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accounting firms

# **DOING BUSINESS IN CYPRUS**

## **AS AT YEAR 2019**

J A N U A R Y 2 0 1 9



**Produced by**





## FOREWORD

This publication aims at providing an outline of the Cyprus Business Environment. It does not cover exhaustively the areas it treats but is intended to answer some of the commonly asked questions. When specific queries arise, it will be necessary to refer to the existing legislation and regulations of the country, and to obtain appropriate professional advice.

The material contained in this guide was assembled at 18<sup>th</sup> January 2019 and, unless otherwise indicated, is based on information available at that time.

Please feel free to contact us at any of our offices at the addresses shown at the end of this publication. We look forward to assisting you in every way we can.

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# THE LAW IN GENERAL

# 1

The legal system in Cyprus follows, in general lines English law, the Common law and the law of Equity with the exception of the Administrative and Constitutional law for which the Continental law is also followed in some lines.

The law governing companies is the Companies Law Chapter 113 [Amended up to 2018] (based on the United Kingdom's Companies Act 1948) and the law governing Partnerships and Business names is the Partnerships and Business Names Law Chapter 116 (which again is almost identical to that of the United Kingdom).

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# TYPES OF LEGAL ENTITIES

# 2

For someone who intends to do business in Cyprus, or through Cyprus, there are only four ways of doing it i.e. through:

- a company
- a partnership
- a branch
- sole proprietorship (business name)

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## COMPANIES LAW CHAPTER 113

## 3

The Companies Law Chapter 113 provides for two general types of Companies.

1. Company limited by shares, which is subdivided into:
  - a. Public Companies and
  - b. Private Companies, which are also subdivided into:
    - i. Exempt private companies and
    - ii. Private limited companies
2. Company limited by guarantee.

This information shall deal only with the private limited company 1 (b) (ii), as it is the most common type used, and the only suitable for International Business operations.

# PRIVATE LIMITED COMPANY

## GENERAL CHARACTERISTICS

# 4

### GENERAL

- The liability of its members is limited up to the amount unpaid for their subscribed shares.
- The right to transfer the shares is restricted.
- The word "limited" must appear at the end of the name of the company.
- The minimum number of members of the company is one and the maximum number is limited to fifty.
- Shares cannot be issued to the bearer. In case anonymity is required this can be achieved through local nominees who sign in favour of the beneficial owner of the shares a declaration of trust as well as an instrument of transfer of shares in blank.
- Prohibition as to the invitation to the public to subscribe for any shares or debentures.
- The minimum number for directors is one and there is no maximum. Directors may be local or foreign. Alternate directors may also be appointed. It is not necessary for the directors or the secretary to be shareholders. The appointment and removal of directors is made by the shareholders. International Business companies must have at least one local director unless the secretary is local. Local nominee directors may also be used. Corporate bodies may act as Directors and Secretary. In the case of a local director, the company can appoint the same person as company secretary as well.
- Meetings of the board of directors can be held either in Cyprus or abroad.
- Statutory and reporting requirements are very similar to those of the Companies Act 1948 of the United Kingdom. The statutory books required are:
  - the register of members: containing details as to their full names, addresses etc., the number of shares held by each one, when they became shareholders etc.
  - the register of directors and secretary.
  - the Minute Book for all the meetings of directors and shareholders and
  - the register of charges affecting the property of the company.
- Charges, debentures, floating charges and mortgages must be registered with Registrar of Companies.
- Bank accounts of any kind may be opened, in any currency, either in Cyprus or abroad. Those opened in Cyprus may be operated without any exchange control permission.
- The seal of the company must be kept under safe custody by the Secretary.
- The Secretary is appointed by the Directors and an Assistant Secretary can also be appointed.
- Special kinds of shares with preferential or other rights may be issued.
- Annual returns must be filed with the Registrar of Companies at the end of each financial year of the company. Such returns contain information as to any transfer or issue of new shares, changes to directors/secretary/registered office, registration or cancellation of any charges/mortgages etc.



