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# *Cyprus – Andorra double tax treaty enters into force*

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The first-time double tax treaty between Cyprus and Andorra signed on 18 May 2018 (the DTT) entered into force on 11 January 2019 as per a recent update of the Cyprus Ministry of Finance. Based on the provisions of the DTT, it will take effect as from 1 January 2020.

## ***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 a 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:

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