GOING THE EXTRA MILE

MAINTAINING THE RUSSIAN CONNECTION IS CRUCIAL BUT FAR FROM EASY

By JohnVickers, Photograph by Jo Michaelides

For Alexis Tsielepis, Director and Head of Taxation at Costas Tsielepis & Co Ltd, Chartered Accountants, the Cyprus crisis last March set off unprecedented client turmoil that required careful, timely and pre-emptive handling. The Tsielepis Group has been offering tax, business consulting and auditing services since 1978 and now serves the business interests of clients from all over the world and especially Russia. The year that passed tested the company, its people and its operations to the core. The result: Not a single client was lost to the events of 2013.

THE CREDIBILITY OF OUR COUNTRY AND OUR ECONOMY IS SLOWLY BEING RESTORED

WE CANNOT RELY ANYMORE SOLELY ON THE STRENGTH OF OUR DOUBLE TAX TREATY WITH THE RUSSIAN FEDERATION

In his Limassol seafront office, Alexis Tsielepis, kept one eye on his interviewer and the other on his brushed aluminum multi-screen set up. With a secure video conference call facility in standby mode on one screen and his mailbox on the other, he set his smartphone to a single chirp and office telephone on low.

"You have my undivided attention," he said, "unless they decide to tax profits from the sale of shares."

Tax jokes are not his only speciality. Besides being a qualified Chartered Accountant, Tsielepis is an accomplished tax specialist who has advised numerous multi-jurisdictional teams of professionals on cross-border mergers, acquisitions and reorganisations, and who possesses a solid understanding of double tax treaties, VAT Directives and Trust legislation. He also runs the VAT-dedicated company Chelco VAT Ltd.

He took over the Taxation Department of Costas Tsielepis & Co. 10 years ago and he admits that, since then, nothing had prepared him for the crisis management to which he and his colleagues were obliged to resort over the course of the past year.

"Our clients, especially Russian ones, are demanding, to say the least," he said, adding:

"They expect operational excellence, top-notch services and confidentiality. They also expect their service provider to keep abreast of not just the latest changes to tax legislation locally and internationally, but also of the deliberations occurring at the top level of decision-makers, of what is to come."

And that's not all. "All that is inconsequential," he went on, "unless you earn their trust. Once you enter their circle of trust, you become their partner, their confidant, their friend. And the ensuing relationship lasts a lifetime, for better or for worse."

The March 2013 crisis played a catalytic role in what Tsielepis described as "separating the wheat from the chaff."

"I have always believed that in-depth relationships can withstand the very worst of times, at least in theory," he said.

In 2013, the theory was tested in practice.

"Last year tested the nerves and faith of foreign investors in Cyprus," Tsielepis told **Gold**. "Had we allowed our clients to lose their faith in us as well, that would have been the end. The events of last March caused our clients great concern; communication between us was literally 24/7. They were asking for information, predictions, assessments and even for accountability. They expected guidance, advice and solutions."

Tsielepis elaborated that while a number of clients had looked into possible exit routes at the early stages of the crisis, in the end not a single one took them.

He and his associates realized early on that the only way to tackle the crisis successfully was to be proactive.

"We decided not to hide behind the wall, but instead stand on it," he said, adding that over the phone and during flash trips to Russia and elsewhere, the constant flow of questions that he was expected to answer was more or less unchanging: *What happened? Why? How is the situation in Cyprus regarding taxation? Will there be further amendments to the tax legislation? How is the situation in Cyprus in regard to the Cyprus Company? What is the future for Cyprus and its business and corporate regime? What is the future of the local banking system and when will we be able to put our deposits to work?*

Alexis Tsielepis said that in their replies, he and his staff remained truthful, pragmatic and stated the facts.

"We told them that Cyprus was engulfed in the unprecedented financial crisis that was plaguing Europe and the world and that the European Union had been invited to offer assistance – which admittedly came in the most aggressive and unfair wrapping," he said.

His assessment of the Troika's conditions in return for assistance is that it was not ultimately about the island's natural gas resources, or about crippling its international business sector ("although certainly some individuals within the Troika team appear to be following an agenda of securing their national interests") but rather that the Cyprus financial crisis had coincided with that of much larger economies such as those of Spain, Portugal and perhaps Italy, which were also gearing up to request money from Europe, mainly to safeguard their banks.

Europe's largest lender, Germany, was on the brink of national elections, and voters there were not willing to rescue any more economies with their 'hard-earned' money. The result was to push for EU banking reform legislation, which included the banks resorting to their own creditors for money before requesting financial support from their national governments.

"Cyprus was the ideal guinea pig," Tsielepis said.

Following the imposition of the bail-in, which saw Cypriots and foreigners lose billions overnight, this imposed experiment now needed to work, he said, adding that "we are now seeing steps taken by the Troika to support the two main pillars of the Cyprus economy, those being the international business sector and the tourist industry."

Concerned clients of the Tsielepis Group have been informed that the EU's austerity measures that are now in place and ongoing efforts to tidy up the island's finances have bypassed the country's fiduciary services industry and left the island's corporate regime virtually unscathed.

Apart from an increase of the island's flat corporate tax rate (from 10% to 12.5%, which means that it is still one of the lowest in Europe), the island has managed to retain its significant tax advantages that accrue to companies that choose to structure their holdings via a Cyprus corporate vehicle.

