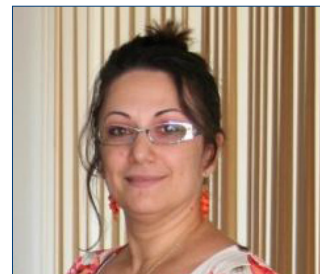

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special NEWSLETTER


László Váradi
Managing Director
LAVECO Kft.
Budapest

Cyprus: a tax haven within the EU?

Adelina Santis
Managing Director
LAVECO Ltd.
Larnaca



There is a country at the junction of the three continents of Europe, Asia and Africa: Cyprus. It is the smallest EU member state by both population and territory. Anyone who has visited the southern side of the island, inhabited primarily by Greek Cypriots, will have experienced the tangible prosperity: 800 000 inhabitants and 600 000 cars. The state budget in 2008 is expected to produce a surplus, and inflation is low. Unemployment is virtually non-existent; although on paper it is currently some 3.3% (2007), this is counter-balanced by the 80 000 or so foreign workers who find work in the tourism and agricultural sectors.

For many years the driving force behind the economy was tourism, but nowadays this is no longer the case. The most significant income received by the state now comes from financial services. From time to time, the income of the Registrar of Companies now reaches 1 000 000 euros per day. This figure is

now given in euros, as since January 1st 2008 the official currency of Cyprus has been the Euro.

LAVECO Ltd. has been present in Cyprus since 1999, in the form of our own subsidiary company. We have been carefully watching the development of the system by which Cyprus alone within the European Union has committed itself to long-term low tax rates. The financial results of recent years have shown conclusively that in the case of a small country this financial strategy can produce the expected results. Foreign investors, on the other hand, can operate their companies within the framework of a stable and reliable financial environment and regulatory system.

With 10 years of experience in Cyprus behind us, we thought it would be a good idea to outline the main benefits of Cypriot companies and the tax system, which may be of use to both existing and future clients. Happy reading and calculating!

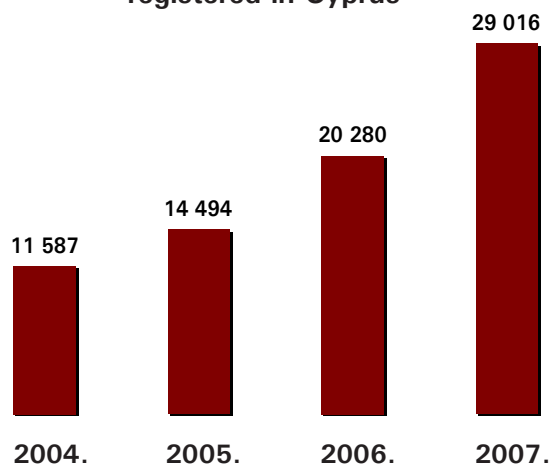


Country name:	The Republic of Cyprus
Location:	Island in the Mediterranean, close to the southern coast of Turkey
Area:	9250 km ² (area of the whole island)
Capital city:	Nicosia
Time zone:	GMT + 2
Official currency:	Euro
Official language(s):	Greek and Turkish, but English is widely used
Religion:	The majority of the Greeks are Orthodox, while the Turks are primarily Muslim

Main characteristics of companies registered in Cyprus:

Company type:	The most commonly registered company is the private limited company by shares.
Legislation:	Company Law, Cap. 113 as amended.
The registration process:	The Memorandum and Articles of Association of the company must be signed by the shareholders and witnessed. The Greek version is then filed with the Registrar of Companies. If the document satisfies all legal requirements, the Registrar of Companies issues the Certificate of Incorporation. Separate certificates are issued confirming the details of the directors and secretary, the shareholders, and the registered office.
Time required for registration:	2-3 weeks.
Possible company endings:	Limited or Ltd.
Are shelf companies possible?	Yes.
Restrictions on company names:	The company name must first be approved by the Registrar of Companies. The expedited procedure takes approx. 4 working days. Certain words, such as Euro, European, Royal, National, Global, Imperial, Cooperative, Investment, Financial, Trust, Insurance, Bank, Building Society, Municipal, Chamber of Commerce, University, are either not permitted, or require special prior approval from the authorities.
Company activities:	Once formed, the company can carry out any of the activities set down in the Memorandum and Articles of Association. These documents include an extremely wide variety of activities. Activities involving finance, insurance and asset protection are subject to the obtaining of special licences.
Number of shareholders:	Minimum 1, maximum 50, who may be either private individuals or corporate entities.
Number of directors:	Minimum 1, no maximum is placed by law on the number of directors.
Capitalisation requirements:	The generally accepted capital is 1000 euros.
Type of shares:	Although the law officially allows for the issue of bearer shares, the Registrar of Companies only registers companies with registered shares.
Company secretary:	A company secretary must be appointed throughout the active life of the company.
Registered office:	The company must have a registered office in Cyprus throughout its active life.
Company seal:	In accordance with Anglo-Saxon law, the use of a dry seal is widespread.
Accounting requirements:	Audited financial results must be filed annually. The financial year coincides with the calendar year.
Details publicly available from the Registrar of Companies:	Company name, registered office address, registered number, date of registration, details of director(s), company secretary and shareholders.

