



Cyprus heading for new era of opportunity

Despite the financial crisis, investors are publicly showing confidence in Cyprus through their commitment to keeping operations on the island

For decades, Cyprus has been successful in attracting investors, and now that the country is going through tough economic reforms, both the need and opportunities for foreign investment are increasing. In its efforts to build a stronger future for Cyprus, the government has put in place a series of measures to boost the economy and attract investment through modernising legislation, promoting development projects, diversifying tourism, introducing tax incentives and speeding up licensing procedures.

Cyprus is Europe's eastern outpost at the crossroads of three continents: Europe, Africa and Asia. The country's geographic location has been considered of strategic importance in global trade for thousands of years (see map on page 164). Cyprus became a full member of the EU on May 1, 2004, and that accession launched a new era of commitment to quality and growth in Cyprus. Recently, the discovery of natural gas resources – and possibly oil – has further upgraded the strategic potential of the island, which is also considered to be a stabilising factor in the region's political developments.

A welcome framework

There are few countries that make doing business within their borders so hospitable. Cyprus continues to encourage FDI opportunities, as well as entrepreneurship and innovation, by having a comprehensive, modern and forward-looking legal and regulatory framework based on the principles of English common law. The country's legal framework is widely recognised as a business-friendly and effective system that allows for reliable and transparent business practices. Naturally, being an EU member state, Cyprus' legal framework is aligned with EU laws and regulations – the *Acquis Communautaire*.

Another added bonus is that Cyprus offers possibly the most attractive tax system in Europe (see sidebar), as well as one of the most appealing and simple systems in the world. The country provides an effective and transparent tax regime that is fully compliant with the EU laws and regulations. In addition, the Organisation for Economic Cooperation and Development (OECD) includes Cyprus on its 'white list' as one of the 45 countries that have introduced and implemented the high-

A BRIEF OUTLINE OF CYPRUS' TAX FRAMEWORK

The corporate tax rate is currently at a flat rate of 12.5 percent, however, there are multiple exemptions from tax for companies:

- › Complete exemption on dividend income in almost all instances;
- › Unconditional capital gains exemption on gains/profits from the disposal of shares, regardless of holding period or shareholding percentage, as well as bonds and debentures and many other securities;
- › No tax on capital gains from sale of immovable property outside Cyprus;
- › Deemed deduction of 80 percent on the net income derived from intellectual property.

No withholding tax at all times on:

- › Dividends paid to non-resident shareholders;
- › Interest and most royalties paid from Cyprus;

- › Capital gains and income on the disposal of either the shares of the subsidiary's share capital or the share of the Cypriot holding company;
- › No exit taxes on the liquidation or capital reductions of a Cypriot holding company.

There are also additional taxation incentives aimed at promoting growth, which include:

- › The provision for an increased 25 percent discount on taxable income payable by employers for each additional employee hired;
- › 100 percent tax deduction until 2016 on capital expenditure related to innovation, research, information, communications and renewable energy;
- › The extension until 2016 of the increased tax deduction, with a minimum of 20 percent on capital expenditure on other assets.

Cyprus international trusts are widely used as a vehicle for international tax planning, offering the following tax advantages:

- › Income and gains of a Cyprus international trust are exempt from any Cyprus taxes;
- › Dividends, interest or other income received by a Cyprus international trust are also not subject to any Cyprus taxes;
- › There is no capital gains tax on the disposal of assets of a Cyprus international trust;
- › There is no withholding tax on distributions made by a Cyprus international trust to beneficiaries or indeed any other parties;
- › Aliens who create an international trust in Cyprus and retire in Cyprus under certain conditions are exempt from taxation.

est of internationally agreed standards on harmful tax practices.

In addition to the tax benefits already mentioned, Cyprus has an extensive and constantly growing network of attractive double taxation treaties (DTTs), which supports the overall tax system and forms a significant part of the country's attractiveness. At the moment there are 46 ratified treaties in place, while a number of others are under negotiation. For individuals, Cyprus offers one of the lowest income tax regimes in Europe with taxation ranging from five to a maximum of 35 percent. Tax residents are taxed on income earned both in Cyprus and abroad, whereas non-tax residents are taxed on certain income earned from Cypriot sources only.

In terms of intellectual property (IP) tax, Cyprus seeks to promote research, development and innovation in line with the EU's strategy. Tax law provisions introduced in 2012 provide generous exemptions from tax of income related to IP under certain conditions. The Cyprus effective tax rate on IP related incomes and gains is currently below 2.5 percent.

Quality of life

One of Cyprus' biggest and most important competitive advantages is its well-advanced infrastructure, which is further enforced and supported by its compact size. Cyprus has a robust telecommunication system, two newly built international airports (Larnaca, Paphos) and two multipurpose deep sea ports (Limassol, Larnaca). The country has developed into an international business centre that offers specialised services and rewarding business opportunities. Cyprus is catering for the diverse needs of international investors by enhancing its "ease of doing business" ethos. The World Bank's *Doing Business Report 2013* ranked Cyprus 36th out of 185 countries for its investor accessibility.

Cyprus is a dynamic business centre that offers top level financial, legal, technical, and management services at competitive costs, mak-

ing it a uniquely attractive destination for foreign investors. At the same time, the cost of doing business in Cyprus has been declining over the past 12 months and is expected to become even more competitive over the coming years.

Human talent is probably Cyprus' most compelling competitive advantage since it forms part of the people's culture and history. Cypriots are highly educated, qualified and almost to their entirety bilingual, if not multilingual. Most importantly, however, business is still done with a personal touch. To give an example, the country ranks among the top countries in Europe for tertiary education per capita. In 2011, statistics by Eurostat revealed that more than 35 percent of Cypriots in the 25-64 age bracket have attained tertiary education, significantly higher than the EU-27 average of 26.8 percent.

