Details of double tax agreement between Cyprus and Iran

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Introduction

After negotiations that lasted several years, the first double tax agreement between Cyprus and Iran was signed on August 4 2015. Like all of Cyprus's recent double tax agreements, it closely follows the 2010 Organisation for Economic Cooperation and Development (OECD) Model Tax Convention. The agreement covers taxes on income only, including

- income tax in Iran and Cyprus; and
- corporate income tax, the special contribution for defence and capital gains tax in Cyprus.

The OECD Model Convention provision on capital is not included in the agreement.

Dividends

The maximum rate of withholding tax that may be imposed on dividends paid to a resident of the other contracting state that is the beneficial owner of the dividends is 10%. If the beneficial owner is a company (but not a partnership) which directly holds at least 25% of the capital of the company paying the dividends, the maximum rate is reduced to 5%.

Interest

The maximum rate of withholding tax that may be imposed on interest paid to a resident of the other contracting state that is the beneficial owner of the interest is 5%.

Cyprus imposes no withholding taxes on dividends and interest, so these maximum rates are effectively for Iran-resident companies paying dividends or interest to Cyprus residents.

Royalties

The maximum rate of withholding tax that may be imposed on royalties paid to a resident of the other contracting state that is their beneficial owner is 6%.

Capital gains

The following may be taxed in the contracting state in which they are located:

- gains derived by a resident of a contracting state from the disposal of immoveable property;
- shares that derive more than half of their value from immoveable property; and
- moveable property that is part of a permanent establishment or a fixed base for performing independent personal services – including gains from the disposal of a permanent establishment or fixed base.

Gains from the disposal of any other property are taxable only in the contracting state in which the disponor is resident.

Elimination of double tax

Double tax is eliminated by the credit method.

Exchange of information

The agreement provides for the exchange of information that is "necessary", rather than "foreseeably relevant" for carrying out its terms. The significance of this wording and how it is interpreted will become clear over time.

The final two paragraphs of the OECD Model Convention's information exchange provision do not appear in the agreement. These paragraphs force one contracting state to gather information requested by the other – even though the first state may not need the information itself – and not to decline requests for information on the grounds that it is held by a bank.

Mutual assistance

The OECD Model Convention provision on mutual assistance in the collection of taxes is not included in the agreement.

Entry into force and termination

The agreement will enter into force once both countries have ratified it. Cyprus ratified the agreement on August 25 2015, but Iran has not yet done so. Its provisions will take effect in Cyprus on January 1 2016 and in Iran on the following Farvardin 1 (the first day of the year according to Iran's official calendar, which occurs around March 21).

The agreement may be terminated by notice given by either contracting state at least five years after the agreement has entered into force.

Comment

Iran is a major regional economy and the conclusion of a double tax agreement when it is improving its relationship with the West is particularly fortunate, as it provides opportunities for investments in Iran to be channelled via Cyprus.

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