

Updated Double Tax Treaty between Cyprus and Egypt

October 2019

An updated Double Tax Treaty between Cyprus and Egypt was signed in Cairo on 8 October 2019 during the Trilateral Summit between Egypt, Greece and Cyprus. The revised Treaty, which was published in the Official Gazette on 18 October 2019, will enter into force once the ratification process is completed, and its provisions will be applicable on 1 January of the following year.

The Treaty, which is based on the OECD Model Convention and incorporates the latest international standards with regards to exchange of information, mutual agreement procedure, as well as a principal purpose test, is expected to further develop and strengthen the commercial and economic relationships between the two countries and to enhance their cooperation in tax matters.

The main provisions of the revised Treaty are as follows:

- **Dividend income:** Provided that the recipient of the dividends is the beneficial owner of such income, tax is withheld at 5% if the beneficial owner is a company (other than a partnership) holding directly at least 20% of the capital of the dividend-paying company for at least 1 year prior to the date of payment of the dividend. In all other cases, tax is withheld at 10%.

Moreover, where a company resident in one of the two countries has a permanent establishment in the other country, any business profits remitted to the head office may be subject to an additional withholding tax in that other country at a rate not exceeding 5%.

- **Interest income:** Tax is withheld at 10% if the recipient of the interest income is the beneficial owner of such income.
- **Royalties:** Tax is withheld at 10% if the recipient of the royalties is the beneficial owner of such income.

NOTE: As per the local Cyprus legislation, Cyprus does not withhold tax on outbound dividends or interest payments, and only withholds tax on royalty payments (10%) if the royalties are used within Cyprus.

- **Capital gains:** Gains derived by a resident of one of the two countries from the disposal of shares (or any other comparable interest) deriving, at any time during the year preceding the disposal, more than 50% of their value directly or indirectly from immovable property situated in the other country may be taxed in that other country,

with the exception of disposal of shares in companies listed on an approved stock exchange.

In addition, gains derived from disposal of shares (or comparable interests) other than those mentioned above may be taxed in the other country if the seller, at any time during the year preceding the disposal, held directly or indirectly at least 20% of the company in question, with the exception of disposal of shares in companies listed on an approved stock exchange.

- **Offshore activities:** an enterprise of one of the two countries which carries on offshore activities in the other country shall be deemed to be carrying on business in that other country through a permanent establishment situated therein, provided that the offshore activities are carried on for a period of at least 30 days in aggregate during the fiscal year concerned.

The term “offshore activities” is defined as activities carried out in one of the two countries in connection with the exploration or exploitation of the seabed and the subsoil and their natural resources situated in that country, and includes the installation and exploitation of pipelines and other installation under or above the surface of the sea.

Bearing in mind the above, gains derived by an enterprise of one of the two countries from the disposal of:

- exploration or exploitation rights, or
 - movable property situated in the other country and used in connection with offshore activities, or
 - shares or comparable interest deriving their value or the greater part of their value directly or indirectly from such rights and/ or such property may be taxed in that other country.
- **Limitation of benefits:** The revised Treaty contains a limitation of benefits clause in the form of a ‘principal purpose test’, whereby benefits shall not be granted in cases where it is reasonable to conclude that obtaining such benefits was one of the principal purposes of any arrangement or transaction.