INFORMATION SHEET 15

Subject:	Cyprus - India revise their Double Tax Treaty		
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Reference:	Cyprus - India Double Tax Treaty		

General

A revised Double Tax Treaty (DTT) between Cyprus and India was signed on 18 November 2016, following the finalization of negotiations in the summer of the same year. The agreement was published in the Cyprus Gazette on 25 November 2016.

The DTT agreement is based on the model agreement for the avoidance of double taxation of the OECD Model Convention for the Avoidance of Double Taxation on Income and on Capital.

Tax Withholding Rates

According to the revised tax treaty, the following maximum withholding tax rates apply:

- **Dividends**: 10%.
- **Interest**: 10% unless the beneficial owner of the interest is the government, a political sub-division, a local authority of the other contracting state, specific Indian institutions included in the treaty or any other institution as may be agreed upon between the competent authorities of the contracting states in which case the withholding tax will be reduced to 0%.
- **Royalties:** 10%.

It is noted that, irrespective of the withholding taxes provided for in the new treaty on dividends and interest, according to the Cyprus tax legislation there is no Cyprus withholding tax on dividend and interest payments made to non-Cyprus tax residents. In addition, withholding tax is only applicable on royalty payments made to non-Cyprus tax residents if such payments relate to royalties or activities used/performed within Cyprus.

Notable Revisions

The new treaty also makes several other notable revisions in comparison with the old treaty:

- The definition of a Permanent Establishment (PE) is expanded to include a building site or construction or installation project that will last more than six months.
- The revised treaty assigns taxing rights to the source country with regards to capital gains from the alienation of shares. Investments undertaken before 1 April 2017 are

grandfathered, with taxation rights over gains on the disposal of such shares at any future date remaining solely with the state of residence of the seller.

- An updated exchange of information article is included, which is in line with the internationally accepted standards.

Petroactive Effect

Once India also ratifies the revised tax treaty, it will apply retroactively as from 1 November 2013. At the same time, Cyprus will also retroactively be removed from the list of “Notified Jurisdictional Area.”