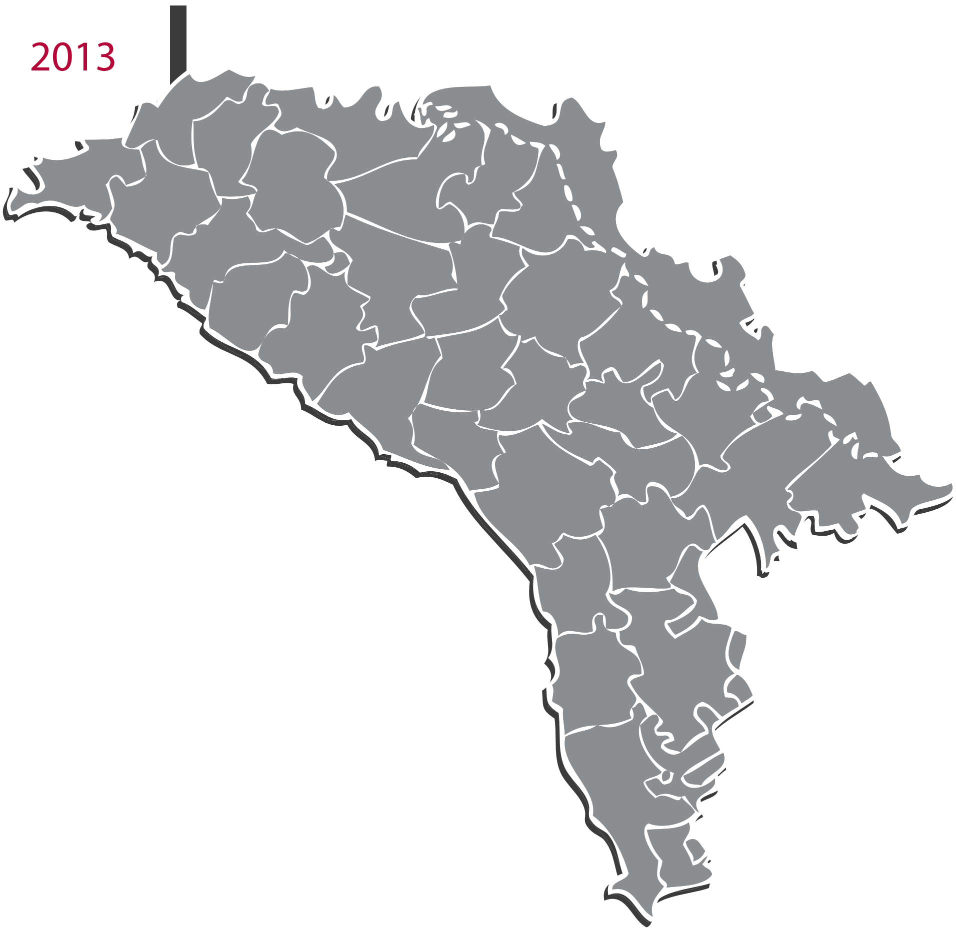
CHRISTODOULOS G. VASSILIADES & CO. LLC
Advocates - Legal Consultants

CYPRUS:
The upcoming Moldavian partner

2013



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INTRODUCTION

- Our long lasting experience enables us to fully understand the needs of your business and contribute towards its success.
- In this publication, we will concentrate on the business development between Cyprus and Moldova in the context of the new Double Tax Treaty signed during 2008 and enforced from January 2009.
- Furthermore, we will endeavour to understand the benefits offered by Cyprus as well as the purpose served by the Cypriot companies as holding, financing and licensing investment companies.
- We will close our publication, with the suggested application and the use of the international collective investment schemes set up in Cyprus as well as the benefits obtained by an International Cyprus Trust.

