

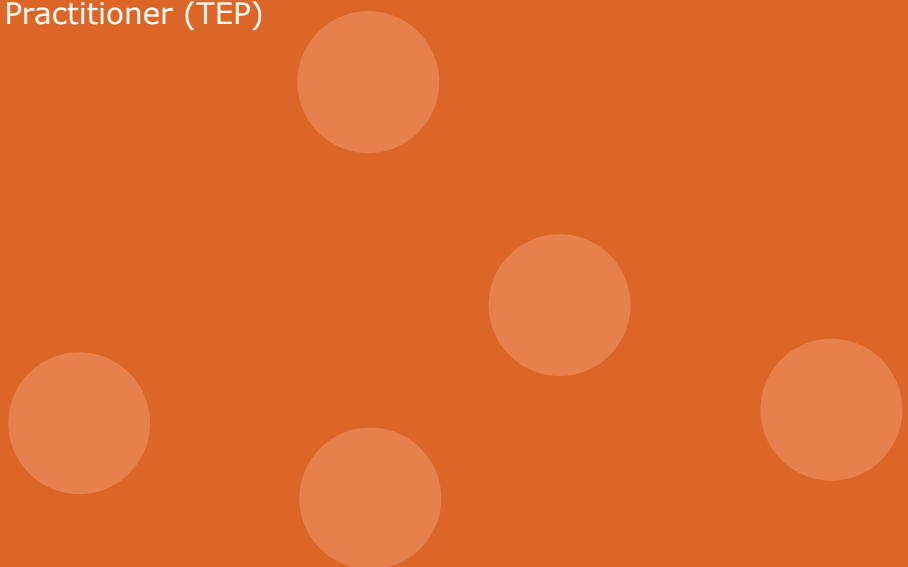


TAXATION OF TRUSTS IN CYPRUS

The Problems, The Complications and The Advantages

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A. INTRODUCTION

The scope of this article

In this study we shall try to identify how the income of trusts is taxed in Cyprus, having in mind its idiomorphic concept as to the dual separation of the ownership of the trust property, to legal and beneficial.

The matter will be also examined, considering the two main types of trusts established in Cyprus, Local and International¹.

The concept of trust

A trust is the relationship by which a person called the trustee, holds property, the trust property, settled to the trust by the settlor, for the benefit of some other persons, called the beneficiaries.

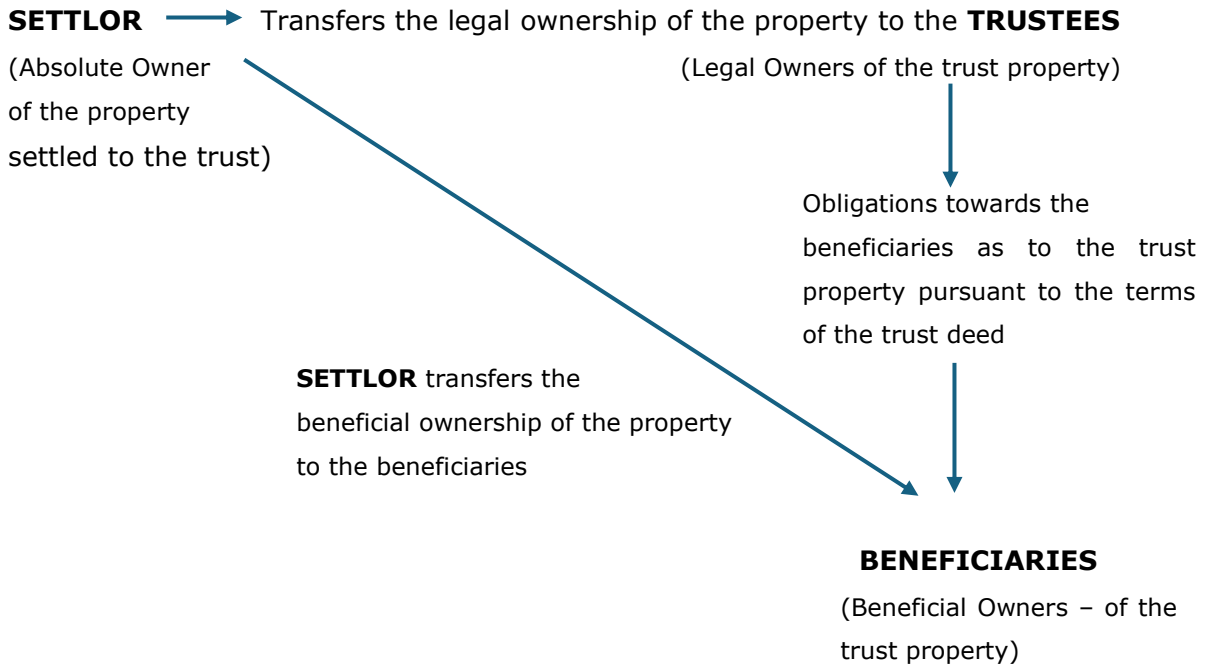
The type of trusts which are the subject matter of this article, are the written express trusts and not those created by operation of law such as the constructive or resulting trusts.

