



## Cyprus Tax News

### Tax Treaty signed with Latvia

On **24 May 2016**, Cyprus signed its first tax treaty with **Latvia**, an EU member state bordered by Belarus, Estonia, Lithuania and Russia.

The treaty, which was published in the Cyprus official gazette on 3 June 2016, is based on the OECD model treaty, and its main provisions are as follows:

**Dividends and interest:** Nil withholding tax (WHT) will apply to dividends or interest paid to a company (other than a partnership) resident in the other contracting state that is the beneficial owner of the dividends/interest; otherwise, the rate will be 10%.

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**Royalties:** Nil WHT will apply to royalties paid to a company (other than a partnership) resident in the other contracting state that is the beneficial owner of the royalties; otherwise, the WHT rate will be 5%.

**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.

Gains derived by a resident of a contracting state from the disposal of shares in a company deriving more than 50% of their value directly or indirectly from immovable property situated in the other contracting state may be taxed in that other state.

Gains derived by a resident of a contracting state from the disposal of shares other than those referred to above will be taxable only in state of residence of the person disposing the shares.

**Permanent Establishment:** It is worth noting that according to the tax treaty, a building site or construction or installation project will constitute a permanent establishment only if it lasts more than 9 months (and not 12 months as per the OECD model tax treaty).

**Exchange of information:** The treaty contains an OECD-compliant exchange of information article.

**Entry into force:** The treaty will enter into force once both contracting states exchange notifications that their formal ratification procedures have been completed. The provisions of the treaty with respect to taxes will have effect in both contracting states on or after 1 January following the date the treaty enters into force.

It is worth noting that Latvia does not levy withholding tax on dividends, interest or royalty payments, except when such payments are made to persons resident in a jurisdiction included on a black list issued by the Latvian government.

We are at your disposal to discuss how the above development may affect your business.



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