

1. Corporate Tax Residency in Cyprus – Legal Definition

The definition of corporate tax residency as per the Cyprus tax legislation is '*where the company's Management and Control is exercised*'. Based on our experience with the Cyprus Tax Department, this includes the review of aspects such as **(1)** where the company's board meetings are held, **(2)** the tax residency of its' directors, **(3)** where the company's accounts and records are approved and kept, **(4)** as well as where the key decision making and stewardship of the company is made.

What is key here for determining the tax residency of a Cyprus company, is the tax residency of the company's management (Board of Directors, CEO, CFO etc.), as well as their authority, capacity, experience and knowledge to properly direct the company, free from legal or other restrictions.

2. Corporate Tax Residency in Cyprus – Practical Aspects

In addition to the above described statutory minimum requirements, a Cyprus company should in addition be in a position to prove that it has **(5)** sufficient employees in Cyprus in order to undertake its activities described within the relevant Memorandum and Article of associations, **(6)** as well as having dedicated offices where such activities can be undertaken. Furthermore, it is recommended that the company maintain a **(7)** bank account in Cyprus, though it may retain any offshore bank accounts, with only funds to cover basic administrative functions (payroll, taxes, rents etc.) being maintained within the Cyprus bank account.

As can be seen, all the above conditions are relatively straight forward to achieve for a company, and as such a company failing to prove its tax residency in Cyprus would be down to poor structuring of operations. At the same time however, any 'letter box' shell companies (i.e. companies with no economic activity, employees or physical presence in Cyprus) are becoming increasingly difficult to substantiate, as they are facing scrutiny from the banking sector, as well as the Tax Department.

3. Recommendations

Due to the complexities arising, the use of Cyprus companies is recommended only where there are genuine business operations, and sufficient substance to withstand a foreign challenge. In such a case, the use of Cyprus as a jurisdiction remains highly beneficial from a tax, legal and business perspective. Companies which are already established in Cyprus but are lacking substance should aim to have as a minimum the characteristics described above, in order to mitigate the risk of a challenge from either the Cyprus, or a foreign tax authority.