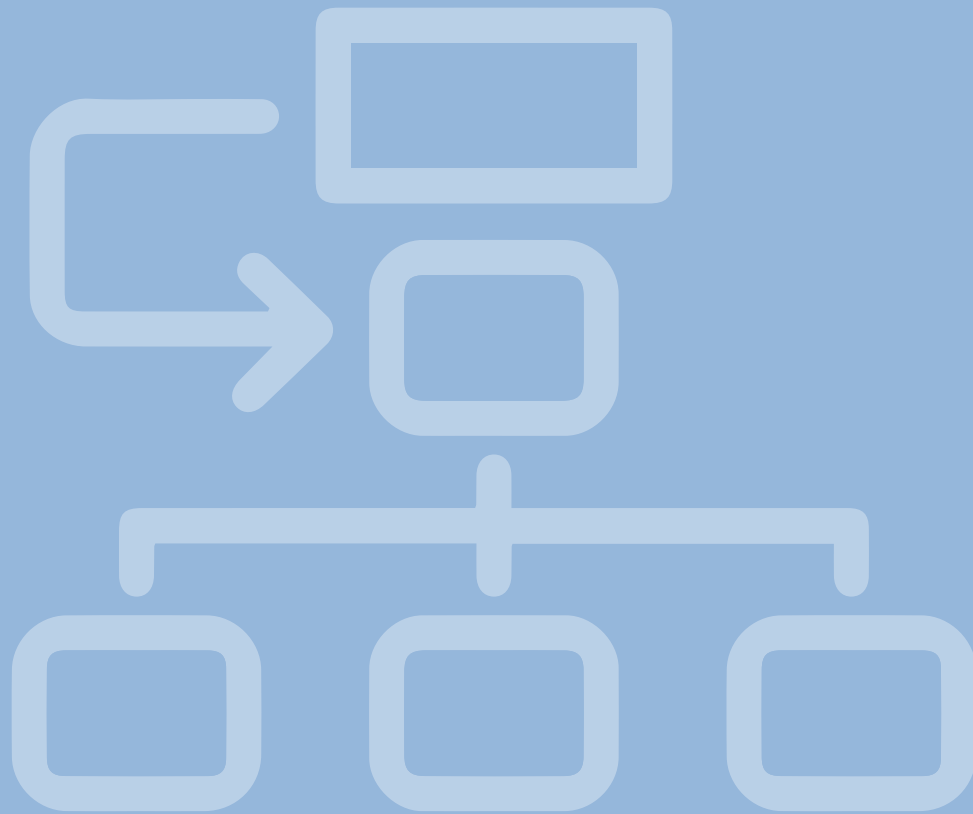




**Michalis Avraam**  
& Partners Limited  
AUDITORS AND BUSINESS ADVISORS


# Effective Tax Planning Structures



# DOUBLE TIER FINANCING

Structure Layout		Tax Benefits	Settlements
<div style="background-color: #004a87; color: white; padding: 5px; margin-bottom: 10px;"><b>OffCo</b></div> <div style="text-align: center;">↓</div> <div style="text-align: center; font-size: small; color: #004a87;">LOAN</div>	<ul style="list-style-type: none"> <li>Offshore company (OffCo) grants loan to Cyprus company (CyCo1). No need for offshore company to have beneficial DTT with Russian Federation</li> </ul>	<ul style="list-style-type: none"> <li>No withholding tax deducted on payment of interest from CyCo1 to OffCo</li> </ul>	<ul style="list-style-type: none"> <li>Repayment of interest could be made by way of dividend distribution</li> </ul>
<div style="background-color: #004a87; color: white; padding: 5px; margin-bottom: 10px;"><b>CyCo 1</b></div> <div style="text-align: center;">↓</div> <div style="text-align: center; font-size: small; color: #004a87;">EQUITY</div>	<ul style="list-style-type: none"> <li>CyCo1 (holding company) utilises the funds received making a capital contribution to CyCo2 (100% subsidiary)</li> </ul>	<ul style="list-style-type: none"> <li>Interest expense of CyCo1 will be tax deductible as the investment is in 100% subsidiary after 1/1/2012.</li> <li>The tax loss of CyCo1 (created by interest expense) can be deducted against interest income of CyCo2 (application of group relief) with only a margin left to be taxed</li> </ul>	<ul style="list-style-type: none"> <li>Provision of interest bearing loan by CyCo2 to CyCo1, that could be eliminated through reduction of capital of CyCo2 (applicability of group relief)</li> <li>Provision of non-interest bearing loan by CyCo2 to CyCo1 (need tax ruling)</li> <li>Issue of redeemable shares by CyCo2</li> </ul>
<div style="background-color: #004a87; color: white; padding: 5px; margin-bottom: 10px;"><b>CyCo 2</b></div> <div style="text-align: center;">↓</div> <div style="text-align: center; font-size: small; color: #004a87;">LOAN</div>	<ul style="list-style-type: none"> <li>CyCo2 grants an interest bearing loan to Foreign company (ForeignCo) which could be a Russian entity</li> </ul>	<ul style="list-style-type: none"> <li>CyCo2 is regarded as the beneficial owner of interest from ForeignCo since it does not pay substantial part of the interest to a non-treaty country</li> </ul>	
<div style="background-color: #004a87; color: white; padding: 5px;"><b>ForeignCo</b></div>			

# NOTIONAL INTEREST DEDUCTION (NID)

Structure Layout	Tax Benefits	Supplementary Info
