



New documentation requirements for payments to non-resident companies introduced

5 June 2025 - Following our [Tax Alert No. 209](#), we would like to inform you that the Council of Ministers issued two decrees ([ΚΔΠ 109/2025](#) and [ΚΔΠ 110/2025](#)) that clarify the provisions for implementing the anti-abuse provisions of the recently enacted defensive measures for payments to blacklisted jurisdictions (BLJ) and low-tax jurisdictions (LTJ).

The Decrees determine specific substance and other requirements that the recipient company should meet and provide guidance as to the obligation of a Cyprus paying entity to retain certain supporting documentation substantiating the said requirements.

Summary of the “new” measures introduced against LTJ

The new measures repeal the framework applicable to BLJ and replace it with a broader and more robust regime that extends to LTJ. The rules impose a combination of withholding tax and expense disallowance rules depending on the nature of the payment and the classification of the jurisdiction, as illustrated in the table below:

Payment Type	Jurisdiction Type	Measure	Effective Date
Dividends	BLJ	17% WHT	In effect
Interest	BLJ	17% WHT	In effect
Royalties	BLJ	10% WHT	In effect
Dividends	LTJ	17% WHT	1 January 2026
Interest	LTJ	Deduction disallowance	1 January 2026
Royalties	LTJ	Deduction disallowance	1 January 2026

Key provisions of the Decrees


The Decrees aim to provide clarity regarding the application of the anti-abuse provisions that the Laws introduce, as per which arrangements (or series of arrangements) that have been put in place with the main purpose, or one of the main purposes, of obtaining a tax advantage and are not put into effect for valid commercial reasons reflecting economic reality, will be disregarded.

Requirements for satisfying the anti-abuse provisions

For the purposes of verifying whether the anti-abuse provisions of the Laws are satisfied, the Decrees stipulate that in case of dividends, interest or royalty payments from a Cyprus entity to associated entities in low tax and/or EU blacklist jurisdictions, for which no tax is withheld (as required under the relevant provisions of the Laws for low-tax and EU BLJs), the income paying company must check and retain for at least six years from the end of the tax year in which the transactions occurred supporting documentation in relation to the income receiving company regarding the following topics:

1. **Decision-making:** At least one member of the Board of Directors (BoD) is equipped with the necessary qualifications and authorizations to make decisions regarding the company's operations, assets or rights that generate the income of the company and is actively and independently exercising his/her duties.
2. **Local presence of decision-makers:** At least one member of the BoD, who is qualified and authorized to make decisions regarding the company, resides in the jurisdiction where the company is tax resident (or within a daily commute distance).
3. **Office space:** The recipient company has office space at its disposal in the jurisdiction of its tax residence enabling its directors and employees to effectively perform their duties.
4. **BoD meetings:** The majority of the BoD meetings take place in the jurisdiction in which the recipient company is a tax resident.
5. **Operational expenses:** The operational expenses of the recipient company, including payments to its directors and employees, that are paid within the jurisdiction of its tax residency, for the tax year in which the transactions took place, are proportional to the recipient company's activities.
6. **Beneficial ownership:** The group of companies to which the recipient company belongs is not organized in a manner where the recipient company's only function is to receive income from the Cyprus company and transfer the entire amount (or almost the entire amount) to another associated company very soon after the income is received, so that it realizes an insignificant amount of taxable income while channeling the transfer of funds to the ultimate beneficial owner of the income.

If the recipient company fails to satisfy at least five of these conditions, the arrangement (or series of arrangements) shall be disregarded and the defensive measure shall apply, unless the taxpayer provides evidence that (1) the arrangement (or series of arrangements) was put in place for valid commercial reasons reflecting economic reality or (2) obtaining a tax advantage was not the only purpose of the arrangement or series of arrangements.



The Decrees introduce an obligation for the Cyprus paying entities to certify that the supporting documentation requirements envisaged therein are met via their corporate income tax return of the year to which the payment relates.

If the recipient company fails to satisfy two or more of the abovementioned conditions, the arrangement (or series of arrangements) shall be disregarded and the WHT provisions of the Laws shall apply, unless the taxpayer can demonstrate a valid commercial reasoning or that obtaining a tax advantage was not the only purpose of the arrangement or series of arrangements.

Exceptions

The supporting documentation requirements will not apply if the income recipient entity is:

- a. A tax resident of Cyprus
- b. A tax resident in another EU Member State or in the European Economic Area
- c. Part of a multinational group and subject to a minimum tax of 15% based on legislation adopting the EU Directive 2022/2523 on global minimum tax or the Organisation for Economic Co-operation and Development Model (GloBE) Rules
- d. A member of a consolidated group for accounting purposes that does not have a presence in an EU blacklisted jurisdiction, either through a company or through a permanent establishment;

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.