

# Cyprus Returns to the ‘Premier League’ of Trust Jurisdictions

The island now has the most modern and favourable trust regime in Europe

**T**he long-awaited reform of the Cyprus International Trusts Law – a much-needed initiative – finally became reality last month with the passing of the International Trust (Amending) Law of 2011 by the House of Representatives.

When enacted in 1992, the Cyprus International Trusts Law gave Cyprus a ‘state-of-the-art’ international trusts regime, with excellent tax mitigation and asset protection features. However, the world has changed considerably in the intervening 20 years. New opportunities and investment practices have emerged, which the original law did not take into account. As a result, while the basic structure provided by the International Trusts Law remained sound, it required updating to adapt it to the needs of investors today and in the coming years.

When the 1992 law was drafted, the availability of international trusts was restricted to non-resident settlors in order to prevent tax avoidance by Cyprus residents. It was not clear whether settlors could relocate to Cyprus after establishing a Cyprus International Trust and the resultant uncertainty undoubtedly discouraged many of them from doing so. The amending law provides only that the settlor may not be a Cyprus tax resident in the year preceding the year of creation of the trust. It also removes the prohibition on resident beneficiaries and on ownership of immovable property in Cyprus, thus avoiding difficulties that might otherwise arise if the settlor or any beneficiary were subsequently to take up residence in Cyprus.

Other new provisions, which are similar to the corresponding provisions of Jersey and Guernsey law, give settlors great flexibility to adapt to changes in circumstances or objectives.

The 1992 law restricted the maximum life of international trusts to 100 years from the date on the trust came into existence. However, this restriction on the maximum life of trusts came to be seen as a disadvantage and several jurisdictions have removed any restriction on the duration of trusts. The amended law follows this practice, by providing that

from the date the amendment takes effect and subject to the terms of the trust, there will be no limit on the period for which a trust may continue to be valid and enforceable.

The amended law gives trustees the same investment powers as those of an absolute owner, allowing them to invest in a broader range of investments for the best interests of the beneficiaries. It also removes any doubt regarding trustees’ ability to invest in Cyprus by including a new section specifically empowering trustees to invest in movable and immovable property both in Cyprus and overseas, including shares in companies incorporated in Cyprus. The abolition of the prohibition on investment in Cyprus will remove an obstacle to inward investment and provide a boost to the real estate market, which has stagnated since the onset of the global economic crisis.

The amended law addresses a number of perceived deficiencies in the trust regime in Cyprus, bringing it back to the cutting edge internationally. The amendments have been welcomed by practitioners and business leaders in Cyprus and abroad, and have received extensive positive comment in the local and international professional press. The International Trusts Law as amended ensures that settlors and beneficiaries enjoy the highest possible degree of protection and gives Cyprus the most modern and favourable trust regime in Europe and restores it to the ‘premier league of trust jurisdictions’.

Our firm has been at the forefront of the movement to modernise the International Trusts Law, having taken the initiative to identify and draw attention to the deficiencies in the existing law. With the overwhelming support of all the relevant professional bodies we have taken the lead in the modernisation process and have assisted with the drafting of the amendments, consultation with experts and interested parties in Cyprus and abroad and discussions with officials in Cyprus to secure their speedy enactment. We are delighted that our efforts have come to fruition and proud to have been involved in giving Cyprus an International Trusts Law that will stand it in good stead for some years to come.



By Andreas Neocleous

The amended law brings the trust regime in Cyprus back to the cutting edge internationally