Answer-to-Question-_1_

Section 2 of the Income Tax Law (Law 118/2002, "the Law")defines permanent establishment (PE) for the purposes of income tax law. The definition of a PE in the Law a "fixed place of business through which the business of an enterprise is wholly or partly carried on", and it specifically mentiones the definition of a branch.

Therefore the definition of the PE is met because based on the facts business is carried on. There is no need to own the premises, simple let of offices is enough. A PE under the Law is taxable for any activities on profits made in Cyprus based on the 12.5% corporate tax rate.

Investment activities and provision of financing

Any dividends payable are exempt from Income tax but are taxable under Special Defence Contribution (SDC) at the rate of 17% in case of a resident person (and domicile in case of individuals).

The same principles as with dividends, apply for interest (for which SDC is 30%) as well. However, interest in financing activities may be considered as business income and taxed as income.

Sale of premises

Any gain made from the sale of the immovable property situated in Cyprus is subject to Capital Gains Tax under the Law 52/1980.

Any gain made from the sale of the premises, on the difference between the 500k euro and the 350k euro indexed for inflation is subject to capital gains tax on 20%.

Interest on Loans

Section 33 of the Law, which states that any transactions between related entities should be done at arm's length. Despite the margins set by the entities, the margin of 0.25% (although acceptable before) is no longer acceptable by the Tax Authorities, having regard to the new circular of the Tax Authorities dated 30 June 2017. Under the said circular, any previous tax rulings given for the transactions on back to back loans are no longer valid.

Under the said circular, which applies to back to back loans i.e. on loans provided from borrowed funds, a transfer pricing study should be done in order to be able to justify any interest imposed between related entities.

Under a transfer pricing study, the terms of any agreement between independnt parties, the functions, risks and assets will have to be assessed in order to delineate such transactions with the relevant transactions.

Another solution would be, as per the circular, to use the simplified measure approach, where an after tax profit margin of 2% would be acceptable.

in such a case, if the guidelines pursuant to the circular are not followed and they decide that the margins set are not at arm's length, adjustments of profits may be made by the Tax Authorities(corresponding adjustments would have to be made by other countries).

Group relief

Because the branch incurs losses, one way to relieve these losses (it is the intention of the owners) would be to set up a company for those losses, which would be a subsidiary of the Cayman SEC Holdings.

For two companies to be considered connected for purposes of loss surrendering, direct or indirect participation of 75% is necessary.

In this scenario, if Cyprus has a Double Tax Treaty or an agreement for exchange of information with the Cayman Islands, where the intermediary company is located, then the subsidiary that will be formed will be able to surrender its losses to the Cyprus SEC Holdings.

Losses incurred, as the Law, may be carried forward for 5 years.

Section 9B of the law - Notional Interest Deduction

For any equity investment made post 2015, a company may apply the notional interest deduction provision provided under section 9B of the Law.

The notional interest deduction granted is calculated on 3% plus the 10 year government bond yield of the country in which the investment takes place, with the lowest rate of yield being that of Cyprus.

in this scenario the notional interest deduction for funds invested in Russia would be up to 10.59% of the loans provided to russian companies.

The said section cannot exceed 80% of the taxable income derived from such investment.

loans out of equity investment

The above circular of June 2017 does not apply to such transactions because it comes from equity investment. However, the loans granted would still need to be at arm's lenght based on S. 33 of the Law.

Liquidation

any undistributed profits of the relevant and the last 5 years will be deemed to have been

distributed to the shareholders which is subject to SDC 17%. in this case no SDC will arise as the shareholder is a non-resident in Cyprus.

Dispoal of assets

Any disposal of the activities of the branch will be considered a selling of trading goodwill and any gain made would be subject to tax in Cyprus.

---------DO-NOT-EDIT-THIS-DIVIDER----------

Answer-to-Question-_2

1)The first issue to consider in this scenarion is the residence position of Mr Abdul.

Residency

For an individual to be considered Cyprus Tax Resident they have be present in Cyprus for a period or periods exceeding 183 days in a calendar year (1 January - 31 December each year). Obviously, Mr. Abdul does not qualify.

Another way to become Cyprus Tax Resident, post 2017, is the 60-days rule as per the Cyprus Income Tax Law (the Law).

For this provision to apply, an individual

a) has to be present in Cyprus for more than 60 days
b) they must not have been present in another state for more than 183 days
c) they must not be residents in another state
d) they must be employed, self-employed or hold a position of director in a resident

Company
e) must have a permanent home in Cyprus (either owned or rented).

In the scenario given in year 2018, Mr Abdul stayed in Cyprus for more than 60 days, he was not tax resident elsewhere (as per the facts), he did not reside in any state for more than 183 days, he works and is director of Cyprus Tax Resident (assuming the company's management and control takes place in Cyprus as he participates in board meetings of the company).

