Cyprus – New Double Tax Treaties Become Effective

Cyprus' Double Tax Treaty (DTT) network has been expanded with four new agreements with Lithuania, Norway, Spain and Iceland becoming effective as of the 1st of January 2015.

All of the new treaties concluded by Cyprus are generally based on the Organisation for Economic Co-operation and Development (OECD) Model Tax Convention framework with a number of modifications.

It is worth noting that each treaty contains an article providing for the exchange of information which is based on article 26 of the OECD Model Tax Convention on Income and on Capital.

By signing the agreement, the countries aim to strengthen their trade and economic relations.

The Cyprus Ministry of Finance explains that "Updating, maintaining existing and signing new double taxation treaties is part of the drive to enhance and attract foreign investments, as well as of promoting Cyprus as an international business hub".

DTTs are important means for the encouragement of foreign investments flowing into a country. They offer investors guidelines as to where and how their investments will be taxed, and provide security between residents of both states. They also provide an assurance to both foreign governments and the investors that the contracted countries adhere to the internationally accepted tax rules.

New DTTs play a major role for the success and survival of any international business centre, allowing access to further markets beyond the concluded country, e.g. the Cyprus – Spain DTT gives access to Cyprus also to the Latin American market.

A summary for each new treaty agreement follows:

Cyprus – Lithuania
The first DTT between Cyprus and Lithuania was signed on the 21st of June 2013 and took effect on the 1st of January 2015.

In accordance with the treaty, the following withholding taxes will apply:
- Dividends: 0% if the recipient is a company and (a) is the beneficial owner of the dividends, and (b) has a minimum direct holding of 10% of the capital of the company paying the dividends. Otherwise dividend payments will be subject to a 5% withholding tax, provided that the recipient is the beneficial owner of the dividends.
- Interest: 0%
- Royalties: 5% withholding tax, provided that the recipient is the beneficial owner of the royalties.

Capital gains derived by a resident of Cyprus or Lithuania are not taxable in the country of investment (except gains relating to immovable property and gains from the alienation of movable property of a permanent establishment). In particular, any gains arising from the sale of shares will only be taxed in the country of residence of the seller of the shares.

Cyprus – Norway
As of the 20th of June 2014, the DTT between Cyprus and Norway was published in the official Government Gazette.

The provisions of the new DTT took effect on the 1st of January 2015.

In accordance with the treaty, the following withholding taxes will apply:
- Dividends: 0% if the recipient is a company and (a) is the beneficial owner of the dividends, and (b) has a minimum direct holding of 10% of the capital of the company paying the dividends. Otherwise dividend payments will be subject to a 15% withholding tax, provided that the recipient is the beneficial owner of the dividends.
- Interest: 0%
- Royalties: 0%

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The treaty with Norway contains special provisions which apply about taxation of income and gains derived from offshore activities in connection with the exploration or exploitation of the seabed or subsoil or natural resources.

Cyprus – Spain
The DTT agreement between Cyprus and Spain, which was signed on the 14th of February 2013, entered into force on the 28th of May 2014.

The benefits included in the new DTT agreement took effect on the 1st of January 2015.

In accordance with the treaty, the following withholding taxes will apply:

- Dividends: 0% if the recipient is a company and (a) is the beneficial owner of the dividends, and (b) has a minimum direct holding of 10% of the capital of the company paying the dividends. Otherwise dividend payments will be subject to a 5% withholding tax, provided that the recipient is the beneficial owner of the dividends.
- Interest: 0%
- Royalties: 0%

The capital gains tax article allocates taxation rights to the source state for gains arising on the sale of shares in real estate rich companies (i.e., shares deriving more than 50% of their value from immovable property) not listed on the stock exchange of Spain or Cyprus.

Cyprus – Iceland
The DTT between Cyprus and Iceland was originally signed on the 13th of November 2014, and entered into force on the 22nd of December 2014.

The provisions of the new DTT took effect on the 1st of January 2015.

In accordance with the treaty, the following withholding taxes will apply:

- Dividends: 5% if the recipient is a company and (a) is the beneficial owner of the dividends, and (b) has a minimum direct holding of 10% of the capital of the company paying the dividends. Otherwise dividend payments will be subject to a 10% withholding tax, provided that the recipient is the beneficial owner of the dividends.
- Interest: 0%
- Royalties: 5%

The main objective of tax treaties is to provide a reduction in withholding tax on income earned by a resident of one of the contracting states, from sources within the other state. Further, Double Tax Treaties encourage investments between the two states by providing for the avoidance of double taxation.

Cyprus currently has signed treaties with over 50 countries.

Contact us at info@aspentrust.com to discuss how you or your client can benefit from the Cyprus Double Tax Treaty Network.

