

CYPRUS TRUST GUIDE



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Understanding Trusts: A Legal Framework

A trust is a unique legal arrangement in which a settlor disposes of their property to be held by a trustee, who will control and manage it for the benefit of the beneficiary following specified duties.

Trusts can take effect during the settlor's lifetime (inter-vivos) or upon their death (testamentary). A testamentary trust is created through a person's will and comes into effect only upon the person's death.

In Cyprus, trusts fall into **two** main categories:

- Local Trusts – Governed by the Trustees Law (Cap. 193) and principles of equity.
- Cyprus International Trusts (CITs) – Regulated under the Cyprus International Trusts Law of 1992 (as amended).

Additionally, Cyprus residents may opt for a foreign trust structure, provided they meet the conditions of the Hague Trusts Convention.

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The Cyprus International Trust (CIT):

A CIT is a specialised trust arrangement governed by Cyprus law that offers significant advantages to qualifying individuals, distinguishing it from trusts in other jurisdictions.

In particular, a CIT provides a robust legal framework for high-net-worth individuals to manage their wealth in Cyprus. It is especially well-suited for estate planning, wealth management, asset protection, supporting future generations or individuals who are unable to manage their own affairs, and fulfilling charitable purposes.

Legal Requirements for a CIT: *to qualify as a CIT, the following conditions must apply:*

- **Settlers and Beneficiaries:** They must not have been tax residents of Cyprus in the calendar year preceding the creation of the trust.
 - However, they can become tax residents following the creation of the trust. If so, they could benefit from a 'non-domicile' status.
 - *Tax residency rules:* A natural person is considered a tax resident of Cyprus if they live on the island for more than a total of 183 days in a given tax year.
- **Trustee:** At least **one** trustee must be a tax resident of Cyprus throughout the trust's existence.

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Investment Powers of Trustees:

- Trustees may make any investment as if they were the absolute owners of the trust property, including:
 - Invest in movable and immovable property worldwide, including Cyprus.
 - Hold financial instruments, shares, and bonds.
 - Engage in business activities and wealth-generating opportunities.

This flexibility ensures that the trust remains dynamic and aligned with the settlor's objectives while allowing for strategic investment management.

However, to ensure the prudent administration of the trust, a trustee's investment powers are subject to legal and fiduciary obligations, such as the duty to exercise reasonable care and skill and restrictions explicitly stated in the trust deed.

Control and Powers of the Settlor:

- The settlor can act as the *protector* or *enforcer* of the trust.
 - Glossary:
 - A protector is an individual, distinct from the trustee, who may be granted various powers under the trust deed. These powers can include advising the trustee on the exercise of their powers or rights, particularly regarding consent or veto decisions, as well as the authority to appoint or remove a trustee.
 - An enforcer is a person who is obliged to enforce a non-charitable purpose CIT in accordance with section 7(3) of the amended law.

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- The settlor can reserve the following powers:
 - a. *To revoke, vary or amend the terms of the trust;*
 - b. *To advance, appoint, pay, apply income or capital of the trust assets or to give directions;*
 - c. *To act as or to give binding directions as to the appointment or removal of a director or officer of any company wholly or partially owned by the trust;*
 - d. *To give binding directions to the trustee in connection with the purchase, retention, sale, management, lending, pledging or changing of the trust assets;*
 - e. *To appoint or remove any trustee, enforcer, protector or beneficiary;*
 - f. *To appoint or remove any investment manager or investment adviser;*
 - g. *To change the proper law of the trust or the form of administration of the trust;*
 - h. *To restrict the exercise of any power or discretion of a trustee by requiring that they will be exercisable only with the consent of the settlor.*

However, excessive reservation of powers may risk a finding that no valid trust exists, so careful structuring is essential.

Note: The settlor can reserve those powers in the trust instrument, or they could be conferred on the settlor in their capacity as protector or enforcer of the trust.

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Why Choose a Cyprus International Trust?

- Confidentiality:
 - CITs require trustees, protectors, and enforcers to maintain confidentiality. They are restricted from disclosing information or documents unless ordered by the Court or required by law in certain specified instances.
- Perpetual Duration:
 - Cyprus local trusts and express trusts established under the law of England and Wales are bound by specific time limits regarding their existence and the vesting of beneficial interests. Such trusts are generally limited to a duration of a life in being plus 21 years, with beneficial interests required to vest within 125 years.
 - By contrast, CITs can exist indefinitely, with no requirement for the trust fund to vest in the beneficiaries within a prescribed timeframe. This enables settlors to manage their wealth over the long term, securing the financial stability of future generations, including unborn heirs.
- Settlor security:
 - Specific powers, as listed above, can be reserved to the settlor or conferred to them in their capacity as protector or enforcer of the trust. Additionally, the settlor may retain a beneficial interest in the trust property. This provides enhanced flexibility to adapt to changing goals or circumstances and ensures that a sense of control remains with the settlor. However, caution should be taken when exercising this, as reserving too many powers may risk a finding of no trust.

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Our services:

At Christos Patsalides LLC, we provide expert legal advice on Cyprus International Trusts, ensuring your wealth is structured and protected in the most efficient way possible.

Our Services Include:

- *Tailored trust structuring to suit your needs.*
- *Legal and tax compliance guidance to ensure full adherence to Cyprus and international regulations.*
- *Comprehensive asset protection strategies for international clients.*
- *Trustee services through our affiliated company, Christos Patsalides Corporate Management Ltd.*

With decades of experience in trust law, our firm is committed to delivering the highest level of professionalism, discretion, and personalised service, ensuring that your trust structure aligns seamlessly with your long-term objectives.



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