



## Cyprus Tax News

# Cyprus signed a Tax Treaty with Iran for the avoidance of double taxation

On 4 August 2015, Cyprus signed a tax treaty with Iran for the avoidance of double taxation.

The tax treaty is based on the OECD Model Convention for the Avoidance of Double Taxation on Income and on Capital and its main provisions are briefly outlined below:

Issue 8/2015  
5 August 2015

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**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, a building site, a construction, assembly or installation project or supervisory activities in connection therewith, constitutes a 'permanent establishment' only if it lasts more than 12 months.

**Dividends:** If the recipient is the beneficial owner of the dividends the withholding tax shall not exceed -

- a) **5%** of the gross amount of the dividends if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the capital of the company paying the dividends;
- b) **10%** of the gross amount of the dividends in all other cases.

According to the protocol signed with the tax treaty, the above rates will come into effect on the date taxation on dividends received by non-residents is imposed by one or both Contracting States.

**Interest:** The withholding tax shall not exceed **5%** of the gross amount of interest, if the recipient is the beneficial owner of the interest.

**Royalties:** The withholding tax shall not exceed **6%** of the gross amount of royalties, if the recipient is the beneficial owner of the royalties.

**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 per cent of their value directly from immovable property situated in the other Contracting State may be taxed in that other State.

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

#### **Our View**

The treaty is expected to strengthen and develop the economic relations between the two countries.

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

**Note:** The treaty has not yet been published in the Gazette. We will aim to update you as soon as the full text of the treaty is officially published.



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