For easy access to information on which jurisdictions currently have DTTs with Cyprus, please check our table below for Cyprus' network of Double Tax Treaties.

Cyprus Double Tax Treaties

Treaty Countries	Received in Cyprus			Paid from Cyprus*		
	Dividends	Interest	Royalties	Dividends	Interest	Royalties
	%	%	%	%	%	%
Armenia	0(32)	5(33)	5	0(32)	5(33)	5
Austria (31)	10	0	0	10	0	0
Belarus	5(4)	5	5	5(4)	5	5
Belgium	10(1)	10(16)	0	10(1)	10	0
Bulgaria	5(19)	7(25)	10(20)	5(19)	7(25)	10
Canada	15	15(7)	10(11)	15	15(7)	10(11)
China	10	10	10	10	10	10
Czech Republic	0(30)	0	10	0(30)	0	10
Denmark	0(34)	0	0	0(34)	0	0
Egypt	15	15	10	15	15	10
Estonia	0	0	0	0	0	0
Finland	5(37)	0	0	5(37)	0	0
France	10(2)	10(9)	0(26)	10(2)	10(9)	0(26)
Germany	5(2)	0	0	5(2)	0	0
Greece	25	10	0(12)	25	10	0(12)
Guernsey(31)	0	0	0	0	0	0
Hungary	5(1)	10(8)	0	0	10(8)	0
Iceland	5(39)	0	5	5(39)	0	5
India	10(2)	10(8)	15(15)	10(2)	10(8)	15(15)
Ireland	0	0	0(12)	0	0	0(12)
Italy	15	10	0	0	10	0
Kuwait	10	10(8)	5(14)	10	10(8)	5(14)
Kyrgyzstan(27)	0	0	0	0	0	0
Lebanon	5	5(16)	0	5	5(16)	0
Lithuania	0(40)	0	5	0(40)	0	5
Malta	0(22)	10(8)	10	15	10(8)	10
Mauritius	0	0	0	0	0	0
Moldova	5(19)	5	5	5(19)	5	5
Montenegro(28)	10	10	10	10	10	10
Norway	0(3)	0	0	0(3)	0	0
Poland	0(36)	5(8)	5	0(36)	5(8)	5
Portugal	10	10	10	10	10	10
Qatar	0	0	5	0	0	5
Romania	10	10(8)	5(14)	10	10(8)	5(14)
Russia	5(6)	0	0	5(6)	0	0
San Marino	0	0	0	0	0	0
Serbia(28)	10	10	10	10	10	10
Seychelles	0	0	5	0	0	5
Singapore	0	10(23)	10	0	10(23)	10
Slovakia(29)	10	10(8)	5(14)	10	10(8)	5(14)
Slovenia	5	5(33)	5	5	5(33)	5
South Africa	0	0	0	0	0	0
Spain	0(35)	0	0	0	0	0
Sweden	5(1)	10(8)	0	5(1)	10(8)	0
Switzerland(31)	0(38)	0	0	0(38)	0	0
Syria	0(1)	10(8)	15(13)	0(1)	10(8)	15(13)
Tajikistan(27)	0	0	0	0	0	0
Thailand	10	15(17)	5(18)	10	15(17)	5(18)
Ukraine	5(21)	2	5	5(21)	2	5
United Arab Emirates	0	0	0	0	0	0
United Kingdom	0(24)	10	0(26)	0	10	0(26)
USA	5(5)	10(10)	0	0	10(10)	0
Uzbekistan(27)	0	0	0	0	0	0
Non Treaty Countries	N/A	N/A	N/A	0	0	0**

Double Tax Treaties Notes

* Payments of dividends and interest to non-residents are exempt from withholding tax in Cyprus according to the Cyprus Legislation. Royalties granted for use outside of Cyprus are also free of withholding tax in Cyprus.

** 10% in the case of royalties granted for use within the Republic. 5% on films and TV rights.

1. 15% if received by a company controlling less than 25% of the voting power.

2. 15% if received by a company controlling less than 10% of the voting power.

3. NIL if the beneficial owner is a company (other than a partnership) holding at least 10% of the capital of the company paying the dividend.

   15% in all other cases.

4. This rate applies if the amount invested by the beneficial owner is over €200.000 irrespective of the percentage of voting power acquired. 10% is imposed if received by a holder of at least 25% of the share capital of the paying company. Otherwise the rate is 15%.

5. 5% if received by a company controlling at least 10% of the voting power.

   15% in all other cases.

6. 10% if received by company, which has invested less than €100.000.