He will therefore be considered Cyprus tax resident for 2018 and will be taxed on his worldwide income.

Employment benefits

Cyprus offers incentives for employees who were not tax residents in Cyprus in the past.

One incentive is the 20% (capped at 8550 euro) off emoluments for employment exercised in Cyprus if the person was not tax resident the previous year. The 20% exemption applies from the next year of the year the employment had commenced, This incentive, as the law is now, terminates at the end of 2020.

Another incentive of 50% off emoluments for employment exercised in Cyprus is given to individuals who were not tax residents the previous and the previous 3 out of 5 years of the year of starting employment. This incentive is given to individuals with salary over 100k euro. The incentive is granted from the year of starting employment and lasts for 10 years.

In this scenario, Abdul qualified for the 50% exemption from 2017, because his income for above 100k euro (110k euro) and he started his employment the year 2017. Additionally he had not been tax resident in Cyprus for the previous 3 out of 5 years, neither was he resident in 2016 (he was not working in Cyprus, neither was the 60-days

rule in force in 2016 for him to qualify as resident).

In this scenario, Mr Abdul will be able to take advantage of the 50% exemption until 2027.

Director's fees

As per the Income tax law, he will be taxed on this income in Cyprus.

Dividends

Dividends are specifically exempt from income tax. However they are taxed under Special Defence Contribution on 17%.

Interest

Interest is specifically exempt from income tax.However it is taxed under Special Defence Contribution on 30%. As interest is exempt from income tax, and no SDC is payable in Cyprus (he is non domicile as will be discussed below), any withholding tax remains at cost to him.

2)

150k*50/100=75k
75k+10k=85k

Taxable income will be

(85k-60k)*35/100= 8750 euro
8750+10885 (accumulation up to 60k)= 19635 euro

Tax to be paid in Cyprus for 2018 is 19635 euro.

3) In the scenario, we are ginen the fact that Mr. Abdul is not Cyprus domicile, he is Qatari domicile. Under SDC Law (Law 117/2002), for a person to be liable to SDC in Cyprus, they both have to be residents under the income tax laws and Cyprus Domicile pursuant to the Wills and Succession Law, CAP 195, i.e. he has to have a domicile of origin or domicile of choice.

Although Mr. Abdul is Cyprus resident, he is not Cyprus domicile.

As per the facts, Mr. Abdul is does not have the domicile of origin in Cyprus, he will not be liable to any SDC in Cyprus. However, if he remains in Cyprus for a period of consecutive 17 years in 20 years' time, he would be liable to SDC.

---------DO-NOT-EDIT-THIS-DIVIDER----------

Answer-to-Question-__3_

1) For any equity investment made post 2015 in Cyprus tax resident Company, a company may apply the notional interest deduction provision provided under section 9B of the Law.

The notional interest deduction granted is calculated on 3% plus the 10 year government bond yield rate of the country in which the investment takes place, with the minimum rate of yield being that of the Republic of Cyprus.

The said deduction as per the said section cannot exceed 80% of the taxable income derived from such investment.

2) One way to reduce tax, would be under section 9B of the Income Tax Law (Law 118/2002, the Law) to participate by issuing shares, under the notional interest deduction rule. One way would be to issue shares each year and claim notional interest dedution.

Under this structure, although equity will be issued in order to claim the notional interest deduction, dividends would be payable to AUS Co and RusCo. The deemed distribution rules would not be applicable because the shareholders are not Cyprus residents.

Any income generated in Cyprus out of royalties from a person who is not tax resident in Cyprus, is subject to 10% withholding tax.

In case there is participation of 25% between two companies located in the EU, no withholding tax should be applied as per section 21 of the Income Tax Law in Cyprus.

we are not given any percentages of participation of the AUS co and Rus co. However, assuming that the participation is more than 25%, no withholding tax will be paid in Cyprus.

Royalty rates should be calculated on arm's length as per section 33 of the the Law. This would require a transfer pricing study under which would have to be made.

Under a transfer pricing study, the terms of any agreement between independnt parties, the functions, risks and assets will have to be assessed in order to delineate such transactions with the relevant transactions.

in case the rate is not based on the arm's lenght principle, the Cyprus Tax Authorities may adjust the profits of CypCo. In such a case, under EU Law and double tax treaties, Austrian and Russian Tax authorities will have to provide adjustments as well.

---------DO-NOT-EDIT-THIS-DIVIDER----------

Answer-to-Question-_5__

Section 2 of the Income Tax Law (Law 118/2002, "the Law")defines permanent establishment (PE) for the purposes of income tax law.

As with the OECD Model Tax Convention (OECD MTC), there are different types of PEs, such as the fixed place of business, the building site/construction PE, and depented agent PE.

