

Cyprus – The ideal route  
to Europe & beyond  
Chinese Services Group





# Welcome to Deloitte & the Chinese Services Group in Cyprus

I am pleased to introduce our Guide to Cyprus as China's link to business in Europe and the Chinese Services Group of Deloitte in Cyprus.

Cyprus is well placed literally and metaphorically as the entry point to Europe from Asia. The geographic location of Cyprus at the eastern-most point of Europe, bordering three continents, as well as the Cypriot tax and business environment make Cyprus the ultimate country for investors and businesses moving into Europe. Cyprus offers many key benefits that contribute to the success of business and investments and our Chinese Services Group in Cyprus is well placed to ensure this success.

Deloitte is known for its values of ethos, integrity, specialized knowledge and professionalism. Our ongoing commitment to continuous investment in our people and our deliverables is the key to our success and our ability to look at business issues from every angle is what sets us apart.

The Chinese Services Group of Deloitte in Cyprus coordinates with Deloitte in China in assisting Chinese groups investing and operating in Europe through companies incorporated and tax resident in Cyprus. In addition to intermediary holding and finance companies, our Chinese Services Group can assist with establishing Cypriot companies to perform other functions which can benefit from the favorable tax system and business environment in Cyprus, such as financial companies, investment trading companies, intellectual property holding companies, shipping companies and companies for oil & gas exploration.

Deloitte and our Chinese Services Group in Cyprus have the ability to offer practical solutions that are adapted to the needs of all businesses. Whether considering establishment in new European markets, acquisitions or rationalization of current operations, our Chinese Services Group in collaboration with Deloitte in China, can assist in the planning and implementation. The team of international specialists at Deloitte in Cyprus and our Chinese Services Group will ensure that investors and businesses will achieve significant benefits in these cross-border transactions and investments.

Deloitte and our Chinese Services Group in Cyprus look forward to working with you.

Christis M. Christoforou  
Chief Executive Officer



# The Cyprus business environment

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In recent years Cyprus has been voted the most attractive European tax regime by major business organizations across Europe. Cyprus has been commended for the stability of its tax law, the consistency in interpreting its tax legislation and its low tax rates. This accolade shows how the Cyprus tax system, combined with its first-rate infrastructure, highly skilled workforce and membership of the European Union has made Cyprus the international business hub it is today.

## Reputation and stability

Cyprus joined the European Union in 2004, resulting in an economy offering a great number of advantages within a common European market. The Euro was adopted by Cyprus as its unit of currency on 1 January 2008, further confirming the country's macro-economic stability and its commitment to low inflation, low interest rates and high growth.

Cyprus participates in the European Union's internal market where there is free movement of goods, services and capital.

Demonstrating a stable financial and business-friendly environment since the 1970s, Cyprus has attracted foreign investment and capital flows for decades. The country's financial and regulatory environment is harmonized with that of the European Union and the Cyprus tax system is aligned with European principles of equality and demonstrates a commitment by Cyprus to the OECD against harmful tax practices.

Cyprus ranks amongst the top half of EU countries in terms of GDP per capita (currently €20,000 per annum). In recent years the economy has been growing at an average rate of 4% in real terms and the unemployment rate is in the region of 4% of the labour force. In addition, inflation has been relatively modest with increases in the retail price index in the region of 2.5% per annum in recent years.

In April 2009 the OECD included Cyprus on its white list as one of only 40 countries in the world that have substantially implemented internationally agreed tax standards, being the highest categorization possible. Being on this OECD "white list" supports Cyprus's position as a sound and reputable environment from which international business operates.

## International familiarity

### Banking & financial regulation

Commercial banking follows the British and European Union models and is of a very high standard. There are currently over 40 Cypriot and international banks operating in Cyprus and, of course, no exchange controls.

The banking system conforms to EC Directives, under the regulation of the constitutionally independent Central Bank of Cyprus, as integrated with the Eurosystem. The Bank's governance is compatible with the provisions of the Treaty establishing the European Community and the Statute of the European System of Central Banks and of the European Central Bank.

The Cyprus Securities and Exchange Commission supervises and controls the operation of the Cyprus Stock Exchange and the issuers of securities listed on the Exchange. It supervises and licences investment services companies, collective investment schemes, brokerage firms, investment consultants and mutual fund management companies.

#### **Legal system**

The origin of Cyprus company law and other laws regulating business is the laws of the UK, familiarity with which assists international business people in working within the Cypriot commercial environment. English is spoken universally and is the accepted language of business.

#### **Telecommunications**

Cyprus has a highly advanced telecommunications infrastructure system with a number of companies providing modern telecommunication products and solutions.

#### **Air transport**

The two international airports in Cyprus are served by over 40 international airlines. There are daily flights to other European countries, Russia and the Middle East including major hubs for onward and long haul international destinations.

#### **Political respectability**

Cyprus has excellent diplomatic and economic relations with the rest of Europe as well as China, Russia, India, North America and the countries of the Middle East. As a result, Cypriot entities enjoy great respectability around the world.



#### **Low cost base centre and skilled workforce**

Cyprus has a low cost structure compared with other European countries of Central and Western Europe.

The costs of setting-up and maintaining a structure in Cyprus are low when it comes to incorporation costs and fees for meeting Cypriot tax and company law compliance obligations.

The cost of labour, rents and other infrastructure are highly competitive and often lower than in other European countries.

Cyprus has a young and flexible work force, with university education obtained predominantly in the UK and the USA. The island ranks among the leading countries in the world in respect of university graduates in proportion to its population, with the percentage of graduates from tertiary institutions being the highest in the EU (25-34 year age group).

# The Cyprus tax system

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Cyprus has become a favored location for international commerce as well as for reputable multinationals seeking a legitimate tax efficient jurisdiction – raising Cyprus to a new level of international business.

## Cyprus's advantageous tax system

Cyprus has all the tax attributes expected from an international financial centre.

- As a member of the European Union, Cyprus benefits from the EC tax directives for payments from other EU countries to Cyprus – there should be no withholding tax on dividends paid to Cypriot companies as well as interest and royalty payments to Cypriot companies from related companies.
- Cyprus has a comprehensive dividend exemption rule for dividends received, meaning most dividend income is exempt from Cypriot tax.
- Cyprus does not impose income tax or capital gains tax on the profits and gains derived from the disposal of securities such as shares, irrespective of whether the profits and gains are considered to be of a revenue or capital nature.
- Profits from a permanent establishment of a Cypriot company maintained outside Cyprus are generally exempt from Cypriot tax.
- The corporate income tax rate is 10% on taxable income (the lowest in the European Union).
- Cyprus boasts an extensive network of double tax treaties, currently with more than 40 countries.
- There is no Cypriot withholding tax on outbound payments of dividends, interest and most royalties.
- There is no Cypriot capital gains tax on the disposal of assets other than immovable property which is situated in Cyprus or unlisted shares in a company which owns immovable property situated in Cyprus.
- There are no complex tax regimes. For example Cyprus does not have thin capitalization and controlled foreign company rules and no net worth tax.
- There are laws in place to ensure the tax free reorganization of companies as well as tax free migration of tax residency and/or registered corporate seat.
- The headline Cypriot VAT rate is 15%, the lowest in the European Union.

# The formation & uses of Cypriot companies

## Formation of companies

### The Cypriot company

A Cypriot company can either be a private company established by one or more persons or a public company established by any seven or more persons who cooperate for any legal purpose and form a limited liability company, by signing the Memorandum of Association and by complying with the provisions of the Cyprus Companies Law.

A company's constitutional documents are its Memorandum and Articles of Association which specify the activities in which the company may engage and the means by which it will govern its affairs.

There is no minimum required issued and paid up capital for a private company, however it is common to have share capital of at least €1,000.

