

# **Investment Opportunities Abroad through a Cyprus Route vis-à-vis Indian Legal Perspective**

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**Legal Era Conclave 2011 – Taj Lands End Hotel  
July 30, 2011**

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# Scope of the Presentation:



## Categories Of Cross Border Transactions

**Corporate Partnering:** It is no coincidence that corporate partnering is most common in industries that are experiencing tremendous technological change. Partnering has proven itself to be one of the most powerful business tools for dealing with fast changing markets, technologies and customers. As the global economy continues to speed up, partnering is becoming the weapon of choice for today's successful competitors.

**Public to Private:** A public to private transaction may be the solution for a public company and its shareholders in situations where:

A significant shareholder wants to sell its stake

The company feels it is undervalued by the stock market

The company's stock is too illiquid for shareholders to realise their stakes

There is little or no analysts' cover, thus the market has no news and is not interested

The company has a funding requirement which the market cannot, or will not, meet

The management wants to pursue a buy-out

Taking a publicly quoted company private uses all our skills in a single, complex transaction.

**Management Buy Outs:** A management buyout (MBO) is a form of acquisition where a company's existing managers acquire a large part or all of the Company.

## Categories Of Cross Border Transactions (Contd...)

**Leveraged Buy Outs:** A **leveraged buyout** (or **LBO**, or highly-leveraged transaction (HLT), or "bootstrap" transaction) occurs when an investor, typically financial sponsor, acquires a controlling interest in a company's equity and where a significant percentage of the purchase price is financed through leverage (borrowing). The assets of the acquired company are used as collateral for the borrowed capital, sometimes with assets of the acquiring company. Typically, leveraged buyout uses a combination of various debt instruments from bank and debt capital markets.

**Strategic Investments:** A strategic investment is a transaction that is closely related to joint ventures. In strategic investments, one company makes an investment in another. These two companies enter into agreements that are designed to serve shared business goals.

**Earn Out Acquisitions:** An earn-out is an arrangement that requires the buyer of a business to pay the seller additional consideration if the business performs as specified after the closing. It can be useful in bridging a gap between the seller's and buyer's perception of the value of the business.

**Distress Sale:** It is an urgent sale of assets because of negative conditions. For example, securities may have to be sold because there is a margin call. Because a distressed sale happens under unfavorable conditions, the seller generally receives a lower price.

## Investment through Cyprus vis-à-vis Mauritius:

### **Cyprus has a better treaty with India than Mauritius or Singapore**

Unlike the Mauritius route, there is no Indian tax on sales of shares in an Indian Company by a Cyprus company that does not have a permanent establishment in India. This is regardless of whether the shares are listed on an exchange and/or the holding period.

Cyprus has an economic advantage over Mauritius if there is a major debt component in the investment. The interest payable to the Cyprus company is subject to withholding tax of 10% instead of 15% were it payable to a Mauritius company.

Cyprus is an ideal place for inbound as well as outbound investments out of India. Cyprus, like India, has a legal system based on English common law whereas Mauritius has a conglomeration of English Common Law and French Civil Law.

Unlike the practice in Mauritius, no declarations need be made to the Cyprus SEC, the Registrar of Companies, the Inland Revenue or any other agency in Cyprus that the Cyprus Company will not accept funds derived from sources within India from Indian Residents.

## **Some of the significant reasons to invest in Cyprus:**

**European Union State Member:** After a long journey of over three decades, the Republic of Cyprus became a full member of the EU on May 1, 2004. Accession to the EU was a natural choice for Cyprus, driven by its culture, civilization and history, as well as its unwavering commitment to the values of democracy, freedom and justice.

**Highly qualified and multilingual labour force:** Cyprus has a young, well-educated talent pool. The country is committed to education and is focusing on reforms to achieve sustainable growth.

**Lowest EU corporate tax rate:** Lowest Corporate Tax rate in the Cyprus of 10% as on 2011.

### **Exemption from Tax:**

Dividend income

Profits from overseas permanent establishments

### **No withholding Tax on:**

Dividend income

Interest and royalties paid from Cyprus

Double Taxation Agreements

Cyprus has developed a wide network of Double Tax agreements with over 45 countries, ensuring that the same income is not taxed in more than one country.

**FDI track record:** Cyprus is one of the most attractive locations for foreign investments, ranking among the frontrunners of the world indicating both high FDI performance as well as high FDI potential, based on the latest data of the Central Bank of Cyprus in 2010.

## Some of the significant reasons to invest in Cyprus:

**Macroeconomic stability with successful economic performance**: Cyprus has a modern, free-market, serviced-based economy with a long record of successful economic performance. The island's consistent performance is reflected in the rapid growth, full employment conditions, low inflation and low unemployment and internal and external stability that it enjoys.

