Corporate Tax - Cyprus

New double taxation agreements take effect

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On January 1 2014 five new agreements for the avoidance of double taxation between Cyprus and other countries came into effect. The new agreements are with Estonia, Finland, Portugal, Spain and Ukraine. The first four are entirely new agreements, extending Cyprus's network of double tax agreements; the agreement with Ukraine replaces the agreement between Cyprus and the former Soviet Union, and has been adopted by Cyprus and Ukraine following the dissolution of the Soviet Union. All the new agreements follow the Organisation of Economic Cooperation and Development Model Convention. Although the final formal exchange of instruments of ratification of the Cyprus-Spain agreement had not been completed at January 1 2014, the Cyprus authorities nonetheless intend to apply the agreement with effect from that date.

The new double tax agreements with Estonia, Finland, Portugal and Spain are expected to lead to the substantial expansion of economic ties and reciprocal investment activities between Cyprus and the countries concerned. The revised agreement with Ukraine retains one of the principal benefits of the agreement that it replaced – namely, the highly favourable provisions regarding capital gains on the disposal of shares in property-rich companies. Movable property, including shares, is taxable only in the country of residence of the owner. Since Cyprus imposes no tax on the disposal of shares, except and to the extent that the gain is derived from real estate in Cyprus, Cyprus companies have become an ideal means of holding real estate in Ukraine, effectively allowing property to be disposed of tax free.

Most of Ukraine's other double tax agreements include a provision allowing gains from the disposal of property-rich companies to be taxed in the contracting state in which the property is located, and it was widely feared that a provision of this nature would be introduced into the new agreement with Cyprus. However, this fear has proved to be unfounded. Gains on disposals of movable property remain taxable only in the contracting state in which the disponor is resident, making Cyprus one of the world's most tax-effective jurisdictions for holding Ukrainian property assets.

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