



Cyprus: The International Business Services Sector, Challenges and Outlook

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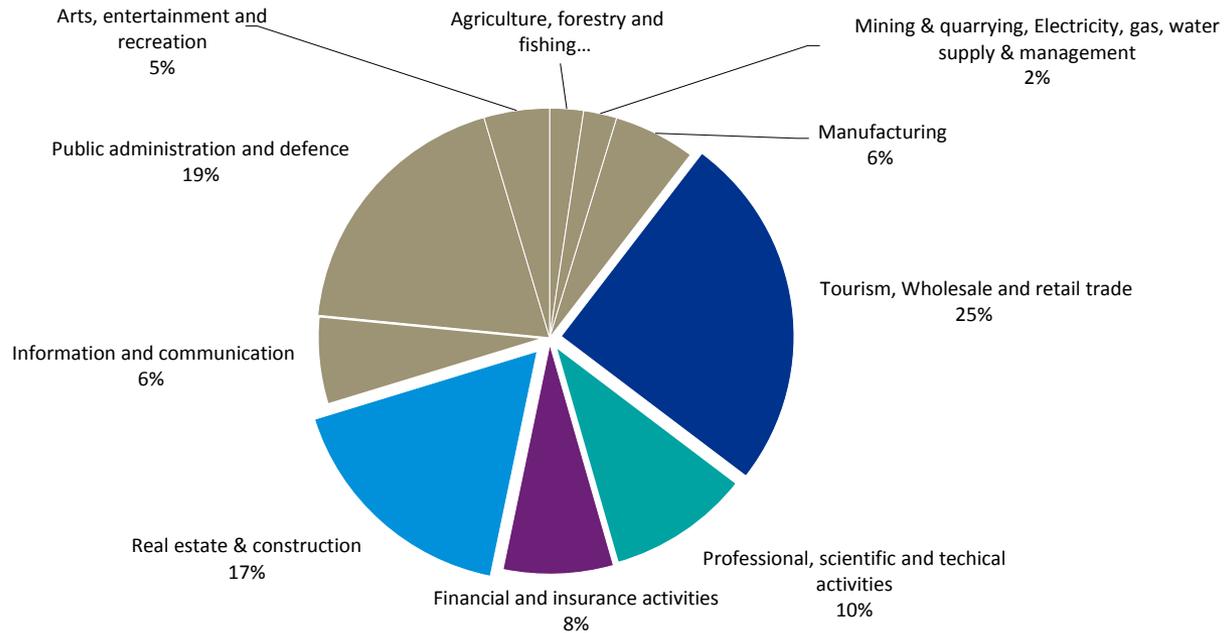
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Key pillars of the economy

Cyprus Gross Value Added (GVA) by sector 2019



Financial, Professional and Other Services

- The attractive tax system, the legal and regulatory framework and the educated workforce are the drivers of the “service economy” in Cyprus
- With an 8% (for financial and insurance activities) and 10% (for professional scientific and technical activities), services formulate one of the biggest pillars of the economy.

Tourism

- Tourism has been the traditional growth driver of Cyprus
- “Sun & Sea” branding has been the traditional force of attracting tourists
- The Cyprus government is aiming to enrich this by promoting all year round tourism and upgrading Cyprus’ offering.

