



## Measures against low-tax jurisdictions introduced

**29 April 2025 - On 10 April 2025, the Cyprus Parliament passed amendments to the Cyprus Income Tax Law, Special Contribution for Defence Law and to the Assessment and Collection of Taxes Law introducing measures against Low-Tax Jurisdictions (LTJs).**

More specifically, dividend declarations/payments made to associated companies in LTJs will be subject to Withholding Tax (WHT) at the rate of 17%. In addition, interest accrued/paid and royalties paid to associated companies in LTJ will not be deductible for corporate tax purposes irrespective of whether the specific expenses were incurred wholly and exclusively for the generation of taxation income.

The specific measures will enter into effect on 1 January 2026.

The legislation also amends existing provisions that require WHT on dividend, interest and royalty payments made to companies in European Union (EU) 'BlackListed' Jurisdictions (BLJs). Please refer to our Tax Alerts [No 122](#) and [No 208](#).

Below is a summary relating to the changes made at the Income Tax Law, Special Defence Contribution Law and Assessment and Collection of Taxes Laws:


### 1. Income Tax Law

#### a. Article 2 - New definitions

- Low-tax jurisdiction: statutory Corporate Income Tax (CIT) rate lower than 50% of the Cypriot rate (i.e., 6,25%).
- Non-low tax jurisdictions: jurisdiction that does not fall within the definition of a low-tax jurisdiction.
- Non-cooperative jurisdiction: a jurisdiction that is included in the latest version of the list of third-country jurisdictions collectively considered by the member states as non-cooperative for tax purposes, published in Annex I of the Official Journal of the European Union during the previous calendar year and also included in the latest, in force, version of the list published in Annex I of the Official Journal of the European Union.


#### b. Article 11 - Non-deductible expenses

- Interest and royalty expenses made, irrespective of whether they have been paid or not, to entities incorporated / registered and/or tax resident in low-tax jurisdictions or not residents in a non-low tax jurisdictions are non-deductible. Certain exceptions may apply.

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- c. Article 21 - Taxation on the gross amount of intellectual property rights, exploitation rights, compensation, etc.
    - Introduction of Article 21A as per which 10% WHT will apply on royalties paid to non-Cypriot residents, which are incorporated in a non-cooperative jurisdiction, while at the same time, not tax residents of another non-cooperative jurisdiction.
    - The said WHT obligation will not apply in case of payments that were already subject to tax as per Article 21 of the ITL.
    - Certain exceptions may apply.
  - d. Article 34 - Treaties for the Avoidance of Double Taxation
    - In cases where Cyprus maintains tax treaties with jurisdictions classified as BLJ or LTJ, and those treaties do not grant taxation rights to Cyprus for imposing WHT on dividends (LTJ and BLJ) and interest and royalties (LTJ), the law states that the Cyprus Republic will inform the other contracting state within three years to initiate a treaty renegotiation process.

## **2. Special Defence Contribution (SDC)**

- a. Article 3 para 2(a1) – Dividend Payments
  - SDC at 17% will apply on dividends declarations/payments to an entity incorporated / registered and/or tax resident in a low-tax jurisdiction and not resident in a non-low tax jurisdiction or incorporated in a non-cooperative jurisdiction and not tax residents of another non blacklisted jurisdiction.
  - SDC at 17% will also apply to dividends paid to a permanent establishment (of a non-Cyprus resident) in a low-tax jurisdiction or in a non-cooperative jurisdiction.
  - The above does not apply to dividends paid to a company listed on a recognized stock exchange.
- b. Article 3 para 2(b1) – Interest Payments
  - SDC at 17% will apply on interest paid or credited from sources within Cyprus to entities incorporated / registered in non-cooperative jurisdictions and/or to entities which are not tax residents in another non-cooperative jurisdiction.
  - SDC at 17% will apply on interest paid or credited from sources within Cyprus to a permanent establishment (of a non-Cyprus resident) in a non-cooperative jurisdiction.

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- The above does not apply to interest accrued/paid to a company listed on a recognized stock exchange.

### **3. Scope of application**

The defensive measure will apply where the recipient of the income is an associated company registered in BLJ or LTJ (depending on the type of payment) and is not tax resident in a jurisdiction that is not a BLJ or LTJ. For the measure to apply, the payment must be made to a company that has a direct or indirect association with the Cypriot company making the payment that exceeds 50%, either alone or together with other associated persons. The law includes a definition as to when a person is considered associated with another person. The rules also extend to payments made to Permanent Establishments (PEs) in BLJ/LTJ jurisdictions regardless of whether the PE is maintained by a company that is not in a BLJ/LTJ. Certain exceptions apply.

### **4. Anti-abuse provision and supporting Decrees supplementing the Laws**

An anti-abuse mechanism is integrated within the Laws' framework to counteract arrangements that have been put in place with the main purpose or one of the main purposes of obtaining a tax advantage and is not put into effect for valid commercial reasons reflecting economic reality i.e. introducing minimum substance requirements/criteria and maintaining supportive documentation for at least 6 years. If the relevant criteria are not met, the new provisions will apply unless the taxpayer can show a valid commercial reasoning. The above is effected through K.Δ.Π No. 109/2025.

### **5. Law regarding Assessing and Collecting Taxes**

The following progressive administrative fines may apply in case the Cyprus paying entities will not share with the Cyprus Tax Authorities supporting documentation in connection with the dividend, interest, and royalty payments, within 60 days from the Cyprus Tax Authorities' request:

- €2.000 in cases of non-compliance ranging between 61 days and 90 days;
- €4.000 in cases of non-compliance ranging between 91 days and 120 days;
- €10.000 in cases of non-compliance exceeding 121 days or total non-compliance.

As always, the Department of Taxation of Costas Tsielepis & Co Ltd is at your disposal should you require any further information, clarifications or assistance with this or any other tax-related matter.