

**DOING BUSINESS IN CYPRUS:  
REGISTRATION OF CYPRUS COMPANIES**

## PREFACE

This outline has been prepared for the assistance of clients considering incorporating a company in Cyprus. It is intended to provide only a summary of the main legal requirements and general principles applicable to the establishment of a company in Cyprus and it is not intended to be a comprehensive guide in its scope. It is recommended that a client seeks legal advice on any proposed transaction prior to taking any steps to implement it.

This outline has been prepared on the basis of the law and practice as at 1<sup>st</sup> January 2008.

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## 1. INTRODUCTION

A combination of a number of favourable factors has made Cyprus one of the most attractive places for businessmen across the globe for the registration of companies.

Situated at the meeting point of Europe, Africa and Asia, close to the trade routes linking these continents, Cyprus is located in a strategic position, which has contributed decisively to its development into an international business center.

The island's infrastructure, coherent legal system based on English Law, high standard of professional and other support services, combined with the low cost of living, security of investment, generous tax incentives and other facilities create an ideal business environment, as evidenced by the substantial growth in numbers of International Business Companies (IBCs) registered in Cyprus.

The term International Business Company refers to any legal entity whose beneficial ownership and activities lie outside Cyprus. In view of Cyprus' accession to the European Union on 1<sup>st</sup> May 2004, the term gradually loses its importance, as new legislation aiming to align IBCs with local companies has come into force, as explained in more detail below.

In addition, following Cyprus accession to the EU, on 1st May 2004 the government of the Republic of Cyprus undertook the obligation to join the Economic and Monetary Union and to adopt the euro as soon as all requirements are fulfilled.

Cyprus accession to the Exchange Rate Mechanism II, in May 2005 confirmed the success of Cyprus' economy. The successful implementation of these objectives enabled Cyprus' accession to the euro zone with effect from 1<sup>st</sup> January 2008.

### **Legal Security**

IBCs in Cyprus are legally secured within the framework of a well defined regulatory system governing their operations. Ownership and possession, as well as related rights (freedom of contract, practicing any profession and carrying on any trade or business e.t.c) are safeguarded by the Constitution of Cyprus and by international treaties ratified by Cyprus and forming part of its Laws. The Constitution of Cyprus and other relevant laws guarantee these fundamental rights without any discrimination between Cypriot citizens and foreigners.

The legal security of a Cyprus IBC also comprises the entitlement to protection by the State and support by the Government and other State organs on an international level.

### **New Tax Legislation**

As of 1<sup>st</sup> January 2003 there is no longer a distinction between local companies and IBCs following the new tax legislation which aims to conform with European Union law and the EU code of Conduct and abide by Cyprus' commitment to the OECD to eliminate harmful tax practices.

With the new legislation, Cyprus has maintained and enhanced its competitiveness as an international financial center. It remains a perfect location for investments to and from Russia and Central and Eastern Europe. At the same time, having the lowest tax regime in the EU, it becomes a stepping stone for investments to and from the EU.

Further, the tax regime provides many tax exemptions. The exemptions include, inter alia, profits from the sale of shares and securities, dividend income and royalties.

The island's 43 double tax treaties remain in force and continue to offer ample opportunity for effective international tax planning whilst also at the same time legitimately reducing overall taxation for businesses and individuals.

Cyprus is therefore attractive as ever as a **holding company** regime for any type of business irrespective of its location.

The same applies for Cyprus *investment* as well as *financial services companies* and *collective funds*.

### **Taxation**

#### (i) Corporation Tax

As mentioned above, as a consequence of the new tax legislation there is no longer a distinction between local companies and IBCs. The taxable profits of all Cypriot companies, as from 1<sup>st</sup> January 2003 are taxed at the rate of 10%.

**Note: Income arising from shipping management activities is subject to tax at 4.25%. A company can elect to pay special tonnage tax if more beneficial.**

However there is a distinction between resident and non-resident companies. Cyprus tax residents are subject to tax in Cyprus on their worldwide income, whilst non-residents are subject to tax only on their income derived in Cyprus.

A company resident in Cyprus is thereby considered a Cypriot company for tax purposes if its management and control is in Cyprus. Therefore incorporation in Cyprus is of itself no longer sufficient to establish corporate residence in Cyprus.

Although no definition of management and control is provided in the law, it is generally accepted as being the place at which board decisions are taken and where the directors reside.

