

CYPRUS – THE NEW GATEWAY TO EUROPE

* by Till Neumann, IMCM, the managing partner at Citizen Lane GmbH in Zurich

Before the near-collapse of its economy in the aftermath of the financial crisis of 2008-9 and the harsh terms imposed on its banks by the European Union of which it is a member, Cyprus had been gradually opening its doors to global – largely Russian – business for decades. The large number of double taxation agreements and treaties it had signed with the world's most important jurisdictions was a clear indication of the country's arrival on the global stage. As of today, the island state has more than 60 double taxation agreements with countries such as China, India, Russia, Switzerland, the United Arab Emirates, the United Kingdom and the United States of America.

Resolving to emerge from the crisis and shore up its socio-economic structure, Cyprus overhauled its immigration system in 2012 and made other efforts to diversify its economy. As a result of its efforts, the country is now an attractive destination for foreign capital and for investors who want to become citizens of the European Union.

A SERVICE-BASED ECONOMY

As one of the most well-recognised international financial centres in the European Union, Cyprus has a mainly service-based economy. Tourism, of course, is an important source of income for the Mediterranean island, but its natural gas and construction sectors have grown rapidly in recent years and now contribute something to the country's GDP as well. All this has been good for economic diversification.

Despite its recent troubles, Cyprus has retained a high standard of living and has stayed in roughly the same place on the United Nations' Human Development Index, occupying 31st place in 2011 and 33rd place in 2016. The index takes account of life expectancy, education and income per capita in each country and states that every country in the top 48 is a place of 'very high' human development. Cyprus is also ranked 23rd in the world on the Economist Intelligence Unit's where-to-be-born index (previously called the quality-of-life index). According to the Heritage Foundation, Cyprus is an attractive "property and investment destination" because of the relatively high level of economic freedom it offers people.

Although the country's recent history has been plagued by financial turmoil, the island nation has managed to bounce back to become stronger than before. The economy is recovering and is on a firmer footing than previously. In April the International Monetary Fund published a noticeably optimistic statement about the health of the Cypriot economy. It said: "Since exiting the IMF programme one year ago, Cyprus's economic recovery has gathered momentum, banks' liquidity positions have improved, the restructuring of non-performing loans (NPLs) has accelerated and the fiscal primary surplus has increased."

Better fiscal management, economic momentum, political stability and an upbeat outlook have made

Cyprus an attractive destination for foreign investment and any investor who wants to be the citizen of an EU country as well as his own. The island's government has reformed key parts of the tax, trust and immigration regime to support growth, stability and further diversification over the coming decades.

THE CYPRIOT TAX REGIME

Cyprus obeys EU tax regulations and also has a relatively liberal tax planning regime by global standards. Cypriot law allows the Cypriot tax authorities to credit taxes paid abroad in countries that have no double-tax treaties with Cyprus.

COMPANY TAX LAW

In general, companies are taxed at 12½% on their profits. Additionally, a Special Contribution for Defence (SCD) is levied on tax-resident companies. A non-Cyprus tax-resident company is only taxed on income accrued or derived from a business activity that is carried out through a permanent establishment in Cyprus and on certain income arising from sources in Cyprus. Non-resident companies are exempt from having to make an SCD. A company is considered 'resident' in Cyprus if it is managed and controlled there. Foreign taxes paid can be credited against the corporation tax liability. There are tax exemptions for profits from dividends, interest, profits of a foreign permanent establishment, forex profits and the sale of securities.

INDIVIDUAL TAX LAW

Meanwhile, the maximum marginal tax rate for an individual resident is 35%. To be considered a tax resident in Cyprus, an individual must spend more than 183 days in any one calendar year on the island. There is no tax on dividends, interests, wealth or gifts and there is no inheritance tax. Pensioners benefit from a favourable tax regime as they pay a 5% flat-rate tax and even 0% on a one-time pension gratuity. Furthermore, individuals who have not been resident and relocate to work in Cyprus may benefit from income tax exemptions of 50% for a period of 10 years if they earn more than €100,000 per annum (there is a similar tax plan for individuals with less income). Special Contributions for Defence are levied on dividends and interest income.

RESIDENT NON-DOMICILED PEOPLE IN CYPRUS

The Cypriot parliament passed a law in July 2015 to make the island a more attractive destination for high-net-worth individuals. Under the new law, non-domiciled Cyprus residents do not need to pay SCD. An individual is considered to be non-domiciled when he was not deemed a tax resident in Cyprus for more than 17 out of the last 20 years.

Because there is no income tax to pay on dividends and interest income, no tax to pay on gains arising from the disposal of investments, and nil/reduced withholding tax to pay on income received from abroad, many people want to reside in Cyprus.

CITIZENSHIP LAW REFORM

The sunny shores of this idyllic Mediterranean country are beckoning ultra-high-net-worth individuals (UHNWIs) from across the globe more vigorously than ever before. The Cypriot Government launched a far-reaching overhaul of the immigration system back in 2012. In doing so, it presented foreigners with a new way to gain citizenship by making investments and by the additional ownership of a residential property.

Other countries give citizenship to people without any scrutiny if they 'marry in'

This citizenship-by-investment programme is now widely regarded as one of the best in the world in terms of benefits for the new citizens and of value-for-money.