 <p>The diagram illustrates the corporate structure. At the top is a box labeled 'OffCo'. A downward arrow points from 'OffCo' to a box labeled 'CyCo', with the word 'EQUITY' written vertically to the right of the arrow. From 'CyCo', another downward arrow points to a box labeled 'ForeignCo', with the word 'LOAN' written vertically to the right of the arrow.</p>	<ul style="list-style-type: none"> <li>■ Offshore company (OffCo) introduces new equity to Cyprus company (CyCo)</li> <li>■ “New” equity covers for funds or in-kind payments introduced into the share capital or share premium of the company after 1 January 2015 and which have actually been paid or used in the operations of the company</li> </ul>	<ul style="list-style-type: none"> <li>■ No withholding tax deducted on payment of dividends from CyCo to OffCo</li> <li>■ Notional Interest Deduction (NID) is available to CyCo</li> <li>■ Low tax on profit (12.5% income tax)</li> </ul>
	<ul style="list-style-type: none"> <li>■ CyCo grants an interest bearing loan to Foreign company (ForeignCo) which could be a Russian entity</li> </ul>	<ul style="list-style-type: none"> <li>■ Any new equity introduced that directly/indirectly emanates from reserves existing as at 31 December 2014 but does not relate to the financing of new assets used in the business is not deemed as new equity</li> <li>■ The rate to be used for the calculation of the NID is the yield of the 10 year government bond of the country in which the new equity is invested plus 3% premium, with the minimum rate being the equivalent of the 10 year Cyprus government bond as at 31 December of the tax year preceding the relevant tax year plus 3% premium. It should be noted that the interest of the 10 year government bond of Cyprus at 31/12/2014 is 5.037%</li> <li>■ The NID is tax deductible to the extent that it relates to business assets and cannot exceed 80% of the taxable income of the company for the year</li> <li>■ Where new equity is derived directly/indirectly from the new equity of another Cyprus company then the NID on new equity is available only to one of the two respective companies</li> <li>■ Where new equity arises directly/indirectly from loans on which interest expense deduction was claimed, the NID is reduced by the amount of the interest expense deduction claimed</li> <li>■ Where new equity is contributed in the form of assets in kind, the amount of equity used for NID calculation may not exceed the market value of the assets at the date the assets are introduced into the business</li> <li>■ The Tax Commissioner may reject the granting of the NID if in his judgment the following occurred: <ul style="list-style-type: none"> <li>- The company entered into transactions without substantial economic or commercial purpose</li> <li>- The new equity emanates from equity that existed prior to 1 January 2015 and is presented as new equity through actions with related parties</li> </ul> </li> </ul>



