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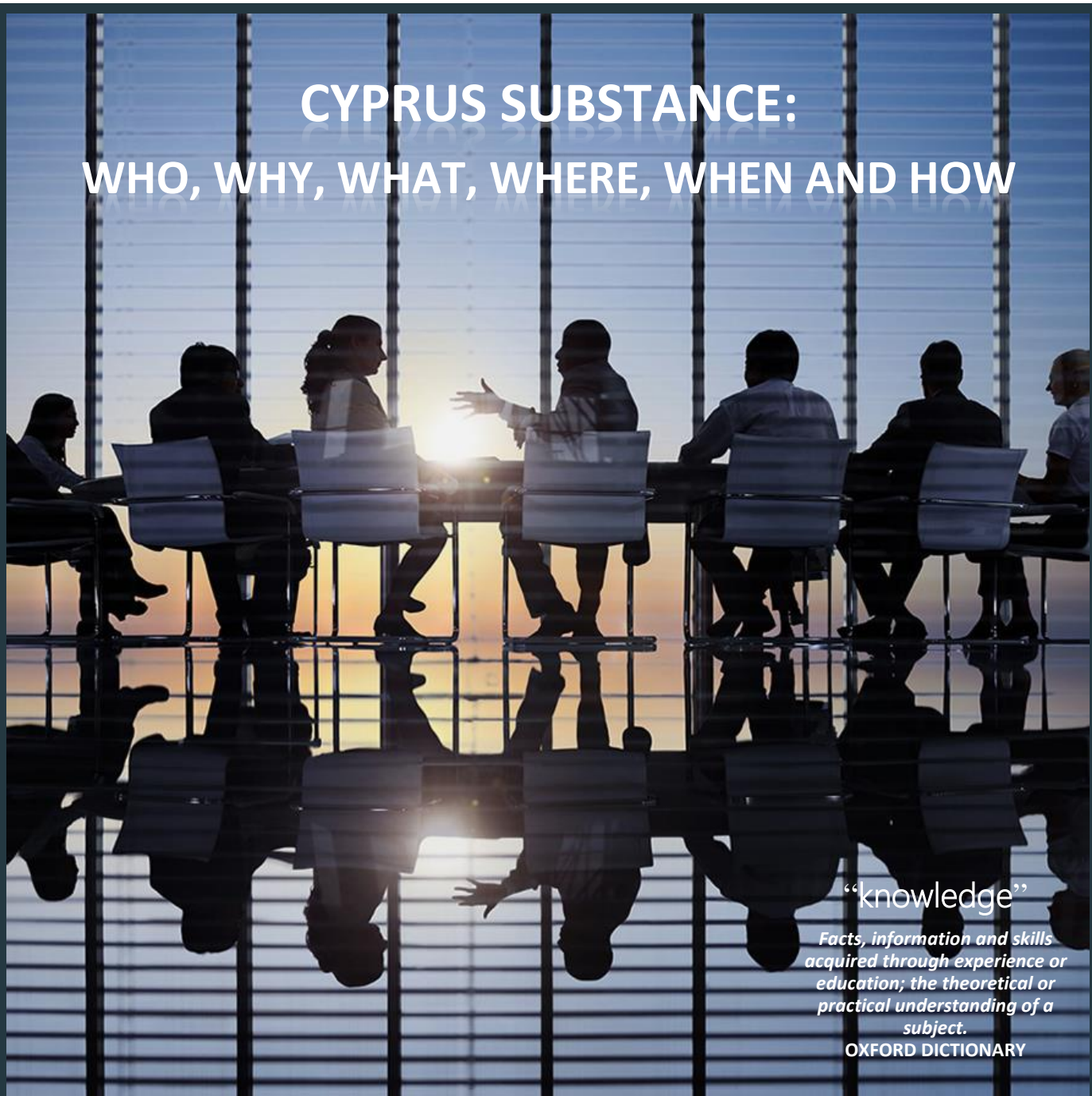
COSTAS TSIELEPIS & CO LTD

TAX UPDATE

By ALEXIS TSIELEPIS, Director & Head of Taxation

Volume 6, Issue 3

CYPRUS SUBSTANCE: WHO, WHY, WHAT, WHERE, WHEN AND HOW



“knowledge”

*Facts, information and skills
acquired through experience or
education; the theoretical or
practical understanding of a
subject.*

OXFORD DICTIONARY

AUTHORED: JUNE 2016

ΓΝΩΣΗ

ENHANCING SUBSTANCE IN CYPRUS

Cyprus offers a very competitive tax system, including numerous benefits derived from double tax treaties and EU Directives.

