

CYPRUS INTERNATIONAL TRUST

Almost every person lusts to avoid the consequences of legal ownership of assets such as taxes and at the same time to enjoy the benefits of ownership such as wealth. With the establishment of a Cyprus International Trust this is possible.

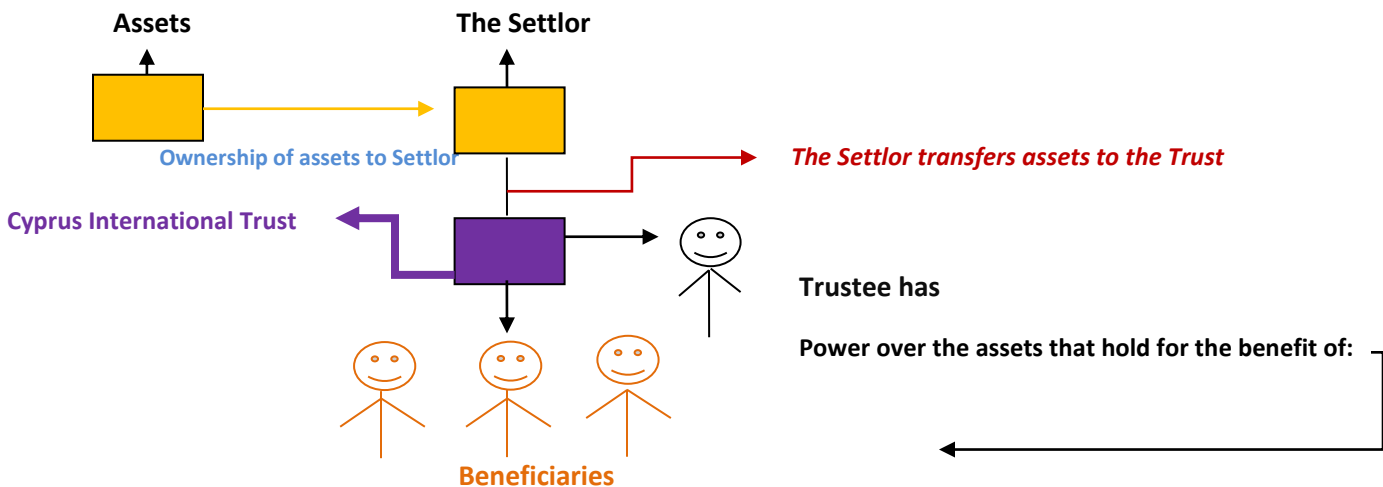
This concept is highly recommended and used in countries where their legal system is based on civil law like France, Austria, Russia, Ukraine since the Trusts establishment is very uncommon and not legally recognized. Cyprus is based on the Common Law Legal system and International Trusts are legally recognized and very frequently used, therefore, this makes the concept of Cyprus International Trust very important for these countries residents since and they wish to reduce their taxes and protect their assets.

Moreover, Trusts except that they offer tax optimization and asset protection, they do offer additional benefits such as strict confidentiality and for this reason Cyprus International Trusts are ideal mechanisms for residents of these countries.

WHAT IS A CYPRUS INTERNATIONAL TRUST

The Trust concept was first used in the Anglo Saxon times where the assets are transferred by one person (The Settlor) to another person or corporate body (The Trustee (s)) to hold the assets for the benefit of a specifies list of persons (The Beneficiaries). The provisions, terms and conditions of this establishment is accompanied by a written document (The Trust Deed) which outlines the powers of the Trustees and the rights of the Beneficiaries.

