Corporate Tax - Cyprus

New Cyprus-Slovenia double tax agreement enacted

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The double tax agreement between Cyprus and Slovenia was signed in October 2010, entered into force on September 14 2011 and applies as from January 1 2012. It replaces the 1985 agreement between Cyprus and the former Yugoslavia, which formerly applied to Slovenia and still applies to Serbia and to Montenegro.

Withholding tax

Reduction
Dividends
The maximum rate of withholding tax on dividends paid by companies in Slovenia to shareholders in Cyprus has been reduced from 10% to 5%. Cyprus does not impose withholding taxes on dividends paid to non-residents.

Interest
The maximum rate of withholding tax on interest has been reduced from 10% to 5%. Interest is exempt from tax if it is paid by or to a national or local government body or a Central Bank. Cyprus does not impose withholding taxes on interest paid to non-residents.

Royalties
The maximum rate of withholding tax on royalties has been reduced from 10% to 5%. No tax need be withheld in Cyprus if the rights are used exclusively outside Cyprus.

Beneficial ownership
In line with the latest Organisation for Economic Cooperation and Development (OECD) Model Convention, the concept of beneficial ownership has been introduced in the articles relating to withholding tax on dividends, interest and royalties.

Capital gains

In line with the OECD Model Convention, capital gains on the disposal of immovable property are taxable in the state in which the property is located. Gains accruing to a resident of one contracting state from the disposal of shares deriving more than 50% of their value from immovable property situated in the other contracting state may be taxed in that other state.

Gains from the disposal of ships or aircraft operating in international traffic are taxable only in the country of residence of the disponor. Gains on the disposal of any other assets are taxable only in the country of residence of the disponor.

Income from employment

In line with the OECD Model Convention, income is taxed in the contracting state in which the recipient is resident unless the duties are performed in the other (ie, source) contracting state. Even if the duties are performed in the source state, the income is taxable in the country of residence if:

- the period of residence in the source state does not exceed 183 days in any 12-month period beginning or ending in the fiscal year concerned; and

- the remuneration is paid by an employer who is not a resident of the source state or by a permanent establishment in the source state.

Directors' fees

Directors' fees (and similar) paid to a resident of one contracting state in respect of services to a company resident in the other contracting state may be taxed in the state in which the company is resident.

Sportspeople and entertainers

The same principles apply as for directors' fees - income from performances funded principally from public funds in the individual's state of residence is exempt from tax in the other contracting state.

Pensions

Private (non-government) pensions
Non-government pensions are taxable only in the state in which the recipient is resident.

Government salaries and pensions
Salaries paid by a national or local government body in a contracting (source) state in respect of services provided to it are taxable only in the source state, unless the recipient is resident in or a national of the other contracting state and the services are provided there, in which case the income is taxable exclusively in the state in which the recipient is resident (ie, the destination state).

Government pensions are taxable only in the source state unless the recipient is resident in or a national of the other contracting state, in which case the income is taxable exclusively in the destination state.

Academics and students

Exemptions are available, subject to conditions.

Other income

Income not dealt with under any other provision is taxable only in the state in which the recipient is resident.

Method of double tax relief

Tax paid in the source state is allowed as a credit against tax payable in the state of residence. The credit may not exceed the tax payable on the income concerned in the state of residence.

Exchange of information

The exchange of information provisions follow the OECD model. Furthermore, Cyprus's Assessment and Collection of Taxes Law includes robust safeguards against abuse of the information exchange provisions of double tax agreements by overseas tax authorities.

Termination

The agreement may not be terminated until five years have elapsed from the date on which it entered into force (ie, September 14 2011). Thereafter, either party may terminate the agreement by giving the other party at least six months' written notice, expiring at the end of a calendar year.

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