Recent international court cases and the global trend of tax jurisdictions demonstrate the necessity to ensure that there is no discrepancy between the form and substance of arrangements and the importance of companies being managed and controlled from where they claim to be.

A challenge in respect of a company's Cyprus tax residency may result in tax exposure in other jurisdictions as well as denial of double tax treaty and EU Parent-Subsidiary benefits.

WHO NEEDS SUBSTANCE AND WHY?

A Cyprus company claiming double tax treaty benefits and having access to EU Directives needs to have sufficient substance in order to be able to benefit from those.

Cyprus tax residents can take advantage of reliefs and other benefits emanating from tax treaties signed by Cyprus with other countries. They generally are not available to Cypriot citizens or Cyprus incorporated companies that are not Cyprus tax residents.

The main purpose of a tax treaty is the avoidance of double taxation on income earned.

Other significant objectives of the tax treaties include the reduction of source country withholding rates on passive income such as interest, dividends and royalties, prevention of tax evasion on income and capital gains, tax administration cooperation, encourage cross-border trade and providing a mechanism for resolving tax disputes between the treaty countries.

Substance is an important concept of international tax planning.

Despite its importance, substance has not been addressed in double tax treaties but is used in combination with the concepts of residence and beneficial ownership. Therefore, the notion of substance in a foreign jurisdiction can be open for interpretation.

Creating sufficient substance in Cyprus is a key element in order to minimize the risk of denial of double tax treaty benefits and of a foreign tax authority seeking to challenge a company's tax residency status and try to tax it under its own legislation.

WHAT SUBSTANCE IS NEEDED?

Substance may include, but is not necessarily limited to, any of the following:

- Use of a fully fledged office as a place of business
- Employment of staff and payment of the relevant payroll taxes
- Existence of a telephone number, e-mail and fax in the name of the company
- Existence of a company website, company logo and company stationery
- Bank statements showing local expenditure
- The use of local professionals (IT support, courier services etc)
- Bank signatories being based in Cyprus
- Accounting records and other records such as agreements, contracts, invoices etc., being located in Cyprus
- Effective management and control to be exercised from Cyprus

WHERE TO CREATE SUBSTANCE?

Cyprus

WHEN TO CREATE SUBSTANCE?

Immediately, in order to remain a step ahead from the current developments and be prepared for any challenges that may lie ahead.

HOW? WE CAN HELP

Our firm can assist you with the following:

- Prepare diagnostic reviews of the tax risks (if any) arising in the current structure;
- Provide recommendations on any actions required for solving any substance deficiencies which may lead to tax leakages;
- The implementation of a new structure following the diagnostic review undertaken;
- Establish a fully fledged office and hiring employees/directors in Cyprus (including assisting in drafting the relevant employment contracts, assisting in obtaining work and residence permits and assisting in optimizing the tax and social insurance liabilities with respect to the employees and the employer);
- Provide bespoke support in relation to other services, (assistance in accounting functions, corporate administration, tax and VAT compliance, audit, financial reporting, assisting with opening and maintaining of bank accounts etc.);
- The formulation of a Corporate ID and creation of various marketing material.

For more on substance please read Substance Information Sheet 9 located in the E-Library section of our website.

YOUR TAX CONTACTS IN CYPRUS

The Taxation Department of Costas Tsielepis & Co Ltd is comprised of tax professionals with decades of experience in the field in Cyprus and abroad. Their in-depth understanding of tax concepts, the workings of double-tax treaties, their experience and knowledge of the Cyprus local tax legislation and its usages, their detailed comprehension of indirect tax matters in Cyprus and the EU, all position them uniquely to offer comprehensive and authoritative advice to their clients.

The department's consultants use real-world experience and technical expertise to assess, analyse and then formulate forward-thinking tax effective solutions that preempt potential short and long-term consequences, thus helping clients implement decisions that can deliver long-lasting value to their personal and businesses plans and strategies.

The Tax Department of Costas Tsielepis & Co Ltd is and our network of associates in Cyprus and worldwide are your disposal for more information and to advise you on the above and other tax matters.

For more information you may contact:

Alexis Tsielepis, BSc, FCA
Director, Head of Taxation
a.tsielepis@tsielepis.com.cy

Nicolas Papapanayiotou, BSc, MBA, FCCA
Senior Manager, Taxation Department
n.papapanayiotou@tsielepis.com.cy

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Costas Tsielepis & Co Ltd

205, 28th October Str., Louloupis Court, 1st Floor, 3035 Limassol, Cyprus
P.O. Box 51631, 3507 Limassol, Cyprus
T: +357 25871000 | F: +357 25373737
E: info@tsielepis.com.cy | www.tsielepis.com.cy