

# Cyprus



**Over the last four decades, Cyprus has been a prominent international business centre attracting business and investment from all over the world. The accession of Cyprus into the European Union in 2004 and the adoption of the EU regulatory requirements regarding international business have cemented the reputation of Cyprus as a well-established international financial centre and one of the most valued venues for setting up a company. On January 1, 2008 the euro became the island's currency, further integrating the Cypriot economy to that of the European Union's core economies. Cyprus' 2012 EU Presidency, provides an excellent opportunity to enhance its investment potential to attract foreign investment, increase international business, encourage trade and boost tourism.**

In recent years, while the effects of the international recession have posed significant challenges for the world economy, Cyprus has experienced a higher than the EU average growth rate and has achieved sustainable macroeconomic and price stability and created the conditions for the maintenance of a strong and vibrant economy where business can be conducted without red tape, high taxes and unproductive attitudes.

## **Ideal for business**

Cyprus lies at the crossroads of three continents and is Europe's southern easternmost outpost. It is close to the busy shipping and air routes linking Europe with the Arab world and the Far East, representing a strategic hub for business activities in the region.

The island has a favourable corporate tax rate at 10%, the lowest in the European Union, offers freedom from tax on dividends and capital gains from investments and a wide network of double taxation treaties, providing an ideal environment for holding companies. This unique combination gives a number of attractive planning opportunities and allows tax advisers to use Cyprus in a variety of international structures to effectively reduce the total tax burden of their clients.

Cyprus may be used not only as an effective jurisdiction for routing investments within the European Union by third country investors, but also as a portal for investment outside the European Union, particularly into the rapidly growing economies of Central and Eastern Europe, India, China as well as the Middle East, North Africa and the Gulf Area. It is therefore not surprising that Cyprus is considered as 'the gateway of Europe'.

As an international business centre, Cyprus also offers a highly educated workforce with 32.3% of 25 to 64 year olds holding tertiary education qualifications. English is the language of business and commerce and French, German and Russian are widely spoken, especially by graduates of overseas universities.

Cyprus offers a high standard of living with a well organised banking system and an advanced transport infrastructure with two multi-purpose ports and two new international airports as well as an advanced telecommunications network.

All these make the country one of the world's most globally-orientated and business-friendly environments

for establishing corporate structures. At the end of 2011, there were more than 254,000 registered companies, including businesses hailing from most of the European Union countries, Russia, Ukraine, the US, Canada, China, India as well as countries from the Middle East and North Africa.

## Growth opportunities

Cyprus' investment policy is very liberal and offers significant benefits and many niche opportunities to investors across a number of selected sectors. It actively supports the development of high value-added, knowledge and innovation-based sectors that augment the island's innovative capacity, international competitiveness and status as a knowledge economy.

The Cyprus Investment Promotion Agency (CIPA), as the national Governmental Agency for attracting foreign investments in Cyprus takes a lead role and actively promotes Cyprus as an attractive investment destination. CIPA is striving to attract investment in areas such as banking and financial services, shipping, energy, professional services, wellness tourism, education, information and communication technologies (ICT), research and development (R&D) and medical services.

Moreover CIPA is advocating and promoting legal and administrative reforms to remove hurdles and strengthen the investment environment in Cyprus. It also provides aftercare services to foreign investors and supports the implementation of key large-scale infrastructure and development projects which will further improve the competitiveness of Cyprus' economy.

In fact, foreign investors are showing tremendous interest to invest in or through Cyprus. In the past two years we are experiencing an increased interest from:

1. Business and financial companies that wish to create holding companies and investment funds.
2. Investors who are interested in large development and infrastructure projects.
3. Companies interested in using Cyprus as a logistics, warehousing, headquartering and distribution centre.
4. Investors who focus on the hydrocarbon exploration activities within the exclusive economic zone of Cyprus as well as on the exploitation of the renewable energy sources.
5. Shipping companies that want to take advantage

of the tax advantages such as the new tonnage tax system.

It seems that the extensive efforts of the authorities to attract foreign investments in Cyprus are bringing the desired results. A large percentage of interested investors derive from China, Russia or Canada and express their interest in penetrating into the European markets through Cyprus or to invest in Cyprus.

A very recent example is the case of a Chinese conglomerate which is interested in transforming the old Larnaca airport into a robust wholesale distribution center that will host 4,000 Chinese companies which will be able to manage and promote their products and services in Europe, Middle East and Africa. The investment cost of the project is estimated at €600m and its implementation will create great potential for opening about 10,000 jobs positions. It is worth noting that the Chinese investors are ready to complete the project within 16 months from the date of licensing.

Cyprus' score of 71.8% in the 2012 'Index of Economic Freedom' which covers 184 countries around the world, ranking them on the basis of 10 factors which measure business, trade, fiscal, monetary, investment, financial and labour freedom, government spending, property rights and freedom of corruption, makes the island the 20th most liberated economy.

## Banking and financial infrastructure

As Cyprus emerges as one of the leading international financial centres in the eastern Mediterranean, the island's banking sector has gone from strength to strength. There are 43 banks in Cyprus, 15 of them are Cyprus-incorporated banks and none of them required direct government support during the financial crisis. Instead they were praised for holding capital and liquidity ratios well above the regulatory minimum, a factor that helps retain investor confidence through the crisis.

The Cypriot banking system is internationally recognised for its conservative approach based on sound fundamental banking practices. Holding strong deposit bases, with no reliance on interbank lending, the Cypriot banks' effective and prudent risk management policies have created an environment of stability and confidence for financial services operators and investor conducting business on or from the island.

