

# Tax update

## Newsletter

**pwc**

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### ***Cyprus and Switzerland sign a double tax treaty***

On 25 July 2014 Cyprus and Switzerland signed the first ever double tax treaty between the two countries.

Cyprus ratified the treaty on 30 July 2014. Subject to certain legal formalities in Switzerland and between the two countries the earliest possible date that the treaty may be in effect from is 1 January 2015. However, based on the typical duration of the ratification process in Switzerland the treaty may be in effect from a later date.

Under the treaty there is no withholding tax on interest and royalties. The following withholding tax rates apply on dividends:

- ❖ 0% if the beneficial owner of the dividend is:
  - a company (the term does not include partnerships) whose capital is wholly or partly divided into shares holding directly at least 10% of the capital of the company paying the dividend for an uninterrupted period of at least one year (the time period criterion may be satisfied post the date of the dividend payment), or
  - a pension fund or other similar institution recognized as such for tax purposes, or
  - the Government, a political subdivision, local authority or central bank of one of the two contracting states
- ❖ 15% in all other cases.

Irrespective of the above withholding tax rate of 15% on certain dividend payments, Cyprus does not apply withholding tax on dividend payments out of Cyprus, as per the provisions of the local tax legislation.

The 15% withholding tax in Switzerland on dividends from portfolio holdings (<10% holding) is the same with that applying under Switzerland's treaties with other financial centres.

Under the treaty Cyprus retains the exclusive taxing right on disposals of shares in Swiss companies except in certain cases when the disposed-of shares derive more than 50% of their value directly or indirectly from immovable property situated in Switzerland.

**For more detailed information please do not hesitate to contact:**

**Costas Mavrocordatos**

Head of Tax & Legal Services

**Nicos Chimarides**

Direct Tax Services

**Marios S Andreou**

Direct Tax Services

**Eftychios Eftychiou**

Direct Tax Services

**Antonis Christodoulides**

Direct Tax Services

**Chrysilios K. Pelekanos**

Indirect Tax Services

**PwC Cyprus**

Julia House

3 Themistocles Dervis Street

CY-1066 Nicosia, Cyprus

P O Box 21612

CY-1591 Nicosia, Cyprus

***[www.pwc.com.cy](http://www.pwc.com.cy)***

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