**Efficient legal, accounting and banking services**: Acknowledging that information and knowledge would be the drivers of sustainable growth in the global economy of the future, Cyprus has undertaken a major role in facilitating the exchange of ideas, services and support among professionals worldwide. Cyprus inherited a legal system based on Common Law.

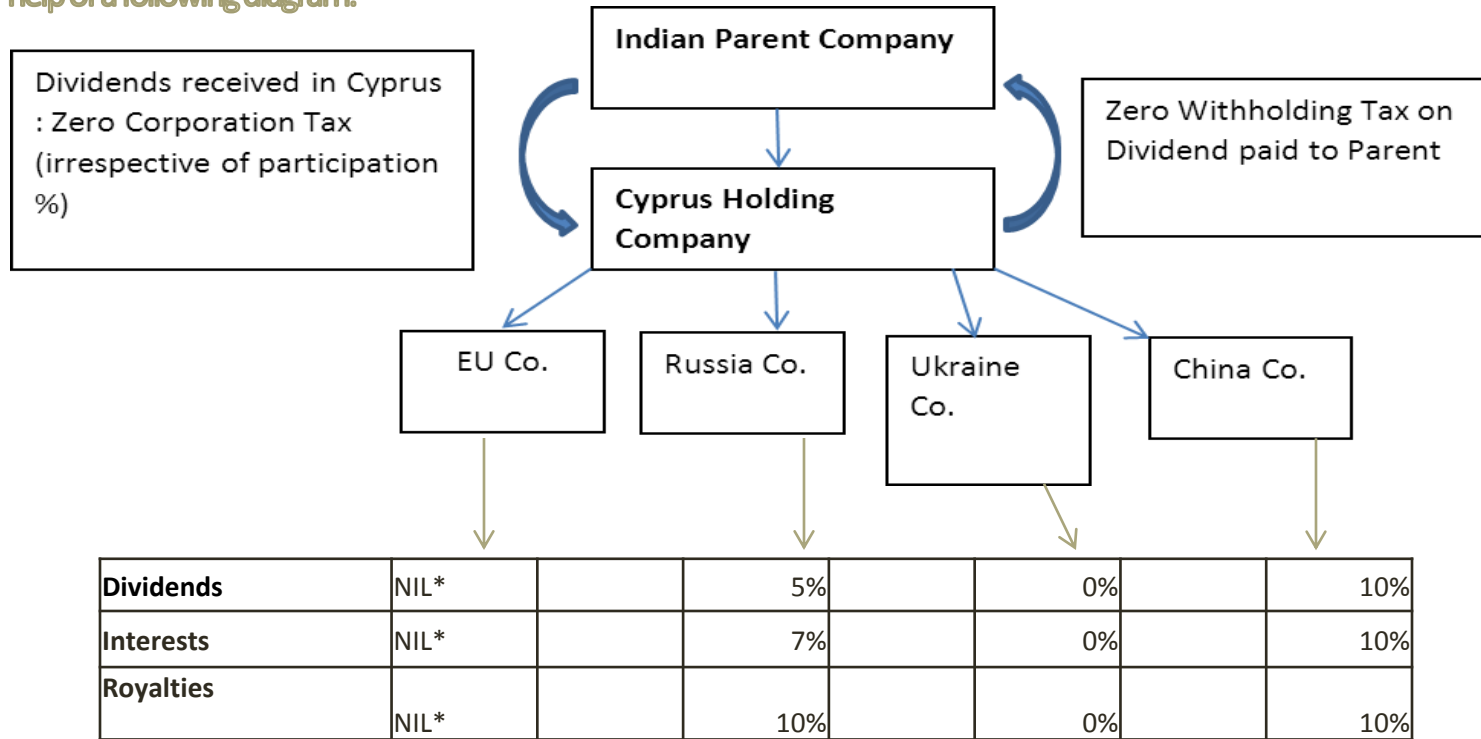
**Reputable International Shipping Centre**: Cyprus is a highly reputable international shipping centre, ranking among the 10 leading maritime nations in the world.



# Indian Corporations using Cyprus to expand abroad

Cyprus can very well serve the Indian company expanding internationally too. It is extremely important for an Indian corporation to be able to bring back home as much cash flow as possible. Therefore, any Euro saved from foreign taxes is important. Especially where it comes to expanding in the EU, East or Western Europe, Cyprus will prove the most important tax jurisdiction for an Indian investor.

Indian Parent Companies while acquiring in European Countries are getting tremendous advantage of having Double Taxation Avoidance Treaties to pull out the maximum profit in India with zero or very low withholding tax. This may be explained with the help of a following diagram.



\*Relevant EU Directives must apply.

## Key Challenges :

- 1) What will be the status of Double Tax ation Avoidance Agreement with Cyprus vis-à-vis Direct Taxes Code?
- 2) Which place is the best suited jurisdiction for routing Indian Investments? Cyprus OR Mauritius OR Singapore?

Thank You