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Parliament votes bills on taxation of dividends, interest and royalties earned by companies in EU-listed non-cooperative jurisdictions and low-tax jurisdictions

In brief

On 10 April 2025 the Cyprus Parliament voted bills on the taxation of dividends, interest and royalties earned from Cyprus directly (or indirectly under an anti-conduit rule) by companies located in EU-listed non-cooperative jurisdictions (so called “EU Blacklisted” jurisdictions, **BLJs**) and low-tax jurisdictions (**LTJs**).

For companies located in BLJs Cyprus’ EU-approved Recovery and Resilience Plan (**RRP**) included a milestone to introduce targeted withholding taxes (**WHTs**) on dividends and interest, and broaden the pre-existing WHT on royalties, with the relevant law being in effect from 31 December 2022.

A 2024 European Commission (**EC**) assessment of that law found it did not, in the view of the EC, satisfactorily fulfil the relevant RRP milestone. The current bills voted by Parliament aim to cater for this by replacing the existing BLJs provisions with new BLJs provisions to be in effect as from their date of publication in the Official Gazette of Cyprus (**Gazette**). We estimate such date of publication to be 25 April 2025.

The RRP also included a milestone for the introduction of tax measures on dividends, interest and royalties earned by companies located in LTJs. To cater for this milestone the current bills voted by Parliament seek to introduce a targeted WHT on dividends and denial of expense deductibility for interest and royalties, each with effect from 1 January 2026.

Additional documentation requirements are also foreseen in relation to dividend, interest and royalty payments/ expenses from Cyprus as part of the application of an anti-conduit rule in cases where related companies are artificially interposed in non-BLJs (and as from 1 January 2026, non-LTJs). The details of these requirements are not included in the bills as they will be regulated by Council of Ministers decrees, the text of which is expected to be published in the Gazette on the same day as the bills (i.e. estimated 25 April 2025).

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In detail

The bills provide for the following:

<table>
<tr><th></th><th>EU Blacklisted jurisdictions (BLJs)</th><th>Low-tax jurisdictions (LTJs)</th></tr>
<tr><td>Effective date</td><td>Effective from date of publication in the Gazette, estimated 25 April 2025.</td><td>Effective from 1 January 2026.</td></tr>
<tr><td>Meaning of BLJs and LTJs</td><td>A non-EU jurisdiction in the relevant EU list in the prior calendar year and remaining in the list at the relevant time of the Cyprus tax treatment.

<u>PwC Cyprus observation</u>:
Current BLJs are:
American Samoa, Anguilla, Fiji, Guam, Palau, Panama, Russian Federation, Samoa, Trinidad and Tobago, U.S. Virgin Islands, Vanuatu.</td><td>A non-EU jurisdiction with a corporate tax rate (we understand statutory corporate tax rate) of less than 50% of the Cyprus Corporate Income Tax (CIT) rate.

<u>PwC Cyprus observation</u>:
As the CIT rate is currently 12,5% this results in a rate of less than 6,25%. The CIT rate may be increased in the near future to 15% under a potential <u>Cyprus tax reform</u>, which, if enacted, would result in a rate of less than 7,5%.

Currently the Cyprus Tax Authorities (CTA) have not provided a list of LTJs. The list could possibly include, for example: the Bahamas, Bahrain, Bermuda, the British Virgin Islands, the Cayman Islands, Guernsey, Isle of Man, Jersey, Turks and Caicos Islands,

but obviously there can be no certainty on this until the CTA provide the list.

In the bills the BLJ provisions take priority over the LTJ provisions, thus we have not included in the above potential LTJ list any jurisdictions that are already included in the list of BLJs.</td></tr>
<tr><td>Dividends earned by related companies located in:</td><td colspan="2">17% WHT under Special Contribution for Defence (SDC).

This category includes capital reductions exceeding the amount of capital that had actually been paid into the Cyprus tax resident payor.

