

Alternative Investment Funds (AIF)

Introduction:

The Alternative Investments Funds Law of 2014 was enacted by the House of Representatives on 10th July 2014 and came into force on 18th July 2014. The AIF law replaces the International Collective Investment Schemes Law (ICIS) of 1999. Under the applicable Cypriot Legislation, the Cyprus Securities and Exchange Commission (“CySEC”), became the competent regulatory and supervisory body for AIFs under the provisions of the AIF Law, replacing the former regulator of ICIS, the Central Bank of Cyprus.

Main characteristics of the AIF Law:

The AIF Law introduces new structuring options which were not possible under the previous framework, such as:

- Creation of AIFs with Unlimited Number of Persons, or AIFs with Limited Number of Persons.
- Umbrella structures with many investment compartments that can operate separately with a different investment policies and different asset pools.
- Creation of contractual fund structures (Common funds) in which the investors are co-owners. Those funds structures are used mainly as pension funds.
- Possibility of AIF listing in various stock markets. As a result the AIF becomes more transparent and marketable.
- Possibility of public offering of units of AIF.
- The Depositary function can be undertaken if certain criteria are met by an entity which is not a credit or banking institution. This assists the creation of private equity and real estate funds.

Benefits of AIF:

Cyprus offers a range of legal, regulatory and tax solutions to address and meet the needs of AIF promoters and investors. Professional services associated with the set-up and maintenance of an AIF are of high quality and at competitive costs compared to other jurisdictions. In addition Cyprus has enacted strict Anti-Money Laundering Regulations, in line with EU Directives and International Standards.

Main tax advantages:

Tax law has no specific provisions regarding AIFs. Given the fact that an AIF is structured in the form of a private limited liability company, and its management and control is exercised in Cyprus, it is taxed in the same way as a Cyprus tax resident company.

The main tax advantages enjoyed by an AIF are listed below:

- Profits from disposal of shares and other financial instruments are tax exempt.
- Dividend income is tax exempt provided that certain conditions are met.
- No withholding tax on interest and dividend payments made to non-residents.
- Dividends distributed or deemed to be distributed by an AIF to Cyprus tax residents are subject to 3% SDC (compared to 17% that applies to dividends from normal limited liability companies to Cyprus tax residents).
- Extensive network of Double Tax Treaties

How can we help?

Ekkeshis + Ierodiakonou has extensive expertise in the formation of AIF structures. We can also assist with the ongoing management and operation of an AIF.