# PRIVATE LIMITED COMPANY

## GENERAL CHARACTERISTICS

**4**

- The company's file at the Registrar of Companies is available for inspection by the public.
- The company must have Memorandum and Articles of Association, both of which must be signed by their subscribers (the first copy must be deposited, together with the other statutory documents, with the Registrar of Companies). Both documents must be printed in the Greek language but provision is also made for printing same in the English language.

### **MEMORANDUM OF ASSOCIATION**

The memorandum must contain the following:

- The name of the company
- The address of the registered office which must be in Cyprus.
- The main objects for which the company is formed.
- The amount of the authorised and paid up share capital which must be in Euro (€). The minimum authorised and paid up capital can be €1 (one Euro) only, but it is recommended to have an authorised share capital of at least €1000 to allow for future share increases. The authorised and paid up share capital can be increased at any time by special resolution of its members.
- Special provision as to the liability of the Members of the company, which is limited up to the amount they have paid for their subscribed shares.
- Provisions as to the various classes of shares.
- The names, addresses and description of the subscribers together with the number of shares for which they subscribe. If anonymity is required this can be achieved through nominees who sign in favour of the beneficial owners of the shares a declaration of trust and an instrument of transfer of shares in blank.

### **ARTICLES OF ASSOCIATION**

The Articles of Association contain the regulations for the internal management of the company. In the Companies Law Chapter 113 under the heading "Table A" a specimen of certain statutory provisions regarding the regulations and the functioning of the company is provided. This specimen may be adopted by the Articles of Association fully or partly.

The Articles of Association may be amended at any time by special resolution of the members (majority vote of over 75%).

The Articles of Association may include provisions as to the - dividends - accounts and audit - right of transfer and procedure to transfer the shares - voting rights - debentures - general meetings of the company - the appointment, removal and meetings of the directors - annual general meetings - extraordinary meetings and meetings for special resolutions winding up of the company - loans to directors etc.

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## PRIVATE LIMITED COMPANY

### FILING REQUIREMENTS

**5**

- Prepare audited financial statements by auditors practising in the Republic of Cyprus every year and submit them the company Annual Return (HE32). All companies are obliged to prepare audited financial statements.

Under the current Company Law legislation, parent companies have to prepare also consolidated financial statements unless they are medium sized groups.

Medium sized Groups are those who do not satisfy any TWO of the following in the fiscal year:

- (i) More than €20 million Assets in the Balance Sheet (before netting any Liabilities)
  - (ii) More than €40 million Turnover
  - (iii) More than 250 employees on average
- Submit the Company Annual Return (HE32) every year stating the following:
    - (i) Registered Office Address & Shareholders Register Address
    - (ii) Nominal, Issued and paid/unpaid Share Capital
    - (iii) List of shareholders with their details
    - (iv) List of Directors & Company Secretary with their details
  - Pay the Annual LEVY of €350.
  - Submit via the TAXISNet online system the Company Income Tax Return (Form T.D. 4) to the Tax Department every year, making reference to the Audited Financial Statements of the company. The Tax Department does not require the Audited Financial Statements to be submitted with the Tax Return, but reserves the right to request them, together with any additional information they consider necessary, at a future date.

## INTERNATIONAL BUSINESS COMPANY (IBC)

## 6

The most common type of company used for International Business activities by non-residents is the private limited company called International Business Company (IBC). The procedure followed for the formation and registration of International Business companies is identical to the local companies of similar type.

