
Answer-to-Question-_1_

With respect to HSC,

Considering that the company obtained a loan from a related party entity of the Group (related party company operating in Germany)in order to buy the rights on the loan provided by the US bank to HST, the interest rate applied on the related party loan (German Group entity to HSC) will need to be examined. As per article 33 of the Income Tax Law (ITL) (which is based on Art. 9 of the OECD MTC) if the interest rate applied on the loan transaction is not at Arm's length, then the Cyprus Tax Authorities may have the right to adjust the taxable profits of HSC to reflect the arm's length interest rate. In the case of HSC, considering that it has a loan payable due to the German entity (therefore interest expense for HSC) adjustments may be performed if it arises that the interest rate applied on the transactoin was above the market rate.
From the point of SDC, given that the main activity of HSC is the holding of activities and the porvision of ifnancing, the interest income from the loan receivable due from HST will be considered as active income and therefore will be included in the taxable profits of HSC. Therefore no SDC will be applied.

Furthermore, following the receipt on the rights on the loan from the US Bank, this resulted HSC having a loan receivable from HST. Part of this loan receivable was further assigned to HSS (40m) and the remaining 20m was waived. The reason that the amount of 20m was waived needs to be examined. Considering that this is a loan receivable for HSC (therefore interest income received by the Cuprus entity) unless there is a valid reason (e.g. default

of the borrower - inability to pay may not be proven a valid reason especially regarding loan transactions between related parties) to waive the amount, the tax authorities may impose an arm's lenth interest on this amount and include the relevant interest income in the taxable profits of HSC.

From SDC perspective, same as above, for the interest income received from HSS no SDC will be charged.

With respect to the restructuring, considering that HSC will exchange its shares in HSS for shares in FSC (share for share exchange) no income tax or SDC will be applied on the relaevant transaction. Furthermore, regarding the liquidatoin of HSS, given that the Company immediately before liquidation will distribute as dividents any undistributed profits no Deeemed Divident Distribution is considered (DDD 17% would be accounted for in case that the company had undistributed profits upon liquidation.

Finally, considering that the UBO of HSC is a non resident individual, no SDC will be applied on any dividents paid to the UBO (SDC applies only for dividents paid to Cyprus resident indiduals that are Cyprus domiciled)

With respect to FSC, its set up will be done in the form as sahre to share exchange with HSC.Therefore no income tax implications. Furthermore, given the share for shares exhange no NID can be claimed by FSC.

Given that prior to liquidation the HSS had a loan receivable from HST (and after the liquidation the loan receivable was transfered to FSC i.e. FSC will have interest income from HST)if

the loan is waived, the cyprus tax authorities may ignore the waiving of the loan and calculate an interest income for FSC based on an apporpriate arm's length interest rate. No SDC will apply on the amount of interest as the main activity of FSC is to act as a treasury center (therefore the interest income will be considered as active income).

If the loan receivable due from HST will be settled via the issue of shares by HST to FSC, no income tax implications arise. Furthermore, no SDC will be applied on any dividents that may be received in the future from HST as no SDC applies on dividents received by Cyprus companies from non resident companies.

Answer-to-Question-__2_

The CFC rules were introduced in Cyprus in 2019 (effective date as at 1.1.2019). The purposes of the CFC rules are to **prevent** the divesion of profits from the companies that actually perform the significant functions, undertake the material risks and use significant assets that lead to the generation of income, to companies operating in low tax jurisdictions which do not perform any significant activities. In case of subsidiaries where the functions, risks, assets performed is examined. In case of PEs where the Significant People Functions are performed.

In case of a Subsidiary, if the Subsidiary is owned by more than 50% by the Cyprus entity and this subsidiary operates in a low tax jurisdiction (less tan 50% tax rate compared to Cyprus i.e. less than 6.25%) then the subsidiary will be considered as CFC for Cyprus purposes.

With respect to Permanents Establishments (PEs), given that the profits of a Cyprus PE abroad are tax exempt in Cyprus (unless the Cyprus company elects for these profits to be taxed in Cyprus or the PE is derives more thatn 50% of its income from investment activities and the tax rate in the jusrisdiction that the PE operates is less than 6.25%) and the tax rate is less than 6.25% the PE will be considered a CFC.