CYPRUS: TAX BENEFITS

- Cyprus provides for numerous tax benefits and it is classed as a low tax jurisdiction. Its tax and legal systems are in full compliance with the EU and the OECD's requirements, thus resulting in Cyprus being included in the white list of international cooperative jurisdictions.
- Cyprus actually provides for the lowest corporation tax in the EU with a tax rate of 12,5% (10% up to the year 2012).
- Under the Cypriot Corporation Tax, inbound dividends are not taxable and there are provisions in place which may even exempt such inbound dividends from being subject to the Special Contribution Defense Fund (SCDF).
- Outbound dividends are not subject to any withholding taxes. They are however subject to SCDF if paid to Cyprus tax resident individuals.
- Cyprus does not impose capital gains tax on the disposal of shares unless it relates to immovable property situated in Cyprus. If the immovable property is located outside of Cyprus, such gains are exempt.
- Since 2004, Cyprus has become an official member of the EU and has implemented all EU Directives, thus obtaining all the tax benefits granted to intra-community transactions. Cyprus has expanded the applicability of the tax benefits obtained by the EU Directives to all third countries by incorporating the provisions of the EU Directives in its national legislation.
- EU Directives that have been implemented are the Parent Subsidiary Directive, the Merger Directive, the Tax Savings Directive and the Interest and Royalties Directive.
- Cyprus law provides for no inheritance tax;
- Cyprus has concluded an extensive network of Double Tax Treaties (DTTs) for the avoidance of double taxation. Income deriving from countries which signed a relevant treaty with Cyprus will only be taxed once.

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CYPRUS: FURTHER TAX BENEFITS

- Irrespective of the tax benefits, it is important to mention that Cyprus is a common law jurisdiction and its Companies' Law is based on the UK Companies Act of 1948.
- During the last few decades it has become known as an international financial center, located at the crossroads of three continents: Europe, Asia and Africa.
- Overall, Cyprus offers a unique European base for international business companies.
- Under the Cyprus Income Tax Law, it is worthy to mention the advantageous treatment of dividends, interest and royalties paid from Cyprus.

Dividends: 0% withholding tax
taxed in the state of residence of the recipient

Interest: 0% withholding tax
taxed in the state of residence of the recipient

Royalties: 0% withholding tax
Royalty payments are exempt from any withholding taxes provided that were exercised outside Cyprus

CYPRUS – MOLDOVA

- Cyprus and Moldova had signed a new double tax treaty in January 2008, which entered into force in January 2009, replacing the arrangements under the 1982 Double tax treaty for the treatment of income between Cyprus and the former USSR countries.
- The two countries maintain important financial relations and the new DTT will assist in the further strengthening of those financial and commercial relations.
- Moldova aims at attracting Cyprus investments to its national economy and expand collaboration with the EU. In this way, it will be able to increase foreign direct investments in the country.
- Cyprus may constitute a 'passport' for Moldavian investments to Central, Western and Eastern European markets as well as the Balkan markets i.e. Bulgaria, Romania, Serbia and Montenegro, and the markets from the East i.e. China.

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CYPRUS-MOLDOVA: DOUBLE TAX TREATY

Under the Double Tax Treaty concluded between Cyprus and Moldova, it is worthy to mention the treatment of dividends, interest and royalties paid from Moldova.

Dividends : 5% / 10% withholding tax

Dividends may be taxed at source with 5% withholding tax on the gross amount of the dividends if the beneficial owner is a company (not a partnership) and holds directly at least 25% of the capital of the company paying the dividends. In any other case besides the above 10% tax will be withheld.

Interest : 5% withholding tax

Interest may be taxed in the country it arises but if the beneficial owner is a resident of the other contracting state, the tax withheld should not exceed 5% of the gross amount of the interest.

Royalties : 5% withholding tax

Royalties may be taxed in the contracting state in which they arise under the laws of that state. In case the beneficial owner of the royalties is a resident of one of the contracting states, the tax withheld must not exceed 5%.

CAPITAL GAINS

(a) gains deriving from the alienation of immovable property situated in the other contracting state may be taxed where the property is situated,

(b) gains deriving from the alienation of shares deriving more than 50% of their value directly or indirectly from immovable property situated in the other contracting state may be taxed in that other state,

(c) gains derived by an enterprise of a contracting state from the disposal of aircraft and ships operated in international traffic or movable property pertaining to the operation of such ships or aircraft shall be taxable only in that state.

