



## Cyprus Tax News

### Recent developments: Cyprus introduces new documentation requirements for certain payments to non-resident companies

On 17 April 2025, the Council of Ministers issued two decrees that clarify the provisions for implementing the anti-abuse provisions of the recently enacted defensive measures for payments to blacklisted jurisdictions and low-tax jurisdictions by determining specific substance and other requirements that the recipient company should meet and by providing guidance as to the obligation of a Cyprus paying entity to retain certain supporting documentation substantiating the said requirements ("the Decrees").

Although the Decrees contain identical provisions, the issuance of two separate ones was necessary since the tax obligation that each one of them aims to cover is derived from different legislations (i.e., the withholding tax ("WHT") obligation regarding royalty payments is imposed under the Income Tax Law, whereas the one for the dividend and interest payment is imposed under the Special Contribution for the Defence Fund of the Republic Law ("SDC Law")).

The Decrees clarify and supplement the recently enacted laws, which introduce an 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" ("the Laws"). The main provisions of the Laws are detailed in our previous Deloitte alert posted on [22 April 2025](#).

#### Key provisions of the Decrees

The Decrees aim to provide clarity regarding the application of the anti-abuse provisions that the Laws introduce, as per which arrangements (or series of

arrangements) that have been put in place with the main purpose, or one of the main purposes, of obtaining a tax advantage and are not put into effect for valid commercial reasons reflecting economic reality, will be disregarded.

#### **Requirements for satisfying the anti-abuse provisions**

For the purposes of verifying whether the anti-abuse provisions of the Laws are satisfied, the Decrees stipulate that in case of dividends, interest or royalty payments from a Cyprus entity to associated entities in low tax and/or EU blacklist jurisdictions, for which no tax is withheld (as required under the relevant provisions of the Laws for low-tax and EU Blacklist jurisdictions), **the income paying company must check and retain for at least six years from the end of the tax year in which the transactions occurred supporting documentation in relation to the income receiving company regarding the following topics:**

1. **Decision-making:** At least one member of the Board of Directors (“BoD”) is equipped with the necessary qualifications and authorizations to make decisions regarding the company's operations, assets or rights that generate the income of the company and is actively and independently exercising his/her duties.
2. **Local presence of decision-makers:** At least one member of the BoD, who is qualified and authorized to make decisions regarding the company, resides in the jurisdiction where the company is tax resident (or within a daily commute distance).
3. **Office space:** The recipient company has office space at its disposal in the jurisdiction of its tax residence enabling its directors and employees to effectively perform their duties.
4. **BoD meetings:** The majority of the BoD meetings take place in the jurisdiction in which the recipient company is a tax resident.
5. **Operational expenses:** The operational expenses of the recipient company, including payments to its directors and employees, that are paid within the jurisdiction of its tax residency, for the tax year in which the transactions took place, are proportional to the recipient company's activities.
6. **Beneficial ownership:** The group of companies to which the recipient company belongs is not organized in a manner where the recipient company's only function is to receive income from the Cyprus company and transfer the entire amount (or almost the entire amount) to another associated company very soon after the income is received, so that it realizes an insignificant amount of taxable income while channelling the transfer of funds to the ultimate beneficial owner of the income.

The anti-abuse provisions will not apply insofar as the income recipient entity **satisfies at least five of six criteria** outlined above. As per the Decrees, the Tax Commissioner may request the Cyprus paying entity to provide a detailed statement/list, including full data with respect to the abovementioned payments, and/or to submit information and/or documentation in order to substantiate that the income recipient entity satisfies the abovementioned criteria.

The Decrees introduce an obligation for the Cyprus paying entities to certify that the supporting documentation requirements envisaged therein are met via their corporate income tax return of the year to which the payment relates.

If the recipient company fails to satisfy **two or more** of the abovementioned conditions, the arrangement (or series of arrangements) shall be disregarded and the WHT provisions of the Laws shall apply, unless the taxpayer can demonstrate a valid commercial reasoning or that obtaining a tax advantage was not the only purpose of the arrangement or series of arrangements.

#### **Exceptions**

The supporting documentation requirements will not apply if the income recipient entity is:

- a. A tax resident of Cyprus
- b. A tax resident in another EU Member State or in the European Economic Area
- c. Part of a multinational group and subject to a minimum tax of 15% based on legislation adopting the EU Directive 2022/2523 on global minimum tax or the Organisation for Economic Co-operation and Development Model (GloBE) Rules
- d. A member of a consolidated group for accounting purposes that does not have a presence in an EU blacklisted jurisdiction, either through a company or through a permanent establishment

### 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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