



cutting through complexity

TAX SERVICES

Family Office

kpmg.com.cy





What is a Family Office?

A Family Office is the term given to a professionally managed set-up, established by wealthy families in order to consolidate, administer and manage their assets, business affairs and other significant responsibilities through a coordinated provision of services. The primary goal of a Family Office is the preservation of wealth of the family for current and future generations, through proper management and compliance.

A Family Office does not necessarily take management decisions on behalf of the family, but merely presents the various options to the family to help it decide on the appropriate measures to be taken and then the Family Office monitors the implementation of such decisions.

What is the need for a Family Office?

The increasing concentration of wealth and the rising number of high net worth families have made Family Offices one of the fastest-growing investment vehicles in the world. Wealthy families soon realize that establishing a Family Office is necessary in order to keep up with the increasing complexities of wealth accumulation.

A Family Office will help you by:

- Reducing dependence on a family head
- Creating a legal structure to secure interests of future generations and draw the distinctive line between family wealth and business wealth
- Training and educating family members at an early stage
- Addressing the ever increasing complexity in tax, investment products/services and other related decisions
- Coordinating activities - efficient means of monitoring and managing a family's wealth and investments
- Presenting latest available information - enabling informed decisions to be made
- Forming an investment strategy and assessing and managing risks, reducing costs (review of commissions and other administrative costs)
- Creating an orderly family governance decision making structure.

Why Cyprus?

General Considerations

- Cyprus has developed into an important financial and business centre
- Strategic location in the middle of three continents – namely Africa, Asia and Europe - and offering a gateway to the Middle East
- Member of the EU and Eurozone
- Mature and transparent legal system founded on common law
- Attractive tax environment with one of the lowest corporate income tax rates in the EU at 12,5%
- Extensive network of double tax treaties allowing effective tax planning
- No succession taxes
- No taxation of capital gains (except for disposal of real estate in Cyprus or shares of company holding real estate in Cyprus to the extent gains are attributable to the real estate holding)
- Financial base for a large number of extremely wealthy individuals from Europe and Asia
- Highly skilled service providers specialised in the financial services industry
- Highly competitive professional services fees when compared to other European jurisdictions, without compromising the level of and quality of the service provided.

Other Considerations

i) VAT on Pleasure Boat Regime

The VAT Authorities have established guidelines for favorable VAT treatment of pleasure boat leasing schemes. They provide for low levels of VAT through financial leasing agreements whereby the lessee is granted the option to purchase the pleasure boat at the end of the lease. The lessor shall be the owner of the pleasure boat and must be a Cyprus registered entity. The lessee may be a physical or legal person without restrictions as to origin.

The acquisition cost of pleasure boats is subject to VAT which is currently at 19%, provided that the vessel is brought into the EU and used in EU waters. If the vessel is used partly outside EU waters the percentage of the cost subject to VAT may be reduced to reflect this. The regime allows for the percentage of the cost subject to VAT to be determined according to the type and length of the pleasure boat, allowing possible substantial savings in the VAT payable.

There has been a reduction on the overall profit margin percentage that the lessor is expected to achieve from the lease agreement from 8% to 5%. The profit margin is distributed as follows:

- 2,5% on the total value of the pleasure boat is added to the total amount of leasing installments on which the VAT liability is calculated;
- 2,5% on the total value of the pleasure boat is added to the final payment as a result of which the ownership of the pleasure boat is transferred to the lessee.