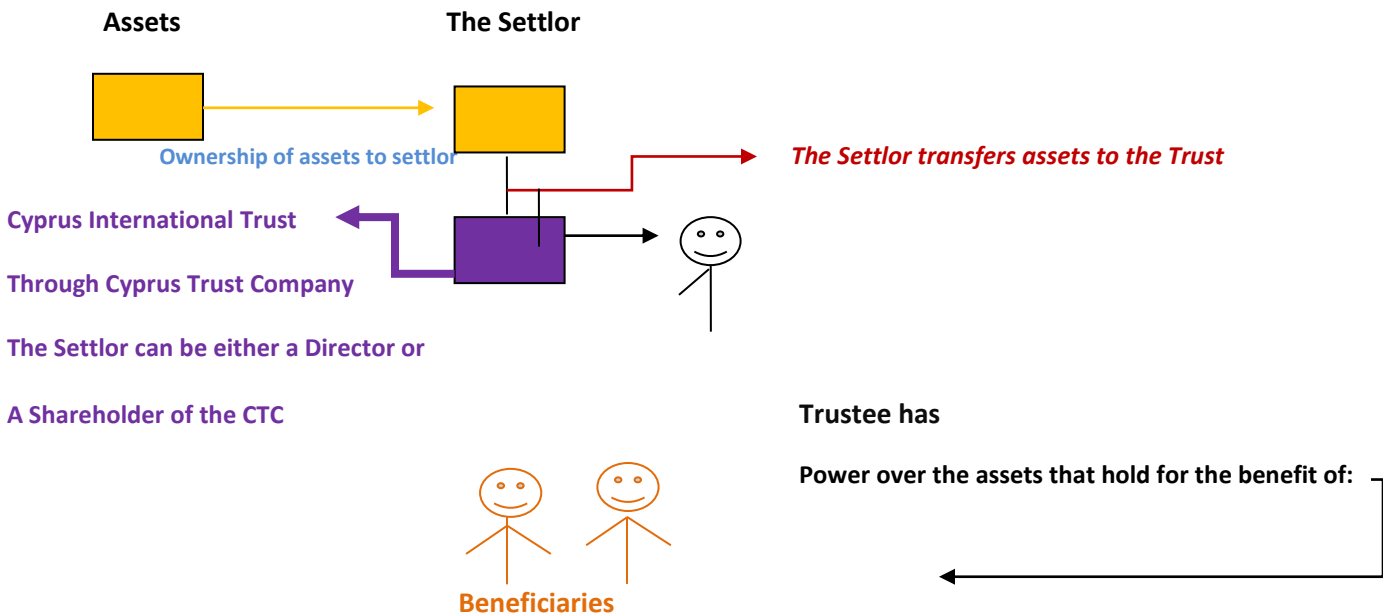
The following plan can help you understand a basic establishment of a CIT.



There are various ways that a Cyprus International Trust can be establish, since Cyprus is a reputable jurisdiction, that can eliminate any concerns that the Trust concept may create to prospective persons that want to establish a Trust.

One of the concerns is that the Settlor will have to transfer his assets to the Trustees and after that he will have no control over his assets. This can be waived by the creation of Cyprus Trust Company. In this case the assets will be transferred to the Cyprus trust company instead of the Trustee directly and the Settlor can be at the same time a Director of this company or even a shareholder. Through this scheme, the Settlor retains interest directly or indirectly in the trust assets. It is important, however, that the Trustees remain independent and exercise proper control over the trust assets since if the person who sets up the trust continues to exercise control over the trust assets this may render the trust void and null.

The structure below is ideal to explain how the Settlor still retains direct or indirect interest in the Trust assets.



TRUSTEES

A Trustee may not derive any advantage directly or indirectly from the trust unless it is expressly permitted by the trust deed. The relevant Cyprus Law that governs the establishment of Trusts and the obligations of the Trustees, imposes very strict obligations and rules to the Trustees including a duty to account for any benefits the Trustee may gain directly or indirectly from the Trust. This goes beyond fraudulent abuse of position by a Trustee.

Further, Trustees have to obey the directions set out in the trust deed. This is the most important rule regarding the duties of the trustees. This rule is applicable to the interest of the beneficiaries and to the administration of the trust. Trustees are also subject to very strict standards as to the way in which their powers may be exercised.

The Law and the Courts of Law in Cyprus impose a special 'Fiduciary' relationship to the trustees in order to avoid possible abuse of confidence, therefore, trustees are subject to the following rules:

- A. No Private Advantage
- B. Acting In The Best Interest Of The Beneficiaries
- C. Act Prudently – Higher Standard on Professionals

ADVANTAGES OF A TRUST

Trusts have been established to be a unique and powerful tool for tax planning but at the same time they retain other important uses which are equally great as tax planning. One important use is for persons or companies that have established **confidential international financial centre accounts**. Holders of this type of accounts have a valuable benefit to set up a Cyprus International Trust and transfer the assets of these accounts after death or during life time. The reason is that this type of accounts were set up in strict confidence with the main aim to avoid tax. On death is impossible to claim those assets through a probate procedure since the existence and the source of these assets will need to be revealed and the tax implications for such an action will be fatal since there are case that all the assets will need to be paid as taxes. Swiss banks hold major assets in this type of accounts that the heirs cannot claim due to the above reasons.

