

29<sup>th</sup> May 2014

## Double Tax Treaty between Cyprus and Spain enