

Private Client Tax

Jurisdictional comparisons

Third edition 2015

Foreword John Rhodes Stonehage Law Ltd

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THE EUROPEAN LAWYER
REFERENCE

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Published in April 2015 by Thomson Reuters (Professional) UK Limited
trading as European Lawyer Reference Series
Friars House, 160 Blackfriars Road, London, SE1 8EZ
(Registered in England & Wales, Company No 1679046.
Registered Office and address for service:
2nd floor, Aldgate House, 33 Aldgate High Street, London EC3N 1DL)

A CIP catalogue record for this book is available from the British Library.

ISBN:9780414039483

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Foreword

John Rhodes Stonehage Law Ltd

Welcome to the third edition of *Private Client Tax* in the European Lawyer Reference Series. In the foreword to the first edition in 2010, I recounted how, against the advice of my peers, I had opted for a career on the private client side of the City of London law firm I joined after studying law at Cambridge. This proved to be an immensely stimulating choice, opening a world of challenging clients and problems with which I am still engaged some 47 years later.

Anyone opening this volume needs no convincing about the relevance and excitement of acting for wealthy private clients. Amongst them we count the wealth and job creators, whose role in our societies has never been more important than today.

Politicians spend at least as much time in aeroplanes as private client lawyers, but swept along in their motorcades from one meeting to another they fail to pick up the essential message that what western economies need at this stage of the cycle is less government interference, regulation and taxation and more stimulus from entrepreneurs. This is despite the clear evidence of history that countries adopting a tax-cutting, smaller government approach by and large provide more choice and a better standard of living for their citizens. In the foreword to the second edition in 2012, I questioned whether the policies advocated by François Hollande would serve his country well. The outcome is clear whatever statistics you choose – the French economy, his popularity rankings, or the number of his countrymen who have recently brought their families and their ingenuity across the Channel to England.

The simple truth is that western governments have become addicted to spending more than they raise in taxes. This, combined with dramatic increases in longevity, is a toxic brew, leaving them with two obvious solutions: increasing taxes or cutting expenditure, neither of which appeal to their electorates. But whatever combination of these two main policy strands governments adopt, the third weapon in their arsenal is making dramatic improvements in tax collection. In the years since our first edition was published, the focus on this last subject has been unrelenting, with the US authorities taking the lead after finally and very publicly losing patience with those who brokered the “banking secrecy” model. A new era of transparency has been ushered in via multiple Tax Information Exchange Agreements, complex Foreign Account Tax Compliance Act regulations and headline-grabbing penalty settlements paid by Swiss and other banks for encouraging past tax evasions.

All this was predictable, and indeed predicted by me and others from the early 1990s onwards. Some banks have responded by significantly reducing

the services provided for wealthy international families. All such families have to rethink their objectives and their strategies depending where they and their assets are located. One function of this volume is to enable such families and those who advise them to keep abreast of developments in this respect.

One general comment I would make is that, whilst it is still possible for families to organise their affairs so they quite legitimately pay well under the standard level of tax levied on permanent residents of the main western jurisdictions, it will undoubtedly become increasingly difficult to maintain such a lifestyle. This is a result not only of the greater transparency I have already mentioned, but also of hardening attitudes even in those jurisdictions which have traditionally welcomed foreign wealth, such as the UK and Switzerland. In the 2014 UK Autumn Statement, the cost of the Remittance Basis Charge for non-UK domiciled taxpayers was increased, for those who have been resident in 17 of the past 20 years to £90,000 a year. Already we see clear evidence that only the extremely rich are prepared to pay such an annual levy. In Switzerland, the November 2014 referendum on the forfait has allowed cantons to continue that regime if they so wish, but the mere fact that the question was ever put to a country-wide vote underlines a general perception that too much wealth has become concentrated in the hands of too few. This same theme was highlighted by President Obama in a recent major speech and I am told also lies behind current political unrest in Hong Kong, where wage earners can no longer afford to live centrally.

Does all this mean that if the very wealthy are to head-off a concerted attack they should willingly contribute more generously towards their share of the social contract?

As before, the authors of our different chapters are all experts in their own jurisdictions. One sure sign of competence is an ability to distil a complex subject down to its essentials. That you will find here. None of the chapters however is intended to provide more than an overview: any detailed case will have to be analysed on its own facts. But the list of authors here provides a ready guide to those who are well able to undertake that task, jurisdiction by jurisdiction and across jurisdictions too.

The publishers and I were delighted with the enthusiastic reaction received to the first and second volumes, which has given us the confidence to move ahead with the third. I have no doubt it will be similarly well received. Thanks are due to all our contributors for making time in their busy schedules to enable us to do this.

John Rhodes
London
March 2015

Cyprus

Andreas Neocleous & Co LLC

Elias Neocleous & Philippos Aristotelous

1. NON-TAX ISSUES

1.1 Domestic law

1.1.1 Briefly describe your legal system and its origins

It should be noted at the outset that this chapter refers only to the part of Cyprus controlled by the government of the Republic of Cyprus, and not to the area occupied by Turkish troops since the invasion of 1974.

Like most former British colonies, Cyprus has a legal system based on English law, particularly common law rules and principles and rules of equity. When Cyprus became independent in 1960, the Constitution of the new Republic provided that the laws previously applicable should remain in force until repealed or amended by new laws of the Republic. Since Cyprus joined the EU on 1 May 2004, EU law has had direct effect and where there is a conflict between EU law and domestic law, EU law prevails. Common law is still the basis of the administration of justice and English law precedents after 1960 are highly persuasive.

1.1.2 What is the scope of your succession law?

The principal laws governing succession in Cyprus are the Wills and Succession Law (Succession Law) and the Administration of Estates Law. The Succession Law deals with both wills and intestacy. The provisions regarding wills are based on the English Wills Act of 1837; the provisions regarding intestacy are based on the Italian Civil Code.

Cyprus law restricts testators' right to dispose of their property by will. The estate is divided into a "disposable portion", which can validly be disposed of by will, and a "statutory portion", which cannot, but instead is reserved for the forebears, widow and descendants of the deceased and distributed according to the rules of intestacy.

A will that purports to dispose of more than the disposable portion of the estate is not invalid, but the dispositions in the will are proportionally reduced so as to be limited to the disposable portion.

The statutory portion is a variable proportion of the net estate, calculated by reference to which relatives survive the deceased:

- If the deceased is survived by a living child or a descendant of a child, the statutory portion is three-quarters of the net estate.
- If the deceased is survived by a spouse or parent (or both), but not by any children or their descendants, the statutory portion is half of the net estate.

- If there is no surviving spouse, parent, child or descendant of a child the statutory portion is reduced to nil.

1.1.3 When are individuals and their property subject to succession rules?

The Succession Law regulates the succession to the estate of all persons domiciled in Cyprus irrespective of nationality or residence, as well as the succession to any immovable property located in Cyprus, regardless of the domicile nationality or residence of the owner.

Section 42 of the Succession Law exempts from the forced heirship provisions anyone who was born, or whose father was born, in the United Kingdom or certain other countries (most Commonwealth countries). Such individuals are entitled to dispose of all their property by will.

In practice, with proper planning, testators of any nationality may easily avoid the effects of the forced heirship regime.

1.2 Private international law

1.2.1 What is the jurisdiction of local courts in international disputes?

Cyprus is a common law jurisdiction and, although important areas of substantive law have been codified, English common law principles are applied by the courts where there is no specific domestic legislation or case law on the point at issue.

The Courts of Justice Law, Law 14 of 1960 (Courts Law) determines the composition of and the powers vested in and exercised by the courts, and also provides for their jurisdiction. Article 29(1)(c) of the Courts Law provides that the courts of Cyprus will apply “the common law and the doctrines of equity save in so far as other provision has been or shall be made by any law made or becoming applicable under the Constitution....”

1.2.2 What approach do local courts take to conflict of laws?

It has been firmly established by the Supreme Court case law that principles of private international law form part of the law of Cyprus in so far as they form part of the common law of England (*Patiki v Patiki* 20 C.L.R. Pt 1, 45).

In succession matters, as regards the interpretation and implementation of the will, and the law to be applied, the determining factor for immovable property is the location of the property. Disposition of immovable property in Cyprus is governed by Cyprus law as the *lex rei sitae* (the law where the property is situated) and the restrictions imposed by Cyprus law as to the statutory portion of estates will apply regardless of the testator's nationality or domicile at the time of death, except in the case of citizens of countries falling within the scope of section 42 of the Succession Law (most Commonwealth countries). Succession to real property outside Cyprus is subject to the law of the country in which the assets are located. The disposition of movable property is governed by the law of the testator's national jurisdiction.

2. TAXATION

2.1 What are the criteria for liability to main taxes?

Income tax

For income tax, whether personal or corporate, the tax year is the calendar year. Liability to income tax in any year of assessment is based on residence. For individuals, residence is determined by physical presence and for companies it is determined by the locus of management and control.

Individuals are considered to be resident if they are present in Cyprus for more than 183 days in the relevant year. Days of departure and arrival are treated as follows:

- The day of departure from Cyprus counts as a day of residence outside Cyprus.
- The day of arrival in Cyprus counts as a day of residence in Cyprus.
- Arrival in and departure from Cyprus in the same day counts as one day of residence in Cyprus.
- Departure from and return to Cyprus in the same day counts as one day of residence outside Cyprus.

Inheritance tax

The Estate Duty (Amending) Law of 2000 abolished any form of succession tax in respect of deaths taking place on or after 1 January 2000.

2.2 What are the relevant main taxes in your jurisdiction?

Personal income tax

Rates

Personal income tax rates are as follows:

Income band	Tax rate
Below EUR19,500	0
EUR19,500 to EUR28,000	20%
EUR28,000 to EUR36,300	25%
EUR36,300 to EUR60,000	30%
Above EUR60,000	35%

Allowances and reliefs

Relief is given for donations to approved charities, professional and trade union subscriptions, life insurance premiums and contributions to pension, social insurance and welfare funds. Relief may also be available under a double taxation treaty.

For the first three calendar years following the start of their employment, individuals taking up residence and employment in Cyprus will be entitled to an annual allowance of the lower of EUR8,543 or 20% of their remuneration. If income from employment exceeds EUR100,000 each year, a 50% deduction is allowed for the first five years of employment.

A 20% deduction is allowed from rental income received to cover expenses. The full amount of interest paid on loans for the acquisition of the let property is allowed as a deduction.

Subject to certain conditions, expenditure on maintaining buildings subject to a preservation order may also be deductible.

Annual writing down allowances are available against plant, machinery and other assets used in a trade or profession.

Disallowable expenditure

The following are not tax deductible:

- Contributions to the Social Cohesion Fund (part of the Social Insurance Fund).
- Private motor vehicle expenses.
- Immovable property tax.
- Interest paid in respect of the acquisition of non-business assets or of private motor vehicles (even if used for business purposes).
- Business entertainment costs in excess of the lower of EUR17,086 or 1% of gross income.