A company which is non-resident, will only be taxed on its profits arising from a permanent establishment in Cyprus. The term “permanent establishment” includes an office, a branch, a factory or laboratory, a mine, an oilfield or a construction site for a project exceeding three months. Rental from immovable property located in Cyprus and profit from sale of goodwill in Cyprus is also taxable irrespective of the existence of permanent establishment. An IBC will now be allowed to have income from sources within Cyprus (subject to foreign investment regulations issued by the Central Bank of Cyprus).

Certain exemptions from corporation tax apply such as:

- Dividend income received in Cyprus by a foreign corporation is wholly exempt from tax in Cyprus.
- Profits earned from a permanent establishment abroad are fully exempt from corporation tax except if:
  - more than 50% of the paying company’s activities result in investment income; and
  - the foreign tax is significantly lower than the tax rate payable in Cyprus.
- Profits from disposal of securities are not taxable for all Cyprus tax residents (individuals and companies)
- 50% of interest earned other than interest earned in the ordinary course of business (although other interest is subject to defence tax)

(ii) Withholding Tax (special defence contribution)

*On dividends payable:*

- There is a 15% withholding tax on dividends distributed to shareholders who are residents of Cyprus, but no tax on dividends paid to non-resident shareholders.
- There is a deemed distribution of dividends for an amount equal to 70% of profits if not actually distributed within two years after the end of the tax year in which the profits arose and payment of 15% withholding tax on deemed distribution. Profits allocated to non-resident shareholders are not subject to this tax.

*On dividends receivable:*

- Dividends received from a foreign company are not subject to withholding tax of 15% provided that the company receiving the
  - dividend owns at least 1% of the company paying the dividend;
  - not more than 50% of the paying company's activities result in investment income; and
  - the foreign tax is not significantly lower than the tax rate payable in Cyprus.
- There is no tax on dividends paid by a Cyprus resident company to another Cyprus resident Company.

*On interest earned:*

- There is a 10% tax on any interest earned by an individual or company resident in Cyprus.

*On interest and royalties payable:*

- There is no withholding tax on payment of interest and royalties to non-resident of interest and royalties to non-resident individuals or companies.

*On rents:*

- There is a 3% withholding tax on rents earned by a Cyprus resident (after deduction of 25%).

Note : The special defence contribution on dividends, interest and rents is treated as income tax for the purposes of Double Tax Treaties as well as for the purposes of unilateral tax credit.

(iii) Capital Gains Tax

Capital gains arising from the sale of immovable property outside Cyprus is not within the scope of capital gains tax. Capital gains tax is only applicable for immovable property situated in Cyprus.

(iv) Value Added Tax

As from 1<sup>st</sup> January 2003 the standard VAT rate is 15%.

As under the new legislation there is no longer a distinction between local and IBC companies, the IBC companies are subject to the same registration procedures as local companies. In most cases this benefits IBCs as their activities fall outside the scope of VAT while at the same time they can register on a voluntary basis and recover any input VAT on Cyprus expenses.

(v) Taxation of Employees

As from 2003 there is no longer a distinction between local and expatriate employees resident in Cyprus and there is no longer time apportionment of taxable income. All individuals who are resident in Cyprus are taxed at the following rates :

Chargeable income EURO	Tax rate
Up to 19.500	0
19.501 – 28.000	20
28.001 – 36.300	25
36.301 plus	30

*Taxation of expatriates:*

- If employed outside Cyprus, no taxation
- If employed in Cyprus for 183 days or more, taxed on all income from employment
- If employed in Cyprus for less than 183 days, taxed in Cyprus on the salary attributable to the employment in Cyprus.

*The following types of income are exempt from taxation:*

- Dividends
- Interest received
- Profits from the sale of shares
- Salaried services rendered abroad by a Cyprus resident for a period totaling more than 90 days in a fiscal year to an employer who is not a Cyprus resident or at the permanent establishment abroad of a Cyprus resident.

*Withholding tax for resident individuals:*

- 10% on interest received either in Cyprus or abroad
- 15% on dividends received either from abroad or in Cyprus including IBCs
- 3% on 75% of rental income from property wherever located.

*Allowances deductible from income by individuals:*

- Social insurance contributions
- Life insurance premiums
- Contributions to approved provident funds, pensions schemes and medical schemes.