The two provisions, i.e. s. 2 of the Law and article 5 of the OECD MTC, are identical, however, after the updates of the OECD MTC, and especially the 2017 update, some discrepancies have occurred.

A PE under the Law is taxable for any activities on profits made in Cyprus based on the 12.5% corporate tax rate.

Fixed place of business

The definition of a PE in the Law is "fixed place of business through which the business of an enterprise is wholly or partly carried on", and it specifically mentiones the definition of a branch.

Both in S. 2 of the Law and s. 5 of the OECD MTC, a PE includes:

a) a place of management
b) a branch
c) an office
d) a factory
e) a workshop, and
f) a place for extracting natural resources suchas oil or gas, and mine.

Building site/construction site

Under the OECD MTC, s. 5, a building site or construction project constitutes a PE only if it lasts more than twelve months. However, under the Law in Cyprus, such a PE would exists in Cyprus if its presence in Cyprus is more than 3 months. Therefore this is a major difference. Of course, this provision would apply in the absence of Double tax treaty, of which the provisions will override the domestic provision.

Preparatory and auxilliary activities

Any activities that are considered of auxilliary and preparatory nature will not be deemed to constitute a PE, both under s. 2 of the Law and s. 5 of the OECD MTC. these two provisions are identical in both the Cyprus Law and the OECD MTC.

However paragraph 5(4)(1) has been inserted in the OECD MTC, which is in addition to the above provisions. This provision provides that if the overall activities of an entity, despite being separated as to all show that they are of preparatory and auxilliary nature, they might be considered all together to constitute a PE.

This provision is known as the anti-fragmentation rule which aims to catch activities that are fragmented by an entity in order to avoid creating a PE in a country. This provision does not exist in the Law as it currently stands and s. 2 will probably have to be amended.

Dependent agents

it is a principle that even if there is no PE in a state under the fixed place of business and the construction PE, that if therea person in the other state that acts for the enterprise then a PE would be considered. That person would not be acting as independent agent and its income would largely depend on the enterprise for which it acts.

As far as dependent agents are concerned, the provisions of the OECD MTC have been amended so as to include in the wording of artcile not only a person that habitually contracts on behalf of an entity, but also includes now the activity of *"habitually playing the principal role leading to the conclusion of contracts that are routinely concluded without material modification by the enterprise and these contracts are:*

a) in the name of the enterprise
b) involve the transfer of ownership or the right to use a property owned by the enterprise
c) for the provision of services"

The above provisions in Italics are not included in s.2 of the Law and have been inserted in the OECD MTC after the Law 118/2002 took effect. It is expected that those provisions will be updated, or at least will be included in the treaties signed by the Republic of Cyprus.

It is obvious, that despite being identical, there are differences between the two provisions, especially in the passage of time from the OECD in order to catch arrangements that are structured in a way to avoid paying taxes.

---------DO-NOT-EDIT-THIS-DIVIDER----------

Answer-to-Question-_7__

The statement refers to the provisions included in the Cyprus Income Tax Law (law 118/2002) in sections 26-30 and specifically relates to the section "reorganisations". Cyprus, has implemented the Merger Directive into its Law under those sections.

Reorganisation can be done by different ways which under the law can be done either merger between companies, division, partial division, transfer of assets and exchange of shares.

Merger can be done in three manners:

a) one or more companies, on being dissolved, without going into liquidation, transfer all their assets and liabilites to another existing company, in exchange of shares or shares and cash consideration.

b) two or more companies, on being dissolved, without going into liquidation, transfer all their assets and liabilites to a new company that they form, in exchange of shares or shares and cash consideration.

Any cash payments made should not exceed 10% of the nominal value of the issues shared, or if no nominal value exists, of the accounting par value of the shares.

c) a fully owned subsidiary transfers all its assets and liabilites to the parent company.

Under the reorganisation of division, a company, on being dissolved without going into liquidation, transfers all its branches of activities to two or more other companies in exchange of shares of its shareholders at the same ratio they had been holding shares in the transferring company.

Under partial division, one branch of activity remains in the transferring entity. Therefore in this case, the transferring entity does not cease to operate.

under the exchange of shares provision, the company acquiring the shares is not dissolved and acquires the shares in a company, in exchange of shares to the shareholders of the company being acquired.

Reorganisation is very important from a tax perspective, because under reorganisation (as will be explained below) no balancing statements need to be made, and therefore any profits made out of reorganisation are exempt from tax.

Furhtermore, any capital gains tax, stamp duties and land registry fees are not payable in case of organisations.

However, there are anti-avoidance provisions in the legislation,in case of reorganisations which have the aim of avoiding any tax liabilities and are made for valid or reasonable ecomonic purpose, and only have as their aim the avoidance of tax.