Cyprus has also managed to safeguard its impressive Double Tax Treaty (DTT) network around the world and access to the provisions of the relevant EU directives. It maintains a very competitive tax regime for dividends, gain from the sale of shares, margins on back-to-back loans and an intellectual property box as well as practically no withholding taxes. In addition, Tsielepis said, Cyprus has maintained all the non-tax elements that make it so attractive, such as its political and geographical position, excellent telecommunications, a qualified workforce, high standard of living, safety and – for Russians in particular – cultural and religious ties.

"As far as the banking system is concerned," he continued, "we offered our clients alternative solutions that either involved banking institutions abroad or healthy banks based in Cyprus. The fact that Bank of Cyprus was fully recapitalized and exited the resolution and that Hellenic Bank was fully recapitalized using fresh private funds ahead of the proposed deadline, were important first steps."

Asked what will happen when bank restrictions are lifted and foreign investors and depositors are free to withdraw their money, Tsielepis said: "We shall certainly witness an outflow of funds, which is logical given the situation. Before the restrictions are lifted, though, we must utilize the time available to secure the full support of the European Central Bank by continuing to implement the necessary changes to the Cyprus banking system. "We are in uncharted waters but if for example, the ECB guarantees the Bank of Cyprus' deposits, this would significantly restore confidence," he added.

On the subject of investment opportunities offered by Cyprus, Alexis Tsielepis noted the recent €20m investment of fresh money into the Le Meridien Hotel in Limassol by one of the Group's clients, adding that the particular move and ensuing others further enhanced the attractiveness of Cyprus as an international centre for business and investment to foreign investors and especially Russians.

"The credibility of our country and our economy is slowly being restored," he added, repeating what he had said when the Le Meridien deal was announced: "Our clients kept their faith in Cyprus despite it all. They are here to stay."

He stressed that "these investments contradict PIMCO's pessimistic estimates of the value of immovable property in Cyprus and the unfavourable predictions of rating agency Fitch regarding the island's prospects for economic recovery," adding that costal properties in particular have maintained their value, while those luxury hotels that work properly and methodically have managed to withstand the financial crisis.

Tsielepis also predicts that the flow of tourists into Limassol – and Cyprus in general – will further intensify with the recent liberalisation of flights to and from Russia.

On what the future holds, he said: "Taking stock of where we stand, it is clear that the environment of international taxation, in which Cyprus is competing, has become increasingly dynamic and very challenging. In order to stay on top, Cyprus will need to address both the challenges coming from overseas, as well as those from within."

He noted that recent amendments to the Russian Tax Code, as well as ongoing discussions within the Russian Ministry of Finance relating to further proposed amendments, required careful consideration, especially by those who advise persons or companies with interests in Russia.

He went on: "We simply cannot rely anymore solely on the strength of our double tax treaty with the Russian Federation, which is perhaps the most competitive that Russia has. There are several other factors that we need to address."

He brought up the issue of exchange of information, which seems to be the "Achilles' heel" of Cyprus' relationship with foreign tax administrations at present, including Russia. His assessment is that in the short to medium term, businesses using Cyprus' attractive tax system will need to focus more on transparency and substance.

"In our discussions with our clients we focus mainly on restructuring their businesses in order to be prepared – meaning competitive – for the future," he said, adding that the argument did not only apply to Russia but to most other jurisdictions with which Cyprus companies transact.

"Equally importantly," Tsielepis continued, "we need to look at the challenges closer to home. Recent amendments to our domestic tax legislation have, in my opinion, been inappropriate and not carefully thought out. There is a lack of public discussion about proposed amendments, many of which have made our tax legislation less competitive. The Inland Revenue Department is focusing so hard on trying to catch those who are evading tax that it is not considering the adverse commercial impact and implications of various pieces of new legislation that it is championing, bearing in mind that the lion's share of its income derives from the International Business Sector and not the local private sector or the self-employed."

He added that, "As an organisation, what we are doing now is diversifying our services. We are reinventing our corporate identity, rebranding our corporate presence and expanding our operations to even more jurisdictions. We are also investing in our own people and are forming strategic alliances with professional associates."

He added: "We are gearing up to go the extra mile for our clients. There are no big crowds, no strangers and no delays on the extra mile. We like going there, and our clients like it too." G

BEFORE BANKING RESTRICTIONS ARE LIFTED, WE MUST UTILIZE THE TIME AVAILABLE TO SECURE THE FULL SUPPORT OF THE EUROPEAN CENTRAL BANK

CHANGING THE IRD – AN EXPERT'S VIEW

"The Inland Revenue Department (IRD) needs to evolve, break free from past practices and become more commercially-minded. I was recently involved in discussions with the Limassol District Tax Office over tax assessments going back several years. The fact that these assessments even existed was solely the fault of the tax office, which persists with its policy of issuing assessments dating back six years, in order to keep the door open on a particular tax year – a practice known as 'protective assessments'. At some point during the discussions, the subject matter was no longer the interpretation of the legislation but the amount of tax to be paid instead. Although the concept of negotiating the amount of tax is nothing new, what surprised me was the raw focus on 'amounts to be paid', which resembled more a Middle Eastern bazaar rather than a progressive tax office in a leading business jurisdiction like Cyprus. Things will not change overnight. Ironically, I had not seen a true first step in the right direction before the Troika intervened. Now there are structural changes in the pipeline which could lay the foundations of a better Department. However, if the same people continue to dictate what they have traditionally practised, the transformation will ultimately be infertile and of no real consequence."