For non Cyprus residents taking up employment in Cyprus a special exemption from income tax applies for the first 3 years of their employment in Cyprus amounting to 20% of income earned or Euro 8.543,01 per annum whichever is the lower.

### **Residence - Employment Permits**

#### **(1) Eligible Companies**

All companies (including IBCs) eligible to employ third country nationals on the island, are limited to those which:

- (a) Belong to groups with transparent ownership and sources of capital and whose ultimate shareholders are approved by the Civil Registry and Migration Department or to public corporations quoted on any recognized stock exchange,
- (b) Operate from their self-contained office:
  - located in suitable distinct premises, not part of a private residence or another office,
  - equipped with appropriate office and telecommunications facilities,
  - open during normal office hours and staffed with full time personnel
- (c) Comply with the conditions of their permit and prove, on the basis of their annual financial statements, that they are continuously operating and they are financially sound and credit worthy.

#### **(2) Employee Classification**

Eligible companies may employ third country nationals in executive positions on the island. The maximum number of such executives is three (3), unless the Director of the Civil Registry and Migration Department is persuaded that a greater number is justified.

A third country national who wishes to be employed in an executive position on the island must:

- Be at least 24 years old
- Have suitable qualifications
- Receive appropriate remuneration

The minimum acceptable annual salary for newly appointed executives is Euro 41.000 (app). This amount may be adjusted annually by the authorities according to fluctuations in the salaries index.

The term “executive” includes third country nationals registered as:

- (a) Directors
- (b) Partners
- (c) General managers of subsidiaries and branches of publicly quoted overseas companies, and
- (d) Department Managers of companies operating from Cyprus for at least 2 years

The term “non-executive” refers to third country nationals who do not fall under the aforementioned four categories and who may be employed in managerial, professional, administrative, technical or clerical positions on the island.

Companies are expected to recruit non-executive staff from within the island. They may employ third country nationals in non-executive positions if comparable Cypriot personnel or EU nationals are not available. Companies are advised not to commit themselves to employing a third country national via a non-executive position in Cyprus before securing his/her Temporary Residence Permit from the Civil Registry and Migration Department.

### **Social Insurance and Labour Legislation**

All Cypriot registered companies have the same obligations for the payment of contributions under the Social Insurance Law, the Annual Holidays with Pay Law, the Termination of Employment Law, the Industrial Training Law and the Defence Contribution Law in respect of their local employees. For the purpose of the aforementioned laws, the term “local employee” includes any employee who is ordinarily resident in Cyprus, irrespective of nationality. Foreign residents employed by Cyprus companies and their employers are exempted from the payment of contributions.

## **2. DOUBLE TAX TREATIES**

One of the main reasons why Cyprus has become a very popular jurisdiction for establishing a base for international business is the availability of a large number of double tax treaties, which number 43 in total.

Many of the well-known offshore tax jurisdictions impose a low or nil income tax on the company profits. However the problem with those jurisdictions is that they do not have double tax treaties. Cyprus offers a full basket of incentives including the low tax on the net profits and the double tax treaties.

Other than the Double Tax Treaties which are presently in force, the conclusion of various other Treaties is pending. These Treaties are currently under negotiation. More over, certain Treaties have already been concluded, however they are pending enforcement.

All Cyprus' double tax treaties have been drafted so as to accord very closely to the Organisation in Economic Cooperation and Development (OECD) model Tax treaty. The treaties aim to avoid double taxation of income earned in these countries. This is achieved usually by either exempting the income from tax, by providing a tax credit for the amount of tax paid in other contracting country or by a reduced withholding tax.

Summary of Withholding Tax Rates						
Country	Paid from Cyprus to residents of the following countries			Paid from the following countries to residents of Cyprus		
	Dividends %	Interest %	Royalties %**	Dividends %	Interest %	Royalties %
Austria	10	0	0	10	0	0
Belarus	5 (4)	5	5	5 (4)	5	5
Belgium	10(1)	10	0	10(1)	10	0
Bulgaria	5(19)	7(25)	10	5(19)	7(25)	10(20)
Canada	15	15 (7)	10 (11)	15	15 (7)	10 (11)
China	10	10	10	10	10	10
C.I.S (ex USSR)***	0	0	0	0	0	0
Czech Republic	10	10 (8)	5 (14)	10	10 (8)	5 (14)
Denmark	10 (1)	10 (9)	0	10 (1)	10 (9)	0
Egypt	15	15	10	15	15	10
France	0(2)	10 (9)	0 (27)	10 (2)	10 (9)	0 (27)
Germany	10(1)	10 (8)	0 (27)	10 (1)	10 (8)	0 (27)
Greece	25	10	0 (12)	25(21)	10	0 (12)
Hungary	0	10 (8)	0	5 (1)	10 (8)	0