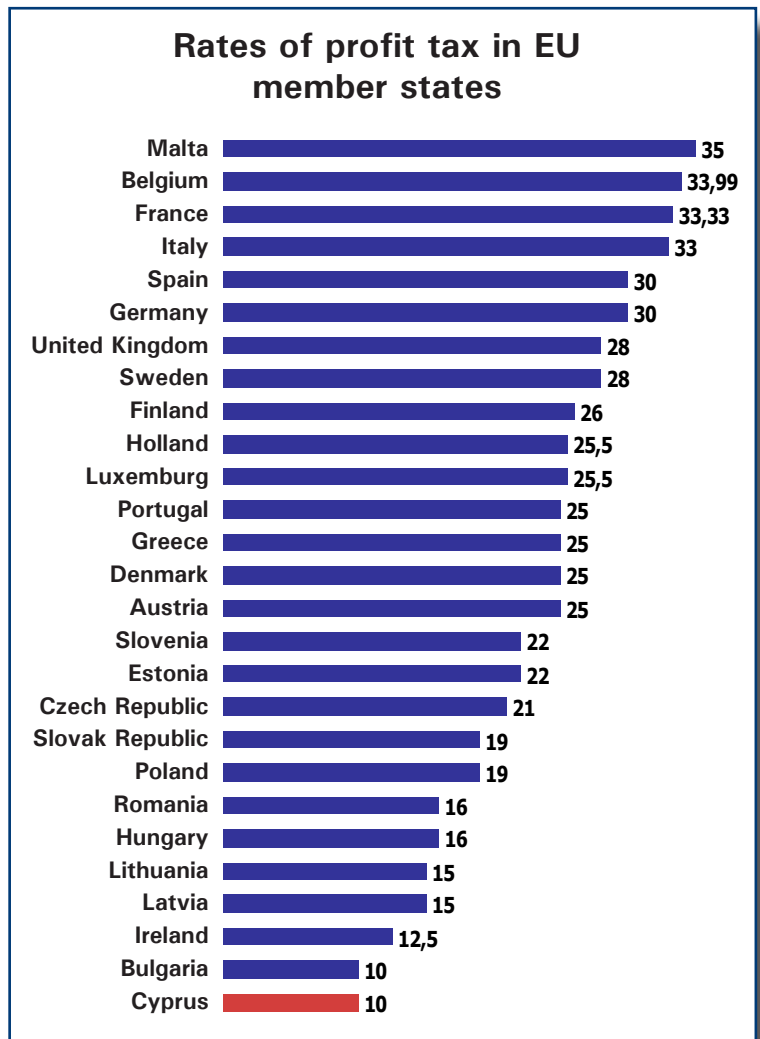
Number of new companies registered in Cyprus



TAX RESIDENT COMPANIES: Companies which are registered in Cyprus, and whose “management and control” takes place in Cyprus can be considered as Tax Resident in Cyprus. Only resident companies are subject to corporate tax, and only they can take advantage of agreements entered for the avoidance of double taxation and obtain EU VAT numbers.

