COSTAS TSIELEPIS & CO
AUDIT | TAX | ADVISORY

Cyprus Double Tax Treaties with Egypt and Ukraine

20 November 2019 - **Cyprus and Egypt signed on 8 October 2019 a new Double Tax Treaty (DTT) aiming to replace the existing treaty.**

Based on the new DTT, the following Withholding Tax (WHT) rates apply:

- Dividends: 5% WHT if the beneficial owner (BO) is a company holding at least 20% of the capital of the company paying the dividends throughout a period of 365 days, that includes the day of payment of the dividend and 10% in all other cases.
- Interest: 10% WHT, provided that the recipient is the BO of such interest.
- Royalties: 10% WHT, provided that the recipient is the BO of such royalties.

According to the capital gains provisions of the treaty, the country of residence of the seller has the exclusive right to tax gains arising from the disposals of shares. However, gains derived by a resident of a contracting state from the alienation of shares or interest in the capital of a company which derives more than 50% of their value directly or indirectly from immovable property situated in that other contracting state, maybe taxed in that other contracting state.

Gains on disposal of shares listed in a recognised stock exchange are exempt from the above provisions.

The treaty also provides guidance for the avoidance of double taxation with regards to cross border offshore activities (e.g. exploration and exploitation of natural resources).

The DTT will enter into force once the Contracting States complete their formal ratification procedures. The provisions of the treaty with respect to taxes will have become effective as from 1 January of the year following the year in which the treaty enters into force

Cyprus-Ukraine DTT

Meanwhile in a separate development, on 30 October 2019, the Ukrainian parliament approved the ratification of the Cyprus-Ukraine DTT protocol, which was signed back in 2015.

The Protocol is now in force and will be in effect from 1st January 2020.

The main amendments effected by the Protocol to the existing treaty cover dividends, interest and capital gains resulting from the sale of shares of immovable property rich companies.

Dividends:

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- The withholding tax on dividends remains the same at the rate of 5% on gross dividends if the beneficial owner of the dividends received is a company, which holds directly at least 20% of the capital of the dividend paying company and it has invested the equivalent of at least EUR 100,000 in the acquisition of the shares or other rights of the dividend paying company.
- In all other cases the withholding tax will be 10% on gross dividends.

Interest:
- The withholding tax on interest is increased from 2% to 5% if the recipient is the beneficial owner of the interest.

Capital Gains:
- Capital gains derived by a resident of a State from the alienation of shares deriving more than 50% of their value directly or indirectly from immovable property situated in the other State, may be taxed in that other State, subject to certain exceptions, which exceptions include the sale of shares of public companies and gains resulting from a reorganization. Any other disposal of shares is taxed in the State of the alienator.

What is important to be noted is that Cyprus has managed to secure that if Ukraine after 2 July 2015 enters into a Double Tax Treaty with any country with more beneficial provisions in relation to dividends, interest, royalties and capital gains compared to the Cyprus/Ukraine Double Tax Treaty then the two countries have the right to renegotiate the same exception or reduction in rates.

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