¹ As to the Cyprus International Trust, its set up, maintenance and management, please refer to our publication, "[THE CYPRUS INTERNATIONAL TRUST, In detail...](https://www.kinanis.com/Media/Uploads/Publications/Brochures%202026/THE%20CYPRUS%20INTERNATIONAL%20TRUST%20in%20detail.pdf)" which can be found at the following link:

<https://www.kinanis.com/Media/Uploads/Publications/Brochures%202026/THE%20CYPRUS%20INTERNATIONAL%20TRUST%20in%20detail.pdf>



The diagram of an express written trust looks like this:



The basic concept of the trust, and at the same time its magnificence, is that the property, once entrusted to the trustees, has two owners at the same time. The legal owner of the property which are the trustees and the beneficial owner which are the beneficiaries.

The role of the trustees for tax purposes

Any property settled to the trust by the settlor as its capital and any income received from any operations, is administered by the trustees being its legal owners.

The trust does not have legal personality and for this reason any trust property is held by the trustees in their names on behalf of the particular trust as per the terms of the trust deed, having identified beneficiaries, the beneficial owners, who ultimately have the expectation to become its legal owners as well.



The idiomorphic concept of the trust and its effect on taxation

This idiomorphic concept of the trust generated from the separation of the ownership as to the trust property, to legal and beneficial, raises concerns as to the taxation of the trust income distributed to or acquired by the trustees on behalf of the trust as per the terms of its deed. Whom to tax for the trust income, the legal owner or the beneficial owner?

B. TAXATION OF TRUSTS IN CYPRUS

The law

The taxation of Cyprus trusts, either Local or International, is governed by the general provisions of Art. 31 of the Income Tax Laws of 2002 No. 118(I)/2002². Art. 31 though, is not helpful as to the taxation of the trust income. It does not lay down methodology and procedures. It simply imposes to the trustees the obligation to collect and pay the tax due considering that this income belongs to the beneficiaries.

As mentioned above Article 31 the Trustees shall be subject to tax in respect of the income arising from trust property or business in the same manner and to the same amount as beneficiaries would be taxed if they had personally received such income.

² Tax liability of trustees

*31. Trustees in bankruptcy or receivers, **trustees**, executors of wills or administrators of property or guardians entrusted with the management, control or administration of property or an undertaking **on behalf of any person shall be liable to tax** in respect of the income arising from such property or undertaking in the same manner and to the same amount as such person would be taxed if he personally received such income, and every such trustee, receiver, commissioner, executor of wills or administrators of property or guardian shall be responsible for doing all things necessary under this Law for the assessment and payment of tax:*

Provided that nothing contained in this article shall preclude the imposition of tax in the name of the person represented by such trustee, receiver, commissioner, executor of wills or administrators.



Every such trustee, shall be responsible for carrying out all actions required under Income Tax Law for the assessment and payment of the relevant tax in respect of the income arising from such trust property.