Due to the geographical position of Cyprus, its infrastructure and the other advantages, many foreign enterprises consider the Island as an ideal place for business in Europe, Middle East, Eastern Mediterranean, Arab Gulf and also in Africa and West Asia. The following categories of International Business companies are currently operating in Cyprus:

*Royalty, Advertising & Marketing, Trust, Architecture & Engineering, Holding, Construction & Drilling, Invoicing, Investment, Re-invoicing, Magazine & Newspaper, Employment, Real Estate & Land Development, Leasing, Shipping & Ship-management, Management, O.B.U.s, Trading, Captive Insurance Companies, Sales, Headquarters, Foreign Sales Corporations (F.S.C.s)*

International Business companies may also be formed for the management and control of affairs of any other company. They may also buy and use their own premises such as offices, stores, flats and houses for accommodating their directors, employees, etc. They can also store goods, in transit or in bonded stores, and proceed with repackaging and crating processes etc. They may proceed with opening documentary credits, obtaining certificates of origin of the goods from the Chamber of Commerce, legalisation of the documents, employ any type of employees, clerical, technical, either local or foreign; act as trustee or nominee for other International Business companies or as ship-owners, ship-managers, brokers, charterers, agents etc. They may also become full members of the Cyprus Chamber of Commerce and Industry for which the annual membership fee is around €300.

- Residence permit applications by EU Nationals for the position of directors, executives, employees etc. in IBCs are submitted to The Director of Civil Registry and Migration Department and are always granted, provided they present the following documents:
  - (i) Valid EU passport or identity card;
  - (ii) Confirmation of engagement from employer or a certificate of employment stamped by the Labour Department of the Ministry of Labour and Social Insurance; and
  - (iii) Two recent passport sized photographs

The residence permit is valid for not less than five years from the date of issue. Renewals are automatically issued upon request from the person concerned.

- Residence and employment applications by non-EU National for the position of directors, executives, employees etc. in IBCs are submitted to The Director of Civil Registry and Migration Department. These are only granted provided the individuals who seeks residence and employment together with the company that intends to employ them meet certain criteria.

# FORMATION PROCEDURE

# 7

According to Cyprus Law an application for the formation and registration of a company must be carried out through a Cyprus Law office.

The formation procedure of a company is, in general lines, as follows:

- Approval of the name of the company.
- Preparation and printing of the Memorandum and Articles of Association of the company in Greek and English languages.
- Filing with the Registrar of Companies the Memorandum and Articles of Association of the company in Greek language (duly signed by the subscribers), together with forms H.E.1., H.E.2., H.E.3., (duly signed by one director or the secretary) a copy of the approval of the Central Bank and the receipt for the payment of the registration duty. Form H.E. 1. is an affidavit by the lawyer of the company as to the legitimacy of the formation of the company. H.E.2. provides for the registered address of the company. H.E.3. provides for the appointment of the first directors and the secretary.
- As soon as registration of the company is effected the Registrar of Companies furnishes the secretary with the Certificate of Registration together with certified copies of the list of directors and secretary, shareholders, registered address, Memorandum and Articles of Association, a copy of the Certificate of Registration and a certificate of good standing of the company. Certified copies of the Memorandum and Articles of Association, and registration of the company are always given in Greek, but the lawyer of the company may prepare certified translations of these two documents. Certificates as to the list of directors and secretary, address of the company, shareholders certificates and certificate for the good standing of the company can be obtained in the English language. As soon as the certificate of the registration of the company is issued the company can arrange for the first meeting of the directors for statutory matters such as appointment of auditors, appointment of legal adviser, opening bank accounts, approval of the seal of the company, and of the Memorandum and Articles of association, appointment of the secretary etc.
- The whole application, formation and registration procedure can be completed within 10 to 15 working days.
- There are certain registration fees which must be paid upon the application for the registration of any company. The registration fees are €105 plus 0.6% of the authorised share capital at nominal value. Fast track registration of the company carries an additional €100 processing fee.
- Lawyers and other professional fees also apply and will depend on the complexity of the company setup, the drafting of the Memorandum & Articles of Association as well as the number of Certified copies of Company Certificates requested.

