Updated Cyprus-Ukraine Double Tax Treaty

October 2015

On 2 July 2015 the Ministry of Finance of the Republic of Cyprus announced the conclusion of a protocol amending the Convention for the Avoidance of Double Taxation with Ukraine. The amended Convention is scheduled to come into effect not earlier than 1 January 2019, a day after the current Convention expires. The current Convention was signed on 8 November 2012 and came into force on 1 January 2014.

In an important development, the amended Convention includes a "most favoured nation" clause for taxes on dividends, interest, royalties, and capital gains. The clause means that in respect of these taxes, Cyprus will be treated at least equally with Ukraine's other DTA counterparties in the future.

In addition to this, the revised Convention features the following amendments:

Dividend Income

The new protocol retains a withholding tax of 5%. However the beneficiary must be: i) a company directly holding 20% of the company paying the dividend; and ii) has invested at least €100,000 in the company's share capital. Under the current DTA only one of the two conditions must apply, rather than both.

In cases that do not meet this test, a withholding tax of 10% on the gross amount will be applied, compared to 15% in the current agreement.

Interest

The withholding tax will increase to 5% of the gross amount from 2% in the current agreement.

Capital Gains

Capital gains deriving from the disposal of shares in "property-rich" companies, or other movable property, will be taxable in the contracting state in which the immovable property is situated, rather than in which the person making the disposal is a tax resident, which is the case in the current agreement.

Conclusion

The amended Convention and the guarantee that Cyprus will be treated at least as well as any other jurisdiction that signs a DTA with Ukraine, combined with the beneficial provisions of Cyprus' tax legislation, reinforce its position as the first choice for Ukrainian inbound and outbound investments.

According to data from Ukraine's Statistical Service released in July 2015, almost 30% of current foreign direct investment into the Ukrainian economy comes from Cyprus.

The updated Convention is expected to further cement the already strong trade and economic ties between the Cyprus and Ukraine.

If you or your clients would like to discuss these developments, please contact your usual Trident contact or our Cyprus office by telephone at +357-258-20-650 or email at cyprus@tridenttrust.com.

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