ELIMINATION OF DOUBLE TAXATION

Tax credit provisions are applicable where income received by a resident of a contracting state may be taxable in the other contracting state while the first state allows a deduction from the tax on the income of that resident.

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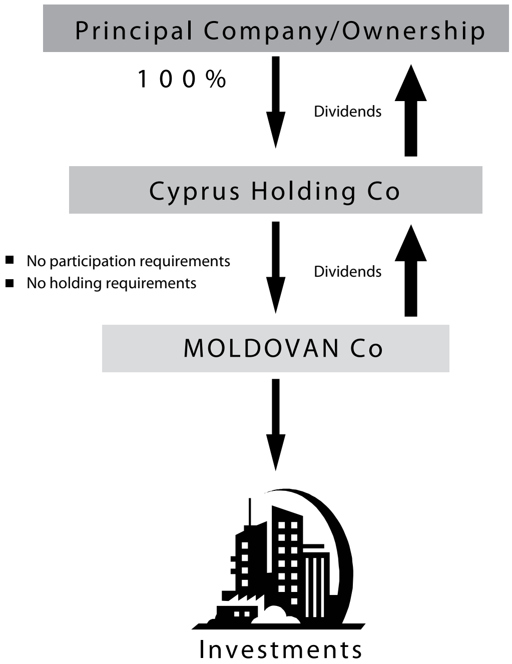
CYPRUS
HOLDING
COMPANY



CYPRUS treatment:

- Corporate Income Tax on worldwide income: 12,5%;
- Dividends received:
  Dividends are not subject to Corporation Tax and is likely to be exempt from SCDF
- Dividends paid:
  0% withholding tax

MOLDOVA treatment:

- Dividends paid:
  - 5% withholding tax provided that the beneficial owner is a company (not a partnership) and holds directly at least 25% of the capital of the Company paying the dividends.
  - 10% withholding tax in other cases

Special Contribution to Defence Fund= SCDF

- Cyprus companies can effectively be used as holding of Moldovan companies that enter into international cross border transactions.
- In the diagram above, Cyprus company holds 100% participation in a Moldovan company conducting various investments. From a Cyprus perspective, no participation or holding requirements exist in order to obtain tax benefits.
- Incoming dividends from Moldova, are exempt from Cyprus corporation tax and may also be exempt from SCDF provided that:
  > no more than 50% of the Moldovan Company's activities lead to investment income; or
  > the foreign tax rate is not significantly lower than the tax payable in Cyprus(In practice lower than 5%)
- 5% or 10% withholding tax is imposed on dividends distributed by the Moldovan company according to the Treaty in place as follows:
  > 5% withholding tax if the dividends are distributed to the beneficial owner which is a corporation(not a partnership) and holds directly at least 25% of the capital of the company paying the dividends
  > 10% withholding tax in all other circumstances
- Moreover, the Cyprus company shall be liable to 12,5% corporation tax on its worldwide income.

