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Cyprus Tax News

New Double Tax Treaties signed and published in the Gazette

Cyprus has recently signed double tax treaties (DTTs) with Switzerland and Guernsey. The DTTs were published in the Gazette on 30 July and 14 August 2014 respectively.

The treaties will contribute to the development of Cyprus' trade and economic relations with the two countries and are useful tools for attracting inbound and structuring outbound investments to and from Cyprus.

Both treaties are based on the OECD Model Convention for the Avoidance of Double Taxation on Income and on Capital. The provisions of each DTT will come into effect on the first day of January following the date upon the DTT will enter into force. Each DTT shall enter into force once the relevant parties exchange notifications that all necessary procedures have been completed.

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Below, we briefly outline the main provisions of each DTT and the applicable withholding tax rates with respect to dividends, interest and royalties.

Cyprus – Switzerland Double Tax Treaty

Permanent Establishment: The permanent establishment definition included in the treaty is in line with the definition provided in the OECD model tax convention. In particular, any building site or construction or installation project or any supervisory activities in connection with such site or project constitutes a permanent establishment only if it lasts more than twelve months.

Dividends: 0% withholding tax if the beneficial owner is:

- a company (other than a partnership) the capital of which is wholly or partly divided into shares and which holds directly at least 10% of the capital of the company paying the dividends for an uninterrupted period of at least one year or
- a pension fund or other similar institution recognized as such for tax purposes, or
- the Government, a political subdivision, local authority or central bank of one of the two contracting states.

15% withholding tax applies in all other cases.

Interest: Nil withholding tax.

Royalties: Nil withholding tax.

Capital gains: Gains derived by a resident of a Contracting State from the disposal of immovable property situated in the other Contracting State may be taxed in that other State.

Capital gains arising from the disposal of shares in a company deriving more than 50% of their value directly or indirectly from immovable property may be taxed in the Contracting State in which the property is situated, unless such shares are quoted on a stock exchange or the property is used in the company's business or the alienation is a result of a corporate reorganisation. In such a case any gains are taxable only in the place of residence of the alienator.

Gains from the alienation of any other property, including shares other than those referred to above, are taxable only in the place of residence of the alienator.

Deloitte View: The Cyprus – Switzerland DTT enhances the tax benefits already provided by the EU- Switzerland Agreement on taxation and promotes the combined use of Cypriot and Swiss companies in international tax planning.

Cyprus – Guernsey Double Tax Treaty

Permanent Establishment: A building site or construction or installation project constitutes a permanent establishment only if it lasts more than twelve months.

Dividends: 0% withholding tax

Interest: 0% withholding tax

Royalties: 0% withholding tax

Capital gains: Gains derived by a resident of a Contracting State from the disposal of immovable property situated in the other Contracting State may be taxed in that other State.

Capital gains arising from the disposal of shares (irrespective of the underlying assets of the company of which the shares are being disposed) are taxable only in the Contracting State in which the alienator is tax resident.

Deloitte View: The Cyprus – Guernsey DTT may offer structuring opportunities in view of the fact that neither Cyprus nor Guernsey tax capital gains arising on the sale of shares of companies holding immovable property situated in the other State.[Body text starts here]