Every company must have a company secretary and a registered office address in Cyprus which may also be used as the business address of the company. Although not a requirement, it is common practice for the majority of the directors to be Cypriot residents.

### Company compliance

Every Cypriot company is required to maintain proper books of account and to prepare audited financial statements in accordance with IFRS.

In accordance with Cypriot tax law, every company is required to submit an annual corporate income tax return.

There is also the requirement for annual financial statements prepared in Greek and a company annual return to be submitted to the Registrar of Companies. The translations are often undertaken by the local advisers at minimal cost.

The Chinese Services Group can assist with all aspects of conducting business in Cyprus including arranging for the formation of a Cypriot company, partnership or trust and the on-going administration and management of an entity.

The Chinese Services Group can co-ordinate audit, payroll and bookkeeping services and Deloitte Human Capital Services can provide assistance with recruitment of personnel as well as obtaining work and residence visas, if required.

## Common Cypriot companies

### The equity holding company

A Cypriot holding company serves as a perfect gateway to the EU, receiving dividends suffering no withholding tax and paying them out without deduction of withholding tax.

A Cypriot holding company serves as a perfect gateway to the following countries with which Cyprus has

advantageous tax treaties, receiving dividends suffering no or little withholding tax and paying them up without deduction of WHT:

1. Russia – 1/3rd of all capital investment into Russia flows through Cyprus.
2. Ukraine – the best treaty in force with Ukraine.
3. India – Cyprus has the sole right to tax capital gains on sale of shares in a company that owns Indian property, although Cyprus does not tax foreign capital gains.

### The oil and gas exploration & extraction company

Combined with Cyprus's permanent establishment exemption, exploration and extraction activity can be undertaken free of Cypriot tax.



### The finance and/or treasury company

A Cypriot company can receive interest on loans to EU group companies with no withholding tax and can pay interest without deduction of withholding tax. Other key jurisdictions with no withholding tax on interest include Russia and Ukraine.

A Cyprus company trading in securities (e.g. shares, bonds, repos) will have no tax liability as income & gains on disposal of such securities are exempt from Cypriot tax.

### Ship owning & management

Cyprus has the 10th largest merchant fleet in the world by registrations (China is 9th).

Specific tax exemptions apply to companies owning Cyprus flagged ships or managing and employing crews working in international waters. Cyprus has a very competitive tonnage tax regime.

### Regional employment company

Minimal Cypriot compliance obligations allow offshore employees to be paid from Cyprus without Cypriot tax, social security or other obligations.

# Cyprus shipping

Today Cyprus ranks 10th in the world with over 1000 ships of total gross tonnage 20.1 million. In addition to the country's excellent geographical position, this achievement is due to the cost competitiveness of the Cypriot Ship Registry, the island's well-developed maritime infrastructure, its excellent international relations as well as the high standard of services offered to international shipping.

## The Cyprus Shipping Industry

Cyprus is without doubt one of the most attractive shipping and shipmanagement centres in the world.

The main reasons which have contributed to the development and recognition of Cyprus as one of the biggest international shipping centres in the world is the wide range of services provided by competent and experienced professionals, the modern telecommunication network, an excellent banking system and a well organised transportation network.

The most important reason for Cyprus's success is the tax and other incentives offered to shipowners, shipmanagers and crew members.

## Taxation of Shipping

The tax incentives offered to the shipping industry are analysed herebelow:

### Shipowners

- Exemption from any Cyprus income/corporation tax on:
  - a) the income of a shipowner of a Cyprus ship from the operation of such ship in any shipping enterprise between Cyprus and ports abroad or between foreign ports (the operation of a ship includes the chartering of a ship).
  - b) dividends that are paid directly or indirectly from profits of ships as per a) above.
- No withholding tax is levied on dividends paid by shipowning companies.
- No capital gains tax is imposed on the sale of the ship or on the sale or transfer of the shares of a shipowning company.
- Reduction on tonnage tax where a Cyprus shipmanagement company manages the ship.

