



# CYPRUS' ALTERNATIVE INVESTMENT FUNDS (AIF)

## Why Set Up Your AIF (Private) Fund in Cyprus

- EU member state and compliant with EU laws and regulations.
- mature business centre with developed infrastructure, highly qualified professionals and minimum formalities.
- wide and efficient network of legal, accounting and banking services
- competitive setting-up and on-going costs structures and funds in the EU.
- favourable tax regime in the EU, especially for non-residents.
- combination of effective regulations, flexibility and incentives.
- hedge fund and hedge fund managers location.
- AIFS, ICIS, UCITS can be listed on CSE and other recognized EU stock exchanges.
- re-domiciliation in and out is possible.

Cyprus based AIFMs and AIFs will benefit from low tax burdens levied on Cyprus based corporations. Further, non-Cypriot investors in Cyprus AIFs will, at the time of a redemption or distribution of a Cyprus AIF, benefit from an extensive double tax treaty network.

## Types of AIF

The proposed Law pinpoints to two categories:

With **unlimited number** of persons, having the following features:

- may be marketed to either "well-informed" or "retail" investors.
- can take the forms of a Variable Capital Company (VCC), Fixed Capital Company (FCC), Common Fund (CF) or Limited Partnership (LP).
- may be listed/traded on a recognized stock exchange.
- must appoint a global custodian
- subject to minimum capital requirements of €125.000 (€300.000, if self-managed)
- retail schemes are subject to investment restrictions for the purpose of risk spreading and ensuring liquidity

AIFs with **limited number** of persons, with the following features:

- limited number of investors to 50 and may only be marketed to "well-informed" investors
- may take the form of a Variable Capital Company (VCC), Fixed Capital Company (FCC) or Limited Partnership (LP)
- not subject to investment restrictions
- under certain circumstances the scheme is not required to appoint a licensed manager or a custodian
- Assets Under Management ("AUM") do not exceed:

- € 100 mn (including leverage) or
- € 500 mn (closed-ended without leverage)

## Manager Requirements

A VCC and FCC may be set-up as self-managed, or it may be externally-managed by a third party appointed. An LP and CF must always appoint a third party manager.

In the case of an AIF with unlimited number of persons, an external manager must fulfil the following licensing requirements:

- if established in an EU member state, it will need to be authorized under one of the following EU Directives:
  - AIFMD
  - UCITS IV Directive
  - MiFID
- if established in a third country, it will need to comply with the AIFMD rules on third country undertakings.

The licensing requirements for an external manager appointed in the case of an AIF with limited number of persons, on the other hand,



depend on the investment objectives of the AIF. In this regard:

- if the AIF will invest in financial instruments, then:
- if established in an EU member state, it will need to be authorized under one of the following EU Directives:
  - UCITS IV Directive
  - MiFID
- If established in a third country, it will need to have adequate regulation and supervision in its home state.
- if the AIF will invest exclusively in other types of assets (eg real estate, shipping, energy etc.), the externally appointed manager may be a company incorporated solely for the purpose of managing the specific AIF which does not hold any license for portfolio management.

### **Custodian**

- eligible providers include a credit institution, MiFID Investment firm or other entities subject to prudential regulation
- if AIF is managed by an AIFM, custodian must be located in Cyprus or other EU member state by July 2017
- if AIF is managed by any other entity custodian must be located in Cyprus or any other member state or third country which Cyprus has signed a cooperation agreement

### **Administrator**

- must be based in Cyprus
- exemption may be obtained if both the Manager and Custodian are based in Cyprus.

## **Tax for Cyprus Funds (UCITS and Non-UCITS) and Management Companies**

Cyprus is increasingly becoming a favoured destination of choice in EU for Fund Managers and Management Companies seeking new locations, for the following reasons:

- 30 percent cap on personal income tax
- 12,5 percent cap on corporate tax, amongst the lowest in the European Union
- corporate tax can be reduced to 0 percent as gains from trading in securities and shares are tax exempt
- flexible regulations and not strict supervision
- substantially lower operating costs than comparable EU fund centres

The Cyprus Tax Laws are designed to support the development of the island as an international financial and business centre, to promote international investment and to enhance the scope of financial services.

### **Favourable Tax Regime**

Cyprus Tax Laws have been amended to provide further tax incentives for the set up and operation of funds. These amendments provide that:

- interest received by open and closed end collective investment schemes is considered 'active'
- interest income and taxed only at 12,5 percent corporate tax (no defence tax)
- there is no minimum participation on inbound dividends to qualify for tax exemption
- the liquidation of open and closed end collective schemes is not taxable if the unit holders are not tax residents of Cyprus
- to the extent where Cypriot tax resident investors have invested in a fund, there is a 3 percent defence tax on deemed dividend distribution on 70 percent of the collective investment scheme accounting profits within a two-year period from the tax year to which the profits relate, prorated to those profits attributed to the Cypriot investors.

In addition to the above, Cyprus has a wide and beneficial Double Tax Treaties (DTT) network which creates a competitive tax and corporate environment. There are currently more than 45 DTT in force with 38 others being negotiated.

An extensive DTT network can provide substantial benefits to funds, can collect dividend and interest from Cypriot treaty partners at the withholding tax rates provided under the DTT. Under most treaties, profit generated from the sale of securities is only subject to tax in Cyprus and hence tax exempt.



## **Fund Management**

Management Companies or regulated Service Providers to the Asset Management Industry (CIFs) are subject to a unified corporate tax of 12,5 percent. There is no withholding tax on payments of dividend and interest to non-resident shareholders. Fund management services which are supplied to funds approved by the CBC, are not subject to the standard VAT rate of 19 percent.

Source: Oneworld Ltd

**PLEASE FEEL FREE TO CONTACT US WITH ANY QUESTIONS OR QUERIES.**

TRUST 4 TRUST GROUP

EMAIL: [INFO@TRUST4TRUST.COM](mailto:INFO@TRUST4TRUST.COM)

PH.: +41 91 220 4710

FAX: +41 91 220 4711