Loss relief

Losses incurred in a trade or profession may be offset against other income and any unrelieved balance may be carried forward for relief against income of future years for up to five years. If the business is subsequently converted into a limited liability company any unrelieved losses may be used by the company, subject to the five-year limit.

Exemptions and special cases

A number of exemptions are available, namely:

- Dividends.
- Lump sums received on retirement or commutation of pension or as a result of bodily injury or death.
- Capital sums from approved life assurance policies and provident or pension funds.
- Income from employment services provided abroad to a non-resident employer or an overseas permanent establishment of a resident employer for a period exceeding 90 days in the tax year.
- Profit from the sale of shares (if the shares are of an unlisted company owning real estate in Cyprus the gain may be subject to capital gains tax, see below).
- Certain pensions, such as widow's pension.
- Salaries of officers and crew of ships owned by a Cyprus shipping company that sail under the Cyprus flag and operate in international waters.
- Income from a qualifying scholarship, exhibition, bursary or similar educational endowment.

Interest received in the ordinary course of business or closely connected to the ordinary course of business ("active interest"), after deduction of

expenses, is included in taxable income and subject to tax at the standard rate. Other interest is exempt from income tax, but is subject to Special Defence Contribution (SDC tax) as described in 2.2.3 below.

The Merchant Shipping (Fees and Taxing Provisions) Law 2010 establishes an extremely beneficial EU-approved taxation regime for qualifying shipping and ship management activities carried on by Cyprus residents, giving them the option to be taxed on the basis of the tonnage of the vessels they operate, simplifying and substantially reducing the tax burden.

Foreign pensions may be taxed either on the normal basis set out above, or on an alternative basis, under which the first EUR3,420 per annum of the foreign pension is free of tax and the excess over that amount is taxed at 5%. At current rates the alternative basis results in a reduced tax liability on pensions above EUR24,860. The taxpayer may choose which basis to adopt in any particular year.

Corporate income tax

Rates

Cyprus-resident companies are taxable at 12.5% on worldwide income derived or accruing from:

- Gains or profits from any trade or business.
- Interest or discount (subject to exemptions, see below).
- Rents, royalties, premiums or other profits arising from property.
- Any other income, such as the gain on sale of goodwill.

Disallowable expenditure

The same disallowances apply as for personal income tax (see above). Apart from these, all expenses wholly and exclusively incurred for the production of the relevant income are deductible.

Where the income consists of both taxable and non-taxable income, expenses directly incurred in earning the non-taxable income are not allowed and indirect expenses are apportioned on the basis of the income earned.

Loss relief

Trading losses incurred by one group company may be set off against trading profits of another group company to give group relief, provided that the losses and profits accrued in the same year of assessment, and both companies were resident in Cyprus and were members of the same group, for the whole of the tax year concerned.

Two companies are deemed to be members of a group if one is the 75% subsidiary of the other or both are 75% subsidiaries of a third company. A 75% subsidiary means holding at least 75% of the voting shares with beneficial entitlement to at least 75% of the income and 75% of the assets on liquidation. A subsidiary formed during a year (but not one acquired during a year) is treated as being part of the group for the entire year.

Trading losses that are otherwise unrelieved may be carried forward and set off against taxable profits of future years for a maximum of five years.

Exemptions and special cases

The following types of income are exempt:

- Profit from the sale of securities.
- Dividends.
- Income of any company formed exclusively for the purpose of promoting art, science or sport, and of certain educational and charitable companies.
- Profits earned or dividends paid by a Cyprus shipping company which owns ships under the Cyprus flag and operates in international waters.
- Income of any approved pension or provident fund.
- Profits from a permanent establishment situated entirely outside Cyprus, unless the permanent establishment directly or indirectly engages more than 50% in activities which lead to investment income, and the foreign tax burden is substantially lower than the tax burden in Cyprus.

Interest received in the ordinary course of business or closely connected to the ordinary course of business, after deduction of the costs of earning the interest, is subject to corporation tax at the standard rate of 12.5%.

Other interest is exempt from income tax but subject to Special Defence Contribution (see below).

Royalties or any other payments to a non-resident for intellectual or industrial property rights are liable to a 10% withholding tax, subject to relief under any applicable double taxation treaty. No tax need be withheld if the rights are used exclusively outside Cyprus.

Rental payments made to a person not resident in Cyprus in respect of films shown in Cyprus are subject to withholding tax at 5% of the gross amount.

The Merchant Shipping (Fees and Taxing Provisions) Law 2010 establishes an extremely beneficial EU-approved taxation regime for qualifying Cyprus-resident shipping and ship management companies, giving them the option to be taxed on the basis of the tonnage of the vessels they operate, simplifying and substantially reducing the tax burden.

Reorganisations

Transfers of assets and liabilities can be made without giving rise to a tax liability within the framework of a reorganisation (including mergers, demergers, partial divisions, share exchanges and transfers of seat) and any tax losses can be carried forward by the receiving entity.

Special Defence Contribution tax (SDC tax)

Cyprus resident (determined in the same way as for income tax) individuals and companies are liable to SDC tax on interest, dividend and rentals received at the following rates:

Nature of income	Rate
Dividends	17%
Interest	30%
Rents	3% on 75% of the income

Dividends

Dividends received by a resident company or a permanent establishment of a non-resident company from a non-resident company are exempt from SDC tax in accordance with the EU Parent-Subsidiary Directive as long as the “passive dividend” provisions are not triggered, namely:

- Investment income is less than 50% of the paying company’s activities.
- The foreign tax burden on the income of the paying company is not substantially lower than the Cyprus tax burden.

