

INVESTMENT INTO RUSSIA

THE BVI CYPRUS ROUTE

For many years practitioners will have been aware that Cyprus has been listed as one of the largest investors into Russia. A significant portion of all foreign investment into Russia originated from Cyprus. Some of the reasons for this are historic including a shared religion and a common heritage, however, economic reasons are trumping what were already compelling reasons for closeness.

Tax Advantages

The primary reason for the use of Cyprus is due to the provisions of the double tax agreement (DTA) between Russia and Cyprus. This treaty offers some of the best provisions in relation to what is on offer by its competitors. In this regard the following can be noted. Dividends paid by a Russian company and received in Cyprus is subject to a withholding tax of 5% provided that the Cypriot company has invested at least €100 000 into the Russian company. This is a reduction from the normal withholding tax of 10%. Furthermore there is no withholding tax on income received as interest or royalties (10% -20% withholding tax in normal cases).

Once in Cyprus the normal Cypriot benefits accrue that have made Cyprus one of the favoured holding company locations in Europe. These include:

A uniform tax rate of 10% (with a credit for underlying taxes paid);

No withholding tax on dividends paid out of Cyprus;

Dividends received are exempt from income tax;

No CGT on disposal of securities unless the company owns property in Cyprus;

Cyprus is signatory to more than 40 other DTA's;

The lack of "thin capitalization" rules, and minimal interest margin requirements, make Cyprus an ideal jurisdiction for use as a financing company;

Cyprus is part of the EU and is able to benefit from the EU Parent/Subsidiary Directive, the Interest/Royalties Directive and Mergers Directive.

Other issues

Cyprus has been removed from several “black lists” maintained by some countries for example Italy and Spain.

It should also be noted that in October 2010 President Medvedev visited Cyprus and signed a protocol amending the treaty with Russia, thus confirming its status as one of the premier routes into Russia.

The BVI Cyprus combo

From the above analysis it is clear that combining the BVI with Cyprus allows investors to enjoy the best that both jurisdictions have to offer. It is possible for a BVI hedge fund, or private family holding structure, to invest into Russia via Cyprus. This should ensure the the combination of a well known investment vehicle can be combined with tax efficiency, to make the entire investment more tax efficient by the elimination of withholding taxes.

Whilst in principle it is possible to reduce Cypriot profits by the use of interest, in practice this may well not be required as the tax rate in Cyprus is lower than the normal rate in Russia of 20%, so there should be no further tax in Cyprus as credit will be given in Cyprus for any withholding taxes levied.

Key Contact:

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