

## Corporate Tax - Cyprus

Further details on Cyprus-Slovenia double taxation agreement

Contributed by [Andreas Neocleous & Co LLC](#)

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Author

[Elias A Neocleous](#)



Following its emergence as an independent state, Slovenia adopted the double taxation agreement dated June 29 1985 between the former Yugoslavia and Cyprus. A new double taxation agreement has now been agreed between Cyprus and Slovenia. It was signed on October 12 2010 and will take effect when it has been formally ratified by both countries. Until then, the existing 1985 treaty will continue in effect.

### **Withholding tax rates**

The new treaty provides for a maximum rate of withholding tax of 5% on dividends, interest and royalties. While this is an improvement in comparison with the 1985 treaty, which provided for a 10% withholding tax on dividends, interest and royalties paid to Cyprus, it is unlikely to have a major effect in practice, since both Slovenia and Cyprus have implemented the EU Parent-Subsidiary Directive and the Interest and Royalties Directive, which means that, in any event, a 0% withholding tax rate will be available in most cases.

### **Capital gains on disposal of shares in property-rich companies**

The new treaty provides that capital gains on the disposal of shares in property-rich companies (ie, companies which derive the majority of their value from immovable property situated in one of the contracting states) may be subjected to tax in the state in which the immovable property is situated. The new treaty restricts this provision to the disposal of shares and does not mention the disposal of other instruments. Other treaties based on the Organisation for Economic Cooperation and Development (OECD) Model Tax Convention provide for gains on shares "and other similar interests" in property-rich companies in the country in which the property is located.

### **Profits from international shipping operations**

The new treaty gives exclusive taxing rights over profits derived by an enterprise of a contracting state from ships operating in international traffic to the state of the enterprise. Both the 1985 treaty and the current OECD model convention give the exclusive taxing rights to the state in which the place of effective management of the enterprise 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.

### **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 instead is included 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 current OECD model convention and the obligations and powers of the contracting states have been clarified.

*For further information on this topic please contact [Elias A Neocleous](#) at [Andreas Neocleous & Co LLC](#) by telephone (+357 25 110 000), fax (+357 25 110 001) or email (*

[eliasn@neocleous.com](mailto:eliasn@neocleous.com)).

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