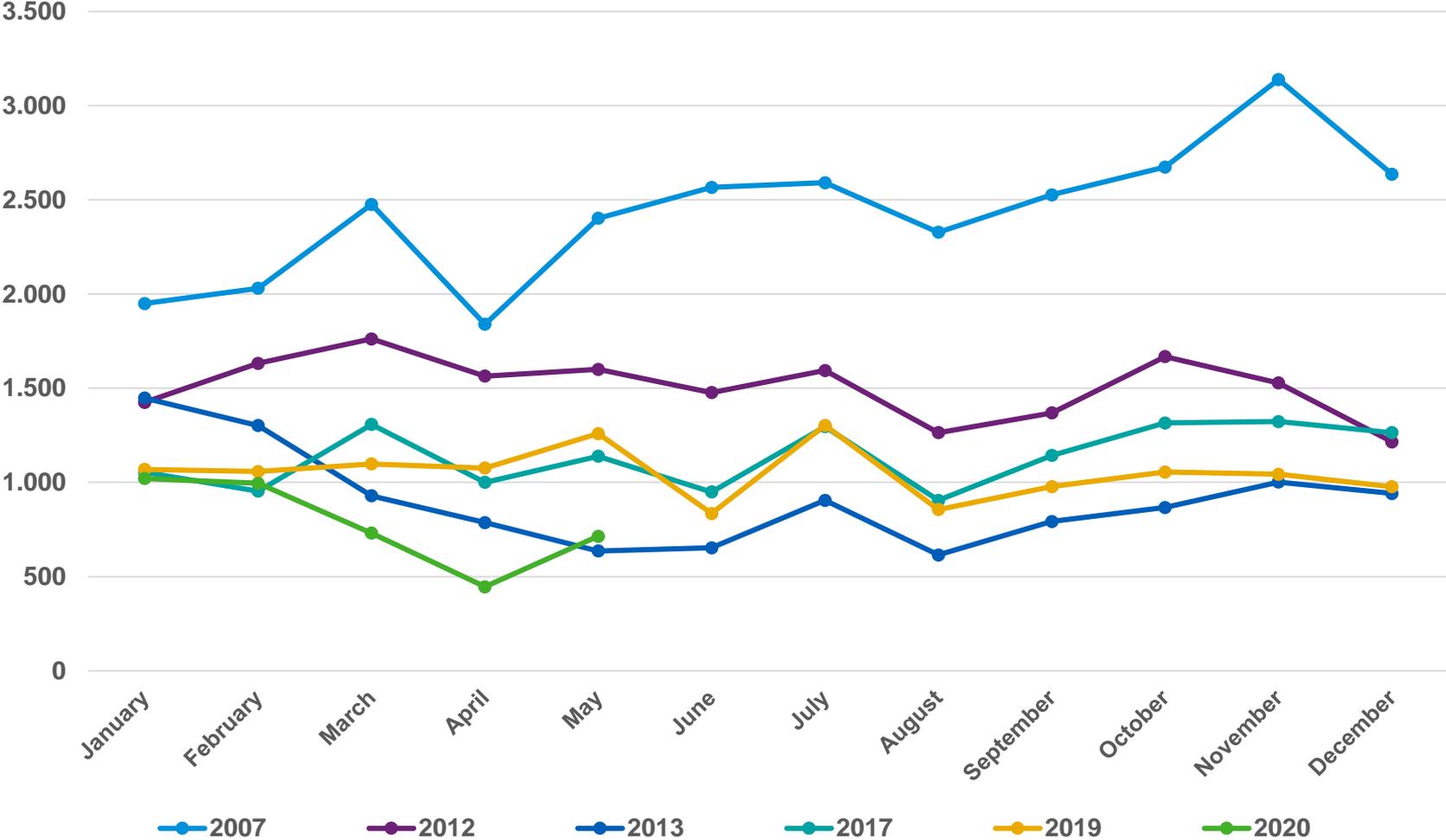
Real Estate and Construction

- Real Estate and Construction activities combine for a 17% of the GVA
- The sector has recovered strongly last year, mainly because of the immigration programs available and the external demand that followed, together with increased purchases by locals.

Employment by Economic Activity – 1st Quarter 2020 (Current)

			Males	Females
	TOTAL	417.057	220.256	196.801
A	Agriculture, Forestry and Fishing	11.020	7.787	3.233
B	Mining and Quarrying	1.026	973	53
C	Manufacturing	31.505	21.838	9.667
D	Electricity, Gas, Steam and Air Conditioning Supply	1.977	1.830	147
E	Water Supply, Sewerage, Waste Management and Remediation Activities	2.806	2.274	532
F	Construction	42.242	39.003	3.239
G	Wholesale and Retail Trade, Repair of Motor Vehicles and Motorcycles	68.601	36.324	32.277
H	Transportation and Storage	16.478	12.716	3.763
I	Accommodation and Food Service Activities	29.562	14.572	14.990
J	Information and Communication	12.002	8.091	3.911
K	Financial and Insurance Activities	21.536	9.242	12.294
L	Real Estate Activities	2.496	1.325	1.172
M	Professional, Scientific and Technical Activities	35.127	14.391	20.736
N	Administrative and Support Service Activities	13.163	5.961	7.202
O	Public Administration and Defence, Compulsory Social Security	33.627	18.959	14.668
P	Education	32.642	7.453	25.190
Q	Human Health and Social Work Activities	23.268	6.591	16.677
R	Arts, Entertainment and Recreation	7.596	4.403	3.193
S	Other Service Activities	12.368	4.594	7.774
T	Activities of Households	16.360	840	15.520
U	Activities of Extra-territorial Organizations and Bodies	1.653	1.089	564

Registration of New Companies



Choosing Cyprus



Geostrategic Position - in the middle of three Continents - Full access to European markets



More than 30 years experience as financial centre;



One of the lowest corporate tax rates in EU, 12,5%;



Part of European Union;



Strong Legal System based on Common Law Principles;



