



## Cyprus Tax News

### Recent developments: Cyprus Parliament voted proposed amendments to the Cyprus Income Tax Law and the Special Defence Contribution Law

On 10 April 2025, the Cyprus House of Representatives voted to approve the following draft domestic bills, entitled:

- Amending Law of 2025 Regulating the Income Tax Law of 2002 until 2024;
- Amending Law of 2025 Regulating the Special Defence Contribution Law of 2002 until 2024; and
- Amending Law of 2025 Regulating the Law regarding Assessing and Collecting Taxes of 1978 until 2022.

(hereinafter: “the Laws”)

The Laws fulfil the obligations that Cyprus has undertaken under the EU Recovery and Resilience Plan in connection with addressing aggressive tax planning strategies.

The Laws introduce a withholding tax (“WHT”) obligation on outbound payments of dividend, or a non-tax deductibility on outbound payments of interest and royalties, to “low-tax” jurisdictions, in addition to the existing WHT obligations applicable to jurisdictions incorporated in the “EU Blacklist”, which are already in place as from 1<sup>st</sup> January 2023 (for a detailed summary of the initial tax framework please refer to our previous Deloitte alert posted on [30 November 2022](#)).

The provisions of the Laws in respect of payments to low-tax jurisdictions will enter into force **as of 1<sup>st</sup> January 2026**, whereas the amendments to the existing provisions on

payments to EU blacklist jurisdictions entered into force as from the date of publication in the Official Gazette (i.e., 16<sup>th</sup> April 2025).

### Key amendments:

#### Income Tax Law ("ITL")

##### 1. Article 2 of the ITL ("*Interpretation*") - introduction of key new definitions

- **Low-tax jurisdiction:** statutory Corporate Income Tax ("CIT") rate lower than 50% of the Cypriot rate (i.e., 6,25%).
- **Non-low tax jurisdictions:** jurisdiction that does not fall within the definition of a low-tax jurisdiction.
- **Non-cooperative jurisdiction:** a jurisdiction that is included in the latest version of the list of third-country jurisdictions collectively considered by the member states as non-cooperative for tax purposes, published in Annex I of the Official Journal of the European Union during the previous calendar year and also included in the latest, in force, version of the list published in Annex I of the Official Journal of the European Union.

##### 2. Article 11 of the ITL ("*Non-deductible expenses*") – introduction of a non-deductibility clause

- Interest and royalty expenses made, irrespective of whether they have been paid or not, to entities incorporated / registered and/or tax resident in low-tax jurisdictions or not residents in a non-low tax jurisdictions are non-deductible.
- Certain exceptions may apply.

##### 3. Article 21 of the ITL ("*Taxation on the gross amount of intellectual property rights, exploitation rights, compensation, etc.*") – introduction of a new clause

- Introduction of Article 21A as per which 10% WHT will apply on royalties paid to non-Cypriot residents, which are incorporated in a non-cooperative jurisdiction, while at the same time, not tax residents of another non-cooperative jurisdiction.
- The said WHT obligation will not apply in case of payments that were already subject to tax as per Article 21 of the ITL.
- Certain exceptions may apply.

##### 4. Article 34 of the ITL ("*Treaties for the Avoidance of Double Taxation*") – renegotiations

- Obligation to renegotiate Double Tax Treaties that Cyprus has concluded with low-tax and blacklisted jurisdictions within 3 years after the date at which the jurisdiction falls under the definition of a low-tax jurisdiction or from the date of publication of the list of non-cooperative jurisdictions in which the jurisdictions under examination were included for the first time.

#### Special Defence Contribution (SDC)

##### 1. Article 3 para 2(a1) – Dividend Payments

- SDC at 17% will apply on dividends paid to an entity incorporated / registered and/or tax resident in a low-tax jurisdiction and not resident in a non-low tax jurisdiction or incorporated in a non-cooperative jurisdiction and not tax residents of another non blacklisted jurisdiction.
- SDC at 17% will also apply to dividends paid to a permanent establishment (of a non-Cyprus resident) in a low-tax jurisdiction or in a non-cooperative jurisdiction.
- Certain exceptions may apply.

## 2. Article 3 para 2(b) – Interest Payments

- SDC at 17% will apply on interest paid or credited from sources within Cyprus to entities incorporated / registered in a non-cooperative jurisdictions and/or to entities which are not tax residents in another non-cooperative jurisdiction.
- SDC at 17% will apply on interest paid or credited from sources within Cyprus to a permanent establishment (of a non-Cyprus resident) in a non-cooperative jurisdiction.
- Certain exceptions may apply.

### Scope of application

The scope of the new rules will cover cases where the recipients of the (dividend/interest/royalty) income will be associated companies incorporated / registered and/or tax residents in a low-tax and/or on a non-cooperative jurisdiction (contingent on the type of payment).

In order for the new provisions to apply, the payment must be made to a company that has a direct or indirect association with the Cypriot paying company that exceeds 50%, either alone or together with other associated persons (the Laws include a definition in connection with the cases where a person is considered associated with another person).

The rules also extend to payments made to permanent establishments in a low-tax and/or non-cooperative jurisdiction regardless of whether the PE is maintained by a company that is not in a low-tax and/or non-cooperative jurisdiction.

### Anti-abuse provision and supporting Decrees supplementing the Laws

An anti-abuse mechanism is integrated within the Laws' framework to counteract arrangements that have been put in place with the main purpose or one of the main purposes of obtaining a tax advantage and is not put into effect for valid commercial reasons reflecting economic reality. If the relevant criteria are not met, the new provisions will apply unless the taxpayer can show a valid commercial reasoning.

The Tax Commissioner is expected to issue Decrees, which will supplement and detail the amendments made to the ITL and the SDC law and will determine the documentation and reporting requirements of the Cyprus paying entities in case of dividend/interest/royalty payments to low-tax and/or non-cooperative jurisdictions.

### Law regarding Assessing and Collecting Taxes

The following progressive administrative fines may apply in case the Cyprus paying entities will not share with the Cyprus Tax Authorities supporting documentation in connection with the dividend, interest, and royalty payments, within 60 days from the Cyprus Tax Authorities' request:

- €2.000 in cases of non-compliance ranging between 61 days and 90 days;
- €4.000 in cases of non-compliance ranging between 91 days and 120 days;
- €10.000 in cases of non-compliance exceeding 121 days or total non-compliance.

### **How can we help?**

Deloitte can assist clients with understanding how the measures may impact their business and advise on proactive restructuring options.

## Get in touch



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