

Understanding Cyprus' Economic Substance Requirements

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By **Jake Magell**, 12th August 2024

Introduction

As the international corporate landscape changes, so do the various laws and regulations. Keeping pace with these changes can be difficult given each jurisdiction has their own quirks and specifics.

In this article we hope to clearly outline Cyprus' Economic Substance requirements and highlight the importance of ensuring any Cyprus Tax Resident Company has sufficient Economic Substance.

Requirements

Quite simply, for a company to be considered tax resident in Cyprus and enjoy the various corporate tax benefits available as a Tax Resident Company, it must be managed and controlled in Cyprus.

Although the term "Management and Control" is not defined in the Cyprus Income Tax Legislation, there is a list of factors to consider when ensuring a company has economic substance and as a result can be considered a Cyprus Tax Resident Company.

The key areas of focus for demonstrating "Management and Control" in Cyprus are:

- The majority of the Board of Directors must be Cyprus residents. The directors should have effective management and control of the company, and make decisions concerning the company's strategic and operational activities in Cyprus;
- Board meetings should be held in Cyprus as significant decisions need to be taken in Cyprus. This should be also reflected in the effective documentation;
- The directors of a Cyprus company must be qualified, have sufficient knowledge to make independent decisions and be able to demonstrate their role as decision-makers;
- The company secretary should be a Cyprus resident, which can either be an individual or a Cyprus-based company;
- The discussion and approval of the financial statements and audited accounts should take place in Cyprus;
- The company's bank accounts must be operated and managed from within Cyprus;
- The company should maintain employees and a fully-fledged office in Cyprus, for day-to-day operational functions;
- Record keeping: Archiving books and records like minutes, company seal and share register should be kept in the Cyprus office;
- Books and accounting records should be kept in Cyprus.

What are the Benefits?

Not only will the company be considered tax resident and therefore eligible to enjoy the Cypriot corporate tax regime, ensuring the company has sufficient Economic Substance safeguards the structure of the company and facilitates the ease of on-going business.

Companies established in jurisdictions without substance requirements often struggle when it comes to opening bank accounts or with purchasing investments. This is because these countries often end up on Grey or even Black Lists.

With the implementation and adoption of the EU Directives and the guidance provided by OECD (Organisation for Economic Co-operation and Development), setting up a company in a jurisdiction that requires economic substance will ensure the new company meets the EU and OECD requirements and is less likely to be challenged by various global tax authorities.

As a result of the above we do not view Economic Substance requirements as a hurdle to be overcome. We see them as an advantage to those that wish to establish meaningful ties with Cyprus and the EU and structure their companies in a fully compliant manner.

How can Dixcart Help?

At Dixcart Management (Cyprus) Limited we are dedicated to developing value-adding and fully compliant solutions for our clients when establishing a Cyprus company. Under the new international regulatory environment, entities without sufficient economic substance have a substantial risk of facing challenges with tax authorities. As such, we only establish companies for our clients whereby we assure that the companies can meet the economic substance requirements.

To do this, we provide a full suite of services to those looking to set up a Cyprus company. From incorporation services to accounting and company secretarial services, we can assist you every step of the way in ensuring you have a bespoke and fully compliant solution.

If you are interested in establishing a Cyprus Company, we would be more than happy to discuss the relevant details with you, as well as the various tax incentives available. Please do not hesitate to contact us at: advice.cyprus@dixcart.com.