

Tax alert:

Cyprus



The Protocol to the Cyprus / Ukraine double tax treaty has now been ratified

1 November 2019

The Protocol was agreed in 2015 and was ratified by the Cypriot Government on 11 December 2015. On 30 October 2019, the Ukrainian parliament approved the ratification of the protocol.

Thus, the Protocol is now in force and will have effect on 1 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. In addition, the most favored nation clause is introduced in the treaty. These changes are summarized below.

Dividends

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 is reduced from 15% to 10% on gross dividends.

Interest

The withholding tax on interest is increased from 2% to 5% (assuming the recipient is the beneficial owner of the interest).

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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, provided that gain is subject to tax in that State.

Most Favored Nation clause

The protocol provides that if, after 2 July 2015, Ukraine agrees under a double tax treaty with another country:

- (a) to grant an exemption from tax in Ukraine on dividends, interest or royalties paid from Ukraine, or
- (b) to apply lower rates of tax in Ukraine to such payments than those corresponding rates provided in the double tax treaty between Cyprus and Ukraine, or
- (c) to include more favorable provisions in Article 13 relating to capital gains,

then the two States have the right to renegotiate the same exemption or reduction in rates to the double tax treaty between Cyprus and Ukraine.

Contacts

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