



TAX UPDATE CYPRUS – UNITED KINGDOM TAX TREATY SIGNED

A new double tax treaty with the United Kingdom has been signed on the 22nd of March 2018. All necessary steps have been performed by both countries and the treaty is effective since 18 July 2018. The new treaty is expected to strengthen and further develop the economic relations between the two countries. This treaty will come to replace the existing treaty between Cyprus and the United Kingdom which was signed in Nicosia on the 20th of June 1974 and came into effect on the 18th of March 1975.

Main provisions of the treaty are summarized below.

DIVIDENDS

Where the recipient of the dividend is the beneficial owner, there shall be no withholding tax levied on dividend payments made in the occurrence.

An exemption to the rule is when most of the dividend is paid out of income resulting directly or indirectly from immovable property by an investment vehicle that distributes most of its income annually and such income was exempted from taxation. In the occurrence where such income was so derived and will be taxed by the State in which the dividend paying company is a resident, the tax shall not exceed 15%. In the case the beneficial owner of such a dividend is a pension fund in the other State, the exemption still applies.

INTEREST

There will be no withholding tax levied on interest payments made in cases where the recipient is the beneficial owner of the interest, provided the interest is not derived from a permanent establishment situated in the other State.

Moreover, the exemption does not apply where the interest paying and receiving entities maintain a special relationship (i.e. are connected parties), and the interest rate exceeds the rate that would be applied in an arm's length transaction. Any excess over and above the arm's length rate would remain chargeable under the domestic legislation in the country the interest paying company has its residency.

ROYALTIES

No withholding tax shall be levied on royalty payments where the recipient is the beneficial owner of the royalties. The exemption from withholding tax will not apply where such royalties paid to a resident of a Contract State are derived by a permanent establishment of that entity in the other State.

Moreover, the exemption does not apply where the royalty paying and receiving entities maintain a special relationship (i.e. are connected parties), and the royalties exceed the charge that would be applied in an arm's length transaction. Any excess over and above the arm's length charge would remain chargeable under the domestic legislation in the country the royalty paying company has its residency.

CAPITAL GAINS

Capital gains arising from the sale of shares of a company, will only be taxable in the State of residency of the seller, unless more than 50% of the value of such shares is derived directly or indirectly from immovable property situated in the other State. In such cases, taxation will be levied in the State where the immovable property is situated, unless the sold shares are traded on a stock exchange.

The new treaty provides for the inclusion of a Limitation of Benefits Clause (Article 23), by which the benefits of the treaty shall not be granted in the instance where the obtaining of 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 provision, or such benefit would still be granted in the absence of the treaty.

Should further clarifications be required, please contact our advisors at Yiallourides & Partners Ltd Chartered Accountants.

George Yiallourides
Managing Director

Panicos Charalambous
Director

Athos Malialis
Director

4, SOTIRI TOFINI STREET
AUDEH QUARTERS
1ST FLOOR, OFFICES 102&103
AYIOS ATHANASIOS
4102 LIMASSOL, CYPRUS

T: +357 25 44 31 32
F: +357 25 87 89 48
E: info@ayca.com.cy
W: www.ayca.com.cy