Answer-to-Question-_1_

1)

Sidetrack is Cyprus tax resident company which shall obtain through an assignment a loan from a related ukranian entity ECB which will be further assigned to STL (a BVI subsidiary).

Sidetrack can benefit from a relevant new back to back loans arrangement provided a relevant safe-harbour margin of 2.29% (2% after tax) is applied or a relevant transfer pricing study is prepared to justify the interest rates used between the entities.

The assignments of the loans will not have any taxable effect apart form the necessary interest rate application as per article 33 (arms length principal) if the relevant back to back arrangement can not been applied.

Having in mind that the UBOs of Sidetrack are cyprus non-resident individuals (as one of the conditions) the back to back arrangement could be used as described above.

Usually waivers of the loans between related parties are not taxable provided the relevant taxable income (such as interest) is fully settled. In this case the interest by SMU was never settled and if the amount of interest expense has been claimed in the past as allowable deduction then the waiver of the interest is taxable to the amount of interest unpaid.

Distribution of dividends by Sidetrack to its shareholders will not have any withholding taxes.

Dividend income received by Sidetrack is exempt from Corporation tax and SDC (except if such dividends is in effect a hybrid instrument that was deduction as allowable expense by the subsidiary).

Interest income from back to back arrangements is taxed at 12.5% as is considered a trading income and is therefore exempt form SDC.

2)

The proposed restructuring of transferring the shares of STL to FCL can be treated as approved restructuring as per the Local income tax rules of cyprus and the relevant EU merger directive since the ultimate owner remains the same and therefore no tax implications should arise.

In order to be considered an approved restructuring the following conditions must apply:

"One or more companies on being dissolved without going to liquidation transfer all its assets and liabilities to an existing company in return for the shares in the existing company with if any cash consideration being not more than 10% of the shares nominal value".

Same provisions is applied as to merger with new company, full division of the entity and partial division (where a part of existing entity remains).

Regarding the write off of the loan by SMU - usually waivers of the loans between related parties are not taxable provided the interest is fully settled. In this case the interest by SMU was never settled therefore if the amount of interest expense has been claimed in the past as allowable deduction then the waiver of the interest is taxable to the amount of interest unpaid.

In case the settlement of the loan will be made through an issuance of shares then in the future FCL can claim notional interest deduction to the extend that the matched asset makes taxable income for FCL.

Notional interest deduction is calculated by multiplying the New Equity provided by the Relevant reference rate (which is equial to 10year government bond in the country the funds are utilised + 3% (or 5%)).

Liquidation proceeds distributed to FCL will be subject to tax at 12.5%.

Since STL is not holding immovable property in Cyprus the transfer of shares of STL will not be subject to Capital Gains Tax in Cyprus.

Interest income from back to back arrangements is taxed at 12.5% as is considered a trading income and is therefore exempt form SDC.

A loan from a distressed Ukranian SMU: if it is proved that SMU is going to be bankrupt and relevant proof is provided then the writing off the loan receievable will be allowed.

Otherwise the tax authorities may wish to continue charging deemed interest if no sufficient proof is given for the financial distress of the borrower.

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

Answer-to-Question-_2_

1) As seen from the case in case the property is not exploited by the company, meaning that it will simply hold the property for the use of the shareholder Ms Sheffild means that a cyprus company will be providing a Benefit in Kind to the shareholder and even if Ms Sheffild is a non cyprus tax resident the non resindents can still be taxed on emoluments received from Cyprus company.

The same is applied for the relatives of the shareholders that could be subject to benefit in kind taxable in Cyprus under Income tax law.

Individuals either residnet or not are taxed on Cyprus sourced income at progressive income tax rates as follows: the first 19500eur are exempt, the next sums are taxed progressive by at 20%, 25%, 30%, 35% on incomes of more than 60000eur.

Here it can be agrued that since the property is not located in Cyprus and Cyprus is not obtaining any taxable income from the company that the property might be also considered to be a tax resident in Portugal.

Depending on whether Cyprus and Portugal have a Double tax Agreement will determine how such company will be taxed.

The cyprus tax resident companies must proove their residnence by satisfying these three main conditions:

1) the majority of directors (and actual decision makers) must be cyprus tax residents;
2) the main meetings must take place in cyprus;
3) the company policy shall be formulated in cyprus.

Since Ms Sheffild is a clear ultimate shareholder and actual director who is not resident in Cyprus the Portugeese tax authorities may challenge the residency of Santafe and impose Portugees tax on same taxable income considering it either a Tax resident of Portugal.

2)

In case the property in POrtugal will be rented out to obtian taxable income and provided the above tax residency conditions are satisfied and the Cyprus company tax residency is proved then Santafe will be taxed on the Gross rental income it obtains in Portugal at corporation tax of 12.5% and it will be able to deduct any relating actual expenses for the rented property as housekeeing, running and maintenance of the property etc.