In addition to that, Trusts have also other important advantages such as the following:

A. ASSET PROTECTION

Assets transferred to a trust no longer form part of the Settlor's property. Therefore, the assets that have been placed into trust cannot be seized if the Settlor is facing financial difficulties because of bankruptcy, divorce, court judgments for negligence etc. For this reason the law has been developed and it offers a specific type of trust for this exact purpose which is called the '**Asset Protection Trust**'. This type of trust has been created to serve this scope i.e. **protection of assets transferred into the trust from creditor's attack.**

B. TAX PLANNING

When assets are transferred into the trust are considered that no longer belong to the Settlor. Therefore, these assets can no longer be taxed as before the establishment of the trust. With the help and advice of a professional who is an expert on the Trusts establishment the Settlor can establish a well drafted and suitable trust structure and produce substantial savings in **income tax, capital gains tax, inheritance tax etc.**

In Cyprus by Law when establishing a Cyprus International Trust the following conditions must apply:

- 1. The assets that will form part of the trust need to be outside Cyprus. It cannot include immovable property located in Cyprus.**
- 2. The Settlor needs to reside outside Cyprus**
- 3. The Beneficiaries need to reside outside Cyprus**
- 4. At least one of the Trustees has to be Cypriot**

Once all the above are fulfilled, **any income, profit, gain that the assets of the trust** will receive yearly will be totally **exempted from any type of tax.** Thus, **0%** taxes for the Settlor. **Section 12 (1) of the International Trust Law 1992, 69(I)1992.**

Thus, there are the following benefits:

- a) The income is not subject to taxation in Cyprus,
- b) There is benefit from the Double Tax Treaties,
- c) No Capital Gains Tax,
- d) No Inheritance Tax

C. CONFIDENTIALITY

Section 11 (1) of the International Trusts Law 1992, expressly states the following:

“Based on the terms and conditions of the International Trust Deed and if a Court of Law ,(Cyprus Court) does not issue any order for disclosing any information, The Trustee or any other person including Government officials and officers of the Central Bank of Cyprus, are strictly forbidden of disclosing any information to any person that is not authorized to have knowledge with regards to any documents concerning:

- a. The name of the Settlor or his identity or the name of the Beneficiaries or their identity,***
- b. The dealings or negotiations of the Trustee regarding the trust,***
- c. The reason why the Trustee has acted or dealt the way he did within the trust and for the trust,***
- d. Any relations to the acts of the Trustee,***
- e. That directly or indirectly are connected or related to the accounts of the trust.***

Therefore, a strict confidentiality is applicable to the Cyprus International Trusts by Law.

Also, **there is no need** as per the Law:

- a) to register a trust anywhere,**
- b) To submit tax declarations or financial statements,**

D. OTHER IMPORTANT ADVANTAGES OF THE Cyprus International Trust

1. **Estate Planning** – A trust is a flexible way to make arrangements when one does not wish for his assets to pass to his heirs on his death and he prefers to make more complicate arrangements such for the widow to have a live income of for the education of his children based on curtain conditions that he wishes.
2. **Avoiding forced Heirship** – In a civil Law jurisdictions a deceased will not be allowed to leave his property to the persons he wishes. Through a trust this obstacle can be eliminated.
3. **Protecting the assets for** persons that are **unable** to manage them i.e. infant or disable persons.
4. **Preserving Family Assets** – Keep family assets under one roof and not to be divided.

5. Continuing the Family Business – transfer the shares of a company into the trust.

IRREVOCABLE TRUSTS AND DURATION

Unless the Trusts Deed provides otherwise:

- a) The Trust is considered irrevocable
- b) Its duration is for 100 years

TYPES OF INTERNATIONAL TRUSTS

A) NORMAL TRUSTS

B) PURPOSE TRUSTS:

- a) They do not have specific beneficiaries
- b) The beneficiaries cannot be identified with reference to any relationship
- c) They are trusts for a specific purpose.