In addition, as per the provisions of the Assessment and Collection of Taxes Law No. 4/78, articles 8 and 9, the trustees must prepare and submit a tax return for a specified tax year when required by the Commissioner, for tax resident beneficiaries and for non-tax resident beneficiaries but in the case of the later, for income arising from any source in Cyprus which is taxable in Cyprus.

The methodology applied by the tax authorities in imposing taxation

Trusts do not have legal personality. The express written trusts under consideration, are established by an agreement between the settlor and the trustees, the trust deed, without this agreement giving to the trust legal personality.

In view of this observation, the income tax authorities, view the trusts as tax transparent or "see through" vehicles, and ignore their existence for tax purposes.

Having in mind the concept of the trust and relying on the provisions of Art.31 above, the income tax authorities, impose taxation considering that the income belongs to the beneficiaries. In this respect, they impose taxation on the trustees acting as representatives of the beneficiaries for the income of the trust which they theoretically allocate to the beneficiaries.

The trustees simply act as the collectors and payers of the tax who are responsible to take all necessary measures to assess and pay the due tax considering as if this income was received by the beneficiaries. The taxation is calculated during the financial year the beneficiaries received or is deemed to have received the income in the cases there was no distribution by the trustees. It is though, irrelevant if there was a distribution of this income to the



beneficiaries or not. The trustees will be taxed for the income in their hands, theoretically allocated as income of the beneficiaries.

The basic rule of taxation in Cyprus

As per the basic rule of taxation in Cyprus³, a person in order to be liable to tax, must be tax resident of Cyprus⁴ or have income from sources within Cyprus⁵. In view of this approach, in order for the beneficiaries to be liable to taxation, they must be tax residents of Cyprus, or have income from sources within Cyprus, otherwise taxation cannot be imposed.

In this respect, in the case where the beneficiaries of a trust are **tax residents** of Cyprus, then taxation is imposed according to the standard rules of taxation on Cyprus applicable to tax residents, subject to the type of income received,

³ Art.5. (1) of the Income Tax Law 118(I)/2002 as amended provides: "Subject to the provisions of this Law, in the case of a person who is a resident of the Republic, tax shall be imposed for each tax year at a rate or rates, as specifically specified in this Law, on income acquired or arising from sources both within and outside the Republic, ..."

⁴ As provided in the Income Tax Law 118(I)/2002 as amended, art.2, provides: "resident of the Republic"-

(a) in the case of an individual means-

(i) an individual who is present in the Republic for one or more periods exceeding in the aggregate one hundred and eighty-three (183) days in the tax year; or

(ii) an individual who is not present in another State for one or more periods exceeding in the aggregate one hundred and eighty-three (183) days in the same tax year, provided that he cumulatively satisfies the following:

(aa) remains in the Republic for at least sixty (60) days in the tax year; (bb) carries on any business in the Republic and/or is employed in the Republic and/or holds an office in a person resident for tax purposes in the Republic at any time during the tax year: Provided that an individual shall not be deemed to satisfy the provisions of subparagraph

(bb), if during that year the carrying on of any business by him in the Republic and/or his employment in the Republic is terminated and/or his holding of office in a person who is a tax resident of the Republic;

(cc) maintains a permanent residence in the Republic which is owned or rented by the individual.

(b) in the case of a company means-

(i) a company the control and management of which is exercised in the Republic; or

(ii) a company incorporated in the Republic under the Companies Law, unless a double taxation agreement provides otherwise:

Provided that a company which has transferred its registered office or head office to the Republic shall be deemed to have been incorporated in the Republic.

⁵ Art.5.(2) of the Income Tax Law 118(I)/2002 as amended.



i.e., business income, dividends, royalties, rents, interest, etc., and subject to the type of the beneficiary, physical or corporate person.

As a matter of practice, in case the trust deed does not specify the percentages each beneficiary is entitled to the income, which is the case of discretionary trusts⁶, tax authorities allocate equally the income of the trust among the beneficiaries and proceed to taxation accordingly.

