



Cyprus Tax Alert

12 June 2009

Tax Treaty Update: Agreements with Italy and Czech Republic

Protocol with Italy and removal of Cyprus from blacklists

On 4 June 2009, representatives of the governments of Cyprus and Italy signed a new Protocol to the 35-year old tax treaty between the two countries. The principal objective of the Protocol is to amend the treaty to include the current OECD Model article on the exchange of information.

The agreement on the Protocol follows Cyprus's amendments to its domestic law in 2008 providing for procedures to allow for the exchange of information otherwise protected by laws on data protection, banking secrecy or other confidentiality.

The Protocol will come into force once both Italy and Cyprus pass the Protocol through domestic law procedures, which is expected to occur later this year.

A key result of the Protocol is the parallel undertaking by Italy to remove Cyprus from the Italian CFC blacklist (DM 21/11/2001), which until now meant that income earned by a Cypriot subsidiary of an Italian company was fully taxable as income of the Italian parent regardless of whether it was distributed by the Cyprus company or not. Similarly, Italy has undertaken to formally remove Cyprus from the Italian tax havens blacklist (DM 23/1/2002). Although the effect of this blacklist no longer applied to Cyprus following its accession to the EU on 1 May 2004, the formal removal of Cyprus from the list will be a symbolic action supporting Cyprus's status as an OECD white list jurisdiction.

New Treaty with Czech Republic

A new treaty between Cyprus and the Czech Republic was recently agreed to replace the existing 1980 treaty with the then-Czechoslovakia, the existing treaty being recognized by both countries as still in force. The main changes to the existing treaty are the elimination of withholding tax on dividends (where holdings are 10% or more) and interest (previously 10%). Withholding tax on royalty payments will increase from 5% to 10%; however, as from 1 January 2011, royalties paid to Cypriot companies will be exempt from Czech withholding tax where the conditions of the EC Interest and Royalties Directive are satisfied.

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