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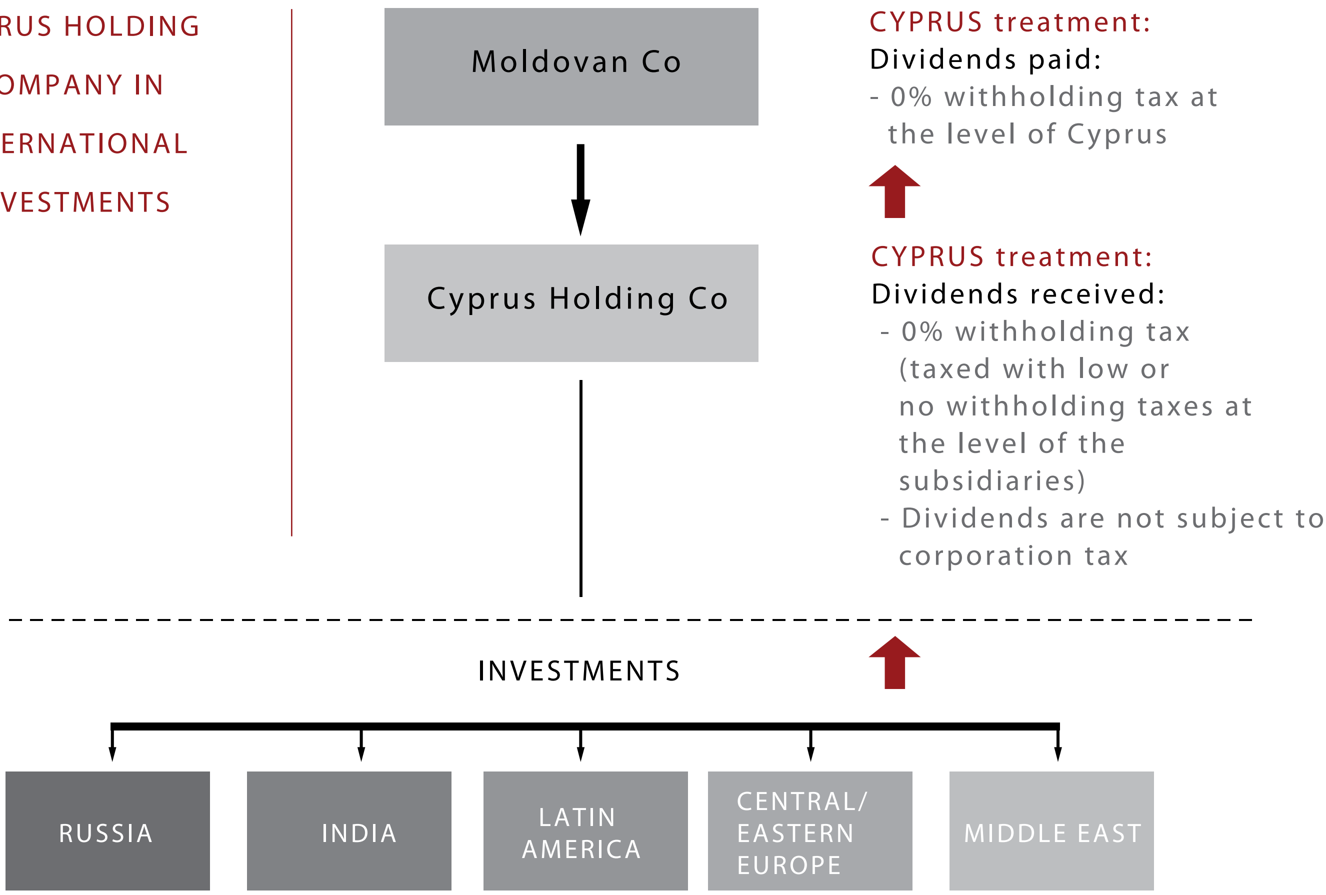
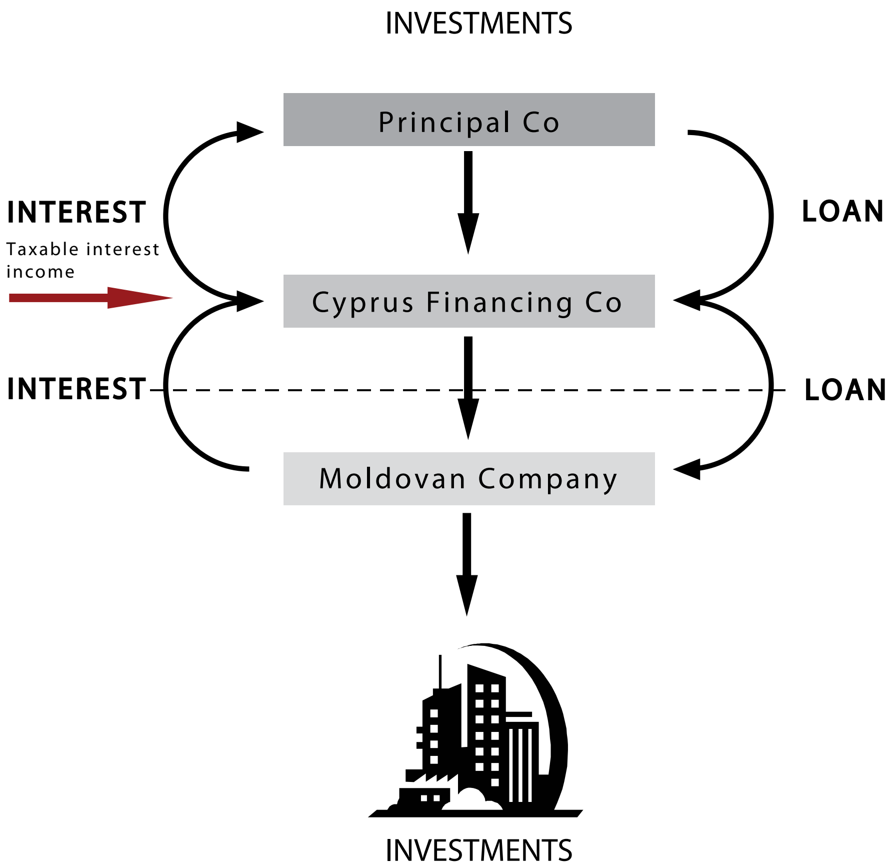
CYPRUS HOLDING COMPANY IN INTERNATIONAL INVESTMENTS