# INFORMATION NEEDED FOR REGISTRATION

# 8

Information needed for registration of an International Business company is detailed below:

- The names, addresses, occupations and nationality of at least one person or legal entity who is/are to be the shareholder/s or the beneficial owner/s of the shares of the company, irrespective of whether anonymity is required to be kept and nominees shall be used. Since the Memorandum & Articles of Association of the company must be signed by the subscriber/s, and in order to save time, the first subscriber/s of the company are usually employees or nominee companies who, upon the registration of the company, transfer their respective shares to the real shareholder/s. (In cases of anonymity the nominees sign a blank instrument of transfer of shares together with a trust deed, and the Share Certificates which they pass over to the beneficiaries who keep these to safeguard their interest).
- The name of the proposed company to be registered. It is advisable that several alternative names are given in order to save time and unnecessary correspondence. In cases where the name of the company is not an important element law firms have available a list of approved names ready for immediate use.
- The main objects of the company.
- The proposed authorised and issued share capital and the participation of each shareholder or beneficial owner in the company. The minimum authorised share capital required is €100.
- The name, address, occupation and nationality of at least one person to be appointed as a director, and the same particulars for the secretary, who can also be the single director. As previously stated one of these two people must be a person residing in Cyprus. It is advisable, however, to appoint more than two directors, so that a decision may be easily obtained. It is also advisable to appoint local directors if the management and control of the company must be in Cyprus. Although local directors are appointed to run the company, they act only upon the instructions received from the beneficial owners of the company.
- Bank references as to the credit worthiness, financial character, respectability and business integrity of the beneficial owners of the shares are required, unless they are well known foreign companies or are already involved in other Cyprus International Business companies. These must be provided in original letterhead.
- Certified true copies of the passport data pages for all the beneficial owners and/or all the non-resident Directors of the company.
- A short resume/CV of the professional career for all the beneficial owners and/or all the non-resident Directors of the company.
- Certified true copies of two (2) Utility Bills (electricity, telephone, water, etc.) for all the beneficial owners and/or all the non-resident Directors of the company. Original Utility bills do not have to be certified as true copies.
- The existing organisational structure of the beneficial owner/s business together with details of the future activities that will take place through the Cyprus IBC.
- An understanding of the beneficial owner/s current wealth status.

## ADVANTAGES OF INTERNATIONAL BUSINESS COMPANIES (IBCs)

# 9

- A great degree of respectability amongst companies registered in other tax incentive or tax haven countries. (Cyprus is not black listed in any country in the world)
- Cyprus is neither considered to be a tax haven nor laissez faire country but a tax incentive country
- no withholding of tax on dividends (unless you are tax resident in Cyprus)
- no capital gains tax (except on sale of immovable property situated in Cyprus)
- freely transferable accounts of any currency may be kept either in Cyprus or anywhere abroad without any exchange control restrictions
- no exchange control restrictions once the approval for the registration of the company is granted by the Central Bank
- all expenses (with some exceptions and restrictions) incurred for the earning of income as well as annual allowance on fixed assets are allowed as deductions
- the company's foreign employees working in Cyprus are liable to personal income tax at a rate from 0 to 35%, and if working outside Cyprus at 0% tax
- the foreign employees are exempt from social insurance contributions
- net profits of the company are subject to a corporate tax at the flat rate of 12.5%. This rate is paid irrespective of whether they are managed and controlled from Cyprus or elsewhere
- shareholders are not liable to an additional tax on dividends over and above the amount of corporate tax paid by the company as long as they are not resident for Cyprus Tax Purposes (less than 183 days physical presence in Cyprus in any year)
- exemption from stamp duty on any contracts entered into by International Business entities
- no estate duty on the inheritance of the shares provided the deceased was not domiciled in Cyprus
- Income derived from investing activities such as dividend income or profit from disposal of securities is not subject to corporation tax.

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# TAXATION OF INTERNATIONAL BUSINESS COMPANIES (IBCs)

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Currently, ALL companies in Cyprus, whether they are considered local or International Business, are subject to corporation tax of 12.5% on their taxable profits. Please refer to our publication "Cyprus – Tax Outline for 2019" for a more detailed explanation of the Cyprus Tax System.