This reduction in the profit margins results in further reducing the effective VAT and Tax rates making the Cyprus pleasure boat regime even more attractive.

ii) Immigration Permits

The Ministry of the Interior established an efficient procedure for granting immigration permits to third country nationals that intend to take up permanent residency in Cyprus, provided that they fulfill the following criteria:

- A secured minimum annual income of €30.000, which should be derived from sources abroad and can include overseas employment income, pensions, dividends etc
- The applicant must submit a confirmation letter from a Cyprus Banking institution that s/he has deposited a minimum amount of €30.000 which will be pledged for a minimum of three years
- The application form must be accompanied by a title deed or a contract of sale that has already been submitted to the Department of Lands and Surveys, for the acquisition of a house, apartment or any other building situated in Cyprus, of a minimum market value of €300.000 (plus VAT). Further, the applicant must submit proof of payment for at least €200.000 (plus VAT) in respect of the above mentioned property
- The applicant must submit: a) a clean Criminal Record Certificate, and b) a statement that s/he has no intention to work or be engaged in any form of business in Cyprus
- The applicant is required to visit Cyprus at least once every two years.

iii) Cypriot citizenship

The Cyprus government announced on 19 March 2014 further changes to the set of criteria for granting Cypriot citizenship by exception for foreign investors.

Criteria for granting Cypriot citizenship by exception include the following:

a) The applicant should have direct investments in Cyprus of at least €5 million in Cyprus government bonds, bought on either the primary or secondary market

OR

b) The applicant should have direct investments in Cyprus of at least €5 million, in financial instruments of companies and shares of public companies registered in Cyprus, bought on either the primary or secondary market

OR

c) The applicant should have deposits in Cyprus banks amounting to €5 million, for a period of three years

OR

d) The applicant should have direct investments in Cyprus of at least €5 million in real estate and land developing (e.g. residential, commercial, tourism industry and other infrastructure)

OR

e) The applicant should have direct investment in Cyprus of at least €5 million through the purchase, establishment or participation in businesses/companies that are based and have activities in Cyprus. Further, the above mentioned businesses/companies must be able to verify their physical presence in Cyprus and should employ at least five Cypriot citizens

OR

f) The applicant may choose a combination of any of the above criteria amounting to €5 million

OR

g) Any applicant who was a holder of deposits in Laiki Bank and suffered an impairment in value of his/her deposits of at least €3 million as at 15 March 2013 as a result of the measures imposed on the bank. If the impairment suffered, however, is lower than €3 million, s/he may still apply for Cypriot citizenship, provided that s/he invests the remaining amount (i.e. sum up to €3 million) in any of the criteria (a) to (e) above. The conversion of deposits held in Bank of Cyprus that have been compulsorily converted into shares, is included under criterion e) above

OR

h) The Council of Ministers can at its discretion relax certain criteria to accommodate large collective investments in government bonds (criterion a), financial assets in Cypriot enterprises or organizations (criterion b), real estate and land development (criterion d), and in relation to the purchase, establishment or participation of Cypriot businesses and companies (criterion e).

In addition, the applicant will be required to invest a reduced amount of €2,5 million in any of the above categories, on the basis that they participate in a collective investment scheme with a total value of at least €12,5 million.

An additional prerequisite is that the applicant must have a clean criminal record and own a permanent residence in Cyprus, the market value of which should be at least €500.000 (plus VAT).





Types of Family Office Holding Structures

There are various structures that may be set up in Cyprus as part of a Family Office set-up including family protection schemes (trusts) and collective investment schemes.

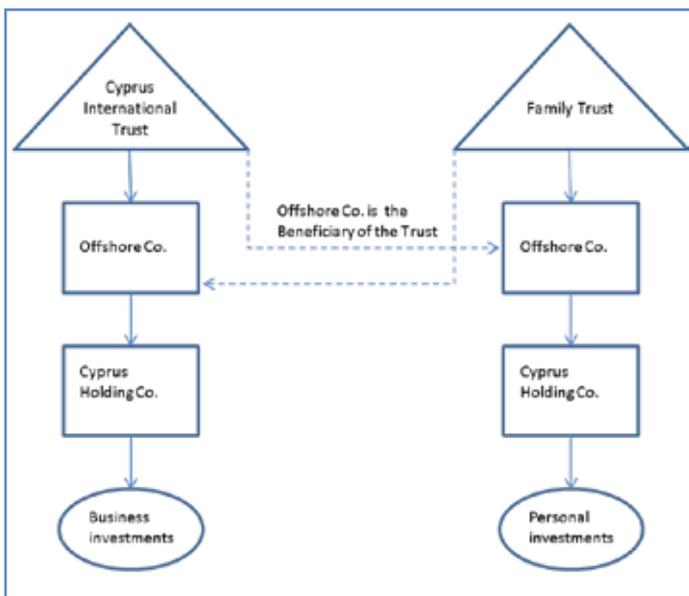
A. International Trusts and Estate Planning