REGION	DIVIDENDS	INTEREST	Royalties
Russia	5/10%	0%	0%
India	10-15%	0/10%	15%
Latin America	0-30%	0-30%	0-30%
Ukraine	0%	0%	0%
Middle East	0-15%	0-15%	0-15%
Central Eastern Europe /	0-15%	0-15%	0-15%
Balkans			

- From an international investment perspective, Moldovan companies, through the use of Cyprus, obtain further access to more destinations with which they do not maintain a treaty themselves. The exploitation of such additional targeted markets can result into further investments based on a global scale.
- Cyprus can constitute a ‘passport’ for such investments to Central and Eastern European markets, Balkan markets and markets to the East and West.

CYPRUS BACK-TO-BACK FINANCING



- CYPRUS FINANCING COMPANY
  > Financing the group companies in two ways:
  (a) by way of debt or
  (b) working capital;
  > Efficient accumulation of interest income.

- CYPRUS LEGISLATION
  > Interest income received from intra-group lending bears 12,5% corporation tax;
  > No thin cap rules / no debt-to-equity restrictions;
  > No Transfer Pricing legislation in place, however, the arm's length principle applies;
  > Interest paid to non-resident creditors is not subject to any withholding taxes.

- BACK-TO-BACK FINANCING
  > Minimum interest profit margin accepted by the Cyprus tax authorities is as follows:

Less than Eur 50mln	0.35%
Eur 50mln - Eur 200mln	0.25%
Over than Eur 200mln	0.125%

- Cyprus companies are beneficially used as finance investment vehicles suitable for financing group of companies and resulting in an efficient accumulation of interest income.

- In the figure above, a Cyprus company is the subsidiary of a foreign company, and the parent company of a Moldovan company. A loan from the Parent company can be passed down to the Moldovan company with respective interest received.

- In Cyprus, interest income received from intra-group lending is liable to 12,5% corporation tax and has no thin capitalisation rules or debt-to-equity restrictions in place. There is also no transfer pricing legislation in place, however, the arm's length principle must be applied meaning that the interest rate needs to be determined at a market value as if these parties were unrelated. Additionally, interest paid to non-resident creditors is not subject to any withholding taxes.