Dividends received by one resident company from another are exempt from SDC tax. Dividends received by a foreign shareholder (individual or company) from a resident company are also exempt.

Interest

Interest not received in or closely related to the normal course of business is liable to SDC tax at 30%. No deduction for expenses is allowed. Interest received in or closely related to the normal course of business is exempt from SDC tax.

Rent

Rents are subject to SDC tax at 3% on 75% of the gross rent, giving an effective rate of 2.25%. No deduction for expenses is allowed.

Capital gains tax

Net gains from the disposal of immovable property in Cyprus and of shares of unlisted companies owning immovable property in Cyprus are taxable at 20%. All other gains are exempt.

Exemptions also apply to disposals of real estate on death and between certain relatives. The gain is calculated as the difference between the sale proceeds and the aggregate of:

- The market value of the property at 1 January 1980, or, if it was acquired after that date, the price paid or the consideration given for the acquisition of the property.
- The cost of any major improvements.
- The subsequent increase in the value of the property due to inflation, calculated by reference to the Retail Price Index issued every month by the Department of Statistics.
- Expenses related to the acquisition and disposal of the property, such as transfer fees and legal costs.

Individuals are entitled to the following lifetime exemptions:

- The first EUR25,629 of the sale price in the case of sales of agricultural land by farmers, provided that the farmer was residing in the same area at the time of the sale.
- The first EUR85,430 of the sale price in the case of sales of property used as a residence by the vendor, provided that the property was the vendor’s residence for at least five years prior to the sale.
- The first EUR17,086 of the sale price in the case of any other disposal.

Taxes on immovable property

Immovable property tax

Immovable property tax is payable each year on the market value of all immovable property registered in the name of the taxpayer at the start of the year at progressive rates on specified tranches of the total value, based on 1980 values. The tax on most individual residential properties is not material.

The government has recently concluded a revaluation of properties with the intention of revising the immovable property tax system, re-basing it on current values and adjusting the rates accordingly. Its intention is to have the new system in operation for the 2015 tax year.

Fees on transfer of immovable property

A fee for the transfer of immovable property is payable to the Department of Land and Surveys, which is responsible for property registration. The fee is calculated at progressive rates on each tranche of the purchase price or market value, as follows:

Tranche	Rate
First EUR85,000	3%
Next EUR85,000	5%
Above EUR170,000	8%

In order to stimulate the market for new properties the government has announced temporary waivers and reductions of transfer fees. The transfer fee on a sale of property on which VAT is payable will be waived provided that the sale agreement is deposited with the Land Registry by 31 December 2016. For a first-time sale of a new property which is not subject to VAT (which is the case if the building permit was obtained prior to 1 May 2004) the transfer fee is halved.

No fees are payable in respect of transfers in connection with company reorganisations.

Exemptions and reductions are available in respect of transfers between family members, and between family members and family companies.

Value added tax

The standard rate of VAT is 19%. There are reduced rates of 5% and 8% for certain goods and labour-intensive services.

Other taxes

Stamp duty

Stamp duty is payable on contracts relating to property or business in Cyprus at the following rates:

Consideration	Rate (for every EUR1,000 or part thereof)
Up to EUR5,000	0
More than EUR5,000 but less than EUR170,000	EUR1.5
More than EUR170,000	EUR2

The maximum stamp duty payable on a contract is capped at EUR20,000. Where no amount of consideration is specified in the contract the stamp duty is EUR34. For a transaction which is evidenced by several documents, stamp duty is payable on the main contract and ancillary documents are charged at a flat rate of EUR2. A number of categories of documents are exempt from stamp duty, including documents relating to corporate reorganisations (which are exempt from all forms of taxation) and ship mortgage deeds or other security documents.

Stamp duty must be paid within 30 days from the date of execution of the relevant documents or, if they are executed abroad, within 30 days after they are received in Cyprus. If stamp duty is paid late, a surcharge of approximately 10% of the unpaid amount is payable if payment is made within six months after the due date; otherwise the surcharge is twice the unpaid amount.

Capital duty

On incorporation of a Cyprus registered company, capital duty of EUR103 plus 0.6% of the authorised capital is payable to the Registrar of Companies. Capital duty is payable at 0.6% on any subsequent increase in share capital.

Annual company maintenance fee

An annual company maintenance fee of EUR350 is payable to the Registrar of Companies in respect of all companies incorporated in Cyprus.

2.3 Enforcement/collection of taxes

2.3.1 What are the basic procedures for collection and enforcement?

A self-assessment system applies to all individuals, apart from employees paid entirely under PAYE. On 1 August each year, individuals must submit a provisional tax return for the year, accompanied by a remittance for half the estimated tax liability. The remaining balance must be paid in equal instalments by 31 December. The taxpayer may amend the provisional return at any time during the tax year. Taxpayers whose gross income from a trade or profession exceeds EUR70,000 are required to submit audited financial statements to support their tax return. They must pay their final tax liability no later than 1 August following the end of the tax year and submit a final tax return no later than the following 31 December. Other taxpayers need not submit audited financial statements, but they must file their final tax return, accompanied by a remittance for any tax due, within six months after the end of the tax year.

Similarly, no later than 1 August each year, companies must submit a provisional tax return for the year accompanied by a remittance for half the estimated tax liability. The remaining balance must be paid by 31 December. The final tax liability must be paid no later than 1 August following the end of the tax year and a final tax return, supported by audited financial statements, must be submitted no later than the following 31 December.

If the income declared in the self-assessment is less than 75% of the final income computed, article 26 of the Assessment and Collection of Taxes Law (Collection Law) provides for a penalty of one-tenth of the difference.