In case the beneficiaries of the trust are individuals **non-tax residents** of Cyprus, there is no taxation or withholding tax, 0%, unless the income is generated from sources in Cyprus, in which case taxation is imposed with the same rules as to tax residents subject to the exceptions as to non – domiciled residents, explained further below.

C. THE PROBLEMS RELATED TO THE METHODOLOGY APPLIED

Various problems appear in view of the methodology of taxation applied by the tax authorities. These are:

Taxation of beneficiaries for income they do not receive

The main problem with the approach followed, is that the income of the trust might never be distributed to the beneficiaries but still is taxed as if it was distributed to them. Such income, which is in the hands of the trustees, might be re-invested or for any other reason not be distributed, and despite the fact that the beneficiaries do not receive any income, it has not become their absolute property, it is nevertheless taxed accordingly as if it is their income and property.

Beneficiaries tax residents and non-tax residents in the same trust – How to tax?

⁶ **Discretionary trusts** are those trusts where the beneficiaries and what they might be entitled to as to the trust fund, are not fixed. The beneficiaries might change and they do not have a right or a claim on the trust fund. They have only an expectation to receive the trust fund at some future date once the conditions identified by the settlor are met and the trustees decide to proceed to distribution.



Another complication which might arise is in the case where there is more than one beneficiary in the trust, and some of them are tax residents of Cyprus and some of them are not tax residents of Cyprus. How will the income be allocated to the beneficiaries if the trust does not specify how the trust property is allocated and taxed accordingly once part of them is not liable to taxation? Will the authorities separate the income equally between them and tax only the resident beneficiaries irrespective of any trust provisions?

Discretionary trusts – Taxation in breach of their terms

Additionally, in discretionary trusts, the distribution of the trust income, is not certain among the beneficiaries. In such trusts, the beneficiaries have only an expectation at some unknown point to receive the trust income and only if the trustees exercise their discretion distributing funds to them. They do not have a right or a claim over the trust income or the trust property. How will the authorities proceed in allocating the funds to the beneficiaries and at the same time not infringing the terms of such discretionary trusts? The position to allocate the income to the beneficiaries in such cases equally, as the authorities do in practice, might be completely contrary to the terms of discretionary trusts which terms are ignored.

Companies as beneficiaries - How to tax?

Also, how will the trustees comply with the obligation to collect and pay the due tax, if the beneficiary is a Cyprus company? How will the trustees estimate the tax payable, if the particular company has transferable losses from other activities brought forward, and no distribution of the income has been made to it? Also, once the company has received nothing, how it will pay taxation on theoretical income and profits?

At what time tax is imposed?

Furthermore, when will the imposition of the tax be made? At the time of receipt of the income or at the end of the financial year when tax returns will be filed by the beneficiaries who must take into account the income of the trust, irrespective if it was received or not?



What amount to tax?

Also, which will be the amount to be taken into account having in mind that the generation of the income to the trust is subject to expenses? Who and when will identify the exact net figure to be taken into account?

Secret trusts – How to estimate taxation?

In addition, a number of trusts are set up without the beneficiaries knowing the existence of the trust, and also that they are beneficiaries. Secret trusts are type of such trusts. Also, as a general rule, beneficiaries do not have any rights of access to confidential trust documents. How the Trustees will estimate taxation without their involvement once beneficiaries do not know the existence of the trust?

The issues remain unresolved for years

All these are issues which for years remain unresolved due to the absence of proper legislation and proper guidance and directions from the income tax authorities.

The Cyprus International Trust case

The above provisions, methodology and applicability of the law, apply both for Local and Cyprus International Trusts.

In this respect, once a Cyprus International Trust is set up with non-tax resident individuals as beneficiaries, any income received by the trustees on behalf of the trust, is not taxable – 0% unless the income is received from sources within Cyprus.

Non – Domiciled status of the beneficiaries of a Cyprus International Trust

Non-resident beneficiaries settling in Cyprus after the creation of a Cyprus International Trust, may opt to become residents of Cyprus but non – domiciled



in Cyprus. In such a case as per the relevant law⁷, for a maximum of 17 years period, to be calculated under certain methodology which may be then extended at a fee, such beneficiaries do not pay any taxation in Cyprus, 0% on passive income, namely, dividends and interest⁸.

