

Cyprus Is Business-Friendly, Legal and Sunny

By [The Moscow Times](#)

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The  Moscow Times

In response to "Cyprus, Not WTO, May Modernize Russia," a comment by Daniel Klein on April 25.

Editor,

I am concerned that parts of Klein's article are misleading and misrepresent the new protocol amending the Cyprus–Russia double taxation treaty, which has been ratified by the State Duma on February 2012.

Cyprus cannot be referred to as an "offshore destination" since it has abolished its offshore tax regime 10 years ago in 2002. As a member of the European Union since 2004, Cyprus has an effective and transparent tax system that is in line with all the EU directives as well as compliant with the Organization for Economic Cooperation and Development, or OECD. Furthermore, the OECD includes Cyprus on its white list as one of the 45 countries that have implemented internationally agreed tax standards.

Cyprus applies all the requirements of international treaties and standards and European Union directives against money laundering. These measures are in full compliance with the Moneyval committee of the Council of Europe and the provisions of the Financial Task Force.

Regarding concerns about the disclosure of information about Cyprus companies that have Russian subsidiaries, bank-client confidentiality is guaranteed in Cyprus. Nothing about this will change with the enforcement of the new protocol.

Over the years, Cyprus has developed into a dynamic global business and financial center that offers specialized services and rewarding business opportunities catering for the diverse needs of international investors. Many members of the Russian business community have a presence on the island, and we expect to see more businesses doing so. Cyprus has traditionally established strong political, economic, trade, investment and cultural ties with Russia. The new protocol on the double taxation treaty paves the way for further development of their fruitful business relations.

Petros Kestoras
Cypriot ambassador to Russia
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Editor,

Jan. 1 will mark the beginning of a new era for the long-standing and exceptional business relationship between Russia and Cyprus. It is the date when the protocol to the double taxation treaty between the two countries comes into effect, ensuring its harmonization with the OECD model treaty, the removal of Cyprus from Russia's blacklist, the strengthening of the already solid business bonds between the two countries, and the enhancement of the status of Cyprus as a preferred holding company jurisdiction for Russian interests.

On matters involving the exchange of information, there is no carte blanche given to the requesting country for receiving such material. For such a request to be executed, it would have to go through a series of steps, which would precede any such disclosure and would need to fully satisfy certain conditions stipulated by the treaty and the local legislation. Among those included is providing the Cyprus tax authorities with the identity of the person under examination, the reasons why they believe the Cyprus tax authorities have possession of such information, and the name and address of any person holding such information. At the end of this process, the written approval of the Cypriot attorney general is needed for its disclosure, thus preventing the misuse of the current legislation and discouraging any type of "fishing" expeditions by the tax authorities.

Withholding tax rates will remain at the same low level for investments of 100,000 euros (\$127,000) and above — 5 percent for dividends, zero percent for interest and zero percent for royalties. Nevertheless, there is the added benefit that distribution from mutual funds and other collective investment vehicles of similar nature, excluding real estate funds, will also be subjected to this 5 percent tax rate. In addition, depository receipts on shares are also designated as a dividend taxed at the same rate. As far as interest income is concerned, it is worth noting that it includes income from debt claims of any kind, whether it is secured by a mortgage or not.

Another key aspect indicating the importance of Cyprus as a preferred holding jurisdiction for Russian interests is the capital-gains tax imposed on the sale of shares in companies where the value of the real estate component in Russia is in excess of 50 percent of the value of the company. According to the treaty, this tax — currently 20 percent in Russia — will not be levied for another four years from the date that the protocol is put into effect — until 2017. By that time, the Russian government agreed to make similar amendments to the rest of the double taxation treaties the country has or will conclude in the future, thus in effect protecting the Cyprus holding jurisdiction.

There are more provisions in the Russia-Cyprus protocol to the double taxation treaty, not presented here, for which accounting firms specializing on tax related matters between Russia and Cyprus may be contacted for professional advice and consultation. However, it is crystal clear that the ratification by the State Duma of the protocol to the double taxation treaty between Cyprus and Russia and the imminent removal of Cyprus from the country's blacklist do not only make, under certain conditions, the repatriation of dividends by Russian shareholders from Cyprus companies tax exempt, but also signal the dawn of a new beginning for business relations between the two countries.

The further bolstering of Cyprus as the partner of choice for companies of Russian interests is a given. New prospects of cooperation for the mutual benefit of the two countries lie ahead and do not only include Cyprus' value as a preferred holding jurisdiction for Russian interests. The recent discovery of natural gas on the seabed of the Mediterranean Sea, which is part of the Cyprus exclusive economic zone, is another great opportunity where Russian and Cypriot interests can cross.

Cyprus' membership in the European Union can also be used by Russian businesses, owners of Cyprus holding companies, to get additional tax benefits through the application of EU directives.

Daily flights from Moscow to Larnaca, with sunny weather most of the year and sandy beaches surrounded by the sea, are just a few more of the pieces which make Cyprus the natural choice for this kind of business.

Going forward, the leading international business centers in the world will be characterized by the double taxation treaties they have, the transparency with which they regulate their business and their willingness to exchange information in accordance with local legislation and international treaties. Cyprus already has all of this — and much more.

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