Cyprus
Double Tax Treaties

Introduction

The Cyprus double tax treaties have been drafted to be harmonious the Organisation in Economic Cooperation and Development (OECD) Model Treaty. The OECD model itself has been adapted where appropriate to conform with the tax systems of the countries concerned.

Cyprus provides substantial tax advantages to foreign investors, coupled with the provision of the double tax treaties. It is the policy of the Cyprus Government to encourage tax incentives for aliens, in order to develop Cyprus as a financial centre, while not promoting itself as a tax haven.

The main provisions of the OECD model are:-

Residence

For either an individual, or a company to take advantage of a double tax treaty, he or it must be resident of one or two contracting states i.e. to be a resident of Cyprus for tax purposes.
A resident of a contracting state is under Article 4.1 "any person who, under the laws of that state, is liable to tax therein by reason of his domicile, residence, place of management or any other criterion of a similar nature".

Permanent establishment

Permanent establishment is defined by Article 5 as “a fixed place of business through which the business of the enterprise is wholly or partly carried on. It includes especially a place of management, a branch, an office, a factory, a workshop, a mine, an oil or gas well, a quarry or any other place of extraction of natural resources”.

Business profits

Under Article 7 concerns business profits and states “that these shall be taxable only in that state unless the enterprise carries on business in the other contracting state through a permanent establishment situated therein”.

Dividends

The withholding taxes that are applicable to treaty countries are low, and this together with the low corporate tax rates, makes investments in these through Cyprus very advantageous. Additionally investments can be made through Cyprus, by a third country, resulting in considerable savings. Similar benefits can be derived through the use of Cyprus for interest or royalty related business.

Limitation of treaties

In some of the double tax treaties that have been established a number of anti avoidance provisions exist. These are to be found in the treaties with the France, Germany, UK, U.S.A. and Canada.

Double tax treaties and Eastern Europe

There are beneficial factors in the use of Cyprus in addition to geographical proximity:-

- The number of double tax treaties which Cyprus has concluded with Eastern Europe.
- The extensive number of treaties that Cyprus has with countries other than those of Eastern Europe.
- The favourable tax regime which is applicable under Cyprus legislation to non residents.

Thus, Cyprus treaties with Eastern Europe enable a Cyprus legal entity to receive from East European countries profits either at a reduced or even nil tax rate.

Cyprus has entered into a significant number of double tax treaties for the avoidance of double taxation. These countries are:.

Summary of Withholding Tax Rates						
Country	**Paid from Cyprus to residents of the following countries**			**Paid from the following countries to residents of Cyprus**		
	Dividends %	**Interest %**	**Royalties %**	**Dividends %**	**Interest %**	**Royalties %**
Austria	10	0	0	10	0	0
Belarus	10(17)	5	5	10(17)	5	5
Belgium	-	-	-	0	0	0
Bulgaria	0	0	0	0	0	0
Canada	0	15(7)	10(12)	15	15(7)	10(12)
China	10	10	10	10	10	10
C.I.S *(FSU)	0	0	0	0	0	0
Czech Republic	0	10(7)	5(8)	10	10(7)	5(8)
Denmark	10(1)	10(7)	0	10(1)	10(7)	0
Egypt	15	15	10	15	15	10
France	0	10(7)	0(10)	10(2)	10(7)	0(10)
Germany	0	10(7)	0(10)	15(3)	10(7)	0(10)
Greece	25	10	0(9)	25	10	0(9)
Hungary	0	10(7)	0	5(4)	10(7)	0
India	10(2)	10(7)	15	10(2)	10(7)	15
Ireland	0	0	0(9)	0	0	0(9)
Italy	0	10	0	15	10	0
Kuwait	0	10(7)	5(8)	10	10(7)	5(8)

Malta	15	10(7)	10	0	10(7)	10
Norway	0	25(14)	0	5(5)	0(15)	0
Poland	10	10(7)	5	10	10(7)	5
Romania	10	10(7)	5(8)	10	10(7)	5(8)
Slovak Republic	0	10(7)	5(8)	10	10(7)	5(8)
South Africa	0	0	0	0	0	0
Sweden	5(4)	10(7)	0	5(4)	10(7)	0
Syria	15(16)	10(7)	10(17)	15(16)	10(7)	10(17)
United Kingdom	0	10	0(10)	15(6)	10	0(10)
U.S.A	0	10(7)	0	5(13)	10(7)	0
Former Yugoslavia	0	10	10	10	10	10
Other Countries	0-40(14)	0-40(14)	10(11)	(15)	(15)	(15)

*The numbers in brackets refer to explanatory notes:

EXPLANATORY NOTES

1. 10% if recipient is a company with at least 25% direct share interest (15% in all other cases)
2. 10% if recipient is a company with at least 10% direct share interest (15% in all other cases)
3. 10% if recipient is a company with at least 25% direct share interest. If recipient is a company with more than direct or indirect share interest and the German corporation tax on distributed profits is lower than that on undistributed profits while the difference between the two rates is 15% or more, the rate is 27%(15% in all other cases).
4. 5% if recipient is a company with at least 25% direct share interest (15% in all other cases)
5. Nil if received by a company, which controls, directly or indirectly, not less than 50% of the voting power.
6. A resident of Cyprus other than a company which either alone or together with one or more associated companies controls directly or indirectly at least 10% of the voting power, is entitled to a tax credit in respect of the dividend. Where a resident of Cyprus is entitled to a tax credit, tax may also be charged on the aggregate of the cash dividend and the tax credit at a rate not exceeding 15%. In this case any excess

tax credit is repayable. Where the recipient is not entitled to a tax credit, the cash dividend is exempt from any tax.

7. Subject to certain exemptions.
8. Nil if royalties are on literary, artistic or scientific work including cinematographic films and films or tapes for television or radio broadcasting.
9. 5% on cinematographic films not including television films.
10. 5% on cinematographic films including television films and videotapes for television.
11. 5% on cinematographic films
12. Nil if royalties are copyright and other literary, dramatic, musical or artistic work not including film or videotape royalties.
13. 5% if recipient is a company with at least 10% direct share interest; 15% in all other cases
14. There is a withholding tax of 20% on dividends and 25% on interest. The final tax liability is determined as follows :

    (a) Companies: in respect of dividends, refundable on application. For interest, on application in accordance with corporate tax rates.

    (b) Individuals: on objection, in accordance with personal tax rates. In both cases any excess tax withheld is refunded.

    N.B. The agents or recipients of interest or dividends are liable for the payment of the due amount of tax on such income
15. At the rate applicable in accordance with domestic law.
16. Nil if shareholder is a company that holds directly at least 25% of the capital of the company paying the dividends; 15% in all other cases
17. 15% for any patent, trade mark, design or model, plan, secret formula or process or any industrial, commercial, or scientific equipment or for information concerning industrial, commercial or scientific experience.

** includes Armenia, Azerbaijan, Kyrgyzstan, Moldova, Tajikistan, Ukraine, Uzbekistan