Tax paid after the due date is subject to interest at 9% per annum. If the audited financial statements are submitted after the due date, the tax due is subject to an additional 5% penalty.

Depending on the circumstances, non-payment of tax may also be subject to a criminal penalty of up to 20% of the tax due. Where the amount of unpaid tax exceeds EUR1,708, an additional penalty of up to two years' imprisonment may be imposed. In the case of companies, liability attaches to the responsible officials.

2.3.2 To what extent is non-compliance an issue?

There are no readily available statistics on the extent of non-compliance or amounts recovered through enforcement and investigations.

2.3.3 In which circumstances can default result in imprisonment?

Under article 49 of the Collection Law, fraudulent or wilful misstatement of income is a criminal offence punishable by a fine of up to EUR17,089, imprisonment for up to five years or both. Refusal, failure or neglect to submit any notice or return or to provide any other information required under the law is an offence punishable by up to one year's imprisonment under article 50. Article 51 of the Collection Law makes it an offence to deliberately omit or delay payment of tax liabilities, punishable by a fine of up to EUR854, imprisonment for up to six months or both.

Prosecutions under the law must be authorised by the Attorney General and are without prejudice to any prosecution which may be instituted under any other law.

We are not aware of any recent cases of individuals being sentenced to imprisonment in relation to any of these offences.

2.3.4 What are your laws on extradition for tax offences?

Cyprus is a party to the European Convention on Extradition and the arrangements for the European Arrest Warrant. In addition, most of Cyprus's double taxation agreements contain mutual assistance provisions.

2.3.5 Have there been any recent changes of behaviour by tax authorities?

The tax authorities have been adopting a more rigorous approach over the past decade in view of Cyprus' obligations and its undertaking to comply with standards imposed by Organisation for Economic Co-operation and

Development and EU. The reduction of revenues due to the recent global economic crisis has given an added incentive to collect all sums due.

2.3.6 Are there any voluntary disclosure or amnesty programmes?

In November 2011 a tax amnesty was introduced for individuals and companies, providing for a cap on penalties and interest on unpaid taxes, with benefits reducing the longer settlement was delayed. The amnesty expired on 31 December 2014.

3. EXEMPTIONS AND/OR EXIT TAXES FOR NEW IMMIGRANTS AND EMIGRANTS

3.1 Which taxes are relevant in your jurisdiction?

As noted in section 2.2 above, for the first three calendar years following the start of their employment, individuals taking up residence and employment in Cyprus will be entitled to an annual allowance of the lower of EUR8,543 or 20% of their remuneration. If income from employment exceeds EUR100,000 per annum, a 50% deduction is allowed for the first five years of employment.

There are no other exemptions or exit taxes.

4. USE OF ASSET HOLDING VEHICLES

4.1 Which vehicles are available in your jurisdiction and how are they treated by the courts?

Trusts

Background

Given the history of Cyprus, it should come as no surprise that trusts are an established feature of financial planning. The first law on trusts, the Trustee Law of 1955, closely follows the English Trustee Act 1925. English doctrines of equity were formally introduced by article 29 of the Courts Law, which requires the courts to follow English common law and equitable principles unless there are other provisions to the contrary under Cyprus law or such adherence would be inconsistent with the Constitution of Cyprus.

Cyprus international trusts

In 1992 the International Trusts Law, Law 69 of 1992 was enacted, providing a framework for non-residents to establish trusts in Cyprus.

The International Trusts Law gave Cyprus a state of the art international trusts regime, with excellent tax mitigation and asset protection features, and restricted its availability by stipulating that neither the settlor nor any beneficiary could be a permanent resident of Cyprus. Over the years, as other jurisdictions modernised their trust regimes, it became apparent that, while the basic structure provided by the International Trusts Law remained sound, it required updating to remove a number of outdated restrictions and to meet changed circumstances. A fundamental reform of the law took place in 2012 with the entry into force of the International Trust (Amending) Law of 2011.

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 made 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. Following the 2012 reforms, the only stipulation regarding residence is that the settlor or any beneficiary may not be a Cyprus tax resident in the year preceding the year in which the trust is created. The 1992 law's prohibitions of resident beneficiaries and of ownership of immovable property in Cyprus have been repealed, thus avoiding difficulties that might otherwise arise if the settlor or any beneficiary were subsequently to take up residence in Cyprus.

Cyprus international trusts offer great flexibility. They may remain in force indefinitely, notwithstanding any statutory provision of Cyprus or any other country to the contrary and income can be accumulated for the entire duration of the trust.

The settlor may reserve powers to himself or herself, may retain a beneficial interest in trust property, or act as the protector or enforcer of the trust, without affecting the validity of the trust. The powers which may be reserved are extensive, and include the power to revoke, vary or amend the terms of the trust, to apply any income or capital of the trust property, to act as a director or officer of any corporation wholly or partly owned by the trust, to give binding directions to the trustee in connection with the trust property and to appoint or remove any trustee, enforcer, protector or beneficiary.

The settlor may impose a general stipulation that the trustees' powers are exercisable only with the consent of the settlor or any other person specified in the terms of the trust. The settlor may also reserve the power to change the governing law of the trust.

There is no limitation on trustees' investment powers. Trustees enjoy the investment powers of an absolute owner, in line with those of a trustee in England and Wales and other trust jurisdictions which have followed the English Trustee Act 2000. Trustees may invest in movable and immovable property both in Cyprus and overseas, including shares in companies incorporated in Cyprus.

There is a fixed stamp duty of EUR430 payable on the creation of an international trust. Article 11 of the International Trusts Law provides that no-one may disclose information regarding the trust to third parties except under an order of a Cyprus court.