Low Set Up and Administration Cost – Multilingual personnel;



Dividend income and profit on sale of shares and other securities is tax exempt (non domiciled scheme);



Developed educational system with schools teaching in English



Tonnage Tax;



No withholding tax on outgoing payments (dividends-interest) and also Tax on overseas pensions is at one of the lowest rates at 5%;

Professional Service Sector

- The Sector has been restructured during the last years adopting the new Standards and Regulations and adjusted to the new needs of the investors and entrepreneurs;
- New service lines and products are being offered by the professionals of the sector;
- Many international firms created substance in the country;
- Cyprus managed to keep competitive advantages as a Financial Centre;
- The Double Tax Treaty Network is being extended
 - ✓ Russian DTT is being renegotiated
 - ✓ Expected to affect professional services sector if Russia does not adopt the same policy for all competitive financial centers
 - ✓ It does not affect companies whose shareholders are Russian Tax Residents
- Apart from traditional markets such as Europe and Russia, there has been enhanced interest for investments in or through Cyprus from new markets such as Asia (e.g. China, India), Africa, the Middle East and the Arab world.

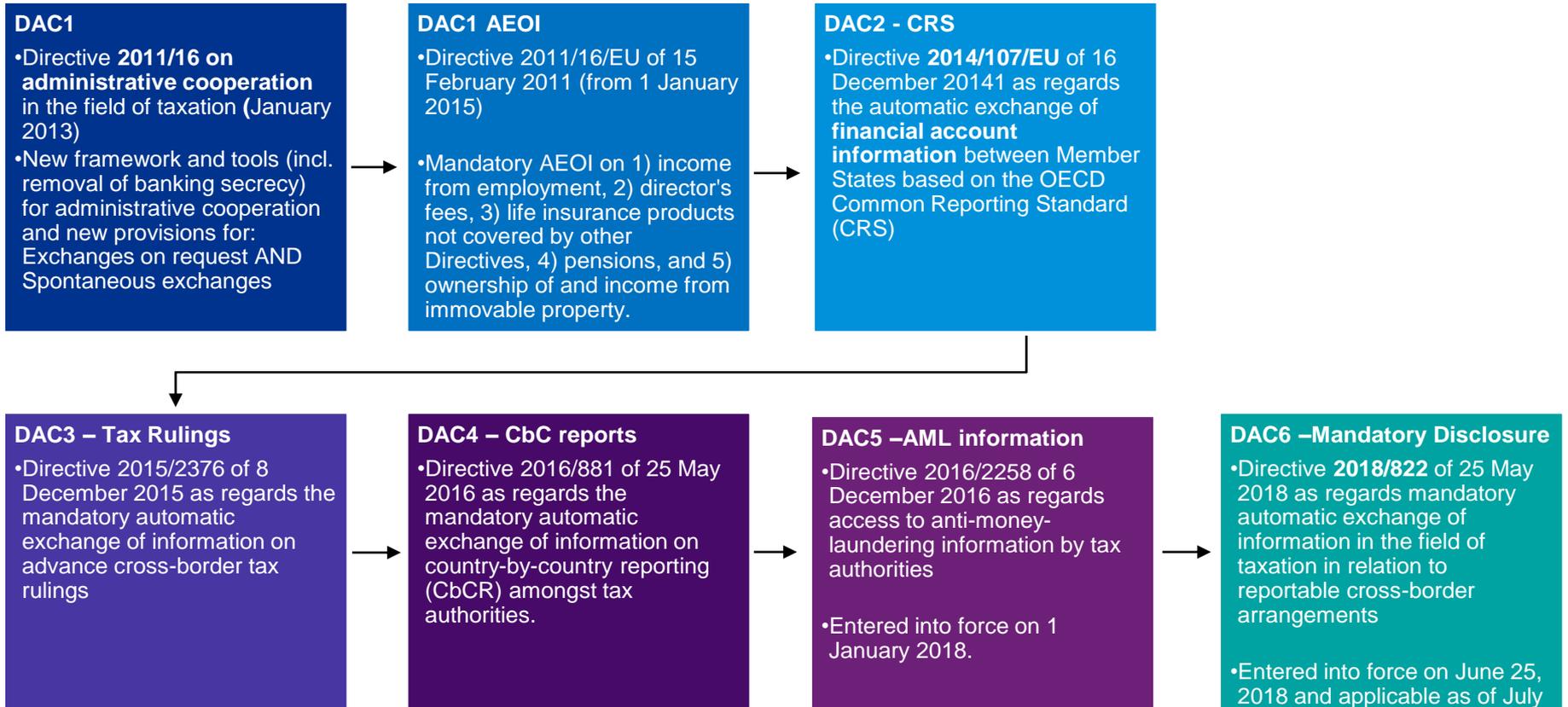
New Regulations Adopted (1)