This exemption, as to passive income for non-domiciled individuals, is applicable to both Cyprus sourced and non-Cyprus sourced passive income.

Such non - domiciled persons being beneficiaries of a Cyprus International Trust, residents of Cyprus, may pay taxation on other source of income for example if the income of the trust is from rents the immovable property anywhere situated.

Tax Residents including the non – domiciled residents participate and are benefited from the General Health System of Cyprus, (GeSY), and at the same time contribute a statutory annual fixed amount based on their income which at present is calculated at 2,65%. This amount is calculated on a maximum annual income up to €180.000,00.

D. RECENT PRACTICE OF CYPRUS TAX AUTHORITIES WITH REGARDS TO TRUSTS – REQUEST TO GET REGISTERED AND OBTAIN TAX IDENTIFICATION NUMBER

Recently, the income tax authorities have changed their policy and despite there was not any change in the law as to this matter during the 2026 tax reform,

⁷ Ο Περί Έκτακτης Εισφοράς για την Άμυνα της Δημοκρατίας Νόμος του 2002 (117(I)/2002) as amended.

⁸ As to complete guidance related to the taxation of non-domiciled resident persons in Cyprus refer to our publication, "[Relocating to Cyprus - Unlocking tax advantages and strategic benefits for individuals](https://www.kinanis.com/Media/Uploads/Publications/Brochures%202026/Relocating%20to%20Cyprus%20-%20Unlocking%20tax%20advantages%20and%20strategic%20benefits%20for%20individuals.pdf)" which can be found at the following link: <https://www.kinanis.com/Media/Uploads/Publications/Brochures%202026/Relocating%20to%20Cyprus%20-%20Unlocking%20tax%20advantages%20and%20strategic%20benefits%20for%20individuals.pdf>



request that trusts are registered with the income tax authorities and obtain a Tax Identification Number.

This change of policy has not been circulated widely and has not been made known to the public. If trusts are involved in any type of transactions and there is a need the income tax authorities to consider such transaction for any reason, in order to process the transaction, they request first the trust (through the trustees) to get registered with the income tax authorities, and obtain a Tax Identification Number.

Although this new approach, is legally justified by the combined effect of the provisions of Assessment and Collection of Taxes Law of 1978 (4/1978), the Companies Law Cap 113 and Articles 2 (Definitions) and 31 of the Income Tax Law (118(I)/2002), by which provisions the Director of Income Tax may request the registration of a body corporate either with legal personality or not,⁹ with the tax registry and obtain a Tax Identification Number, it generates serious complications.

E. THE COMPLICATIONS GENERATED BY THE RECENT PRACTICE

The request for the trusts to obtain a Tax Identification Number, raises various complications and concerns. These are identified below:

Registration should be made within 60 days of establishment?

As per the above Income Tax Laws, a body corporate has the obligation to get registered with the income tax authorities within 60 days from its establishment. Will this obligation be followed with the trusts as a general rule, or registration will be needed only when a transaction is in place involving a trust and reference to the tax authorities is necessary?

⁹ Art.2 of Income Tax Law (118(I)/2002) provides: "company" has the meaning assigned to this term by the Companies Law and includes any body with or without legal personality, ...



Filing of annual tax returns?

The majority of the trusts do not have transactions involving the income tax authorities or any transactions at all. They simply hold property. Will they have now the obligation to get registered and obtain a Tax Identification Number and file annually tax returns as a matter of strict practice? Who will prepare and file these tax returns? From the wording of Art.31 of the Income Tax Law 118(I)/2002 as amended, those responsible to assess and pay the tax are the trustees considering the personal tax matters of the beneficiaries. Co-ordination and information issues appear to exist.

Filing of tax returns for past years?

Even if the trusts will get registered with current date, what happens with the past years? Will they have the obligation to submit and file tax returns for the past years since their establishment?

Penalties?

