


Cyprus at a glance

January 2019



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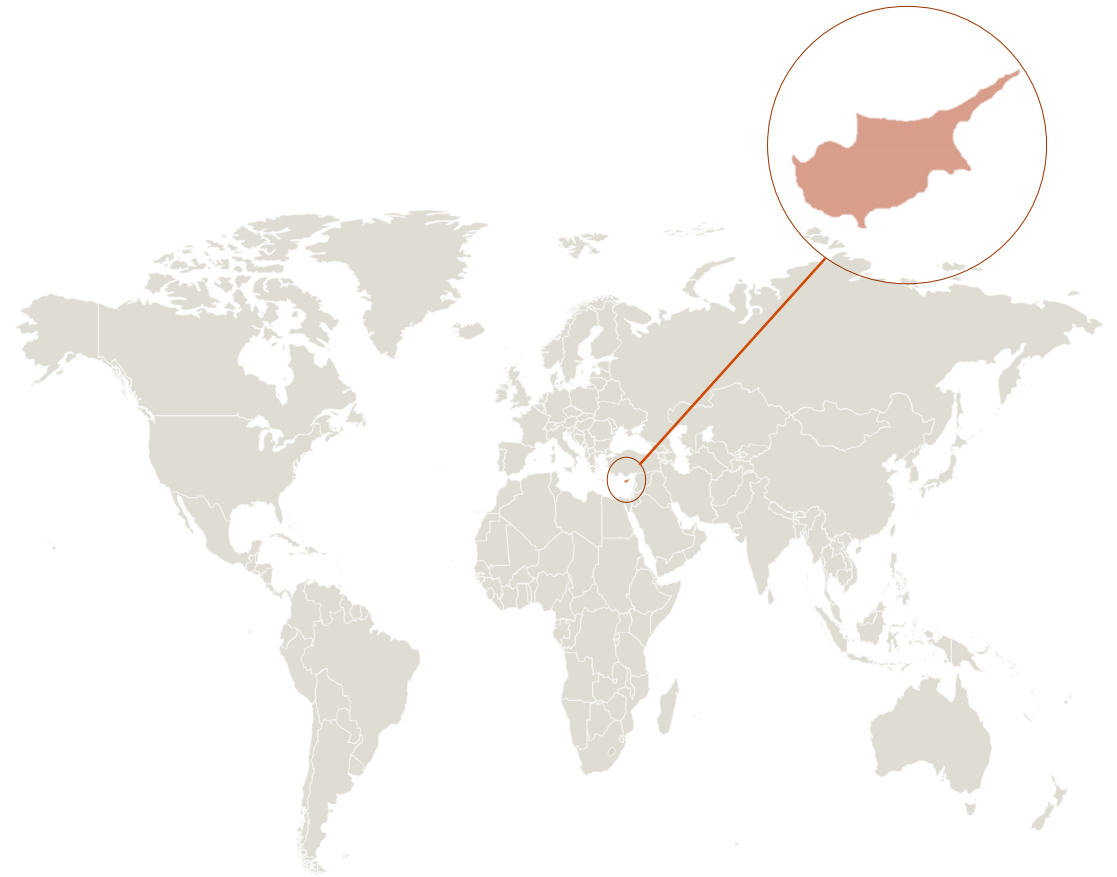
Cyprus: Facts and Figures

“Cyprus, a European Union regulated jurisdiction with an investment grade credit rating”

S&P BBB-, stable outlook

Fitch BBB-, stable outlook

DBRS BBB(low), stable outlook



GDP (2017)
€19.2 billion



Public Debt (2017)
98,4% of GDP



GDP per capita (2017)
€22.360



Area
9.251 km²



Population
Approx. 850.000



Languages
Greek (official)
English



Time Zone
GMT +2

Cyprus and India have a long history

Cyprus and India are **both Common Law jurisdictions** and former British colonies.

Cyprus is ranked **8th in total FDI into India**. Almost USD 10 billion in construction and real estate mainly.

Bilateral trade in minerals and chemicals.