In cases where a Subsidiary is characterised as CFC,the next step is to identify if any non genuine arrangements (i.e. arrangements

without any commercial substance/rationale) have been put in place with the purpose to divert taxable income from Cyprus to the jurisdiction that the Subsidiaries/PEs operate. If this is the case then any undistributed profits of the Subsiary/PE will be included in the taxable profits of the Cyprus entity and will be taxed based on the Cyprus tax provisions. In case that any tax was already imposed on these profits, double tax relief will be provided either based on the relevant tax treaty between Cyprus and the other jurisdiction or unilateral relief in case that no DTT in place.

Its should be noted that the CFC legislation does not aim to restrict having Subsidiaries or PEs in low tax jurisdictions, given that the activities that generate the income are actually perfomed by the Subsidiary or PE operating in that jurisdiction.

With respect to FIC, its wholly owned subsidiary (Levante) is a company incorporated registed and tax resident of BVI.

Residence of Levante

With respect to a company being a Cyprus resident, the management and control needs to be performed in Cyprus. There is no clear definition ifn the law what management and control is but in practice all of the following needs to apply:

- The majority of the directors should be Cyprus tax residents
- The Board meeting should take place in Cyprus
- The company's policy should be formulated in Cyprus

From the OECD MTC perspective, in case where different

jurisdictions apply diferent criteria for deciding the residency of a company the OECD provides for examining the place of effective management.

From the facts it seems that all the above apply as all the directors are Cyprus tax residents, the board meetings take place in Cyprus and the important management decisions are taken in Cyprus (given the nature of Levante's activities, the matters that are obtaining approval during the board meeting seem to be significant management decision affecting the strategy of Levante.

Further to the above, it is mentioned that the company employees 10 individuals. Based on the facts, even if the company has "sufficient" personnel, it however seems that their duties are restricted to performing activities of supporting/administrative nature and therefore they are not considered to affect somehow the strategy of the company (it seems that no decision making is perfmed by the staffemployed by Levante.

CFC Rules in relation to Levante

Levante is described as a CFC of the Cyprus entity, given that it is a wholly owned subsidiary of FIC operating in a jurisdiction with corporate tax rate 3%. Furthermore, it seems that the significant functions,risks, assets (value creation) is not generated in BVI but in Cyprus. There are not any non-genuine arrangements between FIC and Levante in order to transfer profits from FIC to Levante, and there is no evidence if the directors of Levante undertake the decisions based on intructions received by FIC. If this is the case then it could be assumed that Levante is CFC company.

Based on the facts provided, one could say that, given the fact that Levante can be characterised as Cyprus tax resident company and therefore taxed in Cyprus, may be more easy that proving that Levante is a CFC. The result in any case will be the same, i.e. the profits of Levante will be taxed in Cyprus.

Answer-to-Question-_3__

Based on article 33 of the Income Tax Law (Art. 33 ITL) transations with related parties should be performed based on market conditions (based on the arm's length principle). Article 33 was based on OECD MTC Art. 9 and provided that in cases where the transactions/arrangements between related parties were not performed at arm's length, the Cyprus tax authorities have the right to amend the taxable profits of the Cyprus entities as appropriate (the law provided for upward adjustment).

On 30 June 2022, the TP legislation was voted, applicable for the tax years starting from 1.1.2022. The main amendents to article 33 are:

Definition of related parties:

Based on the amendments in the local legislation:

- A company will be considered related to another company if it participates with more than 25% to its voting rights, share capital, income

- A company will be considered related ot another person if this person or the associated with this person participates with more than 25% to its voting rights, share capital, income

- Two person will be considered related if they participate by

more than 25% in a company's voting rights, share capital, income

For the purposes of the TP legislation as asociated parties to an individual is considered relationship up to 3rd degree.

Threshold:

Local File

Companies that perform transactions with related parties, which exceed (or should exceed based on the arm's length principle) the amount of EUR 750k per category of transaction, in agreegate (the categories are goods, services, IP related transactions, financing, other)need to prepare Local File in order to assess whether the relevant transactions have been performed at arm's length. The Local File should be prepared by the deadline of the IR4 and provided to the ta authorities within 60 days upon request.