# SUITABILITY OF CYPRUS

# 11

- existence of perfect postal (Datapost/Intelpost) telephone, including G.S.M. facilities, telex, telefax (facsimile), datel communications, Internet, ISDN and ADSL. Cyprus holds the third place in the world after the U.S.A and Canada
- well organised professional services of any kind, such as lawyers, auditors, management firms etc.
- good industrial relations
- minimum of red tape
- law and order prevalence
- favourable legal system based on the English legal system
- geographic position, excellent climate and pleasant living conditions
- good air connections (3 hours from Europe and 2 hours from the Arab Gulf)
- relatively low cost of living
- high quality hotels, houses and offices
- European standard of living
- availability of foreign schools
- excellent banking services, based on the English banking system
- freedom of movement of ALL currencies
- existence of bonded warehousing and yards
- availability of Freezones Bonded factories
- existence of double taxation treaties with a large number of countries
- possibility of legalisation of documents through the Cyprus Chamber of Commerce and Industry
- possibility of Membership of the International Business company in the Chamber of Commerce and Industry
- existence of all major courier services



## BASIC DATA ON CYPRUS

# 12

- Cyprus is located in the Eastern part of the Mediterranean, at the crossroads of Europe, Asia and Africa. It is the third largest island in the Mediterranean, and it covers about 9,500 square kilometres. It is approximately three and a half hours from Western European airports and the time is always two hours ahead of Greenwich Mean Time.
- The capital of Cyprus is Nicosia with a population of about 300,000 people.
- The climate is excellent, with an average of 360 sunny days per year. The temperature varies from 12 to 15 degrees Centigrade in December and 35 degrees Centigrade in August (average maximum). The population is 850,000 out of which 75% are Greek. The languages spoken are Greek and English.
- Cyprus has been an independent country since 1960. All executive powers are vested in the President of the Republic who appoints his cabinet for a 5 year term of office. The legislative authority rests with the House of Representatives elected for a 5 year period. The administration of justice is completely separate and independent.
- The judicial system is based on the English law, the common law and the law of equity.
- The currency of Cyprus is the Euro (€) divided into one hundred cents.
- Cyprus has been a member of the United Nations (since 1960), member of the Council of Europe (since 1961) the Commonwealth (since 1961) and the Non-Aligned Movement (since 1966).
- Cyprus is a member of the World Bank and the International Monetary Fund.
- Cyprus is a full member of the European Union from 1<sup>st</sup> May 2004
- Cyprus has excellent relations with all developing countries and the Arab world and maintains world-wide diplomatic missions.
- Wage rates are relatively low compared to most industrial countries.
- Cyprus maintains the privilege of third place in the world in communications development. More than 120 countries may be reached around the clock, through a fully automatic - direct telephone and facsimile system, whereas the rest of the world may be reached through telephone operators. GSM systems also in operation.
- Two hundred and eight countries are connected to the Cyprus International Automatic Telex exchange, on a fully automatic direct dialling system. The Cyprus Telecommunications Authority has also introduced the facsimile system and datel service. There is also an excellent internet network available with plenty of internet providers which offer connections services such as ISDN and ADSL.
- Cyprus is also a member of the Society for World-wide Interbank Financial Telecommunications (S.W.I.F.T.).
- Air and sea connections with Cyprus from Europe and everywhere else in the world are easily accessible and there are daily flights in and out of Cyprus to the Middle East, Europe, Asia, America and Africa. Cyprus has two main modern ports situated on the south coast of the island serving containerised bulk and break bulk cargo. Both ports are also used for transit trade, and Cyprus originated trade.
- There is a high standard of recreation, discos, bars, night clubs, good shows, restaurants, specialised restaurants, taverns, sandy beaches, archaeological sites, churches and monasteries, excursions, wine festivals, hotels etc.

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# NOTES

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# NOTES

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# THE COMPANY'S OFFICES IN CYPRUS

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**Nicosia (Head Office)**

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Postal address: P.O. Box 25552, 1310 Nicosia, Cyprus

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