# INTELLECTUAL PROPERTY (IP) BOX REGIME

Structure Layout		Tax Benefits	Example	
<p><b>OWNER OF IP (OffCo)</b></p> <p>SELL IP</p> <p>LOAN</p> <p><b>CyCo</b></p> <p>LICENSE</p> <p><b>ForeignCo</b></p>	<ul style="list-style-type: none"> <li>Owner of IP (OffCo) sells to Cyprus company (CyCo) who will become the new registered owner of IP</li> <li>OffCo may also lend CyCo thus financing the purchase transaction of the IP</li> </ul>	<ul style="list-style-type: none"> <li>No withholding tax deducted on payment of interest from CyCo to OffCo</li> </ul>	<b>Taxation of income from IP (€)</b>	
	<ul style="list-style-type: none"> <li>CyCo leases the IP to Foreign company (ForeignCo) which could be a Russian entity</li> </ul>		<ul style="list-style-type: none"> <li>Any expenditure (of a capital nature) incurred for the development or acquisition of intangible assets is amortised equally over a 5 year period</li> <li>Eighty per cent (80%) of the profit arising from the use of owned IP, and 80% of the profit from the sale of IP is deemed as an expense in arriving at the taxable income</li> <li>License expense is tax deductible in OffCo</li> </ul>	Annual Royalty Income
		<ul style="list-style-type: none"> <li>Companies may join the Cyprus IP regime before 30 June 2016 and can benefit from substantial savings until mid-2021</li> </ul>		Direct Expenses
			Gross Profit	700
			80% deduction	-560
			Indirect expenses	-40
			Taxable Profit	100
			Income tax 12.5%	-12.5
			Net Profit after tax	87.5
			<b>Taxation on sale of IP (€)</b>	
			Cost of acquisition of IP	10,000
			Amortisation for 3 years	-6,000
			Net Book Value	4,000
			Sales Proceeds	15,000
			Profit on sale of IP	11,000
			80% deduction	-8,800
			Taxable Gain	2,200
			Income tax 12.5%	<b>275</b>

# INTELLECTUAL PROPERTY (IP) BOX REGIME WITH NID

Structure Layout		Tax Benefits
<p><b>OWNER OF IP (OffCo)</b></p> <p>↓ CONTRIBUTION OF IP</p> <p><b>CyCo</b></p> <p>↓ LICENSE</p> <p><b>ForeignCo</b></p>	<ul style="list-style-type: none"> <li>Owner of IP (OffCo) contributes IP as new equity to Cyprus company (CyCo) who will become the new registered owner of IP</li> </ul>	<ul style="list-style-type: none"> <li>No withholding tax deducted on payment of dividends from CyCo to OffCo</li> </ul>
	<ul style="list-style-type: none"> <li>CyCo leases the IP to Foreign company (ForeignCo) which could be a Russian entity</li> </ul>	<ul style="list-style-type: none"> <li>CyCo is entitled to Notional Interest Deduction (NID)</li> <li>Any expenditure (of a capital nature) incurred for the development or acquisition of intangible assets is amortised equally over a 5 year period</li> <li>Eighty per cent (80%) of the profit arising from the use of owned IP, and 80% of the profit from the sale of IP is deemed as an expense in arriving at the taxable income</li> </ul>
	<ul style="list-style-type: none"> <li>Companies may join the Cyprus IP regime before 30 June 2016 and can benefit from substantial savings until mid-2021</li> </ul>	<ul style="list-style-type: none"> <li>License expense is tax deductible in OffCo</li> </ul>



**Michalis Avraam & Partners** Limited has taken all reasonable care to ensure that this booklet is accurate. The information contained herein is a summary of the relevant laws and is designed to increase the general awareness of the cyprus Tax System. readers are advised to verify this information to ensure that it applies in their particular circumstances. for specialist advice or further clarifications you may contact one of our professional consultants.

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