



Cyprus Tax News

Amendments to the Income Tax Law and Special Contribution for Defence Law for the prevention of tax abuse

On 21 December 2021, two [amending laws](#) were published in the Official Gazette that aim to strengthen the Cyprus tax framework for the prevention of tax abuse. The new provisions, which amend the Special Contribution for Defence Law (SCDL) and the Income Tax law (ITL), are effective as from **31 December 2022**.

The laws are in line with recent EU Country-Specific Recommendations (CSRs) for Cyprus and the EU guidelines for defensive tax measures to be adopted by EU Member States towards EU blacklisted jurisdictions.

The purpose of the new measures is to prevent aggressive tax planning and make the tax framework fairer and more effective.

Overview of the new provisions

Introduction of withholding taxes (WHT) on payments to companies in jurisdictions included in the [EU Blacklist of non-cooperative jurisdictions](#) (“EU Blacklist”) (Amending the SCDL)

Dividends

WHT at the rate of 17% applies on dividends paid by a Cyprus tax resident company to companies which are:

- resident in jurisdictions included in the EU Blacklist, or
- incorporated/registered in a jurisdiction included in the EU Blacklist and are not tax resident in any other jurisdiction that is not included in the EU Blacklist.

The following conditions apply:

- The company receiving the dividend holds directly, either alone or jointly with associated companies, over 50% of the capital, voting rights, or is entitled to receive more than 50% of the profits in the company paying the dividends.

- The associated companies should also be resident in an EU blacklisted jurisdiction or incorporated/ registered in an EU blacklisted jurisdiction and are not tax resident in any other jurisdiction that is not included in the EU Blacklist.

The WHT does not apply in the case of dividend payments on shares listed on a recognised stock exchange.

Interest

WHT at the rate of 30% applies on interest paid by a Cyprus tax resident company to companies which are:

- resident in jurisdictions included in the EU Blacklist, or
- incorporated/registered in a jurisdiction included in the EU Blacklist and are not tax resident in any other jurisdiction that is not included in the EU Blacklist.

The WHT does not apply in the case of:

- interest payments on securities listed on a recognised stock exchange.
- Interest payments made by individuals.

Royalties (Article 21 of the ITL)

WHT at the rate of 10% applies on royalties paid by a Cyprus tax resident company to companies which are:

- resident in jurisdictions included in the EU blacklist, or
- incorporated/registered in a jurisdiction included in the EU Blacklist and are not tax resident in any other jurisdiction that is not included in the EU Blacklist.

The WHT does not apply in the case of royalty payments made by individuals.

It is noted that the laws do not indicate the effective date of application of WHT to jurisdictions added to or removed from each updated version of the EU Blacklist. It is expected that this and certain other issues (for example, the application of WHT on a cash or accruals basis) will be clarified by the Cyprus Tax Authorities.

Definition of “Cyprus tax resident company” / Additional corporate residency test (Article 2 of the ITL)

In an effort to strengthen the residency rule framework beyond the management and control criterion/concept, the term Cyprus tax resident company was expanded to also include a company that was incorporated/registered in Cyprus, but whose management and control is exercised outside Cyprus, as long as the company is not a tax resident in any other State.

How can we help?

We are at your disposal to provide clarifications on the above developments.

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