

# Tax update

## Newsletter

**pwc**

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### ***Cyprus and Iceland double tax treaty ratified by Cyprus***

On December 19, 2014 Cyprus ratified the Cyprus and Iceland double tax treaty which had been signed by the two countries on November 13, 2014. This is the first ever double tax treaty between the two countries.

The earliest this treaty may take effect is January 1, 2015 however, as the treaty still needs to be ratified by Iceland and the two countries need to exchange notes, we would expect an effective start date for the treaty of January 1, 2016 (subject to the ratification process being completed in 2015).

The rates of withholding tax on dividends, interest and royalties are set out below:

#### **On dividends:**

- ❖ 5% of the gross amount of the dividends 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;
- ❖ 10% of the gross amount of the dividends in all other cases.

#### **On interest:**

- ❖ Nil.

#### **On royalties:**

- ❖ 5% of the gross amount of the royalty.

Irrespective of the above withholding tax rates on dividend and royalty payments, Cyprus does not apply withholding tax on dividend payments to non-Cyprus tax residents at all times, and only applies withholding tax on royalties payment to non-Cyprus tax residents for rights used within Cyprus, as per the provisions of the local tax legislation.

Under the treaty Cyprus retains the exclusive taxing right on disposals of shares in Icelandic companies except in the following cases;

- ❖ when the disposed-of shares derive more than 50% of their value directly or indirectly from immovable property situated in Iceland, or,

- ❖ the disposal of shares is made by an individual who was a resident of Iceland in the course of the last five years preceding the disposal.

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

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