

# R&D Outsourcing

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## Gilding from a Cypriot passport



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One of the most popular programs for obtaining foreign citizenship among Russians is suspended. After numerous checks and decisions to revoke the "golden passports" issued in exchange for investments, the Cypriot government is closing this program from November 1. Russians who have already applied for citizenship still have a chance to get it.

Photo: Yiannis Kourtoglou / Reuters

The Government of Cyprus from November 1, suspends the current citizenship program in exchange for investment in the country's economy. This statement was made by the official representative of the Cypriot government Kyriakos Kousios, according to Reuters. The decision was taken at an extraordinary meeting of the Cyprus Council of Ministers.

According to the Cyprus News Agency, the Ministry of Finance and the Ministry of Internal Affairs have proposed to suspend the issuance of so-called golden passports due to the vulnerability of the program and a large number of violations.

"The Council of Ministers of Cyprus approved the proposals of the Ministry of Internal Affairs and the Ministry of Finance of the republic to terminate the investment program from November 1," the Cypriot presidential administration confirmed on Twitter.

### SOCIETY

The Cypriot authorities decided to take away the seven "golden passports"

Reporters secured program cancellation

The decision to cancel the program was made after the Al Jazeera TV company, in a journalistic investigation on October 12, spoke about the possibility of obtaining a Cypriot passport through unofficial channels, even to a person with a criminal history. Al Jazeera reporters posed as a Chinese investor convicted in absentia in their country of money laundering. Cypriot lawyers, real estate agents and politicians, including the speaker of parliament, assured the "investor" representative that getting a passport is not a problem even for a convicted businessman, if he is willing to pay for it.

The government of the country has already repeatedly announced checks of compliance with the program conditions. The last decision following the results of such an audit was made on October 7:

then the authorities announced the deprivation of citizenship of seven people who received it in exchange for investment. Surnames were not disclosed. Kusios warned that checks of persons involved in the "suspicious" list of citizenship recipients are continuing.

The order for inspections came after the report of a special committee of the government on the implementation of the program for granting Cypriot citizenship in exchange for investment from 2012 to 2018. The committee examined 12 folders, which contain information about 42 citizens, according to the investigation, included in the "high risk group." Investigations revealed that 35 of them met the criteria necessary for granting Cypriot citizenship, and seven people received passports under false pretenses or by withholding important information.

The Cyprus citizenship program in exchange for investment allows you to obtain a passport of the republic, which makes it possible to live and work in any country of the European Union, for the purchase or construction of real estate in Cyprus in the amount of € 2 million or more, or for similar investments in a Cyprus company. In addition, the applicant must additionally donate € 200,000 to the government of Cyprus.

An application for citizenship is considered within 6-8 months. A person who is under investigation or convicted in his country is not officially entitled to apply for a Cypriot "golden passport".

Cyprus has an attractive tax regime just for individuals who move to the island. Unlike indigenous people, investors are exempt from income tax on the sale of securities, on dividends and interest income received both in the country and abroad. They also do not pay a special defense contribution and a number of other fees. To become a tax resident in Cyprus, you need to live on the island for at least 60 days and not stay in another country for more than 183 days.

From 2013 to 2019, about 4 thousand investors received Cypriot passports, having invested more than € 7 billion in the island's economy. Most of them are citizens of Russia, China, Ukraine, Lebanon and Saudi Arabia.

#### The consequences of the freeze for Russians

The Cyprus jurisdiction is popular with wealthy Russians. At the end of August, Al Jazeera disclosed the names of Russian citizens who became holders of the "golden passports" of Cyprus in 2017-2019. Among the 2,500 documents received by the publication about this program, about 1,000 concern Russians. The publication names, in particular, the names of 33 Russians with Cypriot citizenship, among which, in particular, the founder of Tinkoff Bank Oleg Tinkov and the former co-owner of the sanitized Promsvyazbank Alexei Ananyev, and also gives profiles-descriptions of seven more people, without naming their names. And in September, the Cypriot newspaper Politis published a list of those who received Cypriot citizenship in exchange for investments in 2008-2012. Among Ukrainian and Russian businessmen, it featured billionaire Igor Kolomoisky, co-owner of Evraz Alexander Frolov and first deputy head of VEB Mikhail Kuzovlev (announced his renunciation of Cypriot citizenship).

