contribution for the Defence of the Republic Law, 2002 ("Special Contribution").

In order to form a company for the purposes of property investment, asset protection, or estate planning, you will need a bank reference (from an entity which is recognized by the Central Bank), and a notarized copy of your passport. Fees and costs vary from provider to provider.

Cyprus International Trust: Trust law in Cyprus is based on English common law, and the international trust is the most common and advantageous model for the foreign settlor, as broadly speaking the assets and income of International Trusts are not taxable in Cyprus

(although they may well be in your home country or country of residence, so seek professional advice before establishing this type of vehicle for tax minimization purposes). In order to establish an international trust in Cyprus, the settlor and beneficiaries must be non-resident, and one of the trustees must be a Cypriot individual or entity. Client confidentiality is recognized and protected in the laws of Cyprus, and unless there is concrete evidence of criminal activity, foreign judgments are not usually recognized. As well as the costs of setting up and managing a trust structure (which, as with company formation and management vary considerably), you should also expect to pay a stamp duty fee. International trust assets may not, however, contain immovable property in Cyprus. There are a number of company forms available in Cyprus, but the most commonly used for a Cypriot holding company is the private limited liability company. When 100% foreign-owned, a private company used to be referred to as an 'offshore company', although the expression International Business Company subsequently came into favor to describe such entities.

Cypriot companies are formed under the Cyprus Companies Law, Cap. 113, which is virtually a copy of the English 1948 Companies Act. In order to form a foreign-owned company in Cyprus, a bank reference and copy of the owner's passport is required for the registration. The bank reference must be issued by a bank included on the Central Bank of Cyprus's list of qualifying banks. A holding company using the private limited company form will need at least one shareholder and the minimum share capital is EUR1,000, with share capital of between EUR5,000 and EUR10,000 the norm. A Cypriot private company must have at least one director which can be a natural person or a body corporate of any nationality.

Under amendments to the Cyprus Company Law in 2003, every company must prepare a full set of financial statements in accordance with International Financial Reporting Standards, and every parent company that has one or more subsidiaries, other than a company which is itself a wholly owned subsidiary, should present consolidated financial statements. Under article 120, every company must complete an annual return within a period of 42 days from the date of its Annual General Meeting and must file immediately with the Registrar of Companies a copy of the annual return, signed by a director and the company secretary. Under article 121, the annual return filed with the Registrar of Companies must be accompanied by the full set of financial statements.

So, as described above, due to the island's combination of tax treaties and low-tax regime, and its membership of the EU, many international investors choose Cyprus as a location for financial holding and investment companies as conduits for investment to and from Eastern Europe, the Near and Far East, and Africa.

Cyprus As A Location For Career Expats And Retirees

Cyprus is a perennially popular location for international consultants, and independent contractors, and its burgeoning offshore sector accounts for the greatest percentage of expatriate workers, for reasons which we will examine later. However, it is also a popular

destination for active retirees, (who are attracted not just by the lifestyle on offer, but by the fact that the large number of double taxation treaties in place mean that retirement income from abroad will not usually be subject to withholding tax at source) and both of these groups are positively encouraged by the Cypriot government. In this section of the focus on Cyprus, we will be looking at the requirements for entry and residence, working, living, and buying property on the island, and the taxation liabilities for both resident and non-resident expatriates. So without further ado...

Since Cyprus joined the EU, residency and work permits are no longer required of EU citizens. However, for non-EU citizens, employees of entities in Cyprus require 'Temporary Work and Residence (TRE) Permits', which are issued by the Central Bank. For this purpose, employees are categorized either as Executives or Non-Executives. In effect, executives are defined as senior management, and only three are permitted per company unless the Central Bank can be persuaded otherwise. The minimum age for an Executive at the time of writing is 24, and the minimum salary is CYP12,000 per year. In both cases, a fair amount of documentation is required by the authorities and permits are normally issued for 2 years, renewable for a further three years.