i) Key persons involved in a Cyprus International Trust

Key persons	Description
Trustee	A legal or natural person, who holds the trust property transferred to him for the benefit of the beneficiaries of the trust. At least one of the trustees must be a resident of Cyprus for the duration of the trust.
Settlor	A legal or natural person, who transfers the trust property to the Trustee, and who may be one of the beneficiaries to the trust. The Settlor shall not be a resident of Cyprus for the calendar year immediately preceding the creation of the trust. The Settlor may retain or be granted rights and powers in the trust property or act as a protector or enforcer of the trust.
Protector	A Protector is appointed by the Settlor during his lifetime whose powers are specified in the trust document including but not limited to removing the Trustee but also directing and exerting control over the Trustee in the exercise of the Trustee's discretions.
Beneficiary	A person for whom the trust property is held and shall not be a resident of Cyprus in the year preceding the year of the creation of the trust unless the beneficiary is a charity.

ii) Trust structure

The trust structure may include (a) one or more offshore companies, the shares of which will be held by the trust (Family Asset Trust) and (b) a Cyprus company which will be held by another trust (Business Asset Trust). The offshore company will also be a beneficiary of the Business Asset Trust. This will create a segregation of business and personal family assets and will enable the holding of surplus funds (distributed out of Cyprus without any withholding taxes) in a tax free jurisdiction such as the BVI or the Seychelles which may be used for refinancing activities of new ventures.



- Disclosure of information on the trust or trust assets to any person not legally entitled is prohibited with very strict exceptions
- Allows for establishing charitable trusts setting out a wide set of purposes which constitute a trust to be a charitable trust
- Recognition and validity of non-charitable purpose trusts established for a particular purpose enforceable by the settlor of the trust or his personal representative.

There is protection to trust users through a sound regulatory system and accounting requirements of the Law Regulating the Companies providing Administrative Services and Related Matters of 2012 and 2013, which regulates fiduciary service providers acting as trustees.

This structure may be administered from Cyprus with minimum operational costs.

iii) Benefits of an International Trust

- Protection of assets from inheritance/succession laws - the validity of the trust or disposition to a trust cannot be challenged if inconsistent with the inheritance and succession laws of Cyprus or any other jurisdiction
- Protection of assets from third party claims - the trust is not void or voidable in the event of the settlor's bankruptcy or liquidation or in the event of any claims by third parties notwithstanding any contrary provisions of other laws of Cyprus or any other jurisdiction
- The Settlor may maintain control over the trust by reserving powers to himself without affecting the validity of the trust and under the capacity of Protector may change the structure at any time through his/her personal wishes
- Flexibility and wide investment capabilities as the Trustee may hold, retain or invest in any movable or immovable property located in Cyprus or any other jurisdiction
- The duration of the trust is unlimited, although any preferred time limit may be prescribed in the trust deed
- Information on the trust or trust assets is confidential and not available to the public

B. Cyprus Local Trust

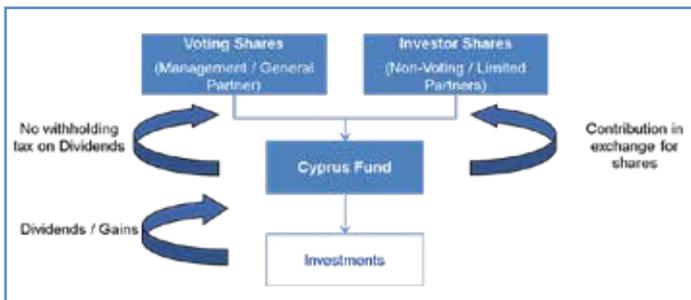
With the exception of the provisions of the protection of assets from third party claims and the unlimited duration of the trust, which the Trustees Law Cap. 193 that governs local trusts, does not explicitly provide for, the remaining provisions in section A may apply to a local trust if the trust document expressly provides for them.