India	10 (2)	10 (8)	15(15)	10 (2)	10 (8)	15(15)
Ireland	0	0	0 (12)	0	0	0 (12)
Italy	0	10	0	15	10	0
Kuwait	10	10 (8)	5 (14)	10	10 (8)	5 (14)
Lebanon	5	5(16)	0	5	5(16)	0
Malta	15	10 (8)	10	0(22)	10 (8)	10
Mauritius	0	0	0	0	0	0
Norway	0	0	0	5 (3)	0	0
Poland	10	10 (8)	5	10	10 (8)	5
Romania	10	10 (8)	5 (14)	10	10 (8)	5 (14)
Russia	5 (6)	0	0	5 (6)	0	0
San Marino	0	0	0	0	0	0
Seychelles	0	0	5	0	0	5
Singapore	0	10(23)	10	0	10(23)	10
Slovak Republic	0	10 (8)	5 (14)	10	10 (8)	5 (14)
South Africa	0	0	0	0	0	0
Sweden	5 (1)	10 (8)	0	5 (1)	10 (8)	0
Syria	0 (1)	10 (8)	10 (13)	0 (1)	10 (8)	10
Thailand	10	10(17)	5(18)	10	10(17)	5(18)
United Kingdom	0	10	0 (27)	0(24)	10	0 (27)
U.S.A	0	10 (10)	0	15 (5)	10 (10)	0
Former Yugoslavia	10	10	10	10	10	10

Note : The number in brackets refers to the following explanatory notes.

**Explanatory Notes :**

1. 15% if recipient is a company controlling less than 25% of the voting power.
2. 15% if recipient is a company controlling less than 10% of the voting power
3. Nil if paid to a company controlling at least 50% of the voting power
4. This rate applies if the amount invested by the beneficial owner is over ECU 200.000 irrespective of the % of voting power acquired. 10% is imposed if received by a holder of at least 25% of the share capital of the paying company. Otherwise the rate is 15%.
5. 5 % if received by a company controlling at least 10% of the voting power.
6. 10% if recipient is a company, which has invested less than US\$100.000
7. Nil if paid to the Government or for export Guarantee.
8. Nil if paid to the Government of the other state.
9. Nil if paid to the Government of the other State or in connection with the sale on credit of any industrial, commercial or scientific equipment or any merchandise by one enterprise to another or in relation to any form of loan granted by a bank or is guaranteed from government or other governmental organization
10. Nil if paid to the Government of the other State, to a bank or a financial institution or in respect to debt obligations arising in connection with sale of property or the provision of services.
11. Nil if royalties are copyright and other literary, dramatic, musical or artistic work not including television programmes.
12. 5% on film royalties (not including films shown on television)
13. 10% literary, dramatic, musical or artistic and television royalties.
14. Nil on literary, artistic or scientific work including films.
15. 10% on payment of technical fees management fees and consultancy fees.
16. Nil if paid to the Government of the other State, a political subdivision or a local authority, the National Bank or any institution the capital of which is wholly owned by the State or a political subdivision or a local authority or in the form of interest income from bank deposits.

