



## Cyprus Tax Update – Year 2021

### NEW TAX TREATY SIGNED WITH THE NETHERLANDS

On **1<sup>st</sup> June 2021**, Cyprus signed a tax treaty for the avoidance of double taxation (the "treaty") with the **Netherlands**, which was published in the Official Gazette on 4<sup>th</sup> June 2021, the date of ratification by Cyprus.

The treaty will enter into force after the necessary legal procedures are completed. Once it enters into force, the treaty will have effect in both contracting states on or after 1<sup>st</sup> January following the date the treaty enters into force.

The treaty is based on the OECD Model Tax Convention and its main provisions are briefly outlined below:

**Dividends:** No withholding tax if the beneficial owner is:

- a) a company that holds directly at least 5% of the capital of the company paying the dividends, throughout a 365-day period that includes the day of the dividend payment;
- b) a recognised pension fund which is generally exempt under the Cyprus Corporate Income Tax law.

For all other cases, the treaty provides for a maximum 15% withholding tax.

**Interest:** No withholding tax as long as the recipient of the interest is the beneficial owner of the income.

**Royalties:** No withholding tax as long as the recipient of the royalties is the beneficial owner of the income.

**Capital gains:** Cyprus maintains the exclusive taxing rights on gains arising from the disposals of shares made by Cyprus tax residents, except in the following cases:

- disposal of non-listed shares or comparable interests which derive more than 50% of their value directly or indirectly from immovable property situated in the Netherlands, and
- disposal of shares deriving more than 50% of their value directly or indirectly from:
  - rights to assets produced by exploration or exploitation of the natural resources located in the Netherlands, including the exploration or exploitation of the seabed or its subsoil and rights relating to the production of energy from water, sun and wind;
  - technical equipment or other similar property situated in the Netherlands and directly used in offshore activities.

The treaty includes a specific article (Article 26) limiting the entitlement to benefits under the treaty. More specifically, the Tax Authorities are entitled to deny the application of treaty benefits if the obtainment of such benefit was one of the principal purposes of the relevant arrangement/transaction, unless the granting of such benefit would be in accordance with the object and purpose of the treaty.