CYPRUS AS A BASE OF INVESTING IN RUSSIA

Taxation

International Business Companies (IBC) are taxed at the rate of 12.5% on their taxable income. All expenses incurred in earning the income are tax deductible.

Capital gains are tax free in Cyprus (except on immovable property located in Cyprus).

The provision of services and the sales of goods by the I.B.C. are outside the scope of Cyprus Value Added Tax.

There is no withholding tax on the payment of dividends, interest, royalties and management fees an I.B.C. company to non-residents.

The treaty with Russia

The old treaty between Cyprus and the USSR was applicable until 31st December 1999. A new treaty is now applicable as from 1st January 2014.

Under the treaty are no withholding taxes on the payment of:

- Interest - Management fees
- Royalties - Leasing of equipment

In relation to dividends the treaty provides for 5% withholding tax if the investment is greater than €100.000, otherwise 10% is applicable.

Income from movable property, including capital gains, is not subject to tax in Russia. Income from immovable property, including capital gains, is taxed in Russia.

The treaty applies to persons (individuals or corporations) who are taxed in Cyprus by reason of domicile, incorporation or place of management. IBC qualify under the treaty because they are taxed in Cyprus by reason of their incorporation.

A tax exemption certificate is required to be obtained from the Russian tax authorities, which is given on the basis of tax certificate obtained from the Cyprus tax authorities.

CYPRUS AS A BASE OF INVESTING IN RUSSIA

Structuring the investment activity – An example

The investor sets up a Cyprus company, either by himself or together with other interested parties.

The Cyprus subsidiary becomes the partner in a Russian joint stock company.

The Russian Joint Stock company becomes the operating company in Russia which generates all income.

The Russian Joint Stock company pays Russian taxes on its profits and distributes the dividend to its shareholders at reduced withholding taxes. Russian taxation may be reduced by charging management fees, interest, royalties etc.

The Cyprus IBC will not pay Cyprus income tax on the dividend received because it will claim a tax credit for the 5% tax paid in Russia. It can then distribute the profits after tax to its shareholder without any withholding tax.

The investor can sometimes treat the dividend as exempt surplus and not pay any tax in his country (e.g. Canadian investor).

Many different structures can be set up. These are to be designed taking into consideration the merits of each case.

Matters to be considered

- Avoidance of permanent establishment in Russia by making sure that no services are provided in Russia by employees of the Cyprus company;
- Avoidance of having mind and management in the investors' country;
- Maintenance of office in Cyprus where administrative services are provided;
- Employment of personnel in Cyprus either expatriate or local;
- The majority of the Board of Directors are residents of Cyprus;
- Bank accounts are maintained and operated from Cyprus;
- Keeping of accounting records is carried out in Cyprus and all documents are kept in Cyprus.

CYPRUS AS A BASE OF INVESTING IN RUSSIA

Advantages offered by Cyprus to companies establishing offices in Cyprus

- Availability of office and housing accommodation at very competitive rates and of high standard;
- Telecommunication facilities rank amongst the best in the world;
- Air connections with Europe, Russia and the Middle East;
- Qualified personnel at very competitive rates. Salaries are about 60% of rates in Europe;
- Excellent climate and very high standard of living and education facilities;
- Duty free goods of a capital nature for the company and the expatriate employees;
- Working permits are easily granted to expatriate employees;
- Low taxation for expatriates working in Cyprus;
- There are no payroll taxes for expatriate employees.

The above is intended to provide a brief guide only. It is essential that appropriate professional advice is obtained.