17. 10% on interest received from financial institutions, on interest paid in connection with industrial, commercial, scientific equipment or the sale or merchandise between two companies.
  18. 10% on right to use industrial, commercial or scientific equipment or for information concerning industrial, commercial or scientific experience and 15% for patents, trademarks, designs, models, plans, secret formulas or processes
  19. 10% if received by a company, which owns less than 25% of the capital.
  20. This rate does not apply, where 25% or more of the capital of the Cypriot resident is owned directly or indirectly by the Bulgarian resident paying the royalties and the Cyprus company pays less than the normal rate of tax.
  21. The treaty provides for 25%, but the domestic rate of Nil applies since it is lower than the treaty rate.
  22. The treaty provides that the tax on the gross amount of the dividends shall not exceed that chargeable on the profits out of which the dividends are paid.
  23. 7% if paid to a bank or similar financial institution. Nil if paid to the government.
  24. The treaty provides for 15% withholding tax but the local taxation provides for 0% withholding tax.
  25. Nil if paid to or is guaranteed by the government, statutory body, the Central Bank.
  26. Not yet ratified.
  27. 5% on film royalties, including films used for television programs.
- \* Payments of dividends and interest to non-residents are exempt from withholding tax in Cyprus. Royalties granted for use outside of Cyprus are also free of withholding tax in Cyprus.
- \*\* 10% in the case of royalties granted for use within the Republic. 5% on film and TV rights.
- \*\*\* Armenia, Azerbaijan, Kyrgyzstan, Moldova, Tajikistan, Uzbekistan and Ukraine apply the USSR/Cyprus treaty. The rates shown are those of the treaty Cyprus/USSR

### 3. TYPES OF COMPANIES THAT MAY BE ESTABLISHED IN CYPRUS

Companies may be established in Cyprus in any of the following forms:

- Company registered under the Companies Law, CAP 113.
- Branch of an overseas company registered in any foreign country. Established in Cyprus, under s.347 of the Companies Law, CAP.113.
- Partnership established under The Partnerships Law, CAP 116.
- International Collective Investment Schemes (ICIS) established under the International Collective Investment Schemes Law 1999.
- Open-Ended Undertakings for Collective Investments in Transferable Securities (UCITS) registered under the UCITS Law 20(I)/2004.
- Cypriot Investment Firms (CIFs) regulated under the Law which provides for the provision of investment services, the exercise of investment activities, the operation of Regulated Markets and other Related Matters ( MiFID) (Law 144(I)/2007).
- Formation of Societas Europaea ("SE").

### 4. COMPANY REGISTERED IN CYPRUS

A Company may be created in Cyprus as a legal entity by being registered under the provisions of the Companies Law, CAP 113. The Companies Law (as well as Cyprus Law generally and particularly in the field of commercial and private transactions) is based on English Law. It reproduces almost verbatim the Companies Act 1948 of the United Kingdom, but several amendments have been made due to Cyprus accession to the EU.

The following types of Companies are recognized by the Law: -

- **Company with limited liability by shares**
- **Company with limited liability by guarantee, with or without shares**

The basic characteristic of a limited liability Company is that the members' (shareholders') liability is limited to the nominal value of the shares subscribed by them.

In the case of a Company by guarantee, members' liability is limited, on winding up, to the extent agreed upon. This type of Company is usually adopted when its purpose is non-profit making.

Companies with limited liability by shares may be **private or public**.

A private company is one whose articles, restrict the right of transfer of shares, limit the number of its members to 50 and prohibit any invitation to the public to subscribe for any shares or debentures of the Company, whereas in the case of a public company these restrictions/limitations do not apply.

The type of company that is adopted **almost exclusively** by foreign investors who are interested in creating a Cyprus registered company is **the private Company limited by shares**. The Company may be formed as holding, property or general trading company.

### **Registration of a Company**

The registration of a Company in Cyprus, particularly a private Company limited by shares, is completed within a period of about ten days, although this period may be expedited if necessary.

The following particulars are needed for the registration:

#### **1. Name of the Company**

The first step for the registration of any company in Cyprus is to obtain approval of the proposed name of the company from the Registrar of Companies. The Registrar is unlikely to accept a name if: it is too similar to that of an existing company, it is considered misleading, too general or pompous, it suggests a royal, national or international connection or it includes certain words such as “Co-operative”, “Insurance”, “Bank”, “Financial Services” unless justified by the company’s objects. It is recommended that more than one name be proposed so as to facilitate approval.

#### **2. Share Capital**

The Company’s share capital is expressed in Euro and is divided into shares of any value, again expressed in Euro. The Company’s share capital may also be expressed in another currency for example in USD.

**Authorised or Nominal Capital** is the total capital, which the Company is allowed to issue to shareholders.

**Paid up Capital** is that part of the Authorised Capital which has been issued to, and paid up by, the shareholders.

Both Authorised and Paid up Capital may be increased very easily at any time by Resolution of the Shareholders and as provided in the Company’s Articles of Association.

There is no restrictions with regard to the denomination of the shares but normally the Capital is divided into shares of Euro 1.- each.