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The Cyprus Government is very keen to offer and maintain a tax efficient and relatively low cost base for foreign banks and financial firms looking for an EU compliant yet flexible domicile that provides access to the European, former Soviet republics and other nearby markets.

Cyprus has long enjoyed an excellent reputation as a top-tier financial jurisdiction and today the island is seeking to greatly expand its role as a location in which to establish investment funds.

The new tax and regulatory framework set to attract funds has made the island a very competitive jurisdiction. Against the backdrop of unprecedented EU capital market integration, fund managers wishing to reap the benefits of cross-border activity are starting to look at Cyprus as a credible alternative to more expensive traditional fund jurisdictions. Cyprus is ideally placed to act as a springboard to raise funds within the European Union and maximise returns for investors at low cost and enhanced tax efficiency.

## Shipping

Cyprus enjoys an international reputation as a shipping centre in Europe. The island's merchant fleet has been growing steadily, ranking third in Europe and 10th globally. Cyprus' unique geographical position at the juncture of three Continents, its advanced infrastructure and services as well as its very attractive taxation and other advantages makes it an ideal location for ship owning, ship management and ancillary shipping-related companies that maintain offices and conduct international activities from Cyprus. Shipping accounted to 5% of the GDP of Cyprus and there are more than 2,300 vessels with 46 million gross tonnages, thus making it one of the largest national shipping associations in the world.

The approval by the European Union of a new, fully revised and upgraded Cyprus shipping taxation system is considered as a huge success for Cyprus and European shipping. Cyprus covers the three basic shipping activities that are offered today in international shipping, namely ship-owning, ship management (including crew management) and the chartering of vessels. Under the new Cyprus tonnage tax system, ship owners, charterers and ship managers, are exempted from income tax or any other tax on dividends paid to shareholders, on interest earned on

working capital and on any profit made from the sale of a ship.

## Corporate service providers

The World Bank Group's 2012 'Doing Business' Report ranks Cyprus 40th out of 183 nations in terms of overall ease of doing business and companies are attracted to Cyprus by a number of factors. According to the same report, Cyprus ranks 16th among the EU Member States.

The Cypriot professional services sector is able to support all aspects of business, including accounting, banking, international business and financial services, business consulting, computing and information technology, design, education, engineering, legal services, shipping, private health care, filming, risk management, sales and marketing, travel and tourism, real estate, and conferencing, at very competitive rates.

Major international accounting companies and various local ones are represented by partners with in-depth knowledge of the tax and accounting environment of Cyprus and various law firms can assist foreign businesses with both set-up and contractual formalities. For any investment to succeed, it needs the support and advice of local professionals.

## Company formation

Attracting new businesses to Cyprus is the government's economic policy. Cyprus offers significant competitive advantages and a favourable business environment to investors.

International corporations may establish a business in Cyprus on equal terms as the local companies. Administrative procedures for establishing a company have been simplified reflecting the importance placed on the country's development as an international business centre.

In November 2011, the Parliament voted for the implementation of the 'electronic signature' Law. This Law will allow professionals to register companies online and will request electronic certification of good standing. The Law, 145(I) 2011, is expected to be enforced within 2012.

Moreover, the acceptance of the submission of the financial statements of companies in English was announced on December 2011 by the Department of the Registrar of Companies.

The point of single contact serves companies and entrepreneurs, whether operating on the island or in other European Union Member States, interested in pursuing their business aspirations in Cyprus. It provides comprehensive information relating to the procedures and formalities required for the access to and the exercise of business activities in Cyprus, online submission of application forms, tracking the progress of applications submitted and receipt of decisions.

Apart from general information and guidance to investors, areas where assistance is provided also include company, VAT and income tax registration as well as temporary residence and employment permits.

## Hydrocarbon exploration activities offshore Cyprus

For decades, Cyprus has looked enviously at countries to its south and east as they have drilled for, discovered and begun producing crude oil and natural gas. At last, fortune could be smiling upon Cyprus as well. Over the past few years it has become clear that the Eastern Mediterranean sea bed – known as the Levant Basin – contains vast hydrocarbon reserves.

The hoped-for good news was announced on December 28, 2011 by Noble Energy, a Houston-based oil company, which has entered into a production sharing agreement with the Republic of Cyprus for Block 12, since October 2008. Significant natural gas resources had been discovered in Block 12 and the results from the exploration drilling and initial evaluation work indicated an estimated gross resource of five to eight trillion cubic feet, with a gross mean of seven trillion cubic feet. In the coming years it is anticipated that gas production will be under way in Cyprus' own waters.

Besides Block 12, there are also other offshore structures worth exploring and a second international bidding round covering 12 blocks (Block 1-11 and 13) was announced in February 2012, with applications to

be submitted by May 11, 2012. A decision on the applications will be made by the Council of Ministers within an expected six-month period from the date of submission of the applications.

As the island repositions itself in response to these exciting new developments the energy industry as a whole will need investors and partners in order to fulfil its potential as a regional energy hub.

## Persuasive package

Cyprus has worked hard on building up its reputation. It offers a European Union venue with easy access to the main regional markets. Many important structural reforms have taken place in legal, tax and financial policies to fulfil investors' expectations and bolster macroeconomic stability.

Further to the excellent infrastructure, a free-market and open economy, low corporate tax and good long-standing relations with Central and Eastern Europe as well as the Middle East, Cyprus also enjoys more than 300 days of sunshine and an enviable quality of life.

With all the right elements firmly in place, Cyprus will continue to be ideally positioned to expand its reputation as an international centre of business excellence well into the next decade. International companies and investors, who are seeking a European bridgehead and a worthwhile business location, are invited to become part of the robust economy of Cyprus.

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