



Cyprus Tax Treaty Developments

Over the last months, the Cyprus Council of Ministers ratified a number of new double tax treaties for the avoidance of double taxation and prevention of evasion with respect to taxes on income ('double tax treaties'). On September 5, 2011 a number of double tax treaties were published in the Official Gazette of Cyprus which is effectively the last stage for the ratification process in Cyprus. These treaty developments constitute a significant enrichment to the already extensive double tax treaty network of Cyprus. The extension of the Cyprus treaty network signifies the commitment of Cyprus to international cooperation (e.g. new exchange of information article) and the continuous effort in fostering international inbound and outbound investment through Cyprus.

The new treaties concluded by Cyprus, which are - in essence - all based on the OECD Model Tax Convention framework, are with Denmark, Slovenia, Armenia, Germany, the U.A.E and Kuwait. Furthermore, the Council of Ministers has decided to amend the existing law regarding the Double Tax Treaty concluded between Cyprus and Russia by ratifying the provisions of the Protocol signed in 2010.

The treaties concluded between Cyprus and Denmark, Slovenia and the U.A.E have already been ratified by the respective contracting states. These treaties are expected to come into force on January 1, 2012.

► Treaty with Denmark

The Treaty has been signed on October 11, 2010 and has been ratified by Denmark on April 26, 2011. The treaty will replace the existing Cyprus-Denmark treaty of 1981 and is expected to come into force on January 1, 2012.

The treaty provides for zero withholding tax on dividends under certain conditions (10% minimum shareholding requirement, investor is a pension fund or other similar institution) and 15% in all other cases. The treaty provides for zero withholding tax rates on interest and royalty payments. It is interesting to note that the capital gains tax article does not explicitly include any taxation rights to the source state for gains arising on the sale of shares in real estate rich companies (i.e. shares deriving more than 50% of their value directly or indirectly from immovable property).

▶ **Treaty with Slovenia**

The treaty has been signed on October 12, 2010 and has been ratified by Slovenia on March 7, 2011. The treaty will replace the existing Cyprus-Yugoslavia treaty of 1985 and is expected to come into force on January 1, 2012.

As per the relevant articles, the source state can levy withholding tax on dividends, interest and royalties at the rate of 5%. Moreover, the capital gains tax article explicitly includes taxation rights to the source state for gains arising on the sale of shares in real estate rich companies (i.e. shares deriving more than 50% of their value from immovable property).

▶ **Treaty with the United Arab Emirates**

The treaty with the U.A.E. was signed on February, 27 2011 and the U.A.E. has also ratified the Treaty on 28th June 2011.

The treaty provides for zero withholding tax on dividends, interest and royalties. Moreover, the capital gains tax article does not explicitly include any taxation rights to the source state for gains arising on the sale of shares in real estate rich companies (i.e. shares deriving more than 50% of their value directly or indirectly from immovable property), Interestingly, the treaty has a specific provision of the taxation of income from hydrocarbons which is contrary to the OECD and/or UN model tax conventions.

With regards to the treaties concluded between Cyprus and Armenia, Germany and Kuwait, we understand that ratification is still pending from the respective contracting states.

▶ **Treaty with Armenia**

The treaty was signed on January, 17 2011 and has been ratified by the Council of Ministers in Cyprus. Once ratified as well by Armenia, the treaty will come into force. The treaty will replace the existing Cyprus-USSR treaty of 1982 which has been honoured by the two countries.

The treaty provides for zero withholding tax on dividends provided that a minimum investment criterion of EUR 150,000 is satisfied and 5% in all other cases. The withholding tax rates for interest and royalties shall not exceed 5%. Moreover, the capital gains tax article explicitly includes taxation rights to the source state for gains arising on the sale of shares in real estate rich companies (i.e. shares deriving more than 50% of their value directly from immovable property),

▶ **Treaty with Germany**

The treaty has been signed on February, 18 2011. Once ratified by Germany, this treaty will come into force and replace the existing Cyprus-Germany treaty of 1974.

The treaty provides for 5% withholding tax on dividends provided that there is a 10% minimum shareholding and 15% in all other cases. As per the relevant articles in the treaty, no withholding tax is levied on interest and royalty payments. Moreover, the capital gains tax article explicitly includes taxation rights to the source state for gains arising on the sale of shares in real estate rich companies (i.e. shares deriving more than 50% of their value directly or indirectly from immovable property),

► Treaty with Kuwait

The treaty has been signed on October, 5 2010. Once ratified by Kuwait, this treaty will come into force and replace the existing Cyprus-Kuwait treaty of 1984.

The treaty provides for zero withholding tax on dividends and interest while there is a 5% withholding tax on royalty payments. Moreover, the capital gains tax article does not explicitly include any taxation rights to the source state for gains arising on the sale of shares in real estate rich companies (i.e. shares deriving more than 50% of their value directly or indirectly from immovable property),

► Protocol with the Russia Federation

The Council of Ministers has ratified the provisions of the amending Protocol (signed on October 7, 2010) to the Cyprus-Russia treaty of 1998. A separate tax alert was issued by us in the past (April 22, 2009 and October 8, 2010) for the articles affected by the Protocol. It is expected that the Russian Duma will ratify the Protocol before the end of 2012.

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