Simplification measures

The legislation that was voted in 30 June 2022 did not provide for obligation to prepare any TP documentation for transactions falling below the threshold of EUR 750k. However, based on Cicular issued in 2023, for transactions below the threshold minimum documentation will need be prepared (focusing on functional and economic analysis)in order to substantiate that the related party trandsactions were performed at arm's length. The relevant Circular also provides for the use of simplificatoins measures with respect to specific transasctions (loans receivable and payable and low value adding services). However, eben in the case of adoption of the simplifications

measures relevant documenattion will need to be prepared to describe the facts and circumstances of the controlled transactions.

APA

Aan APA is in essence a "pre-agreement" with the tax authorities about the method of pricing that a company will follow in its transactions with its related parties. By doing so, a company my avoid being challenged by the tax authorities for the specific transactions for which an APA was agreed. However, as descibed in the law, if the facts and corcumstances change (e.g. change in the business model or functoinal profile of the company) then the APA will stop to be valid and a new APA will need to be put in place (if the taxpayer wishes so)

Summary Information Table (SIT)

The SIT is a table includign high level information regarding the related party transactions of a taxpayer in a given year. The use of the SIT is that the tax authorties may easily identify transactions the seem "unusual" or amounts of large transactions for which they may decide that a tax or TP specific examinatoin will need to be performed. Te deadline for the submission is the deadline of the Income tax return (i.e. for 2022 is 31/3/2024).

Penalties

The penalties are as folows:

- EUR 500 for late submission of the SIT
- If the Local File is not provided upon request within 60 days

- 5000 from day 60-90
- 10000 from day 90-120
- 20,000 from day 120 onwards

Answer-to-Question-_5__

Ms Zantilova was not physically present in Cyprus for more than 183 days.Therefore, she cannot be considered Cyprus tax resident based on the 183 days rule.

However, an individual may be considered Cyprus tax resident if ALL of the followign apply:

- Has not spend more than 183 days in any other jurisdiction
- Is not considered resident in any other jurisdiction
- Spends more that 60 days in Cyprus
- Has permanent home in Cyprus (owned or rented) - Ms Zantilova has the villa in Paphos
- Is employeed / carries business/holds office in Cyprus - Ms Zantilova is employeed by Semeli Funds Ltd

Therefore based on the facts above Ms Zantilova will be considered as Cyprus tax resident and will be taxed on its worldwide income.

Aadditionallly Ms Zantilova is non-Cyprus domiliced based on the fact that she was not a tax resident in Cyprus 17/20 years prior and domicilie of origin is not Cypriot.

With respect to the business in Kazakhstan, based on the facts, there is a PE in Kazakhstan given that there is a fixed (specific geographical point), place of business (owned office promises),

though which the business is carried on (whether there is business carried on depends on the definioon of business in the Kazakh law but based on the information provided it does not seem that the activities performed in Kazakstan are of preparatory/auxiliary narute so we assume there is business carried foerward)

Based on the facts above, the emoluments received from Semeli Funds will be taxed in Cyprus based on the applicable rates depending on the amount of Ms Zantilova's remuneration.

Art. 7 of the OECD MTC provides for income arising from a PE abroad will be taxed on the country that the PE is located. Therefore, the PE profits will not be taxed in Cyprus (only in Kazakstan) unless Ms Zantilova elects for it (in this case credit will be given in Cyprus for the tax paid in Kazakshtant up to the amount of Local tax assessed on the foreigh income.

With respect to SDC, given that Ms Zantilova is a Cyprus tax resident but non Cyprus -domiciled no SDC will be imposed with respect to any dividents, Interest or roayalties received in Cyprus or from abroad.

Answer-to-Question-_7__

Buzz is Cyprus tax resident and as such he will be taxed on his worldwide income. He is non-Dom as his father is British.

The following taxes will be applied on his emoluments:

Income tax
Income from salar 50,600
Net income from O/S 18,013 (the gross is considered)
Dvds for o/s Exempt
Rental income FROM TOURIST APARTMENTS IS CONSIDERED PE IN UK SO NOT TAX IN CYPRUS
Donations = should be deducted in order to calculated the taxable income

No SDC appplies as he is non-Dom