Cyprus Tax Treaty Update 2019

Introduction

The Cyprus Double Tax Treaty network has expanded for 2019 with a new Treaty with Luxembourg, which became effective as of 1 January 2019.

A new Treaty with the United Kingdom (UK) is also introduced, which replaces the previous Treaty signed in 1974.

Cyprus - Luxembourg

Brief details of the Cyprus-Luxembourg double taxation convention, which is based on the OECD Model Convention, are as follows:

- Dividends

Cross-border dividends payments are to be subject to 0% withholding tax at source if the beneficial owner is a company which holds directly at least 10% of the capital of the company paying the dividends.

In all other cases, dividends payments are to be subject to a 5% withholding tax.

- Interest

Cross-border interest payments are generally to be taxable only in the country of the recipient of the income – i.e. no withholding tax being levied at source; subject to certain EU anti-avoidance provisions.

- Royalties

Royalty payments are generally to be taxable only in the country of the recipient of the income – i.e. 0% withholding tax at source.

- Capital Gains

Any capital gains arising from of the sale of immovable property and property-rich companies will be taxed in the source state where the immovable property is located.

Cyprus – UK

The double taxation convention between Cyprus and the UK, which replaces the treaty signed between the two countries in 1974, came into effect in Cyprus on 1 January 2019; becoming fully effective in the UK on 6 April 2019.

Based on the OECD Model Tax Convention, the treaty provides for taxes on income as well as gains from alienation of movable or immovable property. In the case of the UK, the treaty covers the income tax, the corporation tax and the capital gains tax; whereas in Cyprus, it covers corporate and personal income (including pensions), as well as for domestic special defence tax.

- Dividends

The treaty provides for the elimination of withholding tax on dividends, where the recipient is the beneficial owner of such income; however, where dividends are paid out of income and/or gains derived directly or indirectly from immovable property, defined in accordance to the law of the contracting state, by an investment vehicle which distributes most of this income annually and whose income from such immovable property is exempted from tax in which case a withholding tax of 15% applies (other than where the beneficial owner of the dividends is a pension scheme established in the other Contracting State).

- Other

There is no withholding on interest or royalty payments; such payments being subject to beneficial ownership criteria.

There is a limitation of benefits provision under the treaty in Art. 23 (Entitlement to Benefits), which provides that no benefit will be granted in respect of an item of income or a capital gain if it is reasonable to conclude, having regard to all relevant facts and circumstances, that obtaining that benefit was one of the principal purposes of any arrangement or transaction that resulted directly or indirectly in that benefit.

Contact

Richard Melton
Commercial Director
Office address: Vistra (Cyprus) Limited
2nd Floor, Sotiri Tofini 4, Agios Athanasios, Cyprus, Limassol 4102
Telephone: +357 25 817 411
Email: Richard.Melton@vistra.com