Cyprus Confidential

Why in news?

An investigation titled 'Cyprus Confidential' has shed light on the intricate web of tax avoidance and wealth concealment.

What is Cyprus Confidential?

- It is a global offshore investigation of 3.6 million documents that reveal how the rich and powerful from around the world use Cyprus as a tax haven and a secrecy jurisdiction.
- **Partnership-** International Consortium of Investigative Journalists and 68 media partners.
- **Cyprus-** It is a *small Mediterranean island* off the coast of Turkey that has an outsized financial sector.
- It has some of the European Union's most lax financial disclosure laws, making the country an ideal destination for stashing wealth.



- **Cyprus Investment Programme**- It is a *golden passport scheme* launched by Cyprus in 2007.
- It enabled financially prominent individuals to obtain Cypriot citizenship, thereby attracting foreign direct investments into the country.
- **India's connection**- The investigation shows how some Indian investors and businesses set up entities in Cyprus to take advantage of the low tax rates, the double taxation avoidance agreement, and the anonymity of the beneficial owners.

Tax Haven

• It is a country or jurisdiction that offers *low or no tax liability* to foreign individuals and businesses who deposit their money or operate their activities there.
• It is an *offshore financial center* that may also have secrecy laws that prevent the disclosure of information to foreign tax authorities.
• **Example**- Cayman Islands, Luxemburg, Panama Islands, Mauritius etc.,
• Tax havens may be used for various purposes, such as tax avoidance, tax evasion, money laundering, or hiding assets from creditors
• **Criteria for a tax haven country**- It was set by Organization for Economic Cooperation and Development (OECD) in 1988.
- Nil or nominal tax on the relevant income
- No effective exchange of information
- Non-transparent
- No substantial activities occur
• **Corporate Tax Haven Index**- It is launched by *Tax Justice Network* that tracks the most complicit jurisdictions in helping multinational corporations evade taxes.
- As of 2021, the worst offenders were the British Virgin Islands, the Cayman Islands, and Bermuda.
• **Offshore trusts**- As per Cyprus International Trust Law, they are *trusts whose property and income are outside Cyprus*, and even the settlor and beneficiaries are not permanent residents of Cyprus.
• It allows businesspersons to avoid tax that would have otherwise been paid by the settlor had she/ he remitted the income arising from overseas operations, to the country of residence.

How India is connected to Cyprus Confidential?

- **India investigation** -It reveals how entities with offshore residency in Cyprus were controlled from India, and instructions for financial transactions in these entities are given by individuals in India.
- **Offshore entities in Cyprus**- It is not illegal to set up an offshore company in Cyprus as India has *Double-Taxation Avoidance Agreement (DTAA)* with Cyprus.
- Companies use their tax residency certificates in such countries to enjoy tax benefits that are available legally.
- **India's tax treaty with Cyprus**-

- DTAA does not stop the Income Tax department from denying tax treaty benefits if it is established that a company has been inserted as the owner of shares in India at the time of disposal of the shares to a third party, solely with a view to avoid tax.

DTAA is a tax treaty signed between any two/multiple countries so that taxpayers can avoid paying double taxes on their income earned from the source country as well as the residence country.

At present, India has double tax avoidance treaties with more than 80 countries around the world.

What advantages does Cyprus offer India?

- **Tax exemption-** Offshore companies and offshore branches managed and controlled from Cyprus are taxed at *4.25%,* and offshore branches managed and controlled from abroad and offshore partnerships are *totally exempt from tax.*
- **No estate duty-** Capital gains tax is payable on the sale or transfer of shares in an offshore entity but no estate duty is payable on the inheritance of shares in an offshore company.
- **No import duty**- There is no import duty on the purchase of cars, office or household equipment for foreign employees.
- It also assures anonymity of the beneficial owners of offshore entities.
- **Tax planning-** DTAA allows Cyprus which has a low tax regime to be used as a jurisdiction for tax planning.
- **Alternative to Mauritius-** Dividends paid out from India will be subject to withholding tax, no taxation will arise in Cyprus as this will be adjusted or credited against the 4.25% tax in Cyprus

Quick facts

Offshore Investigations	Year
HSBC Swiss Leaks	2015
Panama Papers	2016
Paradise Papers	2017
Pandora Papers	2021

References

1. Indian Express- Why Indians look at Cyprus
2. Wire- 66 Indians got golden passports

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