### **3. Shareholders**

The Company must have at least one registered shareholder. For every shareholder the following is required for the registration of the company : full name, nationality, address, profession, passport copy, curriculum vitae and number of shares to be taken up.

A foreign corporation may be a shareholder of a Cyprus Company, and in such a case its basic incorporation documents should be submitted.

**Anonymity** : All shares are nominative and in the case of a private company issue of shares to bearer is not allowed; however owners of shares who do not wish to appear as registered shareholders may appoint nominees to act for them as registered shareholders, whilst the actual ownership shall always rest with the beneficial owners of the shares. Nominee shareholders may be Cypriots or foreigners. It is the practice to appoint the firm, which undertakes the formation of the company to settle the nominee shareholding through its members or through companies fully controlled by it.

### **4. Directors**

The company must have at least one Director but it is recommended that at least two Directors be appointed.

For every Director the following information is required: full name, nationality, address, profession and copy of passport.

Directors may be Cypriots or Foreigners. However it should be noted that the residency of the directors of a Cyprus Company is a key factor in determining whether the Company is resident in Cyprus or not for tax purposes. Facilities for appointing local (Cypriot) Directors are offered by our firm.

### **5. Secretary**

The Company must have a Secretary. The Secretary acts under the control and instructions of the Directors, keeps the Company's statutory registers and performs ministerial functions of a non-executive character. For practical reasons, it is usual to appoint as Secretary a member of, or a company controlled by, the firm establishing the Company.

### **6. Registered office**

Every company must have a registered office in Cyprus. The registered office is the address where writs, notices and other official documents can be served upon the Company. Companies established in Cyprus are free to operate from

the offices of lawyers or accountants or from their own offices should they decide to set up management offices in Cyprus It is the practice (at least for companies which do not maintain their own offices in Cyprus) for the firm that undertakes to form the Company to act as the Company's registered office.

## **7. Main objects**

Whilst the Company's Memorandum of Association is usually drafted in a wide form empowering the Company to deal in almost everything, it is the practice to enumerate in the opening paragraphs of the objects clause of the Memorandum the main activities that the Company will be carrying on. A general description of the Company's proposed main business is required in this connection.

## **8. Company's Memorandum and Articles of Association**

This is the constitutional charter of the Company and is drafted by a local advocate. It is divided into two parts :

- (i) the Memorandum of Association, which primarily includes the objects and powers of the Company particularly as regards its dealings with the outside world, its limited liability character and its authorised capital, and
- (ii) the Articles of Association, which comprises the Regulations under which the Company operates as a legal entity and regulates the rights of the shareholders amongst themselves.

The Memorandum and Articles of Association, along with other prescribed documents, which are settled by the firm, which undertakes the formation of the Company, are submitted to the Registrar of Companies.

Full sets of registration documents (Certificate of Incorporation, Memorandum and Articles of Association, Certificate of Directors & Secretary, Certificate of Shareholders and Certificate of Registered Office), are provided as soon as the Company is registered. The registration procedure takes an approximately period of ten (10) days from the date when full instructions are given.

### **Costs**

The Companies (Fees and Duties Payable) Regulations provide that the following fees are payable to the Government on registration of a company:

Flat fee of Euro 102,52 plus 0,6% on the authorized share capital of the Company.

There are certain additional minor fees, but the overall costs for registering a company in Cyprus and complying with the statutory requirements are amongst the most competitive in comparison with other business centers.

It is possible to 'buy' ready-made "shelf" companies which may have been inactive since incorporation. This may save time and expense in relatively simple instances but may prove to be more costly if substantial alterations need to be made to the memorandum and articles of association.

## 5. OTHER TYPES OF CYPRUS COMPANIES

Apart from the limited Company, commonly, incorporated in Cyprus, the Partnerships, the Branch of an overseas Company, ICIS, UCITS, CIFs and now SEs are forms which are utilized by foreign investors.

### 1. International Business Partnership

**A Partnership** is based on an agreement between two or more natural or legal persons to carry on a business in common with the view to profit. Partnerships are registered in Cyprus under the Partnerships and Business Names Law which is also based on English Law.

There are two types of Partnerships :

**General Partnership** in which every partner is jointly and severally liable with the other partners (without limit) for all debts and obligations of the partnership. After a partner's death his estate is also severally liable for such debts and obligations in the due course of an administration, insofar as they remain unsatisfied subject to the prior payment of his separate debts.