iv) Taxation

- Taxation is based on Tax residency and therefore a Tax resident beneficiary may (depending on the nature of the income) taxed on income arising at the level of the Trust
- There is no taxation at the level of the trust for non-Tax resident beneficiaries except in cases where the income arises from sources within Cyprus (again depending on the nature of the income)
- Accumulated wealth at the level of the trust is available for re-investment
- No tax on selling securities, including the shares of the Cyprus company (in the event it is part of the trust structure)
- No inheritance or wealth taxes.

C. Investment Funds

A Family Office set-up can act as an investor of a Cyprus Investment Fund ("Fund") or can set up a separate Fund – wholly controlled via its voting shares - to raise capital for investing in the family's and other assets.



i) Benefits of a Fund structure

A Fund provides the following benefits:

- Well established legal framework and regulation providing clarity on the rights and obligations of the investors and the investment manager
- Tax efficient as the majority of revenue sources are exempt from taxation
- Utilises professional management and experienced personnel to manage its assets
- Protection as it is a regulated entity which undergoes a strict application process and is subject to ongoing regulatory monitoring
- Confidentiality as it does not need to report to the Registrar of Companies the names of its investors upon subscription or redemption of investor shares
- Access to investments that may otherwise be out of reach (e.g. size of investment, sharing of costs, risk spreading etc).

ii) Alternative Investment Funds

The Alternative Investment Funds ("AIFs") in Cyprus are currently governed by the Alternative Investment Funds Law of 2014 (the "AIF Law") and are regulated by the Cyprus Securities and Exchange Commission (CySEC).

An AIF is a collective investment undertaking which:

- raises external capital from a number of investors
- with a view to investing it in accordance with a defined investment policy for the benefit of those investors, and
- has not been authorised as a UCITS.

a) Types and forms of AIFs

AIFs are categorized into the following two types:

- Unlimited number of persons which may be marketed to (i) retail or (ii) well-informed and/or professional investors
- Limited number of persons (limit of 75), which may be marketed to well-informed and/or professional investors. Assets under management should not exceed €100 million (including leverage) or €500 million (without leverage but with a lock-up of five years).

AIFs may be structured as i) a variable or fixed capital company, ii) a limited partnership, or iii) a common fund (only for Unlimited number of persons).

The AIF may take the form of an umbrella structure with multiple investment compartments, which allows the management of different pools of assets with different investment policies, the assets and liabilities of each such pool of assets being ring-fenced.

b) A Family Office set up as an AIF

The Family Office may take the form of an AIF with limited number of investors which is a more flexible structure and has the following characteristics:

Characteristics	Description
Number of Investors	Limited to 75 (including investment compartments and any subsidiaries)
Investor Profile	Professional, Well-Informed
Manager Licensing Requirement (if External)	Yes, if investments in financial instruments
Depositary (Custodian) Localisation Requirement	Either based in Cyprus, EU or third country with which Cyprus has signed cooperation agreement; exemption if assets under management are under EUR5 million, no more than 5 investors, or assets cannot be held in custody
Transferability of Shares	Freely transferable subject to restrictions in constitutional documentation (as long as number of investors does not exceed 75)
Marketing Restrictions	Private Placement or Public Offer (as long as number of investors does not exceed 75)
Investment Restrictions	Not applicable
Borrowing/ Lending Restrictions	May use leverage, percentage of which may be dependent on the nature of its investments May not lend to third parties but can act as a financing vehicle to subsidiary companies
Risk Management	Not applicable
Reporting Requirements	Annual report (audited)
Possible listing	No

iii) Taxation

a) Taxation of the Fund

An AIF established in Cyprus will be taxed at 12,5% on its trading profits but the AIF will be exempted from tax on dividends received, on profits from sale of securities and on capital gains arising from sale of property abroad or from sale of shares of foreign property companies. The AIF will not be subject to subscription tax on its net assets and fund management services are excluded from VAT. Cyprus has an extensive Double Tax Treaty network (more than fifty treaties concluded) which may be utilized by a corporate Fund structure.

b) Taxation of the Investors

Foreign investors and legal persons will not be subject to withholding tax on dividends, tax on redemption of units and deemed distribution provisions.