In summary, the Cyprus international trust provides convenience, security, simplicity, flexibility and confidentiality. However, it is in its tax mitigation and asset-protection potential that the Cyprus international trust really excels.

Taxation

Cyprus international trusts enjoy several tax exemptions, providing considerable tax planning possibilities. In particular there is no taxation

of capital gains in Cyprus apart from gains derived from the disposal of real estate located in Cyprus. As noted earlier, there are no succession taxes in Cyprus, and Cyprus international trusts may also benefit from the application of the provisions of Cyprus's wide network of double tax treaties, particularly in the area of capital gains.

Asset protection

By their nature, all trusts provide an element of asset protection, by separating the assets held in trust from the settlor's general assets. The Cyprus international trust has important additional advantages.

The first is that the International Trusts Law contains a very strong presumption against avoidance of a Cyprus international trust. Notwithstanding (i) the provisions of any bankruptcy or liquidation laws in Cyprus or in any other country, (ii) the fact that the trust is voluntary and without consideration, and (iii) the fact that it is made for the benefit of the settlor or their family members, unless it is proved to the court that the trust was made with intent to defraud persons who were creditors of the settlor at the time when the payment or transfer of assets was made to the trust, the trust shall not be void or voidable. The burden of proof of intent to defraud lies with the person who is seeking to annul the transfer. Furthermore, any action for avoidance of the trust must be instituted within two years from the date of transfer or disposal of the assets to the trust.

Article 1 of the Hague Convention on the Recognition and Enforcement of Foreign Judgments in Civil and Commercial Matters, which Cyprus ratified in 1976, makes it clear that the provisions of the Convention do not apply to decisions about the capacity of persons or questions of family law, including personal or financial rights and obligations between parents and children or between spouses, maintenance obligations, questions of succession and questions of bankruptcy, including those relating to the validity of acts of a debtor. This, together with the contents of article 3(b) of the International Trusts Law, effectively rules out the enforcement of a foreign bankruptcy decree in Cyprus, as well as the enforcement of any other foreign judgment obtained in respect of the settlor's property. The only way for an aggrieved party to obtain relief would be by bringing an action against the trustees within the two-year period and proving intention to defraud. Furthermore, as a foreign plaintiff, they could have to provide security for costs under Order 60 of the Civil Procedure Rules.

Cyprus has a distinct advantage over many other Commonwealth countries, in particular the Caribbean islands and Bermuda, in that it is not a party to the mutual assistance arrangements set out in section 426(4) and (5) of the Insolvency Act 1986.

Furthermore, it should be noted that the Charitable Uses Act 1601 (also known as the Statute of Elizabeth), which invalidates arrangements made to hide assets from future creditors, has never been adopted in Cyprus.

The 2012 reforms further reinforce these formidable asset protection features of the Cyprus international trust. The International Trusts Law, as amended, explicitly provides that any question relating to the validity or

administration of an international trust or a disposition to an international trust will be determined by the laws of Cyprus without reference to the law of any other jurisdiction, and that the law relating to inheritance or succession in force in Cyprus or any other country will not in any way affect the validity of the international trust or any transfer or disposition of property to it. It also makes clear that the fiduciary powers and duties of trustees and the powers and duties of any protectors of the trusts are governed exclusively by Cyprus law. Furthermore, it provides that dispositions to a trust may not be challenged on the grounds that they are inconsistent with the laws of another jurisdiction, for example regarding family and succession issues, or on the grounds that the other jurisdiction does not recognise the concept of trusts.

The amending law entrenches jurisdictional protection by providing that an international trust containing a choice of law clause in favour of Cyprus law is fully protected from unfounded foreign judicial claims as a matter of public policy and order.

The 2012 reforms give Cyprus one of the world's most effective trust regimes, providing settlors and beneficiaries with the highest possible degree of protection.

Regulation of service providers

Cyprus has a modern regulatory regime requiring providers of fiduciary and corporate management services to adhere to rigorous standards of probity and to protect clients' funds. The Law Regulating Companies Providing Administrative Services and Related Matters of 2012 to 2013 (Company Administrative Services Law) transposes Directive 2005/60/EC into national law and establishes the licensing and supervisory regime. Each of the supervisory bodies for the purposes of the Company Administrative Services Law (CySEC, the Cyprus Bar Association and the Institute of Certified Public Accountants of Cyprus (the Competent Authorities)) is required to maintain a register of trusts established by service providers they regulate containing the following information:

- The name of the trust.
- The name and full address of every trustee at all relevant times.
- The date of establishment of the trust.
- The date of any change in the law governing the trust to or from Cyprus law.
- The date of termination of the trust.

Any Cyprus-resident trustee of a trust governed by Cyprus law will be obliged to notify the relevant Competent Authority of the relevant information within 15 days from the creation of the trust or the adoption of Cyprus law as the law governing the trust, as applicable. Subsequent changes in any relevant information, including termination of the trust or a change in the governing law from Cyprus law, must similarly be notified within 15 days. In the event of termination of the trust or a change in the governing law from Cyprus law the register will indicate that the trust has been terminated and the information on the trust will be kept for five years.

Service providers establishing trusts will be required to obtain documentary evidence of identity of the settlor, the trustees, the beneficiaries (or information on the class of beneficiaries including the beneficiaries to whom any distributions have been made pursuant to the trust) and others associated with the trust, as well as information on the activities of the trust, and keep this information available for inspection by the relevant Competent Authority on request.

The registers are not open to public inspection. Access is restricted to the Competent Authorities and relevant government departments, thus maintaining confidentiality.

