

Tax update

Newsletter

pwc

November 2014
N-8-2014

Latest Cyprus double tax treaty developments

The double tax treaties which Cyprus has concluded with Spain, Norway and Lithuania have recently entered into force. We set out below highlights from these treaties.

Cyprus has also recently signed double tax treaties with Switzerland and Guernsey and we also set out below highlights from these treaties.

In our newsletter [N-1-2014](#) we set out details of the new or amended Cyprus double tax treaties which were effective from January 1, 2014. These are treaties with Austria, Estonia, Finland, Portugal and Ukraine. Subsequently it was announced that the treaty with the United Arab Emirates was also effective from January 1, 2014 and we set out below highlights from this treaty.

Cyprus–Spain

This is the first double tax treaty between Cyprus and Spain. The treaty was signed on February 14, 2013, and entered into force on May 28, 2014.

It is important to note that also on May 28, 2014, Cyprus was removed from the Spanish blacklist.

Regarding taxes periodically accrued, the treaty will be effective for tax year commencing on or after May 28, 2014, (i.e. from January 1, 2015, in the case of Cyprus). In relation to withholding taxes, the treaty has been effective from May 28, 2014.

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 is a company (whose capital is wholly or partly divided into shares) which holds directly at least 10% of the capital of the company paying the dividends;
- ❖ 5% in all other cases. Irrespective of this, Cyprus continues not to apply withholding tax on dividend payments out of Cyprus, as per the provisions of the local tax legislation.

Under the treaty Cyprus retains the exclusive taxing right on disposals of shares in Spanish companies except when the disposed-of shares are not listed on the Stock Exchange of either Cyprus or Spain and derive more than 50% of their value from immovable property situated in Spain.

Cyprus–Norway

This treaty will replace the current double tax treaty applicable between Cyprus and Norway. The treaty which was signed on February 24, 2014 entered into force on July 8, 2014 and will be effective from January 1, 2015.

Under the new 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 shares is a company (other than a partnership) which holds directly at least 10% of the capital of the company paying the dividends, or if the beneficial owner of the shares is the Government of one of the two states;
- ❖ 15% in all other cases. In relation to this 15% withholding tax the protocol to the new double tax treaty provides that if Norway enters into a future agreement with any EEA or EU state which provides for a lower withholding tax rate, proceedings will commence for the purpose of changing this provision to the same lower withholding tax rate.

Further, irrespective of this 15% withholding tax on certain dividends, Cyprus continues not to apply withholding tax on dividend payments out of Cyprus, as per the provisions of the local tax legislation.

Under the new treaty Cyprus retains the exclusive taxing right on disposals by Cyprus tax residents of shares in Norwegian companies.

Cyprus–Lithuania

This is the first double tax treaty between Cyprus and Lithuania. The treaty which was signed on June 21, 2013, entered into force on April 17, 2014 and will be effective from January 1, 2015.

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

- ❖ Dividends:
 - 0% 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;
 - 5% in all other cases. Irrespective of this, Cyprus continues not to apply withholding tax on dividend payments out of Cyprus, as per the provisions of the local tax legislation.
- ❖ Royalties - 5% withholding tax applies under the treaty. Irrespective of this 5% treaty withholding tax rate on royalties, Cyprus does not apply withholding tax on royalty payments, except in cases where the right relates to use in Cyprus. Additionally, this treaty withholding tax may be eliminated on payments qualifying under the EU's Interest and Royalty Directive (as transposed in the domestic laws of Cyprus and Lithuania).

Under the treaty Cyprus retains the exclusive taxing right on disposals by Cyprus tax residents of shares in Lithuanian companies.

Cyprus–Switzerland

This is the first double tax treaty between Cyprus and Switzerland. The treaty was signed on July 25, 2014. Cyprus ratified the treaty on July 30, 2014. The treaty has not yet entered into force.

The treaty provides for no withholding tax on interest and royalty payments. The following withholding tax rates apply on dividends:

- ❖ 0% if the beneficial owner of the dividends 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 dividends for an uninterrupted period of at least one year (the time period criterion may be satisfied after the date of the dividend payment); or
 - a pension fund or other similar institution recognised as such for tax purposes; or
 - the Government, a political subdivision, local authority or central bank of either Cyprus or Switzerland;

- ❖ 15% in all other cases. Irrespective of this, Cyprus continues not to apply withholding tax on dividend payments out of Cyprus, as per the provisions of the local tax legislation.

Under the treaty Cyprus retains the exclusive taxing right on disposals by Cyprus tax residents of shares in Swiss companies except when the disposed-of shares derive more than 50% of their value directly or indirectly from immovable property situated in Switzerland. Exceptions apply for certain publicly listed shares and in certain other circumstances (e.g. immovable property used for the company's operations).

Cyprus–Guernsey

This is the first double tax treaty between Cyprus and Guernsey. The treaty was signed on July 29, 2014. Cyprus ratified the treaty on August 14, 2014. The treaty has not yet entered into force.

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.

Cyprus–UAE

This is the first double tax treaty between the Cyprus and the UAE. The treaty was signed on February 27, 2011. The treaty entered into force on April 2, 2013 and is effective from January 1, 2014.

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

We understand that currently the UAE does not tax the disposal of a UAE company that owns real estate in the UAE.

For more detailed information please do not hesitate to contact:

Costas L. Mavrocordatos
Head of Tax & Legal Services

Nicos P. Chimarides
Tax Advisory Services

Marios S. Andreou
Tax Advisory Services

Eftychios Eftychiou
Tax Advisory Services

Antonis Christodoulides
Tax Advisory Services

or your usual contact in PwC Cyprus

PwC Cyprus
Julia House
3 Themistocles Dervis Street
CY-1066 Nicosia, Cyprus
P O Box 21612
CY-1591 Nicosia, Cyprus

www.pwc.com.cy

This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.



© 2014 PricewaterhouseCoopers Ltd. All rights reserved. PwC refers to the Cyprus member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.