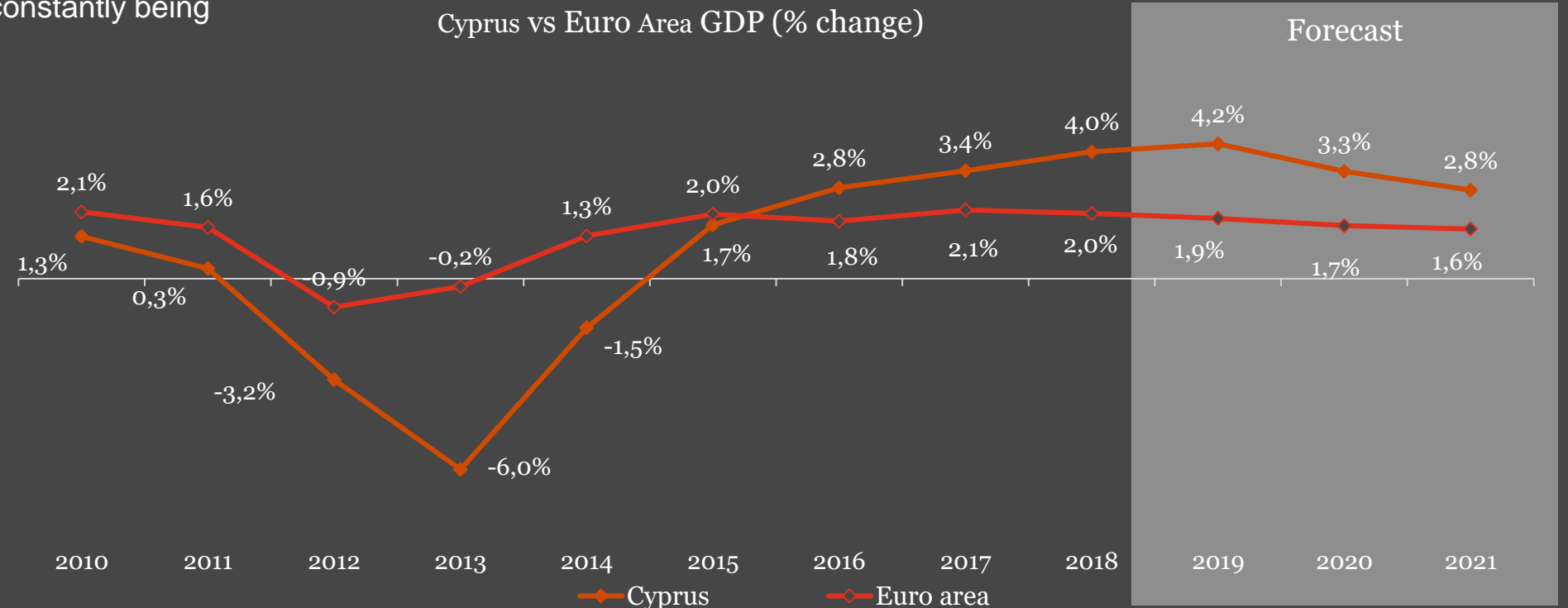
Important agreements in place between the two countries like **Double Tax Treaty (DTT)**, Merchant Shipping, Economic, Trade, Scientific, Technical and Industrial Cooperation, etc.

Strong political ties. Cyprus continues a history of presidential visits to India ever since the creation of the Republic. India's President recent visit credentializes the bonds that exist.

Cyprus Economy Overview

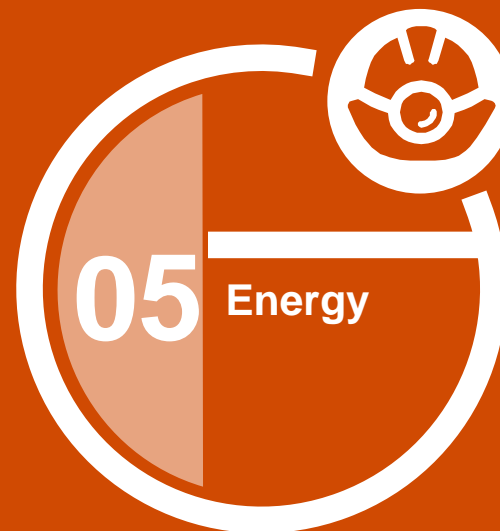
One of the fastest growing economies of the EU

Cyprus' economic growth and fiscal performance has continuously surpassed expectations over the past few years, while macro-economic projections constantly being revised favourably.



Source: IMF (World Economic Outlook Database)

Major pillars of the Cyprus Economy



Key economic Sectors

Shipping, a thriving maritime cluster

- 3rd largest merchant fleet in the EU with more than 1000 registered ocean going vessels and 11th worldwide.
- The largest third party ship-management center in the EU and top 3 worldwide.
- Competitive and EU fully approved tonnage tax system.
- 21 mln gross tonnage of vessels registered under Cyprus flag.



Financial services & Investment funds

- 22% contribution of financial and professional services to GVA
- A consolidated, recapitalised, modernised banking sector.
- Assets under management from Cyprus have doubled since 2013.

Real Estate, a historical safe investment

- Large scale public private development projects (Eco city project, Golf resort project, University campus, development of Marinas etc.).
- 24% annual increase in number of sales contracts in the first half 2018.