Will any penalties be applicable for any late registration?

What type of tax returns to be filed?

If the beneficiaries are both physical and legal persons, what type of tax returns will be filed? Those related to physical persons or companies or both?

How co-ordination will be achieved? Issue with secret trusts.

How there will be a co-ordination between the trustees and the beneficiaries in filing the annual tax returns once the beneficiaries will file their own and the trustees a different one. How possible differences will be sorted out? What will happen in the case of secret trusts in which case the beneficiaries do not know their existence?



The combine issues as to problems on taxation and complications adds to obtaining Tax Identification number

The complications, related to the registration of the trusts with the income tax authorities, exist in addition to the issues raised as to the methodology adopted for the calculation and payment of tax in the hands of the trustees in relation to the trust income, based on the principle of taxing the resident beneficiaries and not the trust itself, as discussed above.

A possible positive effect of the approach of registering trusts and obtain a Tax Identification Number

Despite the above complications as to the registration of trusts with the income tax authorities, there might be a positive effect for the following reasons:

- The request for obtaining of a Tax Identification Number for trusts, and imposing taxation once the beneficiaries are tax residents of Cyprus, may generate the argument that in such cases, where the benefactrices are tax residents of Cyprus, the trust, as body corporate may be deemed as a tax resident of Cyprus as well.
- Such approach is followed as to partnerships which are considered as tax transparent like trusts and in case of tax resident partners the partnerships are taxed in the face of the partners. It is completely a similar approach under the new practice for trusts giving the same treatment as to partnerships which are considered tax residents once the partners are tax residents of Cyprus.
- The recognition of such bodies, like trusts and partnerships, as tax residents of Cyprus liable to taxation, provided their beneficiaries / partners are tax residents of Cyprus, will have the consequence that such bodies might be able to use the benefits of the Double Tax Treaties that



Cyprus has signed as the residency issue is the main condition precedent for the Double Tax Treaties to apply.

- An additional pre-condition for the application of the Double Tax Treaties by trusts, is the beneficiary of the income to be the trust. In case of discretionary trusts, the beneficiaries of the trust are not entitled to the income. They cannot claim it and there is no obligation on the trustees to pay it to them. Beneficiaries of discretionary trusts, have only a possible future expectation at some point under certain conditions, if met, to receive this income which is the trust fund. In effect, in such situations, the beneficiary of the income is the trust and not the end beneficiary of the trust who has only an expectation to receive the trust fund and not a right or a claim on it.
- The use of the Double Tax Treaties by Cyprus trusts was a debatable issue. Under the current policy and approach and if the tax authorities will be ready to issue a tax residency certificate for trusts as body corporates liable to taxation, will give a strong advantage to structures involving discretionary trusts with tax resident beneficiaries, to gain the benefits of the vast majority of the Double Tax Treaties Cyprus has signed.
- The applicable practice will show in the near future whether the trusts will be now able to use this tremendous benefit.

F. STEPS TO BE TAKEN BY THE TAX AUTHORITIES TO CLEAR THE PROBLEMS AND COMPLICATIONS

In view of the current practice which creates a series of problems, complications and unresolved issues, we believe it is necessary for the tax authorities to issue clear guidance on the matter for increased clarity and certainty in taxation. An amendment to the various laws to cover all possible scenarios, must be also considered.



G. THE ADVANTAGES OF THE CYPRUS TRUSTS DESPITE THE ISSUES

The Cyprus Trusts and especially the Cyprus International Trust used by foreign residents, despite the above observations, remain a robust instrument and in a beneficial position compared to other jurisdictions to achieve through proper planning:

- Asset protection;
- Family Estate Planning;
- Business flexibility;
- Charitable scope; and
- Efficient tax planning.

Its tax regime in association with the subsidiaries to be established holding and trading companies, along with the protective provisions provided in the relevant laws, especially for the Cyprus International Trust, make it highly advantageous to be used in business and family planning.

