



Cyprus Tax Update – Year 2018

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NEW TAX TREATY SIGNED WITH THE UNITED KINGDOM

On 22nd March 2018, Cyprus signed a new tax treaty with the UK which was published in the Gazette on 2nd April 2018. The treaty is based on the OECD Model Convention and its key provisions are the following:

Dividends, Interest and Royalties

No withholding tax (WHT) applies on dividends, interest and royalty payments with the exception of certain dividends paid out of income derived from immovable property by certain investment vehicles on which a maximum of 15% WHT may apply.

Capital Gains

Capital gains arising from the alienation of shares will be taxable only in the country of residency of the alienator, unless more than 50% of the value of such shares is directly or indirectly derived from immovable property situated in the other country. In such case, the source country will have the right to tax the gain, unless the shares being alienated are substantially and regularly traded on a stock exchange.

Limitation of Benefits

The treaty includes a Limitation of Benefits (LoB) Clause, by which the benefits provided in the tax treaty shall not be granted in the instance where obtaining such benefit was one of the principal purposes of the arrangement, unless the granting of such benefit would be in accordance with the object and purpose of the treaty, or such benefit would still be granted in the absence of the treaty.

Entry into force and effective dates

The treaty will enter into force once both Cyprus and the UK exchange notifications that their formal ratification procedures have been completed.

The provisions will have effect in Cyprus on or after 1st January following the date the treaty enters into force and in the UK:

- for WHTs for amounts paid or credited, from 1st January following the date on which this Convention enters into force;
- for income tax and capital gains tax from 6th April following the date on which this Convention enters into force and
- for corporation tax for any financial year beginning on or after the next 1st April following the date on which this Convention enters into force.

Once the new tax treaty comes into effect, it will replace the existing tax treaty between Cyprus and the UK that has been effective since 1975.

AuditPro Comments

We expect that the revised tax treaty between the two countries will contribute to the enhancement of the economic co-operation between Cyprus and the UK.