



SUBSTANCE FOR CYPRUS COMPANIES

Substance for Cyprus Companies

WHAT IT MEANS, WHAT YOU ACTUALLY NEED, AND WHY 2026 RAISED THE BAR

The question every international group asks: “Our company is registered in Cyprus, but the people who run it are abroad. Will our home tax authority accept it?” Cyprus law treats the company as tax resident here. A foreign tax authority applies its own test — and if its answer is “not Cyprus”, the benefits of the structure can be reduced or lost. Substance is the evidence that makes that challenge fail.

WHY SUBSTANCE MATTERS MORE IN 2026 THAN EVER BEFORE

Four separate forces have converged. Each on its own would justify a review of your Cyprus structure; together they make it urgent.

- **Cyprus tax reform.** The Cyprus tax reform took effect on 1 January 2026. Corporate income tax rose from 12.5% to 15%, aligning Cyprus with the OECD global minimum. Companies incorporated in Cyprus are now deemed Cyprus tax resident unless a double tax treaty provides otherwise — which makes the treaty tie-breaker, and therefore the place of effective management, the decisive battleground. Special defence contribution on dividends fell from 17% to 5% and the deemed dividend distribution rule was abolished.
- **Pillar Two.** For groups with consolidated revenue above €750 million, a 15% minimum effective rate applies. The substance-based income exclusion carves out a return on payroll and tangible assets — real people and real premises now have a direct, measurable tax value.
- **Anti-avoidance convergence.** ATAD I and II have pushed EU member states towards a common standard. Controlled foreign company rules across the EU, the UK, and increasingly the Gulf and Asia can attribute the income of a substance-light foreign company straight back to the shareholder.
- **Banking and AML pressure.** Banks, correspondent institutions, auditors and institutional counterparties now ask substance questions at onboarding and at every periodic review. A weak file leads to enhanced due diligence, restrictions, or account closure — a commercial consequence that usually bites long before any tax assessment does.

WHAT SUBSTANCE IS — AND WHAT IT IS NOT

Substance is not a box-ticking exercise, and it is not a product you buy once at incorporation. It is the factual and documentary record showing that your Cyprus company is genuinely directed and managed from Cyprus, built contemporaneously as the company operates. Minutes drafted retrospectively, resolutions signed abroad and back-dated, or records assembled the week a query arrives are not substance — they are evidence of its absence.

Equally, several common fears are misplaced. Substance does not require the shareholder to live in Cyprus, it does not require a large office — a serviced office in genuine, consistent use is sufficient for many companies — and it is not created by a nominee whose role is purely administrative. What it does require is real governance, exercised here, evidenced continuously, and proportionate to the scale and nature of the business.

WHO THIS AFFECTS MOST

International operating companies that hold group contracts or centralise procurement, treasury or IP while their shareholders and executives sit elsewhere; holding and intermediate companies through which dividends, interest or royalties flow; companies formed by founders who have relocated to Cyprus but whose counterparties remain internationally spread; and groups using Cyprus as an EU platform for investment into or out of non-EU markets. For all of them the question is no longer whether substance is needed, but how to build and evidence it properly.

THE LEGAL TEST: MANAGEMENT AND CONTROL

Cyprus determines corporate tax residency principally by reference to where management and control are exercised. There is no mechanical formula; the assessment is holistic and fact-specific. In practice, the Tax Department — and any foreign authority applying an equivalent place-of-effective-management test — examines a consistent set of indicators:

Indicator	What the authorities look for
Board meetings	Held physically in Cyprus, with a quorum of Cyprus-resident directors present. Quarterly as a working minimum. Decisions taken by directors dialling in from abroad establish management and control wherever those directors are sitting.
Director residency	A majority — or at least a decisive proportion — of directors Cyprus tax resident, with relevant commercial or financial expertise and genuine authority to decide, not merely to sign.
Strategic decisions	Material contracts, financing terms, investment approvals and distributions considered, debated and resolved in Cyprus — with the commercial reasoning recorded, not just the outcome.
Records	Signed minutes, board packs circulated in advance, attendance registers and shareholder resolutions maintained in Cyprus and available for inspection.

Companies applying for a tax residency certificate complete the Tax Department questionnaire, which probes precisely these points: where the board met, who attended and from where, what was discussed, and what was decided. Identical, formulaic minutes repeated meeting after meeting will not satisfy that inquiry.

THE SIX PILLARS OF A DEFENSIBLE POSITION

- **Governance.** Cyprus-resident directors who know the business, review the management accounts, and take decisions on the record. This is the single most important factor, and the point on which most structures fail.
- **Premises.** A registered office that functions as a genuine place of business administration and correspondence — a real workspace in consistent use, not an address on a letterhead.
- **People.** Local personnel proportionate to the activity. For an active trading or financing company, staff with the qualifications and authority to perform the work. For a small holding company, outsourced administration may be acceptable, provided the directors retain and exercise real oversight.
- **Banking.** Principal business banking with a Cyprus institution, with payment instructions issued from Cyprus. Running every transaction through foreign accounts while claiming Cyprus residency is an inconsistency any reviewer will notice.
- **Accounting and local spend.** Books maintained in Cyprus by a Cyprus firm, under IFRS as adopted by the EU, and demonstrable local operating expenditure — payroll, rent, utilities, professional fees — proportionate to the company's income.
- **Contemporaneous documentation.** Everything above captured as it happens. The file should be capable of answering a bank, an auditor or a foreign inspector on the day the question is asked.

