



N. XENOFONTOS LLC

**The basics of trusts**  
**&**  
**The benefits of a Cyprus International Trust**



**The 'Trust' concept**

A trust is a fiduciary relationship in which one party, known as a settlor (or trustor or grantor in the U.S.), gives another party, the trustee, the right to hold title to property or assets (of whatever nature and wherever situated) for the benefit of a third party, the beneficiary. Trusts are established to provide legal protection for the settlor's assets, to make sure those assets are distributed according to the wishes of the settlor, and to save time, reduce paperwork and, in some cases, avoid or reduce inheritance or estate taxes

Simply put, the trustee is the **legal owner** and the beneficiary is the **equitable owner**.

Under a trust arrangement, the trustee, despite being the legal owner of the property and holding title thereto, does not benefit from the trust but merely hold the property **in trust** for a beneficiary according to the terms of the instrument creating the trust – the declaration of trust or trust settlement or trust deed.

There are three fundamental parties to a trust: the settlor of the trust, the trustee, and the beneficiaries and if desired, the protector. The role and rights of each differ.

## The Cyprus International Trust ('CIT')

### Conditions

Non – tax residents of Cyprus can create a trust whereby they can achieve the utmost possible degree of asset protection and at the same time effectively plan for their estate and succession.

In order to qualify as a CIT, the following conditions must be met:

- no beneficiary and no settlor, either a legal or a physical person, (other than a charitable institution) must be a permanent resident of Cyprus during the calendar year preceding the year of establishment of the trust;
- at least one of the trustees is a permanent resident of Cyprus throughout the duration of the trust period.

### Benefits

The practical advantages of a trust are gained from the distinction that is drawn between the formal or legal owner of property, the trustee, and those people that have the use or benefit of the property/assets, the beneficiaries.

- Governed exclusively by Cyprus law. Protects against the application of foreign laws. All matters relating to CITs are to be determined in accordance with Cyprus law.
- Powerful asset protection characteristics:
  - *there must be an intent to defraud in order for property transfers to be invalidated Unaffected by matrimonial property or succession laws*
  - *2-year hardening period (limitation of action)*
  - *Claimants must show that they were creditors at the time of transfer*
- Trusts may exist in perpetuity (forever)
- Settlor may reserve powers to himself
- Unrestrained investment powers to the trustees to increase trust assets
- Confidentiality (registers of trusts maintained by regulatory authorities include information ONLY on the name of trust, the name and address of the trustee, date of establishment, date of termination and of any change of trust governing law; Registers of trusts are not available to for public inspection.

- Settlers of a CIT can relocate to Cyprus after the establishment of the trust
- Overcoming “forced heirship” rules applied in certain jurisdictions
- Credible jurisdiction
- Legal system based on English common law and equity, table tax regime
- Preservation of wealth
- Segregation of assets
- Flexibility
- Administrative cost minimisation

### **Taxation**

✓ CITs are generally viewed as transparent from a Cyprus tax perspective so no Cyprus tax applies at the level of the CIT but the beneficiaries, if applicable, may be subject to Cyprus tax with respect to the CIT income allocable to them, regardless of any distributions from the CIT.

✓ With respect to CITs with beneficiaries who are not Cyprus tax resident, only income generated from sources in Cyprus (e.g. rental income and capital gains from real estate situated in Cyprus) is subject to taxation in Cyprus.

✓ With respect to CITs with beneficiaries who are Cyprus tax resident, the worldwide CIT income allocable to the Cyprus tax resident beneficiaries is subject to taxation in Cyprus based on the standard tax provisions applicable to resident individuals which include an exemption on dividends for resident individuals who are not domiciled in Cyprus and an exemption on capital gains from disposals of shares in companies that do not hold real estate situated in Cyprus.

✓ There are no withholding taxes on distributions of income or capital from a CIT to non-resident beneficiaries.

✓ No estate duty or inheritance tax is imposed in Cyprus.

For more information, our services and how we can help, please contact us.

### Connect with us

**A:** 140 Athalassas Avenue  
3<sup>rd</sup> floor, 2024  
Nicosia  
Cyprus

**T:** +357 22 55 27 05  
**M:** +357 99 332 532  
**E:** [info@xenofontosllc.com](mailto:info@xenofontosllc.com)  
**W:** [www.xenofontosllc.com](http://www.xenofontosllc.com)

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