



INFORMATION SHEET 17

Subject:	Cyprus signs all-new DTT with the UK		
Authored:	April 2018	Updated	-----
Company:	Costas Tsielepis & Co Ltd		
Reference:	Cyprus - UK Double Tax Treaty		

General

Cyprus and the United Kingdom have renegotiated an all-new Double Tax Treaty (DTT).

The new treaty was signed by the two states on 22 March 2018 and was published in the Government Gazette on 2 April 2018. The old tax treaty between Cyprus and the UK has been in existence since 1975.

The new treaty is generally based on the OECD Model Tax Convention. The treaty applies to taxes on income as well as on gains from alienation of movable or immovable property.

The key provisions of the treaty are the following:

Dividends, Interest and Royalties


No Withholding Tax (WHT) applies on dividends, interest and royalty payments if the recipient is the beneficial owner of the income.

There is an exception on the dividends which provides for a 15% withholding in case the 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.

Capital Gains

Capital gains arising from the disposal of shares will be taxable only in the country of residency of the seller, unless more than 50% of the value of such shares is directly or indirectly derived from immovable property situated in the other country. In such case, the source country will have the right to tax the gain, unless the shares being disposed are substantially and regularly traded on a stock exchange.

Limitation of Benefits Provision



The treaty includes a Limitation of Benefits (LoB) clause which incorporates the OECD/G20 Base Erosion and Profit Shifting (BEPS) project Action 6 report 'Principal Purpose Test' (PPT). The benefits under the treaty shall not be granted, under conditions, if obtaining that benefit was one of the principal purposes of an arrangement or transaction.

This clause was included in order to tackle “treaty shopping” and emphasizes that operations should be supported by appropriate substance and reflect a principal commercial rationale.

Entering Into Force and Effective Dates

The treaty will enter into force once both Cyprus and the UK ratification procedures are completed. A copy of the treaty can be found on https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/692681/UK-CY.pdf.

The provisions will have effect in Cyprus on or after 1 January following the date the treaty enters into force and in the UK:

- for withholding taxes for amounts paid or credited on or after 1 January of the next calendar year,
- for income tax and capital gains tax from the next 6 April, and
- for corporation tax for any financial year beginning on or after the next 1 April.

The new tax treaty is expected to come into effect sometime in 2018.

Note

The information in this document is intended as a guide only and every reasonable effort was made to ensure the accuracy and timeliness of the information. In no circumstances shall we be legally bound by any information contained in this document, and shall accept no liability in respect of loss caused by reliance on such information.

Our own in-house tax consultants and our network of associates in Cyprus and worldwide are at your disposal should you require any further information or clarifications.