Key economic sectors

Energy, a new world of prospects

- Cooperation with international energy giants.
- Regional base for ancillary services companies.
- Production of renewables.
- Potential Eastern Mediterranean energy hub.



Tourism

- Significant increase in arrivals in 2017 (+14.6%) and additional increase anticipated for future year.
- Major developments projects (Marinas, Hotels, Luxury resorts & golf courses, Integrated Casino Resort).

Education

- A multicultural, world-class educational centre with the highest percentage of university graduates in Europe.
- 5 private universities, private schools and private hospitals.

Cyprus' differentiating factors

ATTRACTIVE TAX SYSTEM

- Corporate tax rate at 12.5%.
- More than 60 Double Tax Treaties.
- Dividend income exempt (relaxed conditions) with no withholding tax.
- An attractive personal tax regime.
- A competitive Intellectual Property regime.
- Notional interest deduction for equity investments.

ACCESS TO MARKETS

- Access to 40+ EU trade agreements.
- Full access to European markets and easy access to other major markets.
- Geostrategic position

ACCESSIBLE COST OF DOING BUSINESS AND STRONG SUPPORT SERVICES

- Lower labour costs for professional & technical talent than other EU capitals.
- Among the lowest office rental rates in Europe.
- 2,700+ registered lawyers and 160 law firms.



HUMAN TALENT

- The youngest population & workforce in the EU with 55% of the workforce having a tertiary degree.
- Businesses in Cyprus operate in English.
- Visa-free access to European talent and easy access to global talent.

GREAT QUALITY OF LIFE

- One of the best climates worldwide
- Top 5 safest country in the world (Value Penguin 2015)
- Best island economy 2017/2018 lifestyle & human capital (fDi magazine)

EXCELLENT REGULATORY STRUCTURE

- Legal system is closely aligned to the English common law legal system.
- Strong protection for investment & intellectual property (IP).
- Establishing a business is simple and fast.



Tax and Regulatory Framework

Cyprus – Regional Headquarters

Changes in Global Tax Landscape

OECD / G20

- BEPS actions

EU

- efforts towards countering harmful tax practices and artificial tax structures
- State aid

Local governments

- new legislation to adopt BEPS actions
- tax examinations

Key risks must be assessed in the context of all relevant jurisdictions

Cyprus – Regional Headquarters

Cyprus Tax Framework - Key Features

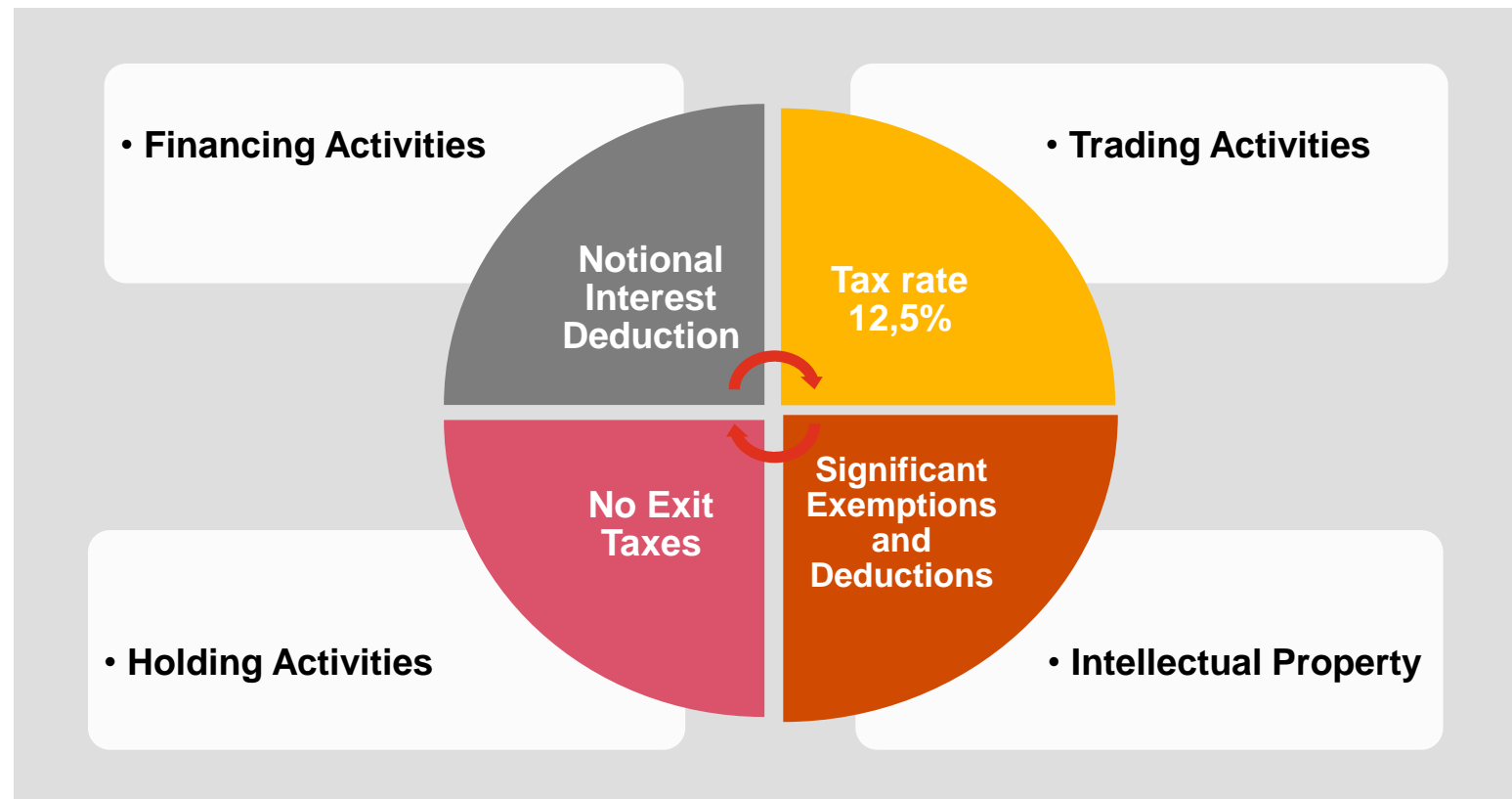
- **Tax exempt** income:
 - **Dividends** (easily met conditions – no % holding or holding period requirement)
 - Profit on **disposal of shares and other “titles”** (bonds, debentures, options on titles, units on Investment Trusts & Funds and Stock Indices etc)
 - **Foreign Permanent Establishment profits** (election to tax applies)
- **Forex** is tax neutral
- **Arm’s length principle**
- **Notional Interest Deduction (NID)** on new equity
- **IP Box regime** - Nexus approach fully aligned with the OECD Action 5 Report

- **No CFC rules**
- **No exit taxes**
- **No withholding taxes (WHT)** on dividends, interest and most royalties
- **Unilateral relief** of foreign taxes
- Extensive **double tax treaties (DTT)** network
- Access to **EU Directives**
- Carry forward of **tax losses** for 5 years
- **Reorganisation provisions**
- **Investor friendly** approach by Cypriot tax and other regulatory authorities
- Efficient **rulings** practice
- Tax Incentives for **individuals: “expatriates” and “non-dom” rules**

Cyprus – Regional Headquarters

The tax incentives of the Cyprus tax framework allow for tax efficient solutions across a number of activities.

Application of Cyprus Tax Framework



Notional Interest Deduction (NID)

Deduction

$$\text{NID} = \text{New equity} \times \text{NID reference rate}$$

New Equity

Share capital and share premium introduced as from 1 January 2015 (includes preference shares etc):

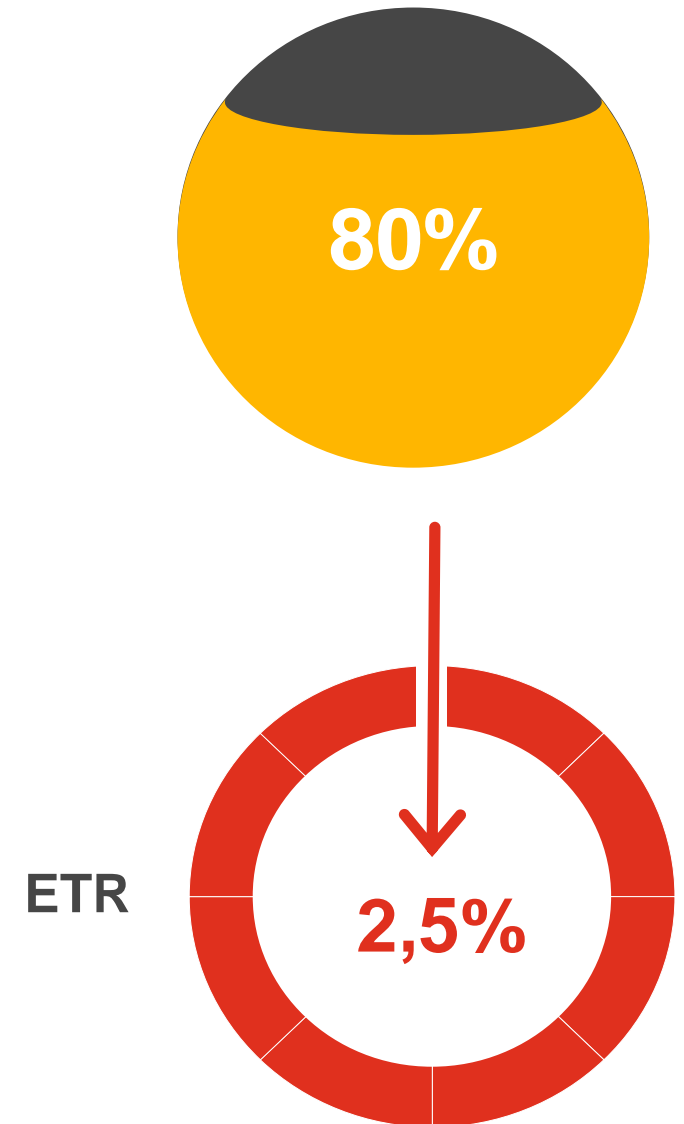
- Paid-up
- Cash or assets-in-kind
- For assets-in-kind the market value of asset must be substantiated

NID Reference Rate

- Yield on 10 year government bond of the country where the funds are employed in the business + 3%
- Minimum rate is yield on 10 year Cyprus government bonds + 3%
- Reference date: 31 December of prior tax year
- 2018 NID rate for Cyprus is 4,881%

Notional Interest Deduction (NID)

- Tax deductible in a similar manner as actual interest expense when **financing “business assets”** which produce taxable income.
- **Cap** – NID cannot exceed **80%** of the **taxable profit**, as calculated prior to the application of NID.
- The standard tax rate in Cyprus is 12,5%. Consequently when maximum NID is available and the 80% cap applies the effective tax rate is as low as **2,5%** on trading incomes.
- It is important for the company to be able to match the new equity to the profits generated out of that equity.
- Election not to claim all or part of the NID available year on year.
- Permanent Establishment of non resident companies are also eligible for NID.
- Certain anti-avoidance provisions apply.
- NID applies on all taxable income (e.g. trading income, interest income and royalties).



New Cyprus IP Box models Nexus Approach 1 July 2016

- The higher the R&D taken by the person itself, the higher the amount under the IP Box.
- Tax depreciation over useful economic life (capped at 20 years) – may elect to claim all or part year on year.
- Foreign tax is available as a credit.

- Cyprus IP companies can achieve an effective tax rate of up to a maximum of 2,5% on qualifying profits (which can be reduced to 2,1% with NID)
- OECD & EU full compliant

Qualifying IPs

- Patents
- Copyrighted software
- Other legally protected patent-like IP (subject to conditions)

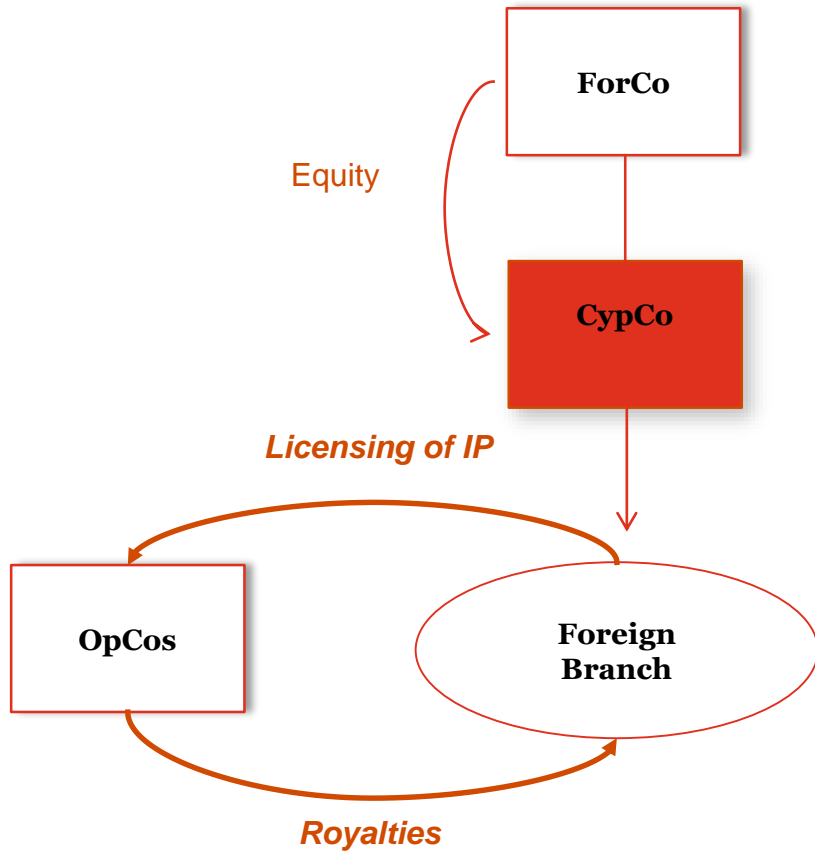
Qualifying Incomes

- Royalty income emanating from IP
- Embedded income
- Gains on disposal of IP (if not capital in nature which are not taxable)
- Other qualifying incomes

Non-Qualifying IPs

- Marketing related IPs, such as trademarks
- Other IP not falling into the adjacent categories

Cyprus Co with a foreign branch - IP Structure



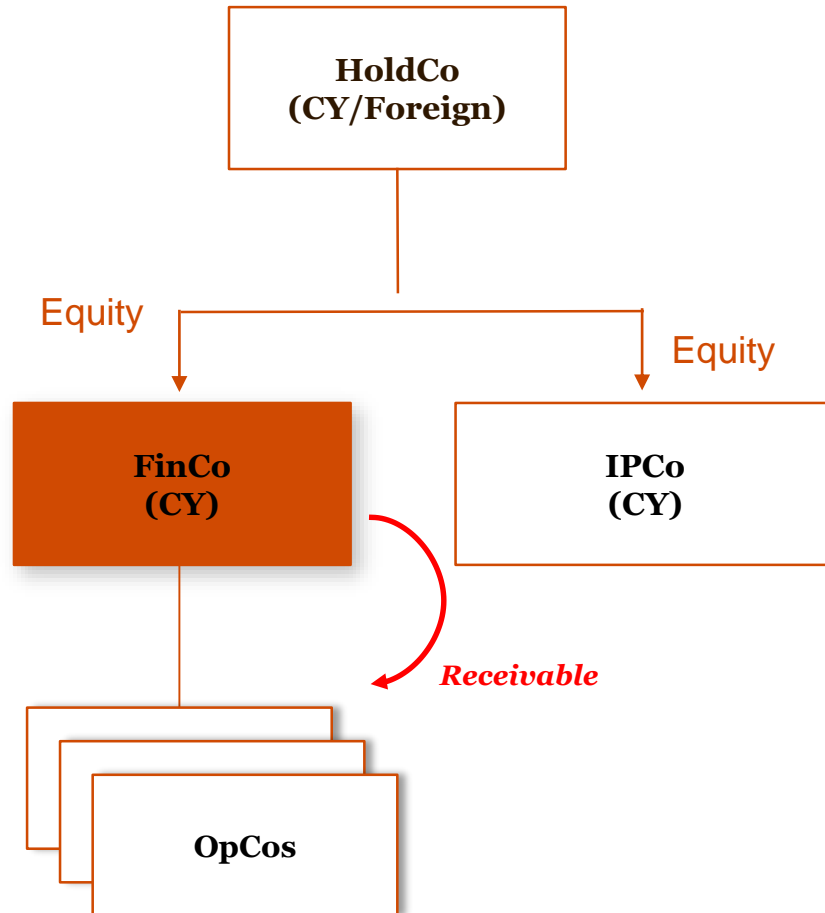
Plan

- ForCo contributes IP or funds (to be used for acquisition of IP) to CypCo.
- IP is assigned to the foreign branch. CypCo elects for foreign branch to be fully taxable in Cyprus.

Benefits

- ForCo equity into CypCo allows for NID to be available . ETR for CypCo as low as 2,5%.
- For non Nexus assets ETR could be as low as 2,5% due to the NID (or tax may be eliminated if amortization is high).
- If R&D functions under the foreign branch are significant & IP is a Nexus type asset, the asset could fall under the Cyprus IP regime.
- Combination of NID and IP regime on such income can result to an ETR of as low as 2,1%.
- Increased economic robustness of CypCo as it is equity financed.
- People at foreign branch level provide sufficient substance.
- No WHT on dividends from Cyprus to ForCo.
- Forex is tax exempt in Cyprus thus ETR can be stable.

Cyprus FinanceCo (utilising NID)



Plan

- HoldCo drops down existing loans into FinCo for issuance of shares
- HoldCo drops down IP assets (under old regime) into IPCo for issuance of shares

Key Benefits

- Managing current financing with hybrid instruments / entities which could prove problematic under BEPS
- Robust from a beneficial ownership perspective.
- ETR for FinCo as low as 2,5%
- ETR of IPCo 2,5%-12,5% depending on facts of case
- Forex in Cyprus is tax neutral thus ETR remains stable.
- Foreign tax credit available.
- NID can be applied in full or in part.
- No WHT on dividends from FinCo and IPCo to HoldCo.

Comparison of DTT for India inbound investments

Source based taxation in India under tax treaty

Capital gains from the disposal of shares of an Indian company acquired AFTER 1 April 2017



Capital gains from disposal of debt instruments including convertible debts, derivatives, etc.



Capital gains from disposal of shares of any company, the property of which consists, directly or indirectly, principally of immovable property situated in India



Limitation of Benefit (LoB) clause (for 2 year period)



Interest

10%

7,5%

15%²

Royalty income

10%

15%

10%

Other income

Not Taxable

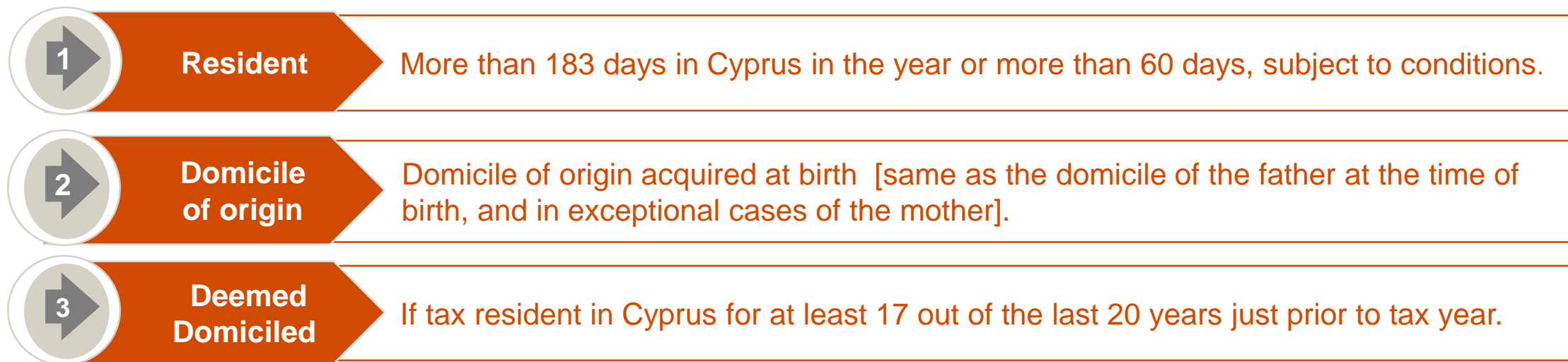
Taxable

Taxable

Note 1: Lower taxation for transitory period of 2 years (April 2017 -2019)

Note 2: For interest paid on loans by a financial entity or insurance institution the rate is reduced to 10%

Taxation of Non-domiciled individuals (Non-doms)

