



# CYPRUS

Integrated solution  
to ensure the **physical presence**  
and **economic substance**  
for corporate structures



# Corporate Structures: Tax Risk Management

## BEPS, CAA, CRS

### International cooperation in exchange of tax information

- strength the influence of Controlled Foreign Company (CFC) rules;
- the adoption a model agreement on cooperation between competent authorities of various countries (Competent Authority Agreement, CAA);
- adoption of the standard on exchange of tax information (Common Reporting Standard, CRS), as an international standard of automatic exchange of financial accounts information.

## Changes to the EU Directive on Parent and Subsidiary companies

### Ceasing the practice of artificial minimization of taxation

- tax benefits under the Directive shall not apply if the corporate structure is recognized as “not genuine” i.e. the main purpose of the corporate structure is obtaining a tax advantage in the absence of valid commercial reasons which reflect economic reality;
- corporate structure in general or the particular part of it shall be regarded as “not genuine” taking into account all relevant facts and circumstances for entire corporate structure or for the particular part of the structure

Need to **evaluate tax risks** for foreign corporate structures  
Make the relevant **organizational changes** in order to eliminate **tax risks**

# What is Economic Substance?

## General overview

- ✓ *Economic substance is a doctrine in the international tax law under which a transaction must have an economic purpose aside from reduction of tax liability in order to be considered valid.*
- ✓ *Economic substance characterized as combination of factors that specifies the operational reality of a corporate structure which has been established to benefit from foreign jurisdiction tax regime or in order to benefit from the bilateral double taxation treaties.*
- ✓ *Economic substance = physical presence, actual activity of the independent management within the jurisdiction of incorporation and /or tax residence of the corporate structure.*

## Why substance is important?






- ✓ *BEPS & EU Directives: OECD action plan on Base Erosion and Profit Shifting and changes to the EU Directive on Parent and Subsidiary companies – with the ultimate goal to prevent harmful tax practices - have significantly increased the importance of the substance.*
- ✓ *CFC rules & Double Taxation Treaties: anti-abuse measures in national legislation with implementing so-called Controlled Foreign Company (CFC) rules, substance requirements & anti-abuse provisions under double tax treaties.*
- ✓ *Banking compliance: implementation of regulatory requirements with regard to check the nature of the transaction and avoid making payments that have no economic sense.*

▶ **Lack of SUBSTANCE means increased tax risks, tax-disputes & higher tax burden often exceeding the advantages and benefits of foreign corporate structures**

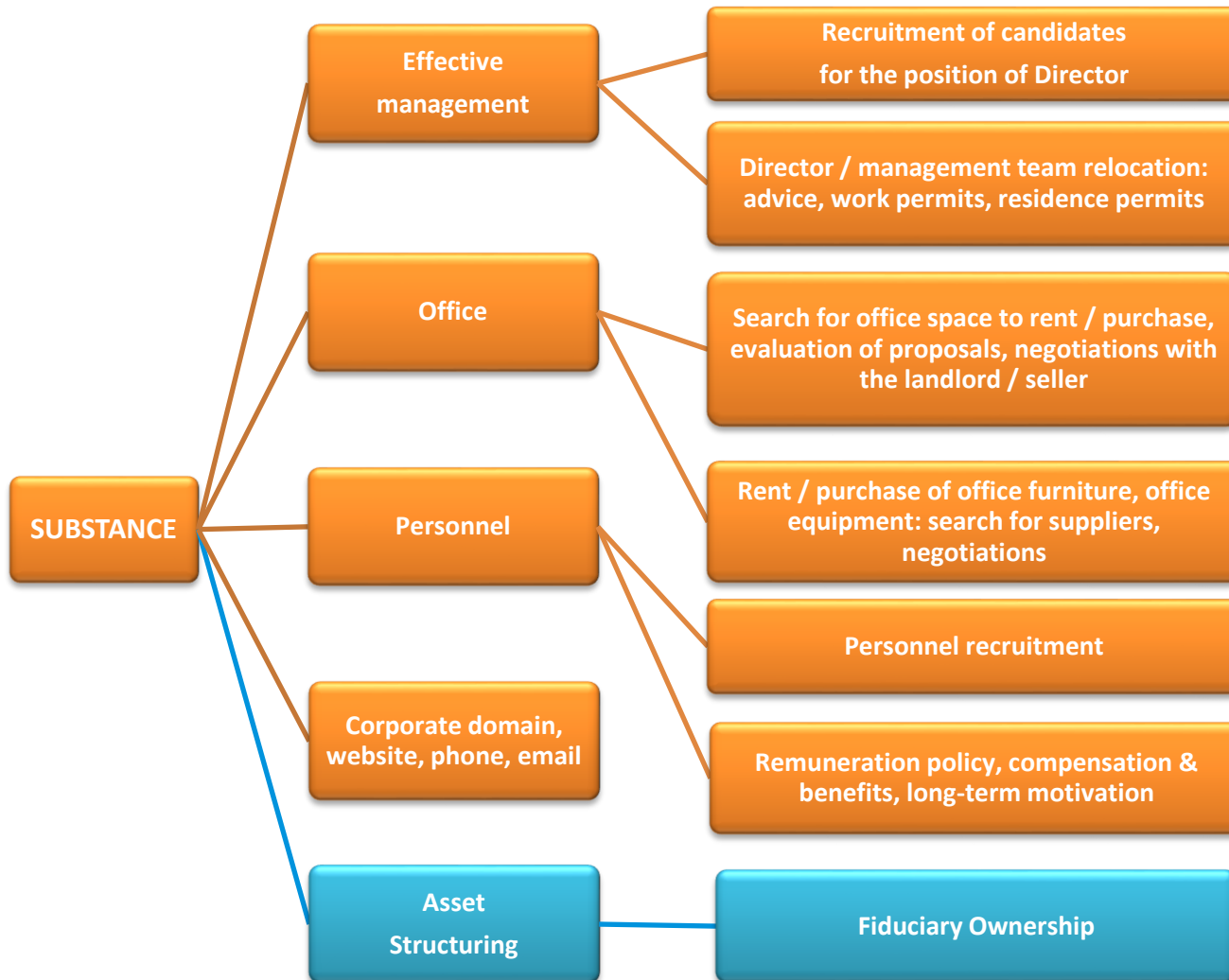
▶ **Existing of SUBSTANCE will allow to manage tax risks effectively while conducting international business**