Companies

Companies in Cyprus are governed by the Companies Law, which is based on the United Kingdom Companies Act 1948. Under Cyprus law a company has a legal persona which is separate from that of its members, and has perpetual succession. The liability of individual company members may be limited by shares or by guarantee. However, the liability of the company itself is not limited. It must pay all debts due by it provided that it has sufficient assets to do so.

Life insurance

Life assurance, explicitly in the form of a wrapper for asset protection, tax planning and investment, is not commonly offered by life insurance service providers in Cyprus. This offers an opportunity for the future.

Foundations

There is a legal framework (under the Associations and Foundations Law of 1972) governing foundations in Cyprus but it is out of date and involves a high degree of bureaucracy. As a result, foundations are rarely used as asset holding vehicles.

Recognising that foundations may have attractions for clients from certain jurisdictions, the government is planning to introduce a new, modern foundations law to replace the existing law.

Partnerships

Partnerships in Cyprus are registered under the Partnerships and Business Names Law. This is based on English law, specifically the Partnership Act 1890 and the Limited Partnership Act 1907. Although it has been amended over the years, the main features of the Partnerships and Business Names Law still mirror the English legislation on which they were based.

Partnerships must consist of at least two and no more than 20 partners, except for partnerships which engage in banking activities, in which case the maximum number of partners is 10. A partnership may be formed between individuals and legal persons in any combination. Consequently, as long as its memorandum and articles of association permit, a corporate entity may enter into partnership with one or more individuals, corporate entities

or both. Non-residents of Cyprus may be members of a Cyprus-registered partnership.

Cyprus law does not regard a partnership as a legal entity separate from the partners, and partnerships are transparent for tax purposes. Cyprus law treats joint venture arrangements as a form of partnership.

As in English law, partnerships may be general or limited. Each partner in a general partnership is liable jointly and severally with the other partners for all debts and obligations of the partnership incurred during their time as a partner, and each partner is regarded as the agent of the others with authority to enter into contracts in the ordinary course of business on behalf of the partnership as a whole.

A limited partnership is one in which the liability of some partners is limited. Nevertheless, the liability of the partnership to third parties remains unlimited and there must be at least one general partner with unlimited liability for the firm's debts and obligations. A limited partner is not regarded as an agent of the partnership and has no power to bind the firm or to take part in the running of the business. The penalty for disregarding these rules is loss of the benefit of limited liability.

Within one month of formation every partnership must file a return with the Registrar of Companies containing its name, its purpose, its place of business and details of all partners.

Although a partnership is not required to file financial statements for public disclosure, it must nevertheless keep proper accounting records and make them available for scrutiny by the partners and relevant tax and VAT authorities. If annual turnover per partner exceeds EUR70,000, audited annual financial statements are required under the Collection Law.

5. PHILANTHROPIC AND CHARITABLE OPTIONS

5.1 Is there a compulsory registration system for charities?

Under the Charities Law, a charitable institution may apply to the Council of Ministers for registration as a legal entity under the Charities Law. The application must contain details of the proposed name of the charity, its trustees and its property, and be accompanied by the rules of the charity. The Council of Ministers will issue a certificate of registration if it considers it to be appropriate and subject to such terms and conditions as it may impose.

Registered charities are required to submit annual financial statements and periodic returns of their activities and officers.

Charitable trusts can also be set up under the International Trusts Law 1992, provided one of the main purposes of the trust is the relief of poverty, the advancement of education or the advancement of religion or any other purposes beneficial to the public as a whole. Charitable trusts are subject to registration under the Company Administrative Services Law (see section 4 above).

In order to qualify for inclusion on the Inland Revenue Department's register of approved charities (see below) an application must be made to the Inland Revenue Department.

5.2 Are there any tax reliefs available?

Under the Income Tax Law, income of any religious, charitable or educational institution of a public character is exempt from tax, as is the income of any company formed exclusively for the purpose of promoting art, science or sport, which has no other activities and which does not involve the acquisition of profit by the company or its members. There is no exemption from SDC tax. Approved charities are not subject to immovable property tax.

Gifts and donations to approved charities are tax-deductible for income tax and corporation tax purposes and gifts of immovable property to approved charities are exempt from capital gains tax.

5.3 Are there any particular distribution requirements and can domestic charities apply funds outside your jurisdiction?

Distribution requirements and whether a domestic charity can apply funds outside Cyprus will be determined by its objects, constitution and detailed rules. However, these issues will have an effect on how the authorities, including the tax authorities, will respond to an application for approved charity status and consequent tax exemption. Although there is no express statutory provision to this effect, the greater the charity's relevance to and connection with Cyprus (unless it is an internationally recognised charity), the greater the likelihood of it being granted approved charity status.

6. REGULATORY ENVIRONMENT

6.1 What is the financial environment like for funds and other investment vehicles?

Cyprus has been a member of the EU since 2004 and has fully implemented the Financial Services Action Plan. It has a robust and well-established system of financial regulation, which predates EU membership, the principal agencies in which are:

The Central Bank of Cyprus (CBC)

The CBC regulates all banking activities in Cyprus. It has the sole authority to grant a banking licence and to regulate the activities of licence holders including their compliance with anti-money laundering legislation.

The CBC is the regulatory and supervisory body for International Collective Investment Schemes established under the International Collective Investment Schemes Law of 1999 and may on written application, recognise a company incorporated under the Cyprus Companies Law, a trust created under the International Trust Law or a partnership registered under the Partnership and Business Names Law, as an International Collective Investment Scheme. The CBC retains regulatory responsibility for certain activities under legacy arrangements, but generally its other supervisory activities have been transferred to the Cyprus Securities and Exchange Commission (see below).

