
Cyprus ratifies double tax treaty with Andorra

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On 1 June 2018, Cyprus ratified the double tax treaty it had signed with Andorra on 18 May 2018 (the DTT). The DTT is the first double tax treaty between the two countries. Certain further legal procedures in the two countries need to take place, following which the DTT will enter into force. Once the DTT enters into force it will take effect as from 1 January of the next calendar year.

Highlights from the provisions of the DTT include:

Dividends, Interest, Royalties

The DTT provides for a 0% withholding tax (WHT) rate on dividends, interest and royalties.

Capital Gains

For capital gains, under the DTT, Cyprus retains the exclusive taxing rights on disposals of shares made by Cyprus tax residents, except where the shares derive more than 50% of their value, directly or indirectly, from immovable property situated in Andorra. The exception does not apply to gains from disposals of shares that are listed, provided that the disposer held, directly or indirectly, not more than 25% of the capital of the disposed-of company at all times during the 12-month period prior to the disposal. Listed shares means listed on a recognized stock exchange of Andorra, Cyprus or European Union (EU)/European Economic Area (EEA) Member State.

Principal Purpose Test (PPT)

The DTT incorporates the OECD/G20 Base Erosion and Profit Shifting (BEPS) project Action 6 PPT, which is a minimum standard under the BEPS project. The PPT provides that a DTT benefit shall not be granted, under conditions, if obtaining that benefit was one of the principal purposes of an arrangement or transaction. This measure is designed to tackle “treaty shopping” and puts a strong emphasis on ensuring that operations are supported by appropriate substance and reflect a principal commercial rationale.

Let's talk

For a deeper discussion of how this development might affect you or your business, please contact:

Theo C Parperis
Partner
Head of Tax & Legal
theo.parperis@cy.pwc.com

Marios S Andreou
Partner
In charge of Tax Advisory
marios.andreou@cy.pwc.com

Nicos P Chimarides
Partner
Tax Advisory & In charge of
International Private Clients
nicos.chimarides@cy.pwc.com

Eftychios G Eftychiou
Partner
Head of Tax Technical
Committee
eftychios.eftychiou@cy.pwc.com

Or your usual PwC contact

PwC Cyprus
PwC Central
43 Demostheni Severi Avenue
CY-1080 Nicosia, Cyprus
P O Box 21612
CY-1591 Nicosia, Cyprus
www.pwc.com.cy