How authorities abroad approach the same question

The wording differs; the enquiry does not. EU member states operate management-and-control tests alongside CFC regimes that can attribute a foreign company's income to a resident shareholder where genuine substance is absent, and ATAD I and II have aligned them closely. The United Kingdom treats a company incorporated abroad but centrally managed and controlled in the UK as UK tax resident. Gulf jurisdictions have introduced or tightened economic substance requirements of their own, so where a Cyprus company sits above or below a UAE entity, each layer must stand on its own. Asian and emerging markets generally apply OECD-aligned management-and-control and beneficial ownership tests. The common thread: a Cyprus company with real directors, real meetings and real accounting is defensible everywhere; one that exists on paper is defensible nowhere.

CORE INCOME-GENERATING ACTIVITIES BY COMPANY TYPE

Substance is not only about where the board meets. Authorities also test whether the activities that actually generate the company's income are carried out in Cyprus by people competent to carry them out. What that means differs by business model:

Company type	Activities expected to be performed in Cyprus
Trading	Negotiating and concluding contracts, sourcing and supplier management, customer relationships, credit control — by staff with authority to bind the company.
Financing / treasury	Credit assessment, approval of loan terms, monitoring of repayment, management of interest-rate and currency exposure, supported by documented risk analysis.
IP holding	Development, enhancement, maintenance, protection and exploitation of the intangible, with evidence that strategic IP decisions are taken locally. Essential to any IP Box claim.
Holding	Oversight of subsidiary performance, dividend and capital-allocation decisions, acquisition and disposal approvals, exercise of shareholder rights, group compliance and risk oversight.
Shipping	Fleet management, chartering, voyage scheduling and crewing, performed by locally based maritime professionals.

A note on holding companies: passive does not mean substance-less

Cyprus holding structures remain highly effective — dividends from qualifying subsidiaries are exempt from corporate income tax, gains on the disposal of titles are exempt, there is no withholding tax on outbound dividends to non-residents, and the treaty network covers more than 65 jurisdictions. But a holding company that simply receives dividends into a Cyprus account while every instruction originates offshore will struggle. A holding company whose Cyprus directors review subsidiary financials, approve budgets, decide on distributions and execute disposals after documented analysis will not.

YOUR SUBSTANCE FILE: THE EVIDENCE CHECKLIST

Governance	Signed board minutes stating date, Cyprus location, attendees and their residency, agenda, discussion, decisions · attendance register · board packs circulated in advance · shareholder resolutions
Operational	Employment contracts with social insurance registration · payroll records and PAYE returns · activity logs for key personnel · supplier and customer contracts and invoices
Premises	Executed lease in the company's name with proof of payment · utility bills and premises insurance
Financial	Cyprus bank statements showing genuine local expenditure · invoices from Cyprus professional advisers · audited financial statements
Tax & regulatory	Income tax returns and provisional assessments · tax residency certificate application and questionnaire · UBO registration confirmation · transfer pricing documentation for related-party flows

Retention: as a general rule, keep the full file for at least six years. Records should be capable of reconstruction on demand for any year in which the structure claimed a Cyprus benefit.

WHAT FAILURE COSTS

- **Tax.** Refusal of a tax residency certificate, denial of treaty relief, assessment in the jurisdiction where management and control is found to sit, plus interest and penalties. In a group context, CFC attribution to the shareholder.
- **Banking.** Enhanced due diligence, restriction or closure of accounts where the entity cannot evidence its economic rationale and local operations. In practice this is the fastest-moving risk.
- **Registrar.** Fines for inaccurate registers, late annual returns and UBO non-compliance; persistent default can lead to strike-off proceedings.
- **Reputational.** In an era of automatic information exchange and accessible beneficial ownership data, a weak position becomes visible to counterparties, investors and regulators elsewhere.

A PRACTICAL 90-DAY ROADMAP

#	Step	Actions	Timing
1	Gap analysis	Benchmark current governance, documentation and operations against the checklist; issue a written gap report; assign an internal owner.	Days 1–14
2	Establish governance	Appoint or confirm qualified Cyprus-resident directors; adopt an annual board calendar with quarterly meetings held in Cyprus; appoint a local secretary.	Days 7–30
3	Build the record	Implement minute, board-pack and resolution templates; execute or renew lease, employment contracts and engagement letters; confirm Cyprus banking.	Days 14–45
4	Operational presence	Engage the personnel needed to perform the company's core activities; upgrade premises; run payroll locally.	Days 21–60
5	Filings	Update UBO registration; bring returns and provisional tax current; apply for the tax residency certificate with supporting evidence.	Days 30–75
6	Annual review	Compile the audit-ready substance file; review internally ahead of the statutory audit; repeat every year.	Days 60–90, then annually

HOW CFA AUDITORS CAN HELP

Most substance failures are not deliberate non-compliance. They are structures set up correctly in principle and never governed properly in practice — minutes that were never prepared, accounting that drifted offshore, a director who never took part in a decision. Preventing that is our work.

Established in 2010, CFA Auditors Ltd is a Larnaca-based firm of chartered accountants whose partners and staff are members of ACCA and ICPAC. We support international businesses and group structures across audit, tax, accounting and corporate services — including the full framework required to build and maintain genuine Cyprus substance.

- **Diagnostic:** substance review and gap analysis of existing structures
- **Governance:** board calendars, minutes, resolutions and registers
- **Audit:** statutory audit under ISAs and the Companies Law, Cap. 113
- **Accounting:** bookkeeping, management accounts and payroll in Cyprus
- **Tax:** corporate and VAT compliance, transfer pricing, residency certificates
- **Corporate:** company formation, registered office, secretarial and fiduciary support

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