



# Cyprus signed a new double tax treaty with the United Kingdom

## Introduction

Today a new treaty has been signed between Cyprus and the UK, which replaces the treaty signed between the two countries in 1974. It is expected that the new treaty will soon be ratified, thus it will become effective as from 1 January 2019.

The new treaty is generally based on the OECD Model Tax Convention framework with some modifications.

The treaty applies to taxes on income as well as on gains from alienation of movable or immovable property. In the case of the UK, the treaty covers the income tax, the corporation tax and the capital gains tax, whereas, in the case of Cyprus, it covers the corporate and personal income tax, the defense tax and capital gains tax.

## Withholding tax rates

The treaty provides for zero withholding taxes on dividends in case the recipient is the beneficial owner of the income, except where dividends are paid out of income (including gains) derived directly or indirectly from immovable property by an investment vehicle which distributes most of this income annually and whose income from such immovable property is exempted from tax in which case a withholding tax of 15% applies (other than where the beneficial owner of the dividends is a pension scheme established in the other Contracting State).

There is no withholding tax on interest and royalty payments, as long as the recipient of the interest or royalties is the beneficial owner of the income.

Gains from the sale of property rich companies are taxed in the country where the property is located (except for shares of companies traded on a stock exchange).

## Limitation of benefits provision

There is a limitation of benefits provision under the treaty, which provides that no benefit will be granted in respect of an item of income or a capital gain if it is reasonable to conclude, having regard to all relevant facts and circumstances, that obtaining that benefit was one of the principal purposes of any arrangement or transaction that resulted directly or indirectly in that benefit.

## Determination of tax residency of companies

In determining the residence of a company in the case of a company which is a resident in both countries, the competent authorities shall take into account the following:

- (i) where the senior management of the person is carried on
- (ii) where the meetings of the board of directors or equivalent body are held
- (iii) where the person's headquarters are located
- (iv) the extent and nature of the economic nexus of the person to each State, and





- (v) whether determining that the person is a resident of one of the Contracting States but not of the other State for the purposes of the Convention would carry the risk of an improper use of the Convention or inappropriate application of the domestic law of either State

Although this list of factors is not exhaustive, in the absence of the factor (v) above the list of factors at (i) to (iv) above will generally be determinative.

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