Tax Alert

New Cyprus-United Kingdom Tax Treaty Signed| 22nd March 2018

A new double tax treaty with the United Kingdom has been signed on the 22nd of March 2018 and will enter into force once ratified by each State. The new treaty is expected to strengthen and further develop the economic relations between the two countries. This treaty will come to replace the existing treaty between Cyprus and the United Kingdom which was signed in Nicosia on the 20th of June 1974 and came into effect on the 18th of March 1975.

Below is a summary of the main provisions included in the treaty:

Dividends

There shall be no withholding tax levied on dividend payments made in the instance where the recipient is the beneficial owner of the dividend.

This is unless most of the dividend is paid out of income derived directly or indirectly from immovable property by an investment vehicle which distributes most of its income annually and such income was exempted from taxation. In the instance where such income was so derived and will be taxed by the State in which the dividend paying company is a resident, such tax may not exceed 15%, except where the beneficial owner of such dividend is a pension fund in the other State, in which case the exemption still applies.

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Interest

There shall be no withholding tax levied on interest payments made where the recipient is the beneficial owner of the interest, unless the interest is derived from a permanent establishment situated in the other State.

Furthermore, the exemption does not apply where the interest paying and receiving entities maintain a special relationship (i.e. are connected parties), and the interest rate exceeds the rate that would be applied in an arm's length transaction. Any excess over and above the arm's length rate would remain chargeable under the domestic legislation in the which the interest paying company is a resident.

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Royalties

There shall be no withholding tax levied on royalty payments where the recipient is the beneficial owner of the royalties. The exemption from withholding tax will not apply where

such royalties paid to a resident of a Contract State are derived by a permanent establishment of that entity in the other State.

Furthermore, the exemption does not apply where the royalty paying and receiving entities maintain a special relationship (i.e. are connected parties), and the royalties exceed the charge that would be applied in an arm's length transaction. Any excess over and above the arm's length charge would remain chargeable under the domestic legislation in the which the royalty paying company is a resident.

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Capital Gains

Capital gains arising from the alienation of the shares of a company will be taxable only in the State of residency of the alienator, unless more than 50% of the value of such shares is derived directly or indirectly from immovable property situated in the other State. In such a case, taxation will be levied in the State where the immovable property is situated, unless the alienated shares are traded on a stock exchange.

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Limitation of Benefits

The new treaty provides for the inclusion of a Limitation of Benefits Clause (Article 23), by which the benefits of the treaty shall not be granted in the instance where the obtaining of such benefit was one of the principal purposes of the arrangement, unless the granting of such benefit would be in accordance with the object and purpose of the provision, or such benefit would still be granted in the absence of the treaty.

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We trust the above are sufficient for your purposes; in the event of further information required, please do not hesitate to contact your trusted KPMG advisor.

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