Latest Cyprus double tax treaty developments

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In brief

Cyprus recently concluded double tax treaties with Bahrain and Georgia representing the first ever double tax treaties concluded between Cyprus and these two countries. A protocol amending the existing Cyprus – South Africa double tax treaty was also recently signed. Further we have received more information regarding the treaties Cyprus concluded with Guernsey and Iceland in 2014. Details regarding all of these treaties are set out in this newsletter.

In detail

Bahrain – Cyprus Double Tax Treaty

Cyprus and Bahrain signed a double tax treaty March 9, 2015 with Cyprus subsequently ratifying the treaty on March 20, 2015. We understand that Bahrain has also ratified the treaty. Subject to all the remaining necessary legal formalities between the two countries being finalised in 2015, the treaty takes effect as of January 1, 2016.

This is the first double tax treaty between the two countries and provides for no withholding taxes to be applied on payments of dividends, income from debt claims and royalties.

Under the treaty, Cyprus retains the exclusive taxing right on disposals by Cyprus tax residents of shares in Bahraini companies, including Bahraini companies holding Bahrain located immovable property.

PwC Observation

Cyprus is ideally located geographically for the establishment of regional headquarters for business in Eastern Europe, North Africa and the Middle East. This treaty further expands the Cyprus tax treaty network in the Middle East.

Cyprus – South Africa Double Tax Treaty

On April 1, 2015 Cyprus and South Africa signed a protocol amending the 1997 double tax treaty between the two countries. The protocol was ratified by Cyprus on May 8, 2015. The protocol will enter into force once all the necessary legal formalities between the two countries have been finalised.

The protocol revises the dividend article and in particular provides for the below withholding tax rates on dividends:-

- 5% of the gross amount of the dividends if the beneficial owner is a company which holds at least 10% of the capital of the company paying the dividends; or
- 10% in all other cases.

The protocol also modernises the provisions of the treaty relating to exchange of information and amends the term 'resident of a contracting state' to align it with the OECD Model Tax Convention.

PwC Observation

Irrespective of the above withholding taxes on dividends under this treaty protocol, as per the domestic Cyprus tax legislation there is no Cyprus withholding tax on dividend payments to non-Cyprus tax residents at all times.

The Cyprus - South Africa tax treaty remains competitive. The above withholding tax rates on dividends are competitive rates amongst South Africa's tax treaty network and the treaty continues to provide for no withholding tax on interest and royalty payments. Further Cyprus retains the exclusive taxing right on disposals by Cyprus tax residents of shares in South African companies, including South African companies holding South Africa located immovable property.

Cyprus – Georgia Double Tax Treaty

On May 13, 2015 Cyprus and Georgia signed a double tax treaty. Cyprus subsequently ratified the treaty on May 29, 2015.

This is the first double tax treaty concluded between the two countries and it will enter into force once all legal formalities have been completed.

The treaty provides for no withholding taxes on payments of dividends, interest and royalties.

Further under the treaty, Cyprus retains the exclusive taxing right on disposals by Cyprus tax residents of shares in Georgian companies, including Georgian companies holding Georgia located immovable property.

PwC Observation

As noted above Cyprus is ideally located geographically for the establishment of regional headquarters for business in Eastern Europe, North Africa and the Middle East. This treaty further expands the Cyprus tax treaty network in the region.

Cyprus – Iceland Double Tax Treaty

The Cyprus - Iceland double tax treaty entered into force on December 22, 2014 and is effective as from January 1, 2015. This is the first double tax treaty between the two countries.

The treaty withholding tax rates on dividends, interest and royalties are set out below:

On dividends: 5% of the gross amount of the dividends if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the company paying the dividends and 10% of the gross amount of the dividends in all other cases.

On interest: Nil.

On royalties: 5% of the gross amount of the royalty.

As regards capital gains, under the treaty Cyprus retains the exclusive taxing right on disposals of shares in Icelandic companies except in the following cases:

- the disposed-of shares derive more than 50% of their value directly or indirectly from immovable property situated in Iceland, or,
- the disposal of shares is made by an individual who was a resident of Iceland in the course of the last five years preceding the disposal.

PwC Observation

Irrespective of the above withholding taxes on dividends and royalties under this treaty, as per the domestic Cyprus tax legislation there is no Cyprus withholding tax on dividend payments to non-Cyprus tax residents at all times. For royalties Cyprus only applies withholding tax on payments to non-Cyprus tax residents where the royalty relates to rights used within Cyprus.

Cyprus–Guernsey

This is the first double tax treaty between Cyprus and Guernsey. The treaty was signed on July 29, 2014. The treaty entered into force on March 4, 2015 and its provisions will take effect from January 1, 2016.

The treaty provides for no withholding taxes on dividend, interest and royalty payments.

Under the treaty Cyprus retains the exclusive taxing right on disposals by Cyprus tax residents of shares in Guernsey companies, (including Guernsey companies holding Guernsey located immovable property) except in the case where the company holds certain offshore exploration or exploitation rights/property.

PwC Observation

This treaty is another illustration of Cyprus' expanding double tax treaty network.

The takeaway

Cyprus is rapidly expanding its double tax treaty network. In addition to the above mentioned double tax treaties, Cyprus signed in 2014 a treaty with Switzerland which has not yet entered into force. Details of this treaty may be found in our newsletter N-8-2014. Further the Cyprus treaties with Spain, Norway and Lithuania are also effective as from January 1, 2015 (with the exception of the Spanish treaty withholding tax provisions which are effective from May 28, 2014), details of these treaties are also set out in our newsletter N-8-2014.

Let's talk

For a deeper discussion of how these developments might affect your business, please contact:

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