Tax Insights

from Tax Advisory Services

Cyprus and India complete negotiations for a revised double tax treaty (DTT)

Issue N- 8 -2016, 30 June 2016

In brief

On 30 June 2016 the Cyprus Government announced that negotiations for a revised DTT between Cyprus and India have been completed and agreement reached upon the text.

The announcement sets out that the revised DTT includes provisions for source based taxation for capital gains from the alienation (disposal) of shares with a "grandfathering" provision for investments undertaken prior to 1 April 2017.

The Cyprus Government also notes that following the entering into force of the revised DTT the Indian Authorities will proceed with rescinding the classification of Cyprus as a 'Notified Jurisdictional Area' with retroactive effect as from 1 of November 2013.

In detail

On 30 June 2016 the Cyprus Government announced that negotiations for a revised DTT between Cyprus and India have been completed and agreement reached upon the text. Our expectation is that the revised DTT will be signed in the coming months, and following ratification in both countries it will enter into force.

Full details of the agreed revised DTT have not yet been released. The Cyprus Government announcement does, however, set out that the revised DTT includes provisions for source based taxation for capital gains from the alienation (disposal) of shares. The announcement refers to a "grandfathering" clause for investments undertaken prior to 1 April 2017 where it has been agreed that the taxation of a future disposal of such shares is exclusively with the State of the alienator (seller).

The Cyprus Government notes that following the entering into force of the revised DTT the Indian Authorities will proceed with rescinding the classification of Cyprus as a 'Notified Jurisdictional Area' with retroactive effect as from 1 of November 2013 (i.e. the date on which Cyprus was classified as a 'Notified Jurisdictional Area' by the Indian Authorities). One of the impacts of the current Indian classification of Cyprus as a 'Notified Jurisdictional Area' is that, in certain circumstances, the existing DTT between the two States may only be relied upon by a taxpayer following certain administrative procedures in India.

The takeaway

The grandfathering of investments in shares made prior to 1 April 2017 is a welcome development from the negotiations and provides clarity to taxpayers holding existing investments. In cases where a Cyprus tax resident is the seller of such grandfathered investments, under the revised DTT the exclusive taxing rights on gains realised will remain with Cyprus, as is the case with the existing DTT.

The announcement that, following the entering into force of the revised DTT the Indian Authorities will proceed with rescinding the classification of Cyprus as a 'Notified Jurisdictional Area' with retroactive effect as from 1 of November 2013, is also a welcome development. As this will take place once the revised DTT enters into force, taxpayers will continue to be required to comply with the Indian 'Notified Jurisdictional Area' requirements for Cyprus until these are retroactively rescinded.

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
In charge of Corporate Compliance
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