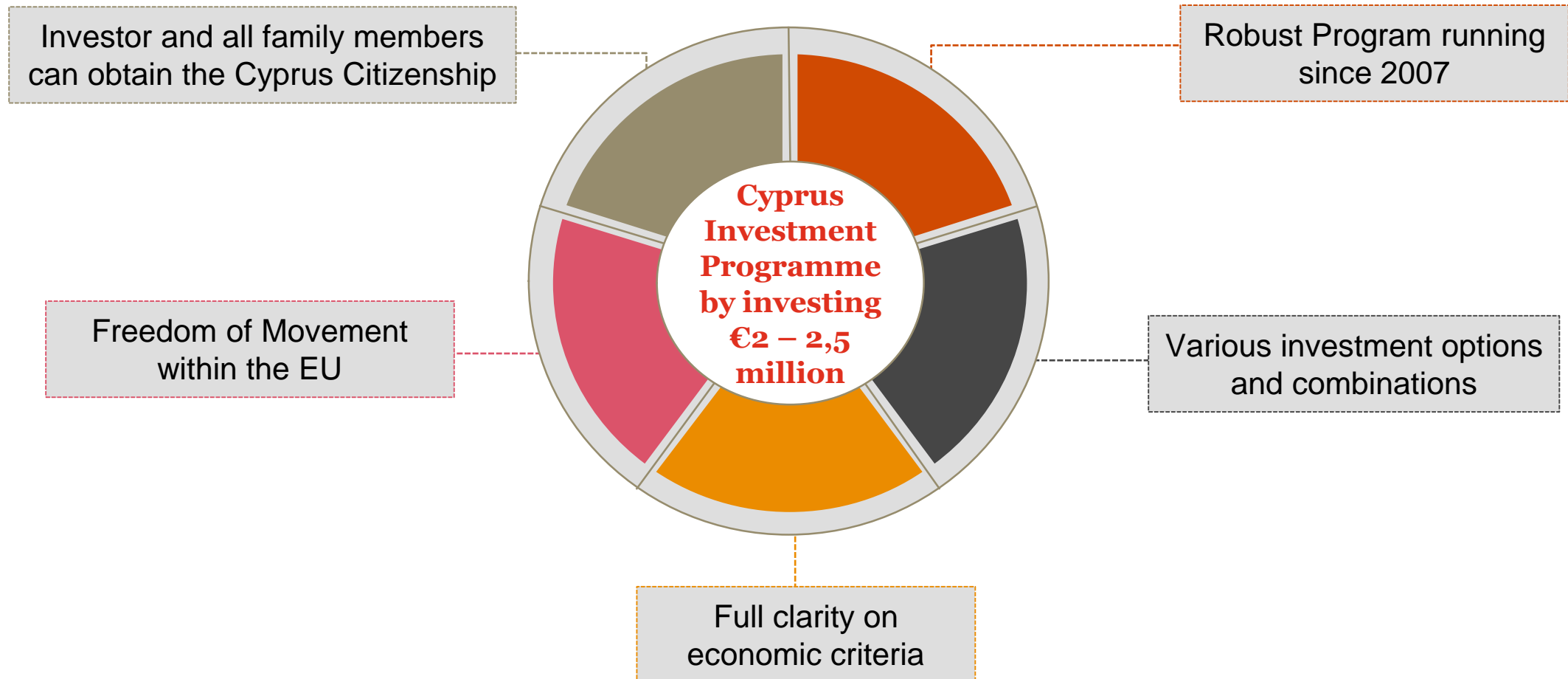


The “60 day rule” applies to individuals who in the relevant tax year:

- do not reside in any other single state for a period exceeding 183 days in aggregate, **and**
- are not tax residents in any other state, **and**
- reside in Cyprus for at least 60 days, **and**
- have other defined Cyprus ties (i.e. business or employment in Cyprus and a permanent residency)

Source of Income	Tax Treatment
Dividend income	Exempt for 17 years
Interest Income (passive)	Exempt for 17 years
Rental income (Cyprus and foreign sourced)	Taxable at normal rate with relief from foreign tax
Salary Income	50% exemption from Cyprus personal tax for 10 years if: (i) individual non-Cyprus tax resident before employment and (ii) remuneration above €100k
Pension Salary	5% flat rate (first €3420 tax free)

The Cyprus Investment Programme



3

Funds Framework

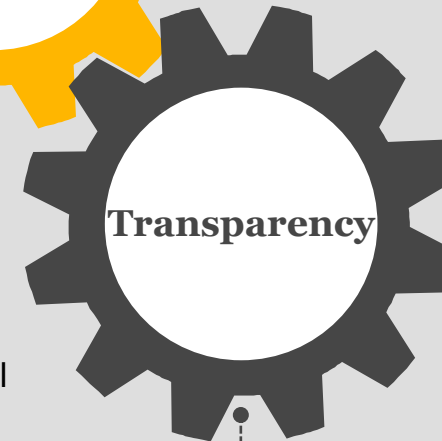
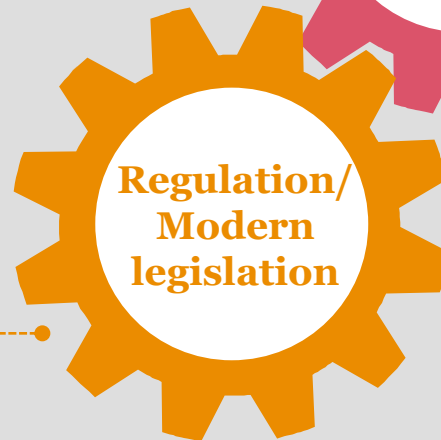
Key benefits of Cyprus' AIFs

- Easy and cost efficient to set up and maintain.
- Reduced bureaucracy.

- Any asset can be included in the investment strategy of the AIF.
- Variety of structuring options / umbrella structure.

- Attractive tax system for funds and fund managers.
- Tax incentives for senior management staff of management companies (under conditions).

- Access to high-growth markets (Asia, Israel, Middle East).
- EU passporting rights: Management & marketing throughout Europe.



- Designed legislation to take into consideration new market realities and conditions.
- EU directives / business friendly jurisdiction (no onerous reporting requirements).

- Reports to the Regulator and the Investors.
- Well-regulated structure/Control functions.

4

How PwC can help
you?

Our services

Dedicated India focused team with extensive experience in many areas since 2005.

Our expertise includes advising clients for setting up regional headquarters in Cyprus (our experience includes clients engaged in the pharmaceuticals, automotive and real estate sectors)



Global reach

One stop shop

Single point of contact

Access to experts

Peace of mind



Licensing Services



Fund Administration



Advisory



Re-domiciliation



Internal Audit Services



Legal Support



Assurance Services



Corporate Services



CRS and FATCA Compliance Services



Direct and Indirect Tax Services

Thank you

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