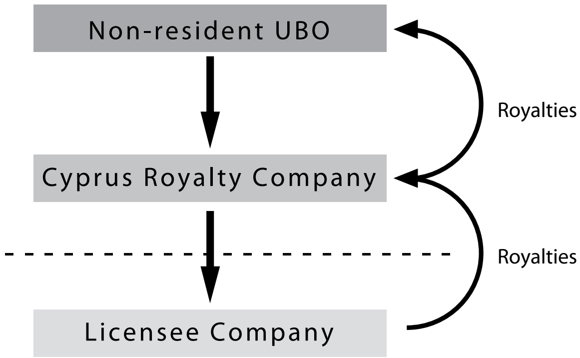
CYPRUS ROYALTIES COMPANY

Cyprus Royalties Company

- Sublicensing of intellectual property rights

Cyprus Law

- Net royalty profits are subject to 12,5% corporation tax. From 01 January 2012, 80% of any income (net of any direct expenses) generated from Intellectual Property owned by Cypriot resident companies will be exempt from Corporation tax;
- Gains on the sale of shares of the Royalty Company is exempt from corporation tax;
- Royalty payments are exempt from any withholding taxes provided that these rights are exercised outside Cyprus.



- A Cypriot sublicensing company may be interposed between the non-resident beneficial owner company and the licensee company which will exercise the rights on the intellectual property obtained. Royalty payments are received with respect to the licenses on the intellectual property rights which are granted.

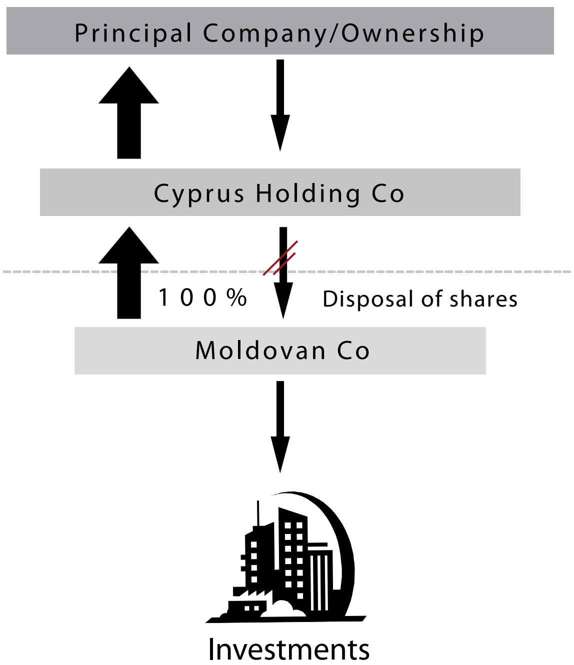
- In Cyprus, the net royalty profits are subject to 12,5% (10% up to the year 2012) corporation tax while any gains deriving from the sale of shares of the Royalty Co are exempt from such corporation tax. Though, new tax incentives were approved by the House of Representatives and are effective from 01 January 2012. According to the new tax incentives:

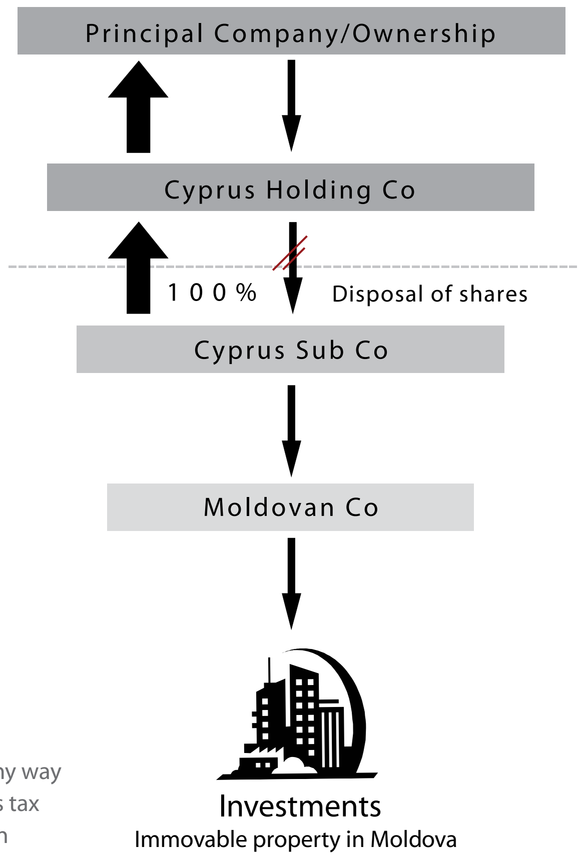
  > 80% of any income(net of any direct expenses) generated from Intellectual Property(IP) rights will be exempt from corporation tax.

  > 80% of profit generated from the disposal of IP by Cypriot resident companies(net of any direct expenses) will be exempt from corporation tax.

- Furthermore, royalty payments are exempt from withholding taxes in Cyprus provided that the rights are exercised abroad and not in Cyprus.

CAPITAL GAINS TREATMENT





CYPRUS treatment:
Disposal of shares are not in any way taxable under the capital gains tax or corporation tax provisions in Cyprus (provided that no immovable property situated in Cyprus is involved).

DTT treatment:
Gains deriving from the disposal of shares in a company exceeding 50% of their value from immovable property situated in other contracting state may be taxed in that other state.

- Cyprus companies investing in Moldova are also in a position of obtaining further business benefits from the capital gains treatment.
- Based on the Double tax treaty between the two countries, capital gains resulting from the disposal of shares deriving more than 50% of their value from immovable property situated in the other contracting state, may be subject to capital gains tax in that other contracting state.
- In Cyprus, capital gains derive from the disposal of shares are not subject to capital gains tax if no immovable property situated in Cyprus is involved.

CYPRUS SHIPPING: NEW TONNAGE TAX SCHEME

- Cyprus has obtained a new tonnage tax scheme since March 2010 and it has been decided to be enforced for the year 2010 (inclusive) and onwards.
- The new tonnage tax scheme has been approved by the European Commission, for the first time for an EU member state with an Open Registry.
- This new Cyprus tonnage tax combines all the favourable provisions of all European and non-European shipping taxation systems.
- Under the new scheme an option for taxation is granted to the companies concerned. They can choose to be taxed on the net tonnage of the vessel or on the actual profits of their maritime transport activities.
- Under the new scheme, the benefits, so far, applicable to ship owners and ship managers of Cyprus flag ships are also extended to the owners and charterers of ships with foreign flags besides Cypriot, provided they are tax residents of Cyprus.
- Qualification requirements need to be fulfilled in order to obtain all the tax benefits granted by the new tonnage tax scheme.

Tax benefits under new tonnage tax scheme

> No income tax and taxation of profits for the qualified ship owner and charterer
> No income tax for the qualified ship manager
> Tax free dividends from profits at all levels
> Gains deriving from the disposal of or transfer of such vessels or the shares of the ship owning company will be tax exempt
> The emoluments of officers or of the crew on board of such qualified vessels are exempt from income tax
> No tax imposed on interest earned (excluding investment capital)
> Income tax exemption may be granted regarding dividends from qualifying activities

Qualification requirements:

(a) The vessel must fall under the relevant definition of “qualified ship”

(b) The person (individual / company) must fall under the relevant definition of “qualified person”

(c) The activities of the vessel concerned need to comply according to the definition of “qualifying shipping activity”.

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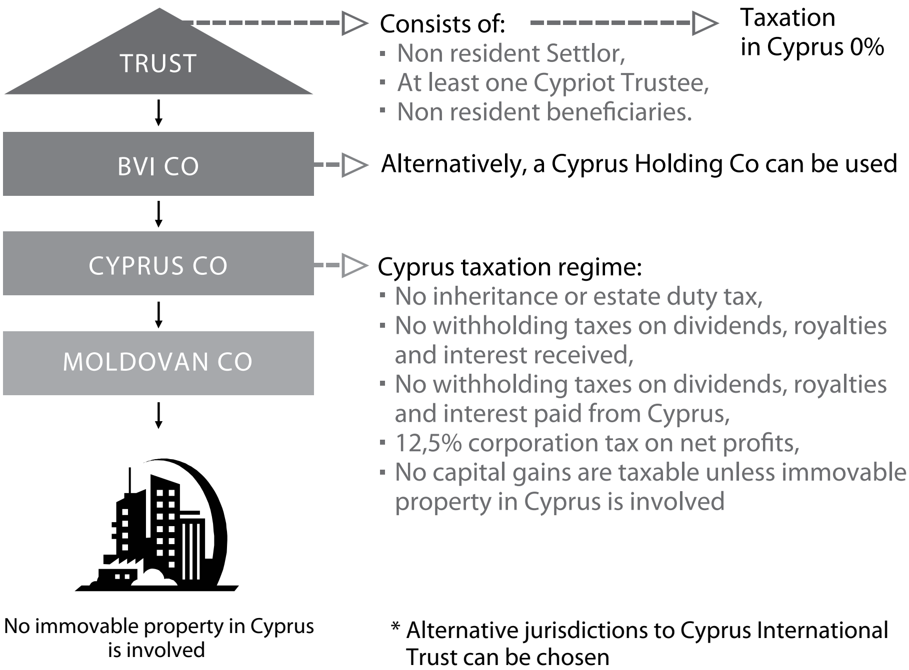
CYPRUS INTERNATIONAL TRUST

- Cyprus International Trusts are considered as efficient wealth management instruments and instruments for the protection of assets.
- The assets and interests of the beneficiaries of the Cyprus International Trust are safeguarded from the various challenges of every day life i.e. divorces etc.
- Cyprus International Trusts also serve successfully the purposes for the securing of inheritance.
- Its duration is not subject to any limitation period.



THE BENEFITS OF THE CYPRUS INTERNATIONAL TRUSTS:

- Exemption from income tax, capital gains tax, special contribution or any other taxes in Cyprus (provided that no immovable property situated in Cyprus is involved),
- No estate duty or inheritance tax in Cyprus,
- There are no reporting requirements in Cyprus,
- Dividends, interest or royalties received by an International Trust from a Cyprus company are not taxable and not subject to any withholding tax,
- There are no exchange control restrictions,
- Trust capital received in Cyprus by a foreigner resident or retired in Cyprus is not taxable on the trustee.

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COLLECTIVE INVESTMENT VEHICLE

MOLDAVIAN / INTERNATIONAL INVESTORS

ICIS forms:
- International Variable Capital Co
- International Fixed Capital Co
- International Unit Trust Scheme
- International Investment Limited Partnership

- No withholding tax on dividends, interest and royalties distributed from Cyprus

Cyprus level:
- Dividends received or paid from Cyprus are not taxed
- Wide Double Tax Treaty network
- Favourable investment conditions

INTERNATIONAL FUND

- Cyprus Securities and Exchange Commission regulates ICIS;
- Marketed to the general public;
- Addressing solely experienced investors
- It can be a private fund consisting up to 100 investors;
- Or public fund exceeding 100 investors and a Manager with an EU license required.

- No or very low withholding tax on dividends, interest and royalties received

Global Investments [in bonds, shares, debentures, titles, securities etc]

RUSSIA | IND | Latin America | UKR | Middle East | Central Eastern Europe | Balkans

REGION	Dividends	Interest	Royalties
Russia	5/10%	0%	0%
India	10-15%	0/10%	15%
Latin America	0-30%	0-30%	0-30%
Ukraine	0%	0%	0%
Middle East	0-15%	0-15%	0-15%
Central Eastern Europe / Balkans	0-15%	0-15%	0-15%

- Cyprus is an ideal jurisdiction for structuring also international investments in bonds, securities, shares, debentures and other investment instruments.
- A good way of structuring investments through Cyprus is the establishment of an international investment fund in Cyprus. Collective Investment Funds can proceed into investing not only in investment instruments in Moldova but almost in every part of the world i.e. India, Latin America, China, Middle East, Central and Eastern Europe, with significant benefits.
- The tax benefits available under the Cypriot jurisdiction and the advantage of the DTTs are also available to the International Funds.

CYPRUS–MOLDOVA: CONCLUSION

- Cyprus is a contemporary country offering a unique European base for international business companies. Cyprus is located in a key geographical position suitable for investments in Middle East, Europe, Asia and Africa.
- It is increasingly becoming an attractive destination for structuring international investments with unique benefits. It enjoys full compliance with OECD Model Tax Convention and fully applies the EU Directives.
- The new Treaty in force with Moldova aims, above all, at increasing the cooperation and investments between the two countries.

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