- Anti Money Laundering Legislation fully harmonized with European Union Directives;
- “Shell companies directive”: The term “**shell company/entity**” refers to a limited liability company or any other legal/business entity bearing the following characteristics:
 - a) Has no physical presence or activity in the country of incorporation/ registration (other than a postal address). The physical presence of a company/entity is interpreted as:
 - the existence of a place of business or activity (owned or leased buildings) in the country of incorporation / registration.
 - Also, the absence of substantial management (meaningful mind) and administration could be interpreted as lack of physical presence.
 - The presence of a third person who merely provides services as a representative/proxy person, including the duties of the secretary of the company, is not in itself an indication of physical presence and/or
 - b) It has no established business activity, little or no independent economic value and no evidence to the contrary.
- Cyprus adopted the new European Union (EU) statutory audit legislation

New Regulations Adopted (2)

- **FATCA:** The Foreign Account Tax Compliance Act (FATCA) is US legislation enacted by US Congress to prevent offshore tax abuses by US persons. The FATCA rules are wide-ranging and force global financial institutions, investment entities, as well as national banks and other financial organizations to report details on their US clients directly.
- **Cyprus has implemented the Common Reporting Standard (CRS) for the automatic exchange of information (AEOI):**
 - The Common Reporting Standard (CRS) is a global standard for the automatic exchange of financial account information. It was developed by the Organisation for Economic Cooperation and Development (OECD).
- **Transfer Pricing Rules:** The Transfer Pricing regime concerns tax treatment of intra-group financing transactions putting an end to the over-pricing of intra-group invoices so that any low tax rate that may apply in one country can be exploited.
- **The Anti-Money Laundering Directive** introduce rules regarding ultimate beneficial ownership, thus, the national central register (“Public Registry”) is formed, whereby records of the beneficial owners of all legal entities registered in Cyprus will be kept.

Automatic Exchange of Information – State of play



**Implementation monitored by the European Commission
(launch of several infringement procedures in 2018)**

Geopolitical Developments

Local Political Developments

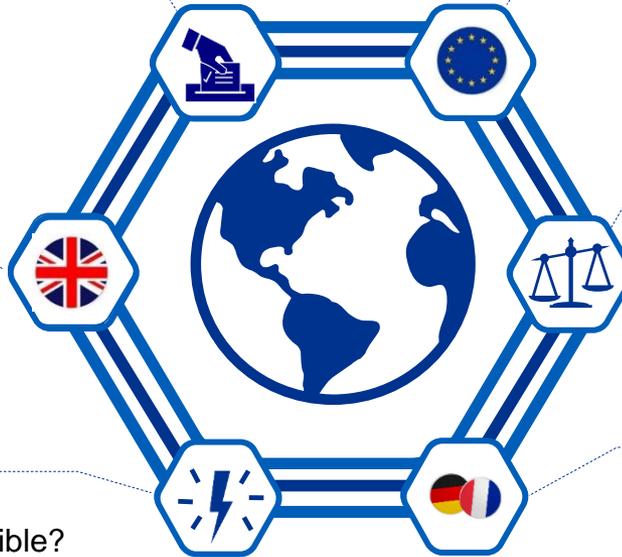
- Spain (New coalition)
- United Kingdom (Change of PM)
- United States (2020 Presidential Election)

Brexit Impact

- Change in the balance of powers within the EU?
- New coalition of small countries?

US-EU Trade

- Is a trade war between Europe and the US possible?



EU Institutions

- New EU Parliament and EU Commission
- Focus on digital taxation and climate action

Taxation

- Energy Taxation
- Mandatory Disclosure Rules
- Digital Economy
- State Aid
- European Green Deal

The Franco-German Cooperation

- Plans to create a common corporate tax base between France and Germany
- Common declaration on taxation of the digital economy
- Euro-Zone / Euro-Budget (Macron)

Financial Transaction Tax



EU FTT first proposed by the EU Commission in 2011

- Moved under “enhanced cooperation” in 2013
- Belgium, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain are still at the table.



German proposal for FTT launched in December 2019

- Tax rate of at least 0.2%
- Acquisitions of shares issued by companies based in a participating country with market capitalization > EUR 1 billion
- Exemption for pension funds Mutualization of revenues generated by the new tax



What are the chances of success?