## Substance: what should be done?

*To create the physical presence and economic substance, at least the following steps should be implemented:*

-  Ensure the **effective management of the corporate structure in the jurisdiction of incorporation or tax residence**: appoint a **qualified director - resident**, who will make **independent decisions on company's activities** within the framework of his/her competences
-  Rent/buy an **office or other premises intended for business activity**, not residential premises
-  Ensure **proper physical storage of corporate documents**, contracts, business and official correspondence (including e-documents) **in the office**
-  Hire **personnel** for daily operational activities, enter into a **labor contracts** with the staff and **register as an employer**
-  Dedicated **phone line, corporate website and e-mail domain / address**

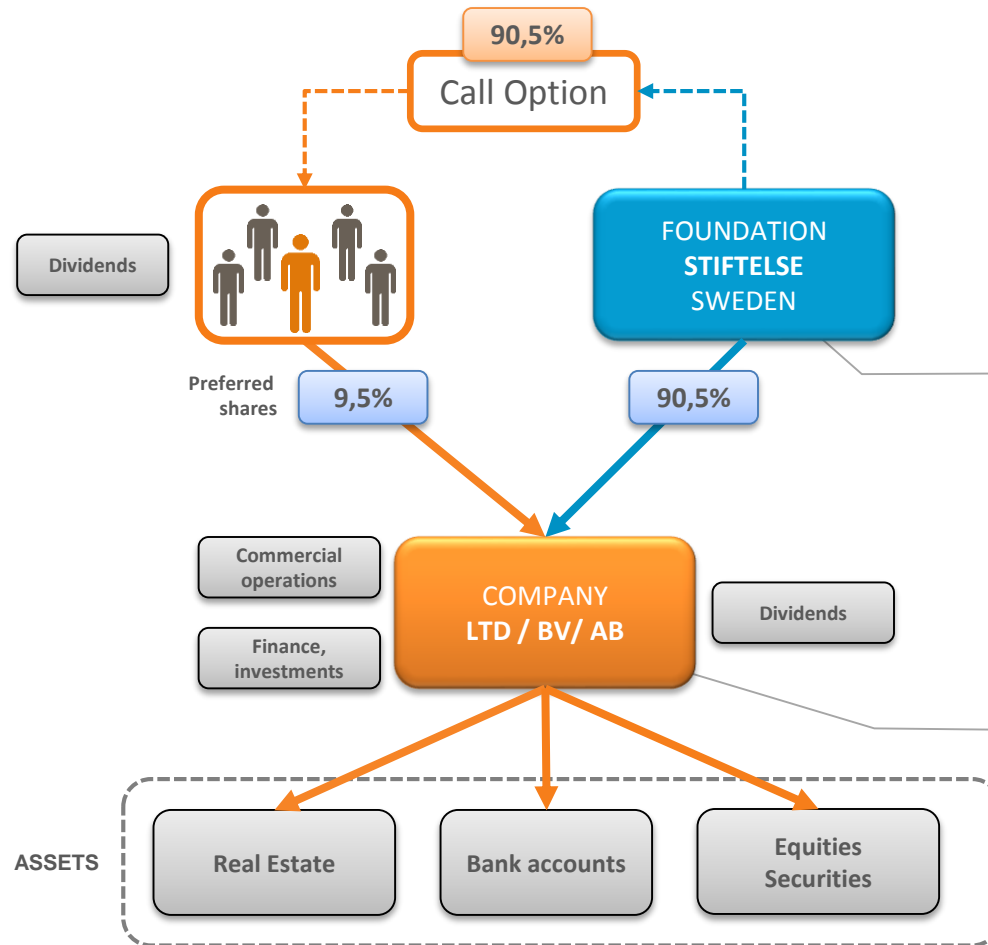
# Substance: **integrated solution**



- ✓ *Single provider for corporate and fiduciary services*
- ✓ *Any combination of individual and ready-made solutions in **one contract***
- ✓ *One invoice for the entire range of services*

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## Fiduciary ownership: an example of asset structuring through the Swedish private foundation



✓ The only purpose of the foundation – the fiduciary ownership of assets – in legal terms, the foundation is the controlling shareholder of the holding company.

✓ Shareholders - natural persons own preferred shares and have a preferential right to receive dividends.

✓ Shareholders - natural persons have a right to receive shares of the company at any convenient time by exercising the call option.

✓ The company may distribute dividends only on preferred shares  
✓ Operational control over the international business structures and assets are managed at the company level

✓ Investment transparency and attractiveness, the possibility for rapid sale of business to third party investors



Companies, trusts, foundations & holdings formation and registration

Managing director and trustee services

Private and corporate bank accounts

Tax planning

Reward concept and policy

Long-term and short-term motivation

Bookkeeping, audit

Performance evaluation

Outsourcing non-core functions



Companies, foundations & holdings formation and registration

Fiduciary ownership solutions

Bookkeeping, audit

Cross-border commercial transaction agency services

Professional AGENCY SERVICES

Sublicensor services under the international license agreements



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