

Corporate Tax - Cyprus

New double tax agreement between Cyprus and Iceland

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Introduction

The new double tax agreement between Cyprus and Iceland, which was signed on November 13 2014, entered into force on December 22 2014. Its provisions apply to taxes withheld at source that are paid or credited on or after January 1 2015 and for other taxes in respect of taxable years beginning after that date. The agreement – the first between the two countries – is based on the Organisation for Economic Cooperation and Development (OECD) Model Convention for the Avoidance of Double Taxation on Income and extends Cyprus's network of double tax agreements to cover 53 countries. The agreement's main provisions are summarised below.

Dividends

Withholding tax on dividends paid by a company resident in Iceland to a company (but not a partnership) resident in Cyprus is limited to 5% of the gross dividend, provided that the recipient is the beneficial owner of at least 10% of the shares in the company paying the dividend. Otherwise, the maximum rate of withholding tax is 10%. There are no withholding taxes in Cyprus on dividends paid to non-residents.

Interest

Interest paid by a resident of one state to a resident of the other is taxable only in the state of residence of the recipient, subject to safeguards against abuse (eg, the exemption does not apply to any excessive amount above interest on an arm's-length basis).

Royalties

The maximum withholding tax on royalties is limited to 5%.

Capital gains

A number of capital gains provisions have been introduced:

- Gains derived by a resident of one contracting state from the alienation of immovable property situated in the other contracting state may be taxed in the contracting state in which the property is situated.
- Gains from the disposal of shares or similar interests in a company or other entity deriving more than 50% of its value from immovable property may also be taxed in the contracting state in which the immovable property is situated.
- Gains from the disposal of immovable or movable property associated with a permanent establishment, or from the disposal of movable property used in connection with the performance of independent personal services, may be taxed in the contracting state in which the permanent establishment is located or the services are performed.
- Gains from the alienation of all other property (including ships or aircraft operated in international traffic) are taxable only in the contracting state in which the alienator is resident.
- Gains from the disposal of shares in a company resident in one contracting state derived by an individual who is resident in the other contracting state, but who was a resident of the first-mentioned state during the five years preceding the disposal, may be taxed in the first state (ie, the state in which the individual was previously resident).

Information exchange

The information exchange article follows the corresponding article of the OECD Model Convention. The usual protocol that is included in most of Cyprus's recent double tax agreements, which sets out the information that must be provided to accompany requests for information, thus ruling out fishing expeditions on the part of the tax authorities, is absent. However, Cyprus's Assessment and Collection of Taxes Law provides Cyprus residents with the same safeguards as the protocol.

Offshore activities

The agreement includes no specific provisions regarding income and earnings from offshore hydrocarbon exploration and exploitation activities and gains derived from associated assets.

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