- Pathway ahead looks challenging
- Austrian Chancellor recently rejected German proposal citing concerns:
 - i. that individual investors would be affected; and
 - ii. that speculative activities were not in scope.
- Minimum number of members required (9) for enhanced cooperation if Austria withdraws.
- Talks will continue between remaining members of enhanced cooperation mechanism before proposal comes before future ECOFIN meeting.



Sectors of Cyprus Economy: Shipping and Filming Industries

Shipping Industry

- One of the largest maritime clusters worldwide
- European “Open Registry”
- Advanced maritime infrastructure
- Competitive EU-approved Tonnage Tax system
- 3rd largest merchant fleet in the EU and among the largest merchant fleets worldwide
- Autonomous Shipping Deputy Ministry to the President.



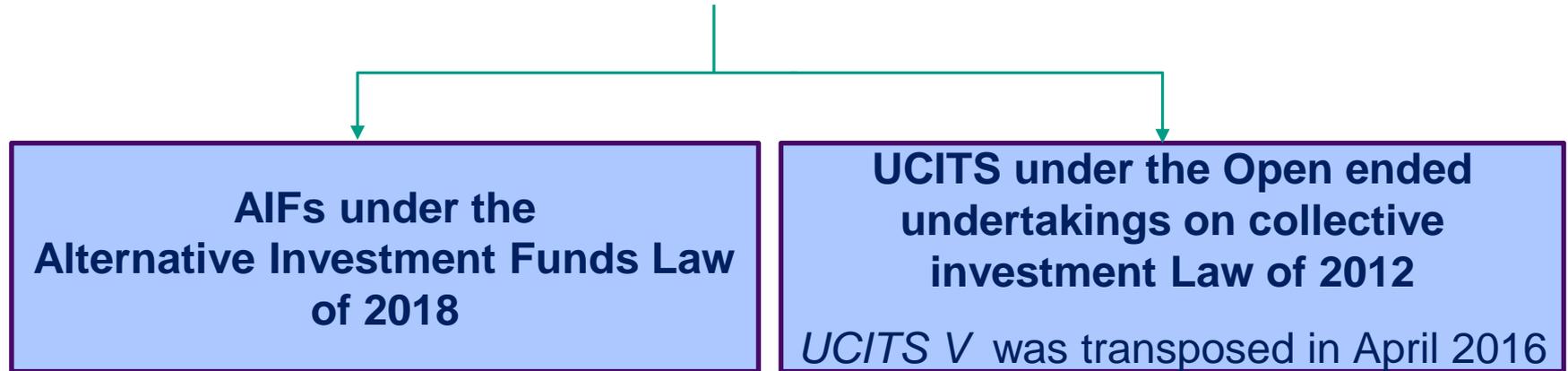
Filming Industry

- Tax incentives
- 300+ days of sunshine
- Large variety of captivating sceneries
- Harmonious blend of centuries of art and culture
- Short internal distances
- Short distances from major neighbouring countries.



Investment Funds

Two broad types of investment funds in Cyprus / One regulator



What is an Investment Fund

- A pool of capital raised from a number of investors that is used to collectively purchase assets/securities in accordance with a defined investment policy for the benefit of those investors
- Broadly speaking, alternatives are investments in assets other than stocks, bonds and cash (commodities, for example) or investments using strategies that go beyond traditional ways of investing, such as long/short or arbitrage strategies. Because alternatives tend to behave differently than typical stock and bond investments, adding them to a portfolio may provide broader diversification, reduce risk, and enhance returns. Real Estate is also considered an alternative investment.

Why set up your headquarters in Cyprus?

- A can-do business environment

Cyprus' wide range of services make starting and running a business an easy task to implement, with low set-up costs and fast filing.

- The business landscape and economic model of the island offers a variety of industries to engage with: Banking & Financial Services, Investment Funds, Shipping, Tourism, Health & Wellness Tourism, Real Estate, Start-Ups & Innovation, Energy.
- With more than 30 years of experience as an International Business Centre, more than 4.000 registered accountants & 700 registered accounting firms (including all major global firms) and more than 3.000 registered lawyers and 160 law firms, headquartering office implies substance in Cyprus and this is of vital importance, given the transparency of financial reporting and the adoption of Common Reporting Standards by the Republic of Cyprus.

Remain a strong and Competitive Financial Centre

- Adjust to the changes in the international political and economic environment
- Study and “copy” the best practices from other jurisdictions
- Cyprus to be used as “accumulation of wealth” jurisdiction - Cyprus International Trusts – Foundations draft legislation
- Enhance secondary markets (CSE Role)
- Cross Boarder Provident Funds
- Redrafting the Companies and Taxation legislations?
- Use of technology
- Penetrating new markets and financial products



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