Foreign investors flock to Cyprus

Tax laws on the island nation make it a popular place to invest and are fuelling the country's economic growth.

Christodoulos G. Vassiliades & Co.LLC, established in 1984 and based in Nicosia, Cyprus, is a broad based legal practice entrusted by major corporations with their legal matters. The firm has developed expertise in both domestic and international law to private and corporate clients in the corporate, intellectual property, trust, mergers and acquisitions and commercial legal fields and has grown into one of the most reputable law firms in Cyprus. ACQ spoke to Mr Christodoulos G. Vassiliades, the Managing Director.

What changes has this tax legislation brought?

The tax legislation of Cyprus is unique as a European tax system in that it focuses on low tax rates and provides for a favourable tax treatment for foreign investors aiming at international business expansion to the neighbouring regions such as Central and Eastern Europe, Asia and the Middle East.

For the past two years, Cyprus has reinforced the range of tax incentives offered to international and local business starting with improvements in taxation laws, internally and further development of the network of international bilateral agreements, externally.

At a national level, Cyprus has made successful attempts to create a simplified tax system which will result in greater efficiency and effectiveness. This progress is best exemplified in the area of interest on late tax payments which has gone down from 9% to 5.35% in 2009 and recently, in January 2011, to 5%.

Cyprus is also extremely active for the past two years in the international arena of bilateral tax agreements. Its network of double tax treaties has been enriched with new agreements concluded with Denmark, Slovenia, the Czech Republic, Kuwait, Qatar, Russia and the United Arabic Emirates. Additionally, it was successfully removed from the Italian 'black-list' and has obtained a commitment from the Russian Federation for removal from the Russian 'black-list'.

Are the changes positive for economic growth?

According to the IMF figures the economy of Cyprus averted the international financial crisis of 2008 until 2009. Ever since, the Cyprus government has committed with the EU and the IMF to take all the appropriate measures needed to take Cyprus out of the recession it has entered into.

The positive results were depicted during the second semester of 2010 as Cyprus has returned to positive growth rates amounting to 0.6% for that semester, closing the year 2010 with a financial growth rate of 0.8%.

The Ministry of Finance has identified the major components which contributed to this positive growth rate and among them is the establishment of foreign companies and attraction of foreign investments to the island. It is also important to mention that during this period between 2008 and 2010, the overall growth rate of Cyprus ranked fourth within the EU.

The growth rate forecast for the year 2011 is estimated to reach 1.8% according to the IMF and the Central Bank whereas the Ministry of Finance expressed a more conservative approach, placing their estimated growth at 1.5%. The capacity for greater achievements relies on foreign investments and the good management of the national sources of income.

Is it easier to carry out a merger or an acquisition when the taxes are favourable like this?

Mergers and acquisitions enjoy a favourable tax treatment in Cyprus as they benefit from the EU Merger Directive on all cross border transactions. The legislation of Cyprus provides for the tax treatment of the qualifying mergers and acquisitions that fall under the definition of 'company reorganisations'.

Such reorganisations enjoy an exemption of profits from corporate tax, an exemption from stamp duties and capital gains tax exemption on profits deriving from the transfer of immovable property in the course of a reorganisation. A transfer fees exemption is granted for the transferred assets. Undoubtedly, Cyprus maintains a highly favourable mergers and acquisitions environment with no tax liabilities arising.

How do the tax laws in Cyprus compare to those elsewhere?

Cyprus is the lowest tax jurisdiction in the EU with corporation tax amounting to 10%. Throughout the years, Cyprus has managed to deploy a successful and well equipped services industry. The means available to achieve this were the development of tax and the financial incentives provided, attracting foreign investments. Unlike other EU member states, Cyprus was determined to continue encouraging investments and business set up on the island even during the recent financial crisis. Most countries approached the financial recession with the adoption of heavy taxes and harsh tax measures. On the contrary, Cyprus relied on encouraging foreign investments and the improvement of the investment climate nationally and internationally.

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