The benefits of the Cypriot tax system for tax resident companies

- The basic rate of corporation tax is **10%**, the lowest in the European Union.
- Dividends received by Cypriot companies are not **generally** subject to tax in Cyprus. The legislation treats income of this kind as a special, non-taxable, category
- There is **no withholding tax** in Cyprus on **dividends** paid by Cypriot companies to either private individuals or companies.
- **Generally, there is no tax in Cyprus on profit from the sale of stocks and shares.** The term “shares” is very broadly interpreted by the tax authorities in Cyprus; the shares in a limited liability company not registered in Cyprus, for example, also fall into this category.
- Only **50% of income from interest on the repayment of loans is taxable in Cyprus**, provided that this is not in the form of financing within a group of companies, and not from financing as the usual business activity of the company.
- **Salaries and honoraria** not arising from activities performed in Cyprus and paid to private individuals not resident for tax purposes in Cyprus are **tax free** in Cyprus.
- If a company is tax resident in Cyprus, then it can apply for a so-called **EU VAT number**, which facilitates the acquisition and sale of goods and services within the EU. It should be noted, however, that the EU VAT number is not supplied automatically. The authorities treat every application on an individual basis, investigating the background and activities of the company making the application, as well as the identity of the individuals behind it.
- The **accounting** and administration systems are extremely **liberal**. In accordance with international standards, all companies must prepare audited accounts each year, but the tax laws in Cyprus do not recognise certain terms and concepts. In this way, there are no restrictions in regard to loans to members, regulations on under-capitalisation are not applied, and transactions performed with controlled foreign companies (from countries with low rates of tax) are not examined.
- Cyprus has entered into an **extremely wide range of agreements** for the avoidance of double taxation. There are currently 43 such agreements ensuring the advantageous operation of companies registered in Cyprus; these are primarily of benefit to holding companies.



PRIVATE INDIVIDUAL RESIDENT for tax purposes in Cyprus: A private individual is considered resident for tax purposes in Cyprus if, he/she spends a total, over one or more visits, of more than 183 days per year in Cyprus.

The advantages of the Cypriot tax system for tax resident individuals:




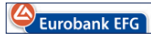
- The **first 19 500 euros** of salaries paid to private individuals resident for tax purposes in Cyprus are **free** from personal income tax.
- Private individuals are not required to pay tax on the sale of real estate or the shares of companies owning real estate, apart from capital gains tax. **In this way, most income from the sale of stocks and shares is free from tax. This applies to both stock exchange and non-stock exchange transactions.**
- Private individuals resident for tax purposes in Cyprus are **not subject to tax on gifts.**
- Private individuals resident for tax purposes in Cyprus and their heirs are **not subject to inheritance tax.**



The **banking system in Cyprus** is **stable**, and, with the exception of cash movements, the banking transactions of foreigners are treated very **liberally**. It is possible to **open accounts** for both private individuals and companies with all of the large banks. Accounts are generally operated via the **Internet**, and the banks provide a **wide range of bank cards** to go with the accounts.

The major banks on the island are the Bank of Cyprus, Marfin Popular Bank, Hellenic Bank, Alpha Bank and Eurobank EFG.

The services offered by LAVECO Ltd.:

- The **registration of companies in Cyprus**, and the sale of ready-made "shelf companies". Company formation in more than **40 jurisdictions** worldwide.
- The opening of bank accounts in the major banks in Cyprus: (Bank of Cyprus , Laiki Bank , Hellenic Bank , Eurobank EFG ).
- The opening of accounts in banks in many other countries.
- Secretarial services: mail forwarding, telephone and fax message forwarding from Cyprus and other jurisdictions.
- Arrangement of **accounting and auditing services.**
- Company management: provision of the **complete management** and administration of **companies registered in Cyprus.**
- Consultancy in relation to the formation and operation of companies in Cyprus.

Please feel free to visit our website at www.laveco.com.

The staff in any of the offices of **LAVECO Ltd.** will be happy to help you.

Thank you for your attention!



THE LAVECO GROUP

WEB SITE: www.laveco.com

UNITED KINGDOM LAVECO Ltd.

Third Floor, Blackwell House,
Guildhall Yard, London
EC2V 5AE United Kingdom
Tel.: +44-207-556-0900
Fax: +44-207-556-0910
E-mail: london@laveco.com

HUNGARY LAVECO KFT.

33/a Raday street,
1092 Budapest
Hungary
Tel.: +36-1-217-96-81
Fax: +36-1-217-44-14
E-mail: hungary@laveco.com

CYPRUS LAVECO LIMITED

Despina Sofia Complex
Apartment 202, United Nations 8
Drosia 6042, Larnaca, Cyprus
Tel.: +357-24-636-919
Fax: +357-24-636-920
E-mail: cyprus@laveco.com

ROMANIA OPTITAX CONSULT S.R.L.

59 Buzesti Str., A5 Block
1st Scale, 1st Floor, 62nd Flat
1st District, Bucharest, Romania
Tel.: +40-21-311-61-76
Mob: +40-747-595-132
Fax: +40-21-311-61-82
E-mail: office@optitax.ro

BULGARIA LAVECO OOD

"Porto Lagos" No.1, Ent.2, Floor 5,
Ap.42, 1463 Sofia, Bulgaria
Tel.: +359-2-953-2989
Mob: +359-888-126-013
Fax: +359-2-953-3502
E-mail: bulgaria@laveco.com

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