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The Netherlands and Cyprus Have Concluded a Double Tax Treaty

The Netherlands is known for its extensive tax treaty network throughout the world. However, a tax treaty with Cyprus was never concluded, until now. On June 1, 2021, it was formally announced that the Netherlands and Cyprus concluded a convention for the elimination of double taxation with respect to taxes on income and on capital and the prevention of tax evasion and avoidance (the Treaty). The Treaty contains clauses to prevent the payment of double taxation and clauses to prevent tax avoidance. The Netherlands now has tax treaties in place with all countries in the European Economic Area (EEA).

Currently, no official date has been published as to when the Treaty will enter into force. This will occur after parliamentary ratification and the exchange of ratification instruments by both contracting states.

The Content of the Treaty

The Treaty aims to prevent potential barriers (double taxation) that could otherwise impede economic activities from the Netherlands in Cyprus and vice versa. The Treaty also aims to ensure legal certainty for taxpayers in both Treaty countries.

The Treaty follows the current (2017 published) version of the OECD Model Tax Convention in many parts.

i. Dividends

Dividends paid by a company which is a resident of a contracting state to a resident of the other contracting state may be taxed in that other state. This tax shall, however, not exceed 15% of the gross amount of the dividends.

Dividends paid by a company based in a contracting state shall be exempt from withholding tax if the dividends are beneficially owned by: (1) a company which holds directly at least 5% of the capital of the company paying the dividends throughout a 365 day period; or (2) recognized pension funds of the other contracting state.

ii. Interest

Interest arising in a contracting state and paid to a resident of the other contracting state shall be exempt from withholding tax if the owner of the interest is the beneficial owner of said interest.

iii. Royalties

Royalties arising in a contracting state and paid to a resident of the other contracting state shall be exempt from withholding tax if the owner of the royalties is the beneficial owner of said royalties.

Anti-Abuse Provision

The Treaty includes an anti-abuse provision in line with the BEPS project, preventing the Treaty from being used to avoid taxation. This provision allows a country to deny a taxpayer Treaty benefits if a resident would for example funnel money through the Netherlands or Cyprus purely to avoid tax.

Conclusion

The Treaty will enter into force when both contracting countries have ratified the Treaty in accordance with national constitutional procedures. Subsequently, the provisions of the Treaty shall have effect on the first day of January in the calendar year following that in which the Treaty has entered into force.

Please let us know if you have any questions about the Treaty.

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