### Shipmanagers

- A special shipmanagement tax applies, calculated at 1/4 of the rates applicable for tonnage tax.
- An election may be made to be taxed under the Income Tax Law instead, at the rate of 4.25% on their taxable profit.
- No withholding tax is levied on dividends paid by ship management companies.
- No capital gains tax is imposed on the sale of shares of a shipmanagement company.

### Crew earnings

The earnings of the crew of Cyprus ships are exempt from Cyprus income tax. In addition, non-Cypriot crew members may enjoy total tax exemption, if provided for by a Tax Treaty signed of Cyprus and the home country domestic legislation.

# Our services

Delivering outstanding service to all clients is our top priority.

We, at Deloitte, offer our clients a broad range of fully integrated services in areas that include Audit, Tax, Consulting and Financial Advisory.

Our client service teams, under the leadership of a Lead Client Service Partner, help create powerful business solutions for organizations operating all over the world. This integrated approach combines insight and innovation with business knowledge and industry expertise to help our clients exceed their expectations.

Members of our Chinese Services Group provide a wide range of professional services and include individuals with in-depth experience in international business and taxation.

## Assurance & Enterprise Risk Services

In today's changing global economy, businesses need trusted advisors. Because our audit professionals take time to understand our clients' business and needs, we help them identify major risks and opportunities over and above performing the traditional financial reporting function. Deloitte in Cyprus offers our clients a broad range of audit and enterprise risk services. Our client service teams are multi-disciplined and are dedicated to serving our audit clients. Deloitte's proprietary audit tools ensure the consistent implementation of our audit approach globally and promote effectiveness and efficiency.

Our people are equipped with rich, continually updated resources on industry trends, business risks and processes and controls, as well as the flow of information within organizations.

## Tax and Legal Services

The provision of taxation services is core to Deloitte's business both in Cyprus and in the international arena. Deloitte has one of the largest teams of taxation experts in Cyprus, providing a full range of business and personal taxation services. Our Tax and Legal Team keep our clients up to speed on the developments that may

affect their business, help them interpret their significance and integrate tax considerations into their strategy. We are proud to provide quality taxation advice and services to large multinational groups, corporations, owner-managed businesses, entrepreneurs and high net wealth individuals in Cyprus and throughout the world. We are also proud to have been voted the Best Tax Team in Cyprus in 2008 by World Finance.

Also together with our network of selected independent lawyers specializing in corporate law and other legal matters our Tax and Legal Team offer legal services to clients and address any legal matters that may affect their business.

Deloitte tax and legal professionals can arrange for the formation of a Cypriot company, partnership or trust as well as the provision of corporate and secretarial services ensuring that these fully comply with their statutory obligations. We can coordinate the undertaking of increases in company share capital, statutory reductions in capital, mergers and demergers as well as other corporate restructuring and voluntary liquidations of companies.

## Consulting Services

Our consultants help our clients improve business performance and increase shareholder value. We are the only firm to combine expert business strategy and financial skills with the ability to deliver major information technology and business change programmes.

## Financial Advisory Services

Our Financial Advisory Services professionals provide strategic and financial advisory services to clients throughout every phase of the economic cycle. By managing our service offerings, we can extract synergies from our deep specialization to provide added value to our clients.

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Deloitte's professionals are unified by a collaborative culture that fosters integrity, outstanding value to markets and clients, commitment to each other, and strength from cultural diversity. They enjoy an environment of continuous learning, challenging experiences, and enriching career opportunities. Deloitte's professionals are dedicated to strengthening corporate responsibility, building public trust, and making a positive impact in their communities. Deloitte refers to one or more of Deloitte Touche Tohmatsu, a Swiss Verein, and its network of member firms, each of which is a legally separate and independent entity. Please see [www.deloitte.com/about](http://www.deloitte.com/about) for a detailed description of the legal structure of Deloitte Touche Tohmatsu and its member firms.

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