**Limited Partnership** in which there is at least one general partner liable (without limit) for all debts and obligations of the partnership and one or more limited partners who are not liable beyond the fixed amount that they have contributed to the partnership. A limited partner may neither take part in the management of the partnership nor bind it.

For the registration of a partnership, a prescribed form is submitted to the Registrar of Partnerships containing the name, address, nationality, profession of each partner, the name, object and duration of the partnership and the partners' authority to bind the partnership.

### 2. International Business Branches

Companies incorporated outside Cyprus (Overseas Companies) may register a branch in Cyprus under section 347 of the Companies Law. This does not amount to the creation of a new legal entity in Cyprus; the entity incorporated

abroad simply has a branch in Cyprus and may operate through it for its international activities.

Overseas Companies may establish a branch in Cyprus by filing with the Registrar the following documents translated into Greek :

- a certified copy of the overseas corporation's charter, statutes or memorandum and articles of association or other instrument containing or defining its constitution;
- particulars of any directors and secretary of the corporation;
- the names and addresses of one or more persons resident in Cyprus authorised to accept on behalf of the corporation any notice required to be served on it.

Any changes to the above particulars should be notified to the Registrar of Companies.

The overseas corporation's charter should be certified by :

- a public notary or governmental official in whose custody the original is committed, or
- an officer of the company before a person having authority to administer an oath.

The certificates of the above persons should be authenticated by a diplomatic or consular representative of the Republic of Cyprus.

Upon registration of the branch, its management should be provided with a full set of documents, properly legalised and translated into English or any other language. Such documents normally comprise of:

- the certificate of registration
- the charter of the overseas corporation or other instrument defining its constitution
- a list of directors and name of the person authorized to accept notices
- letterheadings, invoices and other branch stationery
- any other information and documentation pertaining to the branch's activities up to the date of its establishment.

A branch is required to file annual accounts.

### **3. International Collective Investment Schemes (ICIS)**

Cyprus introduced in May 1999, a legislation enabling the establishment and regulation of International Collective Investment Schemes ("ICIS").

The International Collective Investment Schemes Law has established the required legal framework for the establishment, regulation of operations and supervision of ICIS. ICIS can be established and operated by non-residents. The object of such schemes is the collective investment of funds of unit holders. Unit holders may be other international collective investment schemes, Cyprus international business companies or individuals who are not residents of Cyprus.

#### **Forms of Schemes**

An ICIS can take the following legal forms:

- International fixed capital company
- International variable capital company
- International unit trust scheme, and
- International investment limited partnership

All the ICIS, must be approved as such by the Central Bank of Cyprus, which is the regulatory and supervisory body of the Schemes. The managers and the trustees whom the Scheme must appoint (unless the Central Bank of Cyprus gives its written approval for exemption), must also be approved.

The legislation includes, inter alia, provisions for appointment and removal of managers and trustees, the definition of the schemes (as a scheme marketed to the public, a scheme marketed solely to professional investors or a private international collective investment scheme), the method by which a scheme can have a limited duration (if required) and the method of repurchase of shares. In addition the legislation gives the Central Bank the authority to issue regulations by which the investment restrictions that the schemes have to adhere to, depending on their investment goals and policy, are set.

None of the managers, trustees, employees or any other person who has any information relating to the Scheme or the unit holders may disclose or use for own benefit any such information. Also, the Central Bank of Cyprus may not disclose any information unless required to do so by court order.

### **4. Open – Ended Undertakings for Collective Investments in Transferable Securities (UCITS)**

The Open –Ended Undertakings for Collective Investments in Transferable Securities Law 200(I)/2004 provides the legal framework for the registration, regulation and marketing of local and foreign funds in Cyprus.

Under this law, local UCITS may take the following legal forms:

- Mutual Funds or
- Variable Capital Investment companies

To set up and operate a Mutual Fund in Cyprus the permission of the Cyprus Securities and Exchange Commission (CySEC) is required. In summary, the application needs to fulfil the following criteria:

- Both the fund manager and the custodian (one must be independent of the other) of the mutual fund need to meet the criteria set out by the CySEC;
- Fund rules need to be approved by the CySEC;
- The name and information memorandum of the fund needs to be approved by the CySEC
- The minimum capital is EURO 1,700,000, which must be deposited within three months of the granting of the licence

For a Variable Capital Investment Company to be set up and operated the permission of the CySEC is required. As such the application needs to meet criteria similar to those required for a Mutual Fund and in addition:

- there are special rules to be implemented in the constitutional documents of the company
- custody of the assets is normally assigned to an approved custodian.
- the management of the assets is normally assigned to a CySEC licensed fund manager.