<u>PwC Cyprus observation</u>: The potential Cyprus tax reform may in the near future reduce the SDC rate on dividend income from 17% to 5% for Cyprus tax residents. Should this reduction occur, we understand that the Cyprus Ministry of Finance has an intention in relation to the WHT on dividends earned by related companies in LTJs to also reduce the rate from 17% to 5% at the same time as the tax reform. Their intention is less clear in relation to the rate of WHT on dividends earned by related companies in BLJs and such rate may remain at 17% even in case of a Cyprus tax reform.</td></tr>
<tr><td>Interest earned by related companies located in:</td><td>17% WHT under SDC.</td><td>Payor is denied deduction of expense for CIT purposes.</td></tr>
<tr><td>Royalties earned by related companies located in:</td><td>10% WHT under CIT.</td><td>Payor is denied deduction of expense for CIT purposes, unless a 10% WHT is imposed under a pre-existing CIT provision.</td></tr>
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Dividends, interest and royalties towards permanent establishments (**PEs**) of related companies, where such PEs are located in:	The above treatments also apply to such cases unless the head office jurisdiction is neither a BLJ nor, as from 1 January 2026, a LTJ and: • the dividends, interest or royalties are subject to taxation at the level of the head office, or • the dividends, interest or royalties are subject to a minimum tax rate of 15% based on the Pillar Two Global Minimum tax rules.
Dividends on listed shares/Interest on listed securities	The above treatments do not apply to such cases where: • the shares/securities are listed on any recognized stock exchange, and • it is reasonable to assume that the payor does not know that the dividend/interest is earned by a BLJ or LTJ related company/PE.
Anti-abuse measures for abusive arrangements relating to dividends, interest and royalties	These will be regulated by decrees which are not yet published. The bills provide that in case the conditions in the decrees are not satisfied, the above tax treatments will apply unless the taxpayer demonstrates that: • the (series of) arrangement(s) was/were entered into for valid commercial reasons that reflect economic reality, or • the obtaining of a tax advantage was not the sole purpose of the (series of) arrangement(s). <u>PwC Cyprus observation</u>: *It will be important to study the decrees once issued. We understand that these anti-abuse measures are intended to apply an anti-conduit approach in cases where related companies are artificially interposed in non-BLJs (and as from 1 January 2026, non-LTJs). It is clear from the bills that the decrees will introduce, in certain circumstances, documentation requirements as the bills provide for penalties up to €10.000 for delay/failure to provide the documentation to the CTA upon their request. The decrees are expected to be published in the Gazette on the same day that the bills are published (estimated 25 April 2025).*
Related companies	The bills provide their own detailed definition of when companies are related for the purposes of these provisions. The relationship test is a 50% threshold that includes holdings by other related parties (companies and individuals/relatives of the individual).
Payments by individuals	Not in scope.
Payments to individuals	Not in scope.
Qualifying shipping profits/income	<u>PwC Cyprus observation</u>: *Although the bills do not refer to the Merchant Shipping Legislation (MSL), the MSL provides for taxation under the Cyprus tonnage tax regime with an exemption from other Cyprus direct taxes for qualifying profits/income such that the following should not be applicable or relevant respectively:* • *Dividend WHT, under both the BLJ and LTJ provisions, and* • *Denial of interest and royalty expenses towards LTJs.* *Conversely, the WHT on interest and royalties towards BLJs remains applicable.*
Double Tax Treaties (**DTTs**)	The bills include a provision that, after a 3-year period, Cyprus should request the renegotiation of any Cyprus DTT where the treaty partner remains a BLJ/LTJ. <u>PwC Cyprus observation</u>: *Where a DTT is in place between Cyprus and a BLJ/LTJ, protection from the above measures should be afforded to the taxpayers to the extent provided for in the relevant DTT.* *We understand that the 3-year period referred to in the bills would mean that a renegotiation would not be requested until 2028 at the earliest for BLJs and until 2029 at the earliest for LTJs.*

The takeaway

For dividend/interest/royalty earned by related companies in:

- BLJs: the bills are generally widening the scope of application of the WHT as compared to the current provisions which they will replace, although there are certain instances where it is narrowed.
- LTJs: the bills (typically) represent a new approach as compared to the current position.

Companies should immediately assess whether the provisions in the bills may be impacting them and consider what implications this may have on existing arrangements and structures. Furthermore, once the related decrees on the application of an anti-conduit rule in cases where related companies are artificially interposed in non-BLJs (and as from 1 January 2026, non-LTJs) are published their possible impact should also be considered.

Lets talk

For a deeper discussion of how this issue might affect your business, please contact:

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