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The Republic of Cyprus and The Kingdom of The Netherlands have signed on 1st of June 2021, a Double Tax Treaty for the first time after various negotiations throughout the years. The Treaty follows the provisions of the OECD Model Tax Treaty and aims to eliminate double taxation with respect to taxes on Income and the prevention of tax evasion and avoidance.

The Treaty will be in effect in the year following the year in which the ratification process in both countries is completed. Once the Treaty enters into force it will take effect as from 1st January of the next calendar year.

Overview of the main provisions of the Treaty

Dividends (Article 10)

Dividends paid by a company which is a resident in a Contracting State to a resident of the other Contracting State may be taxed in that State and shall not exceed 15% of the gross amount of dividends.

A 0% withholding tax rate applies where the beneficial owner is:

- A recipient which holds at least 5% of the capital of the company paying the dividends throughout a 365-day period that includes the day of the dividend
- A recipient that is a recognized pension fund which is generally exempted under the Corporate Income Tax Law in The Republic of Cyprus

The maximum withholding tax rate for all other cases is 15%.

Interest (Article 11)

In relation to the payments of interest, there is no withholding tax provided that the recipient is the beneficial owner of the income.

Royalties (Article 12)

In relation to the payments of royalties, there is no withholding tax provided that the recipient is the beneficial owner of the income.

The term "royalties" according to the Treaty means payments of any kind received as a consideration for the use of, or the right of use, any copyright of literacy, artistic or scientific work including cinematographic films, any patent, trademark, design or model, plan, secret formula, or process, or for information concerning industrial, commercial or scientific experience.

Capital Gains (Article 13)

Cyprus retains the exclusive taxing rights on disposal of shares made by Cyprus tax residents, except where gains derived from the sale of shares of companies are taxed in the Contracting State where the seller is located, expect in the case of sale of shares of companies deriving more than 50% of their value from immovable properties located in the other Contracting State, where the tax is levied in that other State.

Certain exemptions have been agreed.

Limitation of Benefits (Article 26)

A benefit under this Treaty shall not be granted, in respect of an item of income or capital, should this benefit be one of the principal purposes (Principle Purpose Test) of any arrangement or transaction that resulted directly or indirectly in that benefit, unless it can be established that granting that benefit in these circumstances would be in accordance with the object and purpose of the relevant provision of this Treaty.

If you require further information, please do not hesitate to contact Pelaghias, Christodoulou, Vrachas LLC.