Cyprus companies are also subject to SDC at 3% on gross rental income obtained and can deduct 25% deduction awailable for all Cyprus companies.

Again the event of the rental income from Portugal could be also subject to POrtugeese income tax based on situs consept.

The double tax agreement must have provisions for any withholding taxes that could apply from Portugal.

Cyprus is keen on giving credit for foreign underlying taxes in the amount of equivalent cyprus tax.

Dividends that might be distributed to Ms Sheffield will not be subject to any withholding taxed in Cyprus (even if no double tax agreement between Cyprus and Portugal exists)

Ms Sheffield is a non cyprus tax residnent therefore the consept of SDC for dividends distributed to Ms Sheffield is irrelevant.

3)

Upon the disposal of the portugees property by a cyprus tax resident company a gain might be created that shall be exempt from Income tax unless it could be proven that Santafe is a trader in immovable property in which case it will be taxed at corporation tax of 12.5%.

TO determine trading or capital gain badges of trade are used to determine such as: the frequency of such transactions; the length of ownership; the motives for sale; knowledge of the owner; the way the it was financed; what happened with sales proceeds; any subsequesnt expenditure to fascilitate the sale etc.

Since Santafe is holding a non-cyprus property no SDC will arrise on the sale.

Ms Sheffield could obtian dividends from gain from the sale of property but such dividends will be exempt from Cyprus income tax and SDC as she is non-resiendt in Cyprus.

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

Answer-to-Question-_3_

The ratonal behind the Base Erosion and Profit Shifting was to make sure that the countires are fairly taxing the companies based on source, situs, residnecy and that there are no abusive tax structures that are benefiting from all the available tax exemptions, reliefs provided by counties that have or no not have double tax agreements.

International companies used to take advantage and structure companies and groups in a way to benefit from local tax incentives, creating companies in specific jurisdictions only due to the exemption of certain taxes and trying to shift profits from high tax jurisdictions to low tax jurisdictions.

With the BEPS action plan the rational of the structures is being questioned and must be justified for each company or structure. Commercial purpose must exist in setting of the companies in certain countires and must be supported by genuine arrangements in place.

In most countires General Anti Abuse Rules (GAARs) have been implaced which give the tax commissioner of the country to disregard any non-genuine, lacking rational and commercial purpose transaction.

Any cases with double non-taxaton shall be investigated, justified and only available to genuine arrangements.

COuntried must share and disclose information through the channels of exchange of information in order to facilitate the fair treatment of taxable income globally.

In the same manner genuine and true commercially purposed structures must be given all nesessary incentives that they will not suffer the taxes twice and that the structures are created in the way that is not distorting the logical flow of profits and taxes.

Cyprus has been attacked in the past due to some abusive tax regimes such as:

- back to back arrangements (with 0.125% to 0.35% margins) was substituted with a new margin of 2.29% or via relevant Transfer Pricing study requirement

- the old Intellectual property regime that was abusive was amended to a new Nexum approach for qualifying assets and profits from them

- No thin capitalisation rules for excessive borrowing costs

- No CFC provisions

and many others.

In the example of Cyprus the main CFC provisions that were intriduces were as foillows:

Cyprus has recently adopted some CFC measure which include the following.

In order for Cyprus to consider that a foreign entity was set up only to shift profits to a low tax jurisdition and that if the company has not existed it would be taxable in Cyprus two conditions must apply:

First, the foreign investment must have a tax rate of lower than 6.25% (half of Cyprus corporation tax)

Second, the foreign company must engage more than 50% in investing activities (meaning that half the profits generated are of passive nature)

The CFC measures are applicable only for CFC held by Cyprus COmpanies. For the Cyprus tax resident individuals CFC rules are not yet applicable in Cyprus.

Another prerequisite for a CFC incomes to be taxable is if there are arrangements or series of arrangements of a non-genuine nature - such income shall be taxable in Cyprus under CFC rules.

MOreover, if a CFC has distrbuted dividends to the CYprus holding company whithin the tax year or whithin 7 months from the tax year then these profits are exempted in CYprus.

Also there is a threshholf for accoutning profits and passive income amoutnt: if accounting profits of a CFC are less than 750,000 eur and the passive income is below 70,000 the CFC provisions are not applied.

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

Answer-to-Question-_4_

(1) For the year 2020 Mr Zubyk can be considered a CYprus tax

resident (under a 60 day test) based on the fact that:

1. He has resided in Cyprus for more than 60 days (70 days),
2. He has not reside more than 183 days in another country,
3. He is employed by a cyprus company as a CEO (holds office),
4. He maintains a permanent villa in cyprus (available for whole year as is his main residnence).

Following the above Mr Zubyk is able to claim tax residency under the 60 dyas rule test in Cyprus and be taxed in Cyprus on his worldwide income.

