Cyprus | Tax & Legal Services | 29 October 2019 Issue 11/2019

Cyprus Tax News

New tax treaty signed with Egypt

On 8 October 2019, Cyprus signed a new tax treaty with Egypt, a neighboring country with a growing economy.

The treaty was published in the [Gazette] on 25 October 2019 and once effective, it is going to replace the existing tax treaty between the two countries that has been in effect since 1996.

The treaty is based on the OECD Model Convention and provides guidance for the avoidance of double taxation among others with regards to cross border offshore activities (e.g. exploration and exploitation of natural resources). Its conclusion is expected to enhance the bilateral trade and economic relations between Cyprus and Egypt, one of Africa's biggest economies.

It is worth noting that currently, under the Egyptian domestic law, Egypt levies withholding tax (WHT) at the rate of 10% (or 5% subject to certain conditions) on dividends and 20% on interest and royalties. According to the provisions of the tax treaty, qualifying Cyprus tax residents, earning income sourced from Egypt, can enjoy reduced WHT rates as follows:

Dividends: 5% WHT if the beneficial owner (BO) is a company (other than a partnership) which holds directly at least 20% of the capital of the company paying the dividends throughout a period of 365 days, that includes the day of payment of the dividend. **10% WHT** in all other cases.

Interest: 10% WHT, provided that the recipient is the BO of such interest.

Royalties: 10% WHT, provided that the recipient is the BO of such royalties.

Under its domestic law, Cyprus does not impose any WHT on dividends, interests and/or royalties (used out of Cyprus) paid to non-Cyprus residents.

According to the **capital gains** provisions of the tax treaty, the country of residence of the seller maintains the exclusive taxing rights on gains arising from the disposals of shares, except in the following cases:

- disposal of non-listed shares or comparable interests which derive, at any time during the 365 days preceding the disposal, more than 50% of their value directly or indirectly from immovable property situated in the other Contracting State, and

- disposal of non-listed shares, comparable interests, securities or other rights representing the capital of a company resident of the other Contracting State if the seller, at any time during the 365 days preceding such disposal, held directly or indirectly at least 20% of that company.

The treaty will enter into force once both Cyprus and Egypt exchange notifications that their formal ratification procedures have been completed. The provisions of the treaty with respect to taxes will have effect in both Contracting States on or after 1 January following the calendar year in which the treaty enters into force.

We are at your disposal to discuss the above development with you.

Get in touch

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