In case that foreign UCITS qualify under the EU Directive 85/611/EEC and which are based in another EU Member State and wish to market their units/shares in Cyprus need to apply to the CySEC for registration.

In this respect a written notification to the CySEC must be submitted by the foreign UCITS along with backing documents, such as attestation by the competent authority in the state of domicile, fund rules, latest prospectus and accounts etc.

**Taxation:** UCITS are subject to tax like any other entity as described above.

## **5. Cypriot Investment Firms (CIFs)**

The Law which provides for the provision of investment services, the exercise of investment activities, the operation of Regulated Markets and other Related Matters (implementing MiFID) (Law 144(I)/2007) (the "Act") provides the legal framework for the provision of investment services ( including non core services) as well as for the registration, regulation of operations and supervision of CIFs.

Investment services include any of the following services:

- Reception and transmission, on behalf of investors, of orders
- Execution of such orders
- Dealing for own account
- Managing of investment portfolios
- Underwriting

Non-core services include any of the following services:

- Safekeeping services
- Safe custody services
- Granting of credits or loans to clients
- Financial advice
- Services connected to underwriting
- Investment advice
- Foreign-exchange services

CIFs must be licensed by the CySEC, which is the relevant regulatory and supervisory authority. In this respect, a written application to the CySEC must be submitted and accompanied by a number of documents. Some key documents that should accompany the application include:

- business plan
- Articles of Association
- an excerpt of the criminal record, certificates of non-bankruptcy and resumes of the members of the Board of Directors, the executives and shareholders possessing a qualifying holding, as well as their answers to a questionnaire issued by CySEC
- internal regulation (operations manual)
- organisational structure
- description of the computer network and electronic infrastructure
- draft regulation, for the prevention of the legalisation of the proceeds of criminal activities

After the granting of the authorization, the CIF must comply with the ongoing obligations provided in the law and the relevant CySEC Directives.

In case that a banking institution (defined as such under the Banking Law) wishes to provide investment services in Cyprus then a relevant authorization is also granted by the Central Bank of Cyprus provided that the additional criteria laid by the Central Bank of Cyprus are fulfilled.

## **6. Formation of Societas Europaea ("SE")**

A European Company (SE) is a public limited-liability company, which is governed by Community law directly applicable in all member states. Cyprus

has recently implemented the EC Regulation for the Societas Europaea (SE) (European Company). As a result the way is now clear for the registration of Cypriot registered SEs.

The SE is a European corporate form with significant potential benefits in terms of flexibility and cost. Cyprus corporate and taxation environment makes it an ideal base for SEs, and businesses in Europe.

Please contact us for further information on the matter.

## **6. CONTINUING REPORTING REQUIREMENTS**

The basic reporting requirements, which should be adhered to by a Company of limited liability registered in Cyprus, are the following:

- Annual audited accounts should be prepared by accountants practising in Cyprus and copies should be filed with the Department of Inland Revenue. The first audited accounts may cover the first eighteen months of the Company's life.

The audited accounts are also filed with the Registrar of Companies, in the case of public or non-exempt private companies. A private company is considered as exempt when (i) no corporate body is a director of it, (ii) the number of persons holding the company's debentures does not exceed 50, (iii) no corporate body holds shares or debentures issued by it unless itself is an exempt company and (iv) no person other than the holder has any interest in its shares or debentures.

- An Annual Return in statutory form must be filed with the Registrar of Companies stating, basically, the share capital and the registered shareholders, the directors, secretary and registered office.

Allotment of new shares and changes to the other details mentioned above, as well as charges on the company's assets, must also be filed and registered with the Registrar of Companies.

## **7. INCORPORATION & ADMINISTRATION SERVICES**

Legal advice is available from the firm's team of qualified lawyers, both before incorporation so that the company's charter can be tailored to meet any specific objectives of the client and thereafter as required.

In addition Ioannides Demetriou is able to provide incorporation and administrative services for Cyprus companies and companies of other jurisdictions.