Corporate Tax - Cyprus

Further details on Cyprus-Denmark double taxation agreement

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Details of the new double tax treaty between Cyprus and Denmark have now been released. The new treaty was signed on October 11 2010 and will take effect once it has been ratified by both countries. Until then, the existing treaty, which dates back to 1981, will continue in effect.

Withholding tax rates

The new treaty eliminates withholding tax on dividends where the beneficial owner is a company that directly holds at least 10% of the capital of the distributing company for an uninterrupted period of at least 12 months; otherwise, the rate is 15% (subject to certain exemptions granted to government bodies and qualifying pension funds). The new treaty also eliminates the 10% withholding tax rate on interest that applied under the old treaty. The article on royalties continues to provide for a 0% rate of withholding tax.

However, since both Denmark and Cyprus have implemented the EU Parent-Subsidiary Directive and the EU Interest and Royalties Directive, a 0% withholding tax rate will be available in most cases in any event.

Permanent establishment

Under the new treaty, a building site or construction or installation project must last for 12 months in order to give rise to a permanent establishment. This is in comparison with six months under the 1981 treaty.

Profits from international shipping operations

Article 8 of the new treaty gives exclusive taxing rights over profits derived by an enterprise of a contacting state from ships operating in international traffic to the state of the enterprise. Both the old treaty and the Organisation for Economic Cooperation and Development (OECD) Model Convention give the exclusive taxing rights to the state in which the enterprise's place of effective management is situated.

In practice, this should not make a difference, since tax residence in both countries is based on the place of management and control.

Pensions and social security

Under the old treaty, exclusive taxing rights over pensions, annuities and social security payments are given to the source country. The new treaty gives the exclusive taxing right over non-state pensions to the country in which the recipient is resident, unless tax relief was previously obtained in the source country or where the contributions by the employer made in the source country are tax free for the beneficiary in that country.

Underlying tax credit on dividends

The provision of the old treaty which allowed an underlying tax credit on dividends paid by a company resident in Denmark to a Cyprus tax resident company with a direct shareholding of at least 25% has been eliminated. This should have no adverse effect because the Cyprus tax authorities allow unilateral relief for foreign underlying tax.

Directors' fees

As with the old treaty, directors' fees may be taxed in the country of residence of the company that pays them.

Independent personal services

Since there is no longer an article dealing with independent personal services (it was removed from the OECD model convention some years ago), income derived from such services is no longer dealt with separately, but included instead under the article on business profits.

Other amendments

The articles on mutual agreement procedures and exchange of information have been aligned with the equivalent provisions of the OECD model convention. The obligations and powers of the contracting states have also been clarified.

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