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Law amendments and decrees published on taxation of dividends, interest and royalties earned by companies in EU-listed non-cooperative jurisdictions and low-tax jurisdictions

In brief

The law amendments voted by Parliament on 10 April 2025 were published in the Official Gazette of Cyprus (**Gazette**) on 16 April 2025. These law amendments:

- replace the withholding tax (**WHT**) provisions (in place as from 31 December 2022) on dividends, interest and royalties earned from Cyprus by companies located in EU-listed non-cooperative jurisdictions (so called “EU Blacklisted” jurisdictions, **BLJs**) with new WHTs on such incomes earned directly (or indirectly under an anti-conduit rule) by related companies located in BLJs. These new provisions are in effect as from 16 April 2025;
- introduce a WHT on dividends and denial of expense deductibility for interest and royalties, each with effect from 1 January 2026, for such incomes earned directly (or indirectly under an anti-conduit rule) by related companies located in low-tax jurisdictions (**LTJs**).

Related anti-abuse decrees (one in relation to Cyprus income tax and one in relation to Special Defence Contribution), as part of the application of an anti-conduit rule, were published on 17 April 2025. Such anti-conduit rule aims to capture cases where related companies are artificially interposed in non-BLJs.

The two published decrees relate only to the BLJ WHTs as those provisions are currently in effect. It would be reasonable to expect that new/updated decrees will be published in the future to cater for the provisions relating to LTJs which come into effect as from 1 January 2026.

In detail

Refer to our newsletter N-8-2025, issued on 15 April 2025, for more details on the published law amendments.

As part of the application of an anti-conduit rule, the published decrees regulate cases where the related direct recipient is located in a non-BLJ. Thus, the BLJ WHT is to be applied in such cases only if all of the below are not met:

1.	<p>The related non-BLJ direct recipient is:</p> <ul style="list-style-type: none"> • resident for tax purposes in a member state of the European Economic Area (EEA), i.e. Cyprus, all other European Union Member States, Iceland, Liechtenstein and Norway, or • a member of a multinational group of companies and is subject to a minimum 15% tax rate based on the OECD/Inclusive Framework Pillar 2 global minimum taxation rules/related EU Directive, or • a member of a consolidated group for accounting purposes and the group does not have a presence (through a company or permanent establishment) in a BLJ. <p><i>PwC observation: it would be reasonable to expect that when new (or updated) decrees are published in relation to the LTJ rules (effective as from 1 January 2026) this exclusion will at that stage require the group not to have presence in either a BLJ or an LTJ.</i></p>
2.	<p>The Cyprus payor proves to the Cyprus tax authorities (CTA) that any arrangement / series of arrangements:</p> <ul style="list-style-type: none"> • are put in place for valid commercial reasons reflecting economic reality, or • did not have a tax advantage as their sole purpose. <i>PwC observation: it would be reasonable to expect that “tax advantage” refers to the non-application of the BLJ WHT.</i>
3.	<p>The Cyprus payor checks and maintains for a period of at least 6 years from the end of the tax year evidence of the substance of the related direct recipient where it is located. There are six substance criteria set out in the decrees and at least five need to be met. The six substance criteria on the non-BLJ related direct recipient are:</p> <ol style="list-style-type: none"> 1. At least one of the members of its Board of Directors: <ul style="list-style-type: none"> • has the qualifications and authority to make decisions in relation to the activities, assets or rights that generate the company's revenue; and • carries out his/her duties actively and independently; 2. At least one of its decision-making board members resides in the jurisdiction in which the related direct recipient company is resident for tax purposes (or within a distance that allows him/her to travel on a daily basis); 3. It has at its disposal office premises, in which its directors and employees carry out their duties, in the jurisdiction in which the related direct recipient company is resident for tax purposes; 4. The majority of its board of directors meetings are held in the jurisdiction in which the related direct recipient company is resident for tax purposes; 5. Its operating expenses (including directors' remuneration and staff costs) paid to persons within the jurisdiction, in which the related direct recipient company is resident for tax purposes for the tax year to which the transactions relate, are proportionate to its activities; 6. The group of companies of which the related direct recipient is a member is not structured in such a way that the related direct recipient company has as its sole activity the collection of dividends, interest or royalties income and the transfer of all or almost all of it, very soon after its collection, to another related company, with the result that it makes only a negligible taxable profit in order to enable the flow of capital to the beneficial owner.

The takeaway

Although the law amendments mainly apply to dividends, interest and royalties earned directly by related companies in BLJs (and as from 1 January 2026, LTJs), the anti-conduit rule and related published decrees require consideration of the rules even in cases where such incomes are earned directly by related companies in non-BLJs (it would be reasonable to expect that non-BLJs include any LTJ that is not also a BLJ).

Companies should immediately assess whether the provisions in the laws and decrees may be impacting them and consider what implications this may have on existing arrangements and structures.

Lets talk

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

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