Obtaining Permission To Live And Work In Cyprus

The Temporary Residence Employment (TRE) Permit acts as permission to live and work in Cyprus, and these are usually classified as 'Executive' (usually directors or general managers), and 'Non-Executive'. Applicants for an Executive TRE should apply through the Central Bank of Cyprus, and must be over 24 years of age, earning a designated amount, and be registered as a director with the Registrar of Companies. Non-Executive TREs are harder to obtain, as it must be proven that there is no suitably qualified Cypriot that could fill the position, and must be applied for through the Ministry of Labor. Non-executive applicants are advised not to commit themselves to a position in Cyprus before consulting the Ministry of Labor.

However, temporary residence and employment permits are issued fairly freely to employees of, or consultants, to offshore operations, and also to foreign nationals wishing to retire to the island, hence their preponderance there. The first TRE permit is granted by the Migration Department of the Ministry of the Interior, and is usually valid for a two-year period, renewable every three years after that. However permits issued to intending retirees are only valid for a one-year period, and are renewable annually thereafter, subject to a demonstration of adequate financial resources.

Before November 2000, an expatriate had to have obtained a (rare) five-year permit, or to have been resident in the country for five years, before they were permitted to bring their spouse and/or children to live with them. However, new legislation introduced at the end of 2001 means that for workers in the education, foreign media, offshore, and accounting sectors, and for those that have invested significant sums in local enterprise, this rule has been significantly relaxed.

Individuals exercising an office or employment in Cyprus, whose residence was outside Cyprus before the commencement of the employment, are granted a tax exemption for 20% of their remuneration, or EUR8,000 (at the time of writing), whichever is the lower, during a period of three years starting at the beginning of the year following the year of commencement of their employment.

Shipping Registration In Cyprus

This may seem like an unlikely topic to include in a jurisdictional focus, but sailing is fast becoming a very popular pastime with active expatriate retirees and HNWI, and if this pastime interests you, then Cyprus is the place to be. Of recent years, Cyprus has developed a maritime policy which is highly favorable for ship owners (in Cyprus there is no distinction made between ships and pleasure craft such as yachts, other than the fact that the procedures for the registration of the latter are more simple and straightforward), and there is a fast efficient infrastructure in place to deal with the burgeoning demand. A number of tax incentives combine with this to make Cyprus one of the most attractive locations for ship registration.

The first step for a non-Cypriot ship owner wanting to register a vehicle under the Cyprus flag is to form a shipping company which will acquire the vessel in its name. Broadly speaking there are two different types of ship-owning company, but of these, only the first will probably be of interest to nautically minded expatriates, as the second restrict themselves to activities such as ship management, broking, average adjusting and marine insurance (stop yawning-we're getting to the good bit!), and are subject to income tax. The most suitable models for expatriates restrict their activities to the ownership, bareboat (self-sail) chartering and operation of ships in international waters, and are totally exempt from income tax, capital gains tax, and stamp duty on documents or mortgage deeds. Numerous marinas have been constructed in Cyprus, and more are on the way, many with very high specification infrastructure.

Conclusion

So in the final analysis, is Cyprus a good location for your assets, yourself, your family, your boat, or (e) all of the above? Depends what you are looking for. Cyprus is not one of the cheapest offshore jurisdictions available, but nor is it one of the most expensive in which to locate an offshore structure, or spend your retirement. There is an efficient and well-maintained infrastructure in place, and the standard of living is high for the most part. The government usually encourages independent contractors, offshore employees, and those who wish to retire to Cyprus, and although residents are subject to income tax, for the most part this is only levied on income deemed to have arisen in Cyprus. Although it has shied away slightly from the 'offshore' image it once had, and has been forced to implement some changes to its legislation in order to satisfy the OECD, it is still generally regarded as a safe and secure location in which to do business or reside, and as a shipping registration location, it is widely considered to be unparalleled.