



## **Central Bank clamps down on Cyprus bank accounts of “shell” and “letter box” companies**

**21 June 2018 - The Central Bank of Cyprus has recently instructed all banking institutions not to open new bank accounts or renew existing ones with companies that are regarded as “shell” or “letter box” companies.**

Under these guidelines, all trading companies that have no substance (effective place of business and management) will not be permitted to maintain bank accounts in Cyprus. Moreover, trading companies incorporated in “tax havens”, such as the BVI, the Seychelles and the Marshall Islands, will be required to become tax resident in a tax jurisdiction, such as for example Cyprus, in order to continue banking in Cyprus.

Companies that have no substance and/or are not tax resident in a tax jurisdiction, but hold assets such as investments in shares or property (holding companies) or carry out group financing (financing companies), will be permitted to continue banking in Cyprus as long as their ownership is identifiable and their economic purpose and activities are clear.

In view of these changes all affected persons are strongly encouraged to seek immediate advice from their tax consultants or service providers on the best course of action for their specific circumstances.

The Department of Taxation of Costas Tsielepis & Co Ltd is at your disposal should you require further clarifications, advice and recommendations on this matter.

**More details on the Central Bank of Cyprus Circular, issued on 14 June 2018, are as follows:**

The credit institutions shall not engage or renew business relationships with companies that meet any one of the following criteria:

- 1) has no physical presence in its country of domicile (other than a mailing address);

Physical presence has been defined as having a meaningful mind and management located within a country. It has been clarified that the presence of a third person such as a lawyer, an accountant or a service provider, acting merely as an agent of the company and/or providing nominee services, including company secretary duties, does not constitute physical presence. In addition, the lack of employed personnel (including the nominal presence of one single person as a staff member) is construed as lack of physical presence.

- 2) has no established economic activity, little to no independent economic value and no documentary proof to the contrary;

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- 3) is registered in a jurisdiction where companies are not required to submit to the authorities independently audited financial statements;
  - 4) has a tax residence in a jurisdiction recognised as a 'tax haven' or no tax residence whatsoever.

The Central Bank of Cyprus however asks from the credit institutions to take into consideration the following before taking a decision not to open or close a bank account:

- The company is established for the purpose of holding stock or shares of another business entity or entities with identifiable activities and ownership;
- The company is established solely for the purpose of holding intangible or other assets including real estate or ship vessels;
- The company is established to facilitate currency trades and asset transfers, corporate mergers, acts as group treasurer or in any other case where convincing proof can be provided that the company is engaged in legitimate business and substantiated information is provided about its ultimate beneficial owner/s.

Finally, the Central Bank of Cyprus states that the circular has an immediate effect on new business relationships. On existing relationships, it requires the banks to apply the conditions of the circular to their client base and inform them of the outcome of their review by 31 July 2018.