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Cyprus Tax News
Revised tax treaty signed with India

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Following the completion of the negotiations between Cyprus and India on 29 June 2016, the two countries signed a revised tax treaty on 18 November 2016, which was published in Cyprus' Gazette on 25 November 2016. The new treaty will replace the existing treaty which was concluded back in 1994.

According to the revised tax treaty, the maximum withholding tax rates on dividends, interest and royalties will be as follows:

- **Dividends**: 10%. It is worth noting that neither country currently imposes withholding tax on dividends.
- **Interest**: 10% unless the beneficial owner of the interest is the government, a political sub-division, a local authority of the other contracting state, certain Indian institutions defined in the treaty or any other institution as may be agreed upon between the competent authorities of the contracting states in which case the withholding tax will be reduced to nil.
- **Royalties:** 10%, reduced from 15% under the current treaty.

The new treaty also makes several other notable revisions:

- The definition of a permanent establishment (PE) is broadened. A building site or construction or installation project will constitute a PE if it lasts more than six months (currently twelve months).
- The new treaty provides for source-based taxation of capital gains arising from the alienation of a company's shares. Investments undertaken before 1 April 2017 will be grandfathered, with taxation rights over gains on the disposal of such shares at any future date remaining solely with the state of residence of the alienator.

- An updated exchange of information article is included in line with internationally accepted standards.

The revised tax treaty will enter into force once both Cyprus and India exchange notifications that their formal ratification procedures have been completed. The provisions of the treaty will have effect in Cyprus on or after 1 January following the date the treaty enters into force, and in India on or after 1 April of the fiscal year following that in which the treaty enters into force.

Notably, once the treaty enters into force, the Indian government will rescind the classification of Cyprus as a "notified jurisdictional area" under section 94A of the Indian Income Tax Act 1961, with retroactive effect from 1 November 2013 (the date Cyprus was included on the relevant list).

Deloitte view

The revised tax treaty between the two countries, would help Cyprus to continue to play an instrumental role in funding new projects in India's fast growing economy.

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