H. RELATED TAXES AND APPLICABLE ENVIRONMENT IN CYPRUS WHICH MAY PLAY A DECISIVE ROLE IN SETTING UP A TRUST

As per applicable laws in Cyprus:

- There is no inheritance tax or estate duty – 0%;
- There is no capital gains' tax on the sale of securities, (0%), unless there is an underlying immovable property situated in Cyprus;
- There is no stamp duty in setting up the trust;
- The corporate tax is 15%, subject to various exceptions and subject to the type of income;



- There is no withholding tax on dividends paid to non-residents, (0%), unless the payment is made to a non-cooperative country¹⁰ in which case the withholding tax is 17%. Also, if the payment of dividends is to low tax jurisdictions¹¹ as these are identified by the Income tax authorities for year to year, there is withholding tax of 5%.
- Tax on passive income as dividends paid to tax residents is 5% and, 0%, if paid to residents but non – domiciled;
- Taxation of Individuals is scalable and the following rates apply:

Taxable Income	Tax Rate	Tax Amount	Accumulated Tax
€0 – €22.000	0	NIL	NIL
€22.001 – €32.000	20%	€2.000	€2.000
€32.001 – €42.000	25%	€2.500	€4.500
€42.001 – €72.000	30%	€9.000	€13.500
Over €72.000	35%		

I. PRACTICAL CASES – TAXATION TO BE INCURRED

First case scenario

- Assets abroad;
- Beneficiaries non tax residents of Cyprus;

Result: Taxation on trust income, 0%.

¹⁰ Non cooperative countries are updated regularly and can be found at the following link: <https://www.consilium.europa.eu/en/press/press-releases/2026/02/17/taxation-council-updates-the-eu-list-of-non-cooperative-jurisdictions-for-tax-purposes/>

¹¹ Currently these are: Aquila, Vanuatu, Bermuda, BVI, Gurnsey, Cayman Islands, Turks and Ciaos islands, Isle of Man, Bahamas, Bahrain and Jersey.



Second case scenario

- Assets abroad;
- Beneficiaries tax residents of Cyprus;

Result: Taxation on trust income as per standard rules of taxation.

Third case scenario

- Assets abroad;
- Beneficiaries tax residents of Cyprus but non-domiciled in Cyprus;

Result: Taxation on trust income for dividends or interest, 0%. Other income as per standard rules of taxation.

J. PRACTICAL CASES – THE BUSINESS ASPECT – A CYPRUS HOLDING OR TRADING COMPANIES OWNED BY A TRUST

The Cyprus trust may be used as the vehicle for business purposes once combined with a Cyprus Holding or Trading Companies.

In such a case the Cyprus Company will be used for the worldwide investments with shareholder being the trust.

The taxation of the Cyprus Company will be:

- 15% corporate taxation on net profits;
- 0% on dividends received by the Cyprus Company from its subsidiaries subject to certain conditions;
- There is 5% taxation on dividends paid by the Cyprus Company to tax residents, (non-domiciled persons are exempted) and 0% to non-residents, unless the dividend is paid to non-cooperative countries or low tax jurisdiction countries specified above; and



-
- 0% capital gains tax from the profit from the sale of securities unless the underlying asset is immovable property situated in Cyprus.

Other possible benefits

- Possibility of using the benefits of the various Double Tax Treaties Cyprus has signed, in case of discretionary trusts, and tax resident beneficiaries, subject to what we have said above; and
- In structures involving trusts where Cyprus companies are in the structure as subsidiaries of otherwise, the Cyprus Companies may use the extensive network of the Double Tax Treaties Cyprus has signed;

K. HOW KINANIS LLC CAN ASSIST

- Establishment of trusts;
- Tax and legal consulting on trust structures;
- Management and administration of trusts;
- Day to day assistance on trust operations; and
- Provision of trustee services and related services as to the smooth operation of the trust.

L. DISCLAIMER

This publication has been prepared as a general guide and for information purposes only. It is not a substitution for professional advice. One must not rely on it without receiving independent advice based on the particular facts of his/her own case. No responsibility can be accepted by the authors or the publishers for any loss occasioned by acting or refraining from acting on the basis of this publication.

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