Tax resident investors who are physical persons are subject to 17% withholding tax on distributions received from the fund. They are also subject to a deemed income distribution at the rate of 3% which is due every two years on undistributed profits attributable to tax resident investors, which can be credited towards the fund's future actual income distributions. There will be no further taxation upon redemption of units.



KPMG Services

KPMG Cyprus is a leading international provider of Audit, Tax and Advisory services supported by a global network of professionals with extensive experience and resources. The wide range of skills of the different practices are combined to provide tailored solutions to the client.

• Relocation

- assistance with worldwide relocations for individuals, families and corporate structures
- worldwide structuring of domicile with respect to income, wealth and inheritance tax
- representation before and negotiation with the tax authorities
- obtaining tax rulings in anticipation of the transaction offers certainty and ensures transparency
- coordination of real estate purchase and sale transactions
- assistance with financing

• Income and Wealth Structuring

- coordination of projects with a fiscal or financial background
- implementation and coordination of personal and corporate structures

- structuring of assets
- participations, portfolio investments, liquidity etc
- managing real estate, airplanes, art issues
- trust and estate planning
- managing yacht issues including setting up the required legal entities to hold the yacht, assist in drafting the required lease agreement, assist in choosing an official appraiser, file all necessary documents for participating in the Cypriot pleasure boat regime, and assist in complying with all subsequent requirements for the Cypriot pleasure boat regime
- tax efficient investment planning
- distribution of earnings
- structuring of wealth tax burden

• Tax, Accounting, Administration and Compliance

- tax administration including VAT, declaration and worldwide monitoring of tax assessment process
- administration of tax appeal procedures

- advisory on tax amnesty matters and voluntary disclosures
- penal proceedings on tax related matters
- tax litigation
- compilation and calculation of tax reporting documents concerning income, wealth and capital gains taxes for various jurisdictions

• Global Compliance Management Services (GCMS)

- maintaining proper books and records
- bookkeeping and related services
- monitoring local compliance with statutory requirements and filings
- coordination and reporting
- payroll services
- secretarial and administration services

• Transactions

- relocations of individuals and their corporate structures (legal planning, advice on potential structure)
- escrow functions
- purchase and sale of assets (companies, real estate, other assets)
- drafting of various agreements
- support in Cypriot residence and work permit applications
- implementation of personal and corporate structures (companies, partnerships, trusts)

• Wealth Controlling Services

- audit services for private and corporate structures and Family Offices
- internal audit
- controlling services
- risk management services
- monitoring of financial reporting for private clients





KPMG in Cyprus contact details:

Nicosia

T: +357 22 209 000

F: +357 22 678 200

E: nicosia@kpmg.com.cy

Limassol

T: +357 25 869 000

F: +357 25 363 842

E: limassol@kpmg.com.cy

Larnaca

T: +357 24 200 000

F: +357 24 200 200

E: larnaca@kpmg.com.cy

Paralimni

T: +357 23 820 080

F: +357 23 820 084

E: paralimni@kpmg.com.cy

Paphos

T: +357 26 943 050

F: +357 26 943 062

E: paphos@kpmg.com.cy

Polis Chrysochous

T: +357 26 322 098

F: +357 26 322 722

E: paphos@kpmg.com.cy

www.kpmg.com.cy

©2015 KPMG Limited, a Cyprus limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. Printed in Cyprus.

The KPMG name, logo and "cutting through complexity" are registered trademarks or trademarks of KPMG International.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

The views and opinions expressed herein are those of the author and do not necessarily represent the views and opinions of KPMG International Cooperative ("KPMG International") or KPMG member firms.

111114