Cyprus Securities and Exchange Commission (CySEC)

CySEC is the independent public supervisory authority responsible for the supervision of the investment services market and transactions in transferable securities carried out in the Republic of Cyprus.

CySEC is responsible for licensing and monitoring investment services companies, alternative investment fund managers and alternative investment funds. It is also the regulatory body for the Cyprus Stock Exchange (CSE), and in this capacity it also supervises issuers of securities listed on the CSE.

Of particular relevance in the private client field, CySEC is also the principal regulatory body for fiduciary and corporate service providers under the Company Administrative Services Law (see section 4 above).

Insurance Companies Control Service (ICCS)

The ICCS is a directorate of the Ministry of Finance with responsibility for the regulation of the insurance sector. It considers applications for authorisation to conduct an insurance business and monitors licence holders to assure continued compliance with legal requirements including performing regular assessments of solvency and operational adherence to best practice. The ICCS is also responsible for regulation of insurance intermediaries.

Unit for Combating Money Laundering (MOKAS)

Established in 1996, MOKAS is a special unit within the office of the Attorney General of the Republic of Cyprus. MOKAS is responsible for receiving and analysing suspicious transaction reports and for performing investigations into money laundering.

Council of the Cyprus Stock Exchange

The Council of the CSE was initially responsible for the preparation of detailed regulations to govern the operation of the CSE. It now supervises the members of the CSE with CySEC and has authority to impose disciplinary penalties on its members if they are found to be in breach of CSE regulations.

Co-operative Societies Supervision and Development Authority (CSSDA)

The CSSDA is an independent authority which provides supervision and development advice for the co-operative movement in accordance with the co-operative Societies Law. Its main relevance in this context is as supervisor of co-operative credit institutions.

6.2 What is the impact of anti-money laundering legislation on professional/banking confidentiality?

The Prevention and Suppression of Money Laundering Activities Law of 2007 (the Anti-Money Laundering Law) requires providers of financial, professional, corporate or fiduciary services to put in place and operate

adequate procedures to verify and record the identities of customers, clients and their beneficial owners.

The court may make an order for disclosure of information in connection with the investigation of an alleged money laundering offence if there are reasonable grounds for suspecting that a relevant offence has been committed, that the information to which the application relates is likely to be of substantial value to the investigation, and that there is a reasonable ground for believing that it is in the public interest that the information should be produced or disclosed.

No order for disclosure may be made in respect of privileged information. This is defined in the Anti-Money Laundering Law as communications between an advocate and a client for the purposes of obtaining professional legal advice or professional legal services in relation to legal proceedings, which would in any legal proceedings be protected from disclosure by virtue of the privilege of confidentiality under the law in force at the relevant time, or any other information which is not admissible in court for the protection of the public interest under the law in force at the relevant time.

The Anti-Money Laundering Law allows the exchange of information between members of a financial services group or a professional services network within the EEA or in third countries operating equivalent anti-money laundering procedures in line with the EU's Third Money Laundering Directive.

As described in section 4 above, the Company Administrative Services Law transposes Directive 2005/60/EC into national law and establishes the licensing and supervisory regime, each of the supervisory bodies for the purposes of the Company Administrative Services Law is required to maintain a register of trusts established by service providers they regulate. The registers are not open to public inspection: access is restricted to the supervisory bodies and relevant government departments, thus maintaining confidentiality.

6.3 Is it necessary to comply with tax and other information exchanges?

Cyprus has more than 50 double taxation treaties in force, most of which include exchange of information provisions mirroring Article 26 of the OECD Model Convention. However, the Collection Law provides robust safeguards for taxpayers, stipulating that disclosure of information can take place only on the basis of specific, properly documented and reasoned requests and after following specified procedures. As an EU member, Cyprus has implemented the Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments and all other EU Administrative Co-operation and Mutual Assistance measures.

6.4 What is the impact of US and other FATCA rules?

A Model 1 intergovernmental agreement between Cyprus and the USA under the Foreign Account Tax Compliance Act (FATCA) was formally signed in December 2014. Under the Model 1 agreement, foreign financial institutions

subject to FATCA report information to their own tax authorities for onward transmission to the US authorities. Prior to the signature of the formal agreement, Cyprus was treated as having an agreement in effect from 22 April 2014, enabling Cyprus-resident foreign financial institutions to register on the Internal Revenue Service FATCA website.

7. KEY PLANNING POINTS FOR LONG TERM RESIDENT FAMILIES

As noted in the analysis of succession law in section 1 above, the forced heirship provisions of Cyprus law can be circumvented by appropriate planning, for example by placing immovable property in trust or in the ownership of a company.

As noted in section 4 above, a Cyprus international trust may be established only if the settlor was resident outside Cyprus for the tax year preceding the year of establishment of the trust. Otherwise there is no restriction on the settlor or beneficiaries in terms of residence.

8. KEY POINTS FOR MIGRATING AND TEMPORARILY RESIDENT FAMILIES

Cyprus's tax year is the calendar year and migrants from and to countries which do not use the calendar year as their tax year can benefit by the appropriate timing of their migration in order to maximise allowances and exemptions.

The comments in section 7 above regarding Cyprus international trusts are relevant to persons intending to relocate to Cyprus whether permanently or temporarily.

9. FORTHCOMING LEGISLATION AND OTHER CHANGES

As noted earlier, the government is planning to introduce a new, modern foundations law to replace the existing law.

10. USEFUL REFERENCES

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