

Corporate Tax - Cyprus

Renegotiation of Cyprus-Ukraine double taxation treaty underway

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Negotiations are underway to update the double taxation treaty between Cyprus and Ukraine. The existing treaty dates back to the Soviet era and is extremely favourable, as it eliminates withholding taxes (usually charged at 15%) on payments from Ukraine to Cyprus. Furthermore, the treaty contains no anti-avoidance rules or restrictions on thin capitalisation.

In 2008 a preliminary agreement was reached on a replacement treaty, but the Cypriot Parliament refused to ratify the treaty because it considered the imposition of a 10% withholding tax rate on interest and royalties and a 5% tax rate on dividends to be excessive. In July 2008 a Ukrainian government proposal to abrogate the existing treaty was defeated in the Ukrainian Parliament.

With pressure now on Ukraine to bolster its tax revenues in order to achieve budget-deficit targets imposed by the International Monetary Fund, negotiations recommenced in Summer 2010, with both countries expressing confidence in reaching an agreement.

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