His taxable incom shall be comprises of:

Emplyment income from Astir Ltd: salary, any bonuses, any benefits in kind obtained as a result of being a CEO of Cyprus company.
If his employment income exceeds 100,000eur in the year 2020, and he has not been a cyprus tax residne in 2019 (and in three out of last five years), he could claim the Expat relief of 50% for 10 years. For employment income of less than 100,000eur, provided same conditions as above apply, he could claim the 20% Expat relief available for 5 years.

Mr Zubyk operates in Bulgaria through a Individual Enterprenuerenship (IE) which bears all the characteristics of a permanent establishment in Bulgaria. Permanent establishments are considered only for companies (which are legal extensions of Cypryus companies)and since Mr Zubyk holds the IE directly (not through a Cyprus company) then he will be subject to the business profits attributed to him form Bulgaria.

Most probably these business profits will also be taxed in Bulgaria on the matter of source which is fundamental. Irrespective of whether a double tax agreement exists between

Cyprus and Bulgaira, he will be granted foregn tax credit for any tax suffered in Bulgaria at the relevant equivalent cyprus tax on the same profits.

Mr Zubyk will be taxed on the total taxable income above at the progressive rates of income tax: the first 19500eur are tax free, the next at 20%, 25%, 30% and 35% on incomes of more than 60000eur.

Interest income from deposits in Bulgaria (if are subject to withholding tax in Bulgaria a foreign tax credit can be granted on the equivalent Cyprus tax applicable for the same income) shall be treated as passive income therefore is not subject to Income tax but could be subject to SDC. Pls see below (2) regarding SDC.

In case there is a Double tax agreement between Cyprus and Bulgaria any taxes that Mr Zubyk might suffer in Bulgaria due to the business carried there could be exempted or given relief for in Cyprus so that he could avoid double taxation of the same income.

(2) Mr Zubyk shall be subject to Special defence contribution on dividends, interest or rent if his domicile will be non-cypriot.

To determine this we have to check whether he was tax resident in cyprus for 17 out of the last 20 consequitive years in cyprus.

We were not given enough information as to his tax residnecy of last 20 years prior to 2020.

If he was not tax resident, his domicile of origin must be checked.

Since he was born in Russian from Bulgarian parents its must be determined wherther at the time of his birth his father maintained a domicile of choice in Russia. In this case his domicile of origin will be Russia.

From the case it seems that he most probaly is not domiciled in Cyprus in 2020 therefore he will be exempt from any SDC on passive incomes for the next 17 years (if he is to remain a cyprus tax residnet) such as from interest form bank deposits in Bulgaria.

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

Answer-to-Question-_6_

(1)

According to the Capital gains tax law of Cyprus and the EU Merger Directive an approved restructuring is exempt from any taxes (including capital gains taxes) that sould arise on the transfer of a company owning immovable property in Cyprus.

In order to qualify for an approved restructuring (such as in this case potential merger with an existing company) the following conditions must be satisfied:

One or more companies on being dissolved without going to liquidation transfer all its assets and liabilities to an existing company in return for the shares in the existing company with if any cash consideration being not more than 10% of the shares nominal value.

I believe since Asamic is not being dissolved and it is the shares that are being transfered (not all assets and liabilities) to a non-related entity (means that the final owners change) can not be classified as approved reorganisation as per the Cyprus Income tax law.

Regarding the transfer of the shares in Leslic to ZRE (CYprus company which is holding immovable property) Asamic will be liable to Capital gains tax since it disposes shares in a company that directly holds immovable property in CYprus at the rate of 20%.

(2)

As a result of the trasnsfer the share of Leslic (that holds immovable property) will be held by ZRE (AIF in Cyprus) which is currently held by three non-cyprus tax residents and which shall obtain new investors and expand globally.

First of all AIFs are considered opaque in CYprus are therefore liable to conrporation tax as normal Cyprus companies. It is not considered transparent in an event of a Capital gains tax will not be apportioning the gains to the individual shareholders and will not be able to claim lifetime exemptions available for sales of Cyprus immovable property by individuals.

The existing or new investors of ZRE will be indirectly (through ZRE and Leslic) holding immovable property in Cyprus.

Before the introduction of the 50% test any subsequent sale indirect sale of the imomvable property held by Leslic would have not have any Capital gains tax implications to the owners of ZRE (as being a two-tier structure).

After the introduction of a 50% test the indirect sale of immovable property is being tested on a group level as follows:

The value of the assets(immovable property in CYprus) should not be more than 50% of the assets of whole group.

Thus it must be proved that the intention of any subsequent sale of ZRE is not targeted to obtain the immovable property in Cyprus and is just merely a small part of a major deal involving sale of other investments much greater in value than the immovble property in Cyprus.