



Cyprus and Kazakhstan sign DTT

28 May 2019 – Cyprus and Kazakhstan have signed a convention for the avoidance of double taxation and for combating tax evasion in respect to taxes on income.

According to a press release issued by the Cyprus Public Information Office, the Double Taxation Treaty (DTT) was signed in Nursultan, Kazakhstan, by the Cypriot Minister of Foreign Affairs, Nikos Christodoulides, and the Kazakh First Deputy Prime Minister, Finance Minister, Alikhan Smailov.

The agreement with Kazakhstan is expected to enhance economic and trade ties between Cyprus and Kazakhstan, providing new opportunities and better protection to tax residents of both countries. The Treaty is expected to enter into force as from 1 January 2020 provided that the ratification process is completed by both countries during 2019.

With this new Treaty, Cyprus has further expanded its extensive double tax treaty network and also strengthens economic and commercial relations with Kazakhstan.

A summary of the significant features of the Treaty as analysed below:

(a) Dividend Income

The Treaty provides for the following withholding taxes on dividend payment:

- 5% withholding tax if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the company paying the dividends.
- 15% withholding tax in all other cases.

It is noted that Cyprus does not levy any withholding tax on dividend payments under the local legislation.

(b) Interest

A 10% withholding tax on interest payments, provided that the recipient is the beneficial owner of such interest.

No withholding tax should apply on interest payments where the beneficial owner of the interest is the Government of the other Contracting States, a political subdivision, a central or local authority, the Central Bank or any other financial institution wholly owned by the Government of the other Contracting State.

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(c) Royalties

10% withholding tax on royalty payments, provided that the recipient is the beneficial owner of such payment.

(d) Capital Gains

Gains derived by a resident of a Contracting State from the alienation of shares or similar interests in the capital of a company deriving more than 50 per cent of their value directly or indirectly from immovable property situated in the other Contracting State may be taxed in that other Contracting State.

The above does not apply to gains derived from alienation of shares listed on an approved stock exchange.

(e) Permanent establishment

Treaty contains a definition of permanent establishment (PE), used to determine the threshold for taxation of business profits in the source state. The wording is largely in line with the wording of the OECD Model Tax Convention on Income, except for the “service PE” provisions discussed below.

Treaty states that a building site, construction, assembly or installation project in connection therewith will constitute a PE if such arrangement lasts for a period of more than 6 months within any 12-month period.

The provisions relating to “service PE” follow the United Nations Model Tax Convention definition. A “service PE” arises where services, including consultancy services, are furnished in the other state by an enterprise through employees or other personnel engaged by the enterprise for such purpose, but only where activities of that nature continue (for the same or a connected project) for a period or periods aggregating more than 183 days within any 12-month period.

(f) Other considerations

The Treaty provides that any income not specifically included within the Treaty should be taxed only in the state of residence of the recipient of income.

The Treaty also includes a provision on the exchange of information between competent authorities of the Contracting States and the wording of this article is in line with the wording of the OECD Model Tax Convention. The Protocol to the Treaty provides a list of the information that needs to be provided by a Contracting State when making a request for information under Article 26.

The Department of Taxation of Costas Tsielepis & Co Ltd is at your disposal should you require any further information, clarifications or assistance with the above.