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Cyprus – Iran Double Tax Treaty entering into effect in 2018

Cyprus and Iran had signed a tax treaty, on 4 August 2015, for the avoidance of double taxation and fiscal evasion with respect to taxes on income. The Treaty entered into force on 5 March 2017 and will come into effect on 1 January 2018.

Under the new treaty, dividend payments will be subject to withholding tax at the rate of 10%, which may be reduced to 5% if the beneficial owner holds directly at least 25% of the capital of the dividend paying company. Withholding tax on interest payments shall not exceed the rate of 5% provided that the recipient is the beneficial owner of such interest income. Withholding tax on royalty payments shall not exceed the rate of 6% provided that the recipient is the beneficial owner of such royalty income. In addition, capital gains arising from the alienation of the shares of a company will be taxable only in the state of residency of the person alienating the assets, unless more than 50% of the value of such shares derives directly from immovable property situated in the other state in which case taxation will be levied at the state where the immovable property is situated.

What is interesting to note, is that unlike other treaties recently concluded by Cyprus, this treaty does not provide for a separate article covering offshore activities. Although it is highlighted that as per Article 6(2), any income derived from rights to variable or fixed payments as consideration for the working of, or the right to work, mineral deposits, sources and other natural resources including oil, gas and quarries, should be considered as income from immovable property and may be taxed in the contracting state of situs.

With this new treaty, Cyprus has further expanded its extensive Double Tax Treaty network and aims to strengthen its economic and commercial relations with Iran.

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