

“Cyprus–Spain tax treaty”



New Double Tax Treaty signed

1. Background

On 14th of February 2013 Cyprus and Spain signed a new Income Tax Treaty agreement and protocol.

The agreement was signed during a ceremony at the residence of Spain's Ambassador in Nicosia, Mrs Ana Salomon Perez, who said that after eight years of negotiations "we finally signed a double taxation agreement between Cyprus and Spain. Here we are signing this important agreement which will certainly facilitate investments from Spain to Cyprus and from Cyprus to Spain and strengthen economic relations between our two countries".

The Cypriot Finance Minister Mr Vassos Shiarly said that "the set has been set and what you need is a commitment that you believe in what you are doing and everything else falls into place". He further on added that "double tax agreements do not progress simply because you have commitment but you need a partner and in this context we had a very good partner to work with. We did it and we are doing a lot but we need friends and in Spain we have very good friends which we always believe in and I hope that this relationship will develop from a double tax agreement at the moment to become a great strength in the relationship between us", he noted.

Withholding tax rates

- Dividends–5%
- Interest–0%
- Royalties–0%



2. Basic features of the new DTT

The main provisions of the treaty can be summarized as follows:

- **Withholding tax on Dividend payments is 5%.**
- **Withholding tax on Interest payments is 0%.**
- **Withholding tax on Royalty payments is 0%.**
- **Capital Gains from the direct sale of shares in “property-rich” companies are taxed in the country where the immovable property is situated.**

It is interesting to note that a Limitation of Benefits provision has not been inserted in the treaty. However, the Protocol to the treaty clearly stipulates that the domestic anti-abuse provisions will still be applicable and deny the benefits of the treaty where transactions are motivated by tax evasion or tax avoidance considerations.

The treaty is expected to come into force on the 1st of January of the year, following the completion of the ratification process, by the governments of the two countries.

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Removal from the Spanish “black list”

Since 1991, Cyprus has been included in the Spanish “black list” of uncooperative jurisdictions. The signing of the new treaty will open the doors for Cyprus to be excluded from the relevant list.