#### Deprivations of citizenship, which have recently been initiated by the Cypriot

and the authorities also affect Russians. So, in November 2019, the Cypriot government announced the start of the procedure for depriving 26 people of citizenship who received Cypriot passports under the "golden passport" program. It was about nine investors and 17 members of their families, nine people from this list were citizens of Russia. Later, the Cypriot Ministry of Finance confirmed to RBC that the issue of granting Russian citizenship to Alexei Ananiev and his brother Dmitry Ananiev, also the ex-co-owner of the PSB, is under review. A case has been initiated against them in Russia on the embezzlement and laundering of €66 billion and \$ 575 million. But a decision on their citizenship has not yet been made.

The termination of the Cypriot program of "golden passports" will not apply to applicants who applied for citizenship earlier, therefore, applications accepted before November 1 will be considered, experts interviewed by RBC emphasize.

But do not forget about the periodic purges that the Cypriot administration carries out after international investigations of corruption, warns Pavel Rusetsky, head of practice in the legal division of Rights Business Standard: "Applicants for citizenship should disclose information about the origin of capital in as much detail as possible. Hiding the circumstances in the context of the current policy can raise suspicion and lead to the cancellation of citizenship even in cases where the investor acquired the assets legally. "

It is difficult to say how objective the checks carried out by the Cypriot authorities will be, says Alexander Zakharov, partner of Paragon Advice Group. Holders of "golden passports" must be ready to provide evidence that they are not "politically exposed persons", and confirm the sources of the origin of the capital, he said. "For Russians, this is complicated by the fact that they are not used to storing documents for a long time and confirming the source of the capital, for example, twenty years ago, can be problematic, and the testimony of lawyers is not enough," the expert adds.

In case of revocation of citizenship, the decision can be appealed in court. Cypriot passports cannot deprive those who have lost their original citizenship, recalls Zakharov.

The Cyprus passport was one of the last opportunities to save on taxes after Russia revised the tax agreement with Cyprus, Rusetsky notes. The Russians were especially "unlucky" with real estate on the island, points out the partner of FTL Advisers Daria Nevskaya. According to her, after the revision of the tax agreement, commercial real estate became unnecessary for almost all companies that enjoyed tax incentives. Residential real estate will also fall in price: it was often bought only to obtain a passport, with the hope of selling it without a strong discount, she points out. "Now those who have already received citizenship will definitely not sell real estate for the same money they bought," Nevskaya believes.

#### Alternatives to Cyprus

If the Cypriot government does not renew the "golden passport" program, Russian businessmen will have to look for other, more complicated options to reduce the tax base.

The UK, Monaco or Malta, although they can attract incentives or the complete absence of certain taxes, "cannot boast" such simplicity of obtaining citizenship and tax resident status as Cyprus, Rusetsky notes.

Malta's new program is more expensive and longer. In addition, Malta officially discloses data on all persons who have received passports, Nevskaya points out. Those who quickly need an alternative passport will switch to Caribbean citizenship programs.

Among Russians, the programs for obtaining citizenship of the Caribbean are gaining popularity due to the availability, reliability and visa-free regime, said Mika-Rose Emmett, CEO of CS Global Partners, to RBC. In particular, states with the oldest and most reputable programs such as Dominica and Saint Kitts and Nevis. "Applicants choose Dominica and Saint Kitts and Nevis for their transparency and overall effectiveness," she notes.

Dominica's Citizenship by Investment Program ranks as the best in the world for the fourth consecutive year according to the annual CBI. The Federation of Saint Kitts and Nevis, which established its program back in 1984, ranks second among all 14 submitted citizenship by investment programs, the expert said.

Those who are ready to wait, but want a passport of the European Union, will receive investment citizenship of Malta or citizenship of other European countries, but in a general manner, or they will switch their attention to obtaining a residence permit - this depends on the initial purpose of obtaining a second passport, explains Nevskaya: "If there is an opportunity to permanently reside abroad, then after about five to ten years of residence, you can apply for citizenship in many EU countries." There are also options for the Caribbean, Turkey and Montenegro.

The further existence of preferential citizenship programs is a big question, Zakharov believes. Under pressure from the European Commission, a number of countries whose passports allow you to visit the EU without a visa may suspend the issuance of passports in exchange

for investment. Moldova closed the program in June to meet the EU's prerequisite for receiving € 30 million in financial assistance. "Similar requirements can be set for Montenegro and other countries," Zakharov said.

It is possible that Cyprus will resume the program, but with stricter conditions, Rusetsky admits, in particular, the tightening will relate to the obligation to disclose information and provide evidence of the "impeccability" of the capital. A complete freeze will negatively affect the real estate sector and, in general, does not meet the interests of the Cyprus economy, Nevskaya said.

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