Cyprus for inbound and outbound investments in Russia

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Introduction

Cyprus has long been the prime springboard for inward and outward investments in Russia. In effect, Cyprus has served as an efficient gateway for Russians into Europe and for other investors into Russia.

Why Cyprus for Russia?

Cyprus is a reputable international business centre, offering a platform through which foreign investors conduct their investments and transactions. Furthermore, Cyprus has an exceptionally attractive tax regime (especially for holding companies) and provides access to benefits of its good double tax treaty network and relevant EU Directives.

Furthermore, Cyprus and Russia have always had strong cultural, religious, business, economic and political ties.

The current Double Tax Treaty (**DTT**) that exists between Russia and Cyprus is considered to be one of the best, if not the best, that Russia has with any other country. Amongst other, the provisions of this DTT enable the flow of funds between the two countries with a minimum tax leakage along the way.

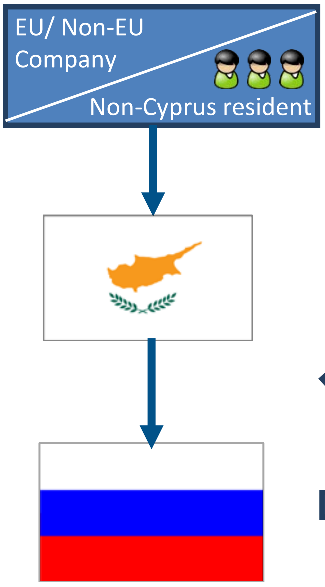
Since 1982 Cyprus and the USSR have had an excellent DTT. This DTT continued to apply with Russia until 1999 when a new DTT was entered into force between Russia and Cyprus, which continued to retain most of the favourable elements of the previous DTT. A new Protocol to this DTT has come into effect as from 1 January 2013. Details of the main provisions to the current DTT along with a high level comparison of the DTT that Russia has with other prime EU jurisdictions are set out in the ***Appendix****.*

Tax aspects

- Compared to other prime EU jurisdictions that also have a good DTT with Russia, the Cyprus-Russia DTT remains one of the best with more simplified conditions and is tested as it has been used longer and has proven to be workable. Furthermore, the Cyprus tax regime is much simpler and more attractive than other prime EU jurisdictions
- Payments from Russia to Cyprus get the advantage of reduced or eliminated Russian withholding taxes (WHT) through access to the unique DTT that the two countries have
- At the level of Cyprus the two main incomes of a holding company are tax exempt (i.e. dividend that derives from Russian operating subsidiaries as well as profit from sale of shares). Other revenue related profit is taxable in Cyprus at the flat rate of 12,5%
- Payments from Cyprus to its non-Cyprus resident shareholders (companies or individuals) are not subject to any Cyprus withholding taxes. This provision is within the domestic Cyprus legislation and as such there are no complications in having offshore companies (like BVI) or Trusts as direct shareholders of Cyprus companies
- Confidentiality on the identity of beneficial shareholders can be secured through the use of nominee / trustee shareholders at the level of the Cyprus Company

Cyprus for Russia through visual examples

Inward Investments into Russia via Cyprus



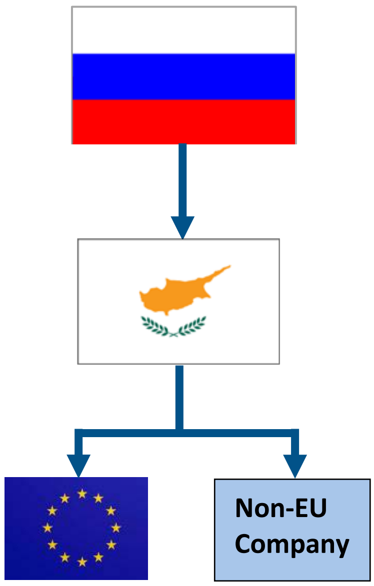
Dividend: 0% Cyprus WHT
Interest: 0% Cyprus WHT
Royalties: 0% Cyprus WHT

No Cyprus taxes as dividend and capital gains are tax exempt
(Very low tax on revenue profit, active interest and royalties)

Dividend: ~~15%~~ → 5% RU WHT
Interest: ~~20%~~ → 0% RU WHT
Royalties: ~~20%~~ → 0% RU WHT

By access to Russia – Cyprus DTT

Outward Investments from Russia via Cyprus



Dividends paid from Cyprus to Russian parent company may qualify for the Russian participation exemption

Dividend: 0% Cyprus WHT
Interest: 0% Cyprus WHT
Royalties: 0% Cyprus WHT

No Cyprus taxes as dividend and capital gains are tax exempt
(Very low tax on revenue profit, active interest and royalties)

Dividend: 0% or reduced WHT
Interest: 0% or reduced WHT
Royalties: 0% or reduced WHT

Through access to DTT or EU Directive benefits

WHT = Withholding tax
DTT = Double Tax Treaty

APPENDIX

Russian DTTs compared

A comparison of the DTT's concluded by the Russian Federation and certain prime EU holding jurisdictions that are considered to have a good DTT with Russia.

	Cyprus	Luxembourg*	Switzerland	Malta*	Netherlands
Dividend WHT	5% if €100,000 investment (else 10% WHT)	5% if 10% holding **AND** €80,000 Investment (else 15% WHT)	5% if 20%holding **AND** CHF 200,000 investment (else 15% WHT)	5% if 25% holding **AND** €100,000 investment (else 10% WHT)	5% if 25% holding **AND** €75,000 investment (else 15% WHT)
Interest WHT	0%	0%	0%	5%	0%
Royalty WHT	0%	0%	0%	5%	0%
Capital Gain (for property rich Russian companies)	Taxed only at the level of the seller/alienator (i.e. Cyprus) Note: This preferential provision ceases to exist as from January 2017	Taxed in Russia **with immediate effect**	Taxed in Russia **with immediate effect**	Taxed in Russia **with immediate effect**	Taxed ONLY at the level of the seller/alienator
Limitation of Benefits (treaty abuse)	**None** (except for companies that are NOT incorporated in Cyprus or Russia	Applicable in **ALL** cases	Applicable in **ALL** cases	Applicable in **ALL** cases except substantive operations	**None** as per existing DTT

*New Protocol not yet in force (New LUX-RU Protocol enters into force as from 1 January 2014)

NOTES:

The above is intended to provide a brief guide only. It is essential that appropriate professional advice is obtained prior to the implementation of any corporate actions in order to achieve the required result. Totalserve Management Ltd will be glad to assist you in this respect. Please do not hesitate to contact us.