



## Cyprus Tax News

### Cyprus – Croatia tax treaty signed and published

On 17 October 2023, Cyprus signed a [treaty](#) for the avoidance of double taxation (“the treaty”) with Croatia, which was published in the Official Gazette on 27 October 2023.

The treaty will enter into force after the necessary legal procedures are completed. Once it enters into force, the treaty will have effect in both contracting states on or after 1 January following the date the treaty enters into force.

The treaty is based on the OECD Model Tax Convention and incorporates all the minimum standards of the Base Erosion Profit Shifting (BEPS) project, as issued by the OECD/G20.

Its main provisions are briefly outlined below:

**Dividends:** 5% WHT on dividend payments, provided that the recipient is the beneficial owner of such dividend.

**Interest:** 5% WHT on interest payments, provided that the recipient is the beneficial owner of such interest.

Nil WHT on interest payments where the recipient is the beneficial owner of the interest income and if such interest is paid:

- In connection with the sale on credit of any industrial, commercial or scientific equipment,
- In connection with the sale on credit of any merchandise by one enterprise to another enterprise, or
- On any loan of whatever kind granted by a bank.

**Royalties:** 5% WHT on royalties, provided that the recipient is the beneficial owner of such royalties.

**Capital gains:** Cyprus maintains the exclusive taxing rights on gains arising from the disposal of shares made by Cyprus tax residents, except in the following case:

- Disposal of shares or comparable interests, such as interests in a partnership or trust, which at any time during the 365 days before the disposal, derived more than 50% of their value directly or indirectly from immovable property situated in Croatia. However, this does not apply to gains from the disposal of shares:
  - listed on an approved stock exchange;
  - in the course of a corporate reorganisation;
  - when the alienator is a recognised pension fund.

In addition, the treaty includes a specific article (Article 28) **limiting the entitlement to benefits** under the treaty. Specifically, the Tax Authorities are entitled to deny the application of treaty benefits if the obtainment of such benefit was one of the principal purposes of the relevant arrangement/transaction, unless the granting of such benefit would be in accordance with the object and purpose of the treaty.

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