

Cyprus and Slovenia sign new tax convention

October 2010

On 12th of October 2010 the President of Slovenia visited Cyprus and met with government representatives to sign a new convention for the avoidance of double taxation between the two countries (the 'Convention'). Currently, the applicable treaty between the two countries is that between Cyprus and the Socialist Federal Republic of Yugoslavia however upon the Convention entering into force the current bilateral agreement shall cease to apply. The Convention is expected to come into effect on 1st January 2011 subject to its ratification by both governments in 2010.

The changes introduced by the Convention

Withholding rates on dividends and interest have been reduced to 5% (currently 10%). Note that the 5% rate of withholding tax on royalties has remained unchanged.

The provisions on the exchange of information in the 1985 convention have been revised with wording almost identical to article 26 of the latest OECD Model Treaty. The inquiring jurisdiction may request a confirmation of identity of a person under investigation as a beneficial owner of a company but may not inquire as to the identity of a beneficial owner of a particular company without having submitted identification. This means that while a confirmation may be obtained, an inquiring jurisdiction is not permitted to commence a fishing expedition on an individual. This position has been also established in Cyprus' domestic legislation, Law 72(I)/2008 (the 'Law'). In accordance with the Law the inquiring country must provide the Commissioner of the Inland Revenue Tax Office of Cyprus (the 'Commissioner') with (among identification of the individual under investigation and other stipulated matters), the tax reasons and evidence why the requested information is required. A declaration from the inquiring country must be provided to the Commissioner, that the request for information is in accordance with its domestic legislation and administrative practice and the Commissioner will not release the requested information unless he/she has been satisfied of that respective disclosure is also permitted under the laws of the inquiring jurisdiction.

Finally, the Commissioner shall not by Law provide the requested information unless the written consent of the Attorney General of Cyprus has been applied for and has been obtained.

Conclusion

The Convention on the avoidance of double taxation mirrors, in most respects, the already established bilateral agreement for the avoidance of double taxation between Cyprus and the Former Republic of Yugoslavia, with the reduced 5% withholding tax rates on dividends and interest stimulating further investments between the two jurisdictions.

For more information on this subject contact Head of Tax & Regulatory Emily Yiolitis (emily.yiolitis@harneys.com) in our Cyprus office.

The foregoing discussion and analysis is for general information purposes only and not intended to be relied upon for legal advice in any specific or individual situation.