

# New Cyprus – UK Double Taxation Agreement

June 2018

On 22 March 2018, the governments of Cyprus and the United Kingdom signed a new Double Taxation Agreement (new DTA) replacing the existing one from 1974. The new DTA is based on the 2014 OECD Model Tax Convention for the avoidance of double taxation on income and on capital.

It incorporates the minimum standards of the Base Erosion Profit Shifting (BEPS) project including a limitation of benefits clause (Principal Purpose Test) according to which benefits may not be granted if obtaining that benefit was one of the predominant drivers for an arrangement or transaction rather than reflecting commercial rationale. When implemented, the new DTA is expected to contribute to the further development of trade and economic relations between Cyprus and the United Kingdom.

The new DTA next needs to be ratified by the UK and Cyprus parliaments, following which it will become fully effective as follows:

- In Cyprus: as from 1 January of the next calendar year
- In the UK:
  - For withholding taxes for amounts paid or credited – on or after 1 January of the next calendar year

- For income and capital gains tax – from the next 6 April
- For corporation tax for any financial year – from the next 1 April

## Taxes Covered

The taxes covered by the new DTA are:

- UK: income tax, corporation tax and capital gains tax
- Cyprus: income tax, corporate income tax, special contribution for defence and capital gains tax

## Withholding Tax Rates on Dividends, Interest and Royalties

The new DTA provides for 0% withholding taxes on the payment of dividends, interest and royalties provided that the recipient is the beneficial owner of the income.

The only exception concerns dividend payments out of income derived directly or indirectly from immovable property by an investment vehicle, which distributes most of its income annually and the income from such immovable property is exempted from taxation (relevant only to dividends payable from the UK as Cyprus does not impose withholding taxes on dividends). In such cases a 15% withholding tax is imposed.

### Capital Gains

Cyprus maintains the right to tax the gains derived by the alienation of shares made by Cyprus tax residents, except when the shares derive more than 50% of their value, directly or indirectly, from immovable property situated in the UK. This does not apply to shares which are substantially and regularly traded on a Stock Exchange.

### Pensions

Cyprus retains the exclusive taxation rights on pension income of Cyprus tax resident individuals, with the exception of certain UK Government service pensions.

### How We Can Assist

- Incorporation of Cyprus companies
- Ongoing company administration, registered office and company secretarial services, including compliance and board meetings
- Directorship and nominee shareholder services
- Bank account opening, administration and signatory services
- Ensuring compliance with Cyprus regulations
- Accounting, bookkeeping and VAT services
- Liaison with the external auditors in respect of annual audit
- Legal services (through associates)
- Tax advice (through associates)
- Office facilities - both physical and virtual

If you or your clients would like to discuss these developments, please contact your usual Trident Trust contact or our Cyprus office by telephone at +357 258 20 650 or email at [cyprus@tridenttrust.com](mailto:cyprus@tridenttrust.com).

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