Cyprus offers a clean and healthy environment with a high standard of living, directly related to its fabulous weather, beautiful nature, art and culture, safety, security, and above all, its hospitality and warm people. It is the combination of all these factors that make the experience of living on the island extremely desirable and attractive. The balance between work and family is part of everyday life, which is truly hard to match. The *UNDP Human Development Index Report 2013* ranked Cyprus 31st out of 187 countries for quality of life.

Areas of opportunity

The biggest potential for investment in the coming years will be in the hydrocarbons sector. Cyprus is set to become a natural gas exporter at a time when international demand for liquefied natural gas (LNG) is expected to rise. The ambitious project for the construction of an LNG terminal is of strategic importance and represents the largest investment in the history of Cyprus.

The government is also prioritising renewable energy sources (RES), aiming to reach 13 percent RES electricity supply by 2020, through wind farms, photovoltaic (PV) systems, solar thermal plants and biomass and biogas utilisation plants,

HUMAN DEVELOPMENT INDEX
QUALITY OF LIFE REPORT

CYPRUS
31st of 187

25-64-YEAR-OLDS WITH
TERTIARY EDUCATION

CYPRUS
35%
EU AVERAGE
26.8%

RECENTLY, THE DISCOVERY OF NATURAL GAS RESOURCES – AND POSSIBLY OIL – HAS FURTHER UPGRADED THE STRATEGIC POTENTIAL OF THE ISLAND

Cyprus' strategic trade location



providing investment opportunities in major infrastructure projects.

Cyprus' banking and financial services sector is diverse, comprising of domestic banks, international banking units (IBUs), insurance companies, and other companies that offer financial intermediation services. There are many international banks that operate subsidiaries, branches or have representative offices in Cyprus. There are currently opportunities for more foreign banks to set up operations. Cyprus' banking and finance sector legislation is in line with international best practice and has a simplified, effective and transparent tax system in place which is EU, OECD, FATF and FSF compliant.

Banks located in Cyprus offer an array of services ranging from asset management, private banking, international corporate and investment banking, retail banking, syndicated loans, custodian services and more. In line with the business changes, Cypriot banking infrastructure has rapidly evolved and adopted the use of advanced technology systems, implemented actions to reduce risk management along with the acquisition of highly trained personnel.

The passing of the Undertakings for Collective Investments in Transferable Securities (UCITS IV) Law in 2012 and The Alternative Investment Fund Managers Directive (AIFMD) in 2013 have created new opportunities for the emerging fund industry of Cyprus, while foreign exchange trading is a key growth area. The number of investment firms and funds is constantly increasing.

Reasons to invest

Cyprus' maritime sector is a true success story which contributes over €1bn to the country's

economy annually, accounting for around seven percent of its GDP and directly employing 4,000 shore-based personnel and 55,000 seafarers around the world. The proven advantages of Cyprus' shipping legislation, ratified international conventions and the general framework of shipping-related business have prompted many of the world's most influential names in shipping to base themselves on the island.

Furthermore, Cyprus continues to encourage innovation in the international shipping sector, providing debate and practical solutions for worldwide issues – proof of this is an EU-approved tonnage tax that secured Cyprus' position as the largest third party ship management centre in the EU and the largest crew management centre in the world.

Despite the current economic situation in Cyprus, the professional services sector remains strong. The expertise of the country's lawyers, accountants and other specialists – often UK- or US-trained – offer full and efficient services in all aspects of company law and tax planning. With around 80 percent of Cyprus' economy based on the provision of services, this sector is one of the most important in the country.

Cyprus was the first country in the world for the Institute of Chartered Accountants in England and Wales (ICAEW) and the Chartered Institute of Management Accountants (CIMA) to set up training outside the UK – strengthening Cyprus' reputation as a centre of excellence for professional services. The country has long been a desirable location for property investors, expats, retirees and those looking for a second home in the sun. Due to the current economic climate, property buyers can find exceptional properties

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”

at attractive prices. To further encourage investment from long-term residents, the government is working on simplifying the legislative framework and creating a fast-track procedure for granting long-term residence permits. Third country applicants who invest a total of €300,000 for the purchase of one or more residences will be granted permits, provided they are purchased from the same vendor.

Recognising the crucial importance of the ICT sector, Cyprus has formulated a national digital strategy, making IT development a priority in its economic development plan. With access to major satellite systems and supported by an extensive submarine fibre optic cable network – including the world's longest optical submarine telecommunications cable SEA-MEWE-3, linking Cyprus directly with Southeast Asia, the Middle East and Western Europe – the island is attracting an increasing number of international companies looking for a reliable regional hub.

In the medical sector there are investment possibilities in the improvement of e-Health services to the public sector, specialised medical services and the development of rehabilitation centres. Approximately 60,000 health travellers visited Cyprus in 2010, with the overwhelming majority coming from the UK, followed by Germany, Israel and the Middle East, Sweden and Italy.

Cyprus also provides investment opportunities in wellness services thanks to its moderate climate, clean seas and rich natural environment. With the island's renowned hotels and resorts, the potential to develop wellness tourism is well supported. Having an established tourism product ripe for diversification, with over 300 days a year of sunshine and the existence of thermal springs, spas and therapy centres, are of particular interest.

Throughout its history, Cyprus has proven resilient in the face of challenges. Investment interest has grown impressively, providing good and encouraging evidence that Cyprus' prospects are very positive. The Cypriots have their priorities clearly set out. They support and promote private initiative and they are determined to implement the necessary infrastructure to expedite processes to ensure projects go forward. ■