CITIZENSHIP BY INVESTMENT IN A SHRINKING WORLD

Public discussion about whether it was right or not to "buy a passport" was very heated at one time, but has now abated. Parallel to developments in the financial sector, regulations for applicants to citizenship schemes have become more severe over time and well-managed citizenship programmes in reputable countries are now broadly accepted as a part of global life.

Some people reprimand the passport regimes of other countries for fear that they might undermine their own countries' visa policies, but such criticisms are only partly justified because the people who apply to join citizenship programmes undergo conscientious 'due diligence' assessments which go far beyond the visa checks carried out by the countries that are criticising those programmes. Ironically, critics of these schemes neglect to mention the fact that other countries give citizenship to people without any scrutiny if they 'marry in.'

THE CYPRIOT CITIZENSHIP PROGRAMME

In order to facilitate investment, Cyprus overhauled its citizenship regulations last year. At one point the programme required an individual investor to put up at least €5 million, and as an alternative it allowed a group of five to invest at least €12½ million between them, but a minimum of €2½ million for each investor. This caused delays because investment consultants had to piece together groups of five applicants who did not know each other. The Government has now abolished the cumbersome collective option and reduced the threshold to €2

million for everyone – a deduction of 20% compared with the old collective scheme. It also now allows the investor's parents to apply for citizenship in Cyprus as long as they have purchased a permanent residence worth at least €500,000.

As a result of the financial crisis, Cyprus Popular Bank went bankrupt. Many wealthy Russians and others had lost assets there, so by way of slight compensation the Government allowed each one who had lost €3 million to apply for citizenship. This policy has now ended and the door has been closed.

Besides these modifications, the rest of the Cypriot citizenship scheme remains unchanged. Investors seeking citizenship and access to the European Union must invest at least €2 million in one of four forms of investment:

- government bonds;
- financial assets of Cypriot companies;
- land, real estate or infrastructure projects (residential or commercial); or
- partnership or full ownership of a local business.

Any combination of the above-mentioned investments will also allow a foreign investor to apply for citizenship, whereby only a maximum of €500,000 may be invested in bonds he purchases directly from the Government on the primary market.

While meeting these criteria, the investor must also prove that a local property has been purchased to serve as his permanent residence. The value of this property must be at least €500,000. Value added tax of 19% applies on real estate, but only 5% (or more, in certain cases) applies on the first property.

Of course it is inevitable that the citizenship applicant has to pass the Government's 'due diligence' assessment. The investor in question must hold his

investment for a minimum of three years and the residential property indefinitely. Non-compliance with these rules will lead to annulment of citizenship and passports.

Because, in essence, Cyprus' citizenship scheme requires just an investment and no donation to a government fund, the acquisition of citizenship in Cyprus offers the investor exceptional value for money and unprecedented access to Europe (European Union and European Free Trade Area countries). EU citizens can, of course, reside and work not only in the European Union but also in Iceland, Norway and Switzerland.

REAL-ESTATE INVESTMENTS IN CYPRUS

Earlier this year, Harris Georgiades, the Cypriot minister of finance, claimed that the Government's top priority was the health of the business environment and a resurgence in the country's ability to attract investment. Investments in property are likely to help his agenda more than anything else. Real estate has always been a bright spot in the Cypriot economy, attracting foreign direct investment in large volume over the years, although an influx of overseas capital caused inflation of prime real estate prices in the first decade of this century. In recent years the property market has become more fairly valued, due to heavy price reductions of about 20-30% since the world financial crisis began in 2008/2009. Last year, property prices almost stopped falling and indeed went up by 0.1% in the third quarter.

Trends in the property market differ from place to place in Cyprus. The price index in Limassol has been stable since the beginning of 2015 and has recovered slightly since then. The region around Famagusta, meanwhile, seems to be just about to hit the bottom. The countrywide outlook is fairly optimistic, according to the Cypriot Central Bank.

Recent changes to the property tax scheme have made real estate investments more attractive. Immovable Property Tax has been abolished as from 1 January and transfer fees have been reduced permanently to 50%. The luxury real estate market in Cyprus has been overpriced because of the citizenship programme, the reason being that real estate developers have built properties and have been able to sell them to foreign immigrants for €2½ million because that is the necessary threshold to satisfy the citizenship programme. At Citizen Lane, we circumvent this problem by advising our clients to buy many properties as a proof against falling prices in the future.

Cyprus is a small place and the surge in immigration, encouraged by the island's economic recovery and tax incentives, will probably allow property prices to recover in the coming years. Thoughtful and well-selected investments might therefore escape the threat of depreciation in price.

With these sweeping changes, the Government intends to attract more investors to invest, live, work and do business on the island. Cyprus offers one of the most affordable citizenship-by-investment schemes in Europe. Its access to the EU, its powerful passport, its re-stabilised economy and its tax regime makes it an ideal choice for the globe-trotting entrepreneur.

** As a leading boutique consultancy and law firm, Citizen Lane focuses its efforts on investor migration and offers meticulous citizenship and residence planning for ultra-high-net-worth individuals. Our broad network in Cyprus enables us to offer off-market investments in business and real estate. Citizen Lane is a member of the Investment Migration Council, the industry's leading migration association. We look forward to receiving your inquiry on cyprus@citizenlane.ch www.citizenlane.ch*

