



Tax Update

Treaty Signed Between Cyprus and Iran

September 2015

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On 4<sup>th</sup> August 2015 a tax treaty, which is based on the OECD model treaty, was signed between Cyprus and Iran. The treaty provisions will take effect on the 1<sup>st</sup> of January following the exchange of notification of ratification between the two states.

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The most significant provisions of the treaty are as follows:

- **Dividends:** Currently both countries do not impose withholding taxes on dividends, nevertheless, when at least one of the two countries starts imposing withholding taxes on dividends paid to non-residents, the treaty provides that these will be 5% when the beneficial owner is a company that holds directly at least 25% of the dividend paying company and 10% in all other cases.
- **Interest:** The withholding tax rate on interest may not exceed 5% provided that the recipient is the beneficial owner of the interest.
- **Royalties:** The withholding tax rate on royalties is 6% provided that the recipient is the beneficial owner of the royalties.
- **Capital Gains:** Gains resulting from the disposal of property and of shares in companies which derive more than 50% of their value from property will be taxed in the state where the property is situated.
- **Permanent Establishment:** In a number of cases a permanent establishment will need to last for more than 12 months in order to be considered as such.

Please note that Cyprus domestic law states that payments of dividends and interest to non-residents are exempt from withholding tax in Cyprus. Similarly, royalties granted for use outside of Cyprus are also exempt from withholding tax in Cyprus.

**Our View:** Due to the historic deal between Iran and the world powers on Tehran's nuclear program and lifting international sanctions, the treaty is expected to offer excellent investment opportunities between the two countries.

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