7. NIL if paid to the government or for export guarantee.

8. NIL if paid to the government of the other State or to a financial institution.

9. NIL if paid to government or in connection with the sale on credit of any industrial, commercial or scientific equipment or any merchandise by one enterprise to another or in relation to any form of loan granted by a bank or is guaranteed from government or other governmental organization.

10. NIL if paid to government of the other state, to a bank or a financial institution or in respect to debt obligations arising in connection with sale of property or in the provision of services.

11. NIL on literary, dramatic, musical or artistic work with the exception of films used for television programs.

12. 5% on film royalties (except films shown on TV).

13. 10% on literary, dramatic, musical, artistic work, films and TV royalties.

14. NIL on literacy, artistic or scientific work including films.

15. Treaty rate restricted to Cyprus legislation rate of 10%.

    10% on payment of technical fees, management fees and consultancy fees.

16. NIL if paid to the Government of the other State, a political subdivision or a local authority, the National Bank or any institution the capital of which is wholly owned by the State or a political subdivision or a local authority or in the form of interest income from bank deposits.

17. 10% on interest received from financial institutions, on interest paid in connection with industrial, commercial, scientific equipment or the sale or merchandise between two companies.

18. 10% on right to use industrial, commercial or scientific equipment or for information concerning industrial, commercial or scientific experience and 15% for patents, trademarks, designs, models, plans, secret formulas or processes.

19. 5% is applicable if the dividend is received by a company owning directly at least 25% of the capital. In all other cases the withholding tax is 10%.

20. This rate does not apply, where 25% or more of the capital of the Cypriot resident is owned directly or indirectly by the Bulgarian resident paying the royalties and the Cyprus company pays less than the normal rate of tax.

21. 5% is applicable if the dividend is received by a company owningat least 20% of the capital of the dividend paying company or has invested in the acquisition of shares or other rights of the dividend paying company of at least €100.000. 15% in all other cases.

22. The treaty provides that the tax on the gross amount of the dividends shall not exceed the tax charged on the profits out of which the dividends are paid.

23. 7% if paid to a bank or similar financial institution. NIL if paid to the government.

24. The treaty provides for 15% withholding tax, but domestic legislation provides for 0% withholding tax.

25. NIL if paid to or is guaranteed by the government, statutory body or the Central Bank.

26. 5% on film royalties, including films used for television programs.

27. The treaty between the Republic of Cyprus and the United Soviet Socialist Republic still applies.

28. The treaty between the Republic of Cyprus and the Socialist Federal Republic of Yugoslavia still applies.

29. The Treaty between the Republic of Cyprus and the Czechoslovak Socialist Republic still applies.

30. Nil 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 where such holding is being held for an uninterrupted period of no less than one year.

    5% in all other cases.

31. The treaty has been published in the Gazette but has not come into force yet.

32. 5% if the beneficial owner has invested in the capital of the company less than the equivalent of €150.000 at the time of investment.

33. Nil if paid to the Government or to the local authority, or to the Central Bank.

34. Nil if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the company paying dividends, where such holding is being held for an uninterrupted period of no less than 12 months.

    Nil if the beneficial owner is the other Contracting State or the Central Bank of that other State, or any national agency or any other agency (including a financial institution) owned or controlled by the Government of that other State.

    Nil if the beneficial owner is a pension fund or other similar institution providing pension schemes in which individuals may participate in order to secure retirement benefits, where such pension fund or other similar institution is established, recognized for tax purposes and controlled in accordance with the laws of that other State.

    15% in all other cases.

35. NIL if the dividend is received by a company (other than a partnership) holding at least 10% of the capital of the dividend paying company.

    5% in all other cases.

36. Nil if the beneficial owner is a company (not a partnership) controlling directly at least 10% of the capital in the dividend paying company for an uninterrupted period of at least two years.

    5% in all other cases.

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37. 5% if the beneficial owner is a company (other than a partnership) which holds directly at least 10% on the capital of the company paying the dividends.

    15 % in all other cases.

38. Nil if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the company paying dividends, where such holding is being held for an uninterrupted period of not less than 12 months.

    Nil if the beneficial owner is a pension fund or other similar institution providing pension schemes in which individuals may participate in order to secure retirement benefits, where such pension fund or other similar institution is established, recognized for tax purposes and controlled in accordance with the laws of that other State.

    Nil if the beneficial owners is the Government, a political subdivision, local authority or central bank of one of the two contracting states.

    15% in all other cases.

39. 5% if the beneficial owner is a company (other than a partnership) which holds directly at least 10% on the capital of the company paying the dividends.

    10% in all other cases.

40. Nil if the beneficial owner is a company (other than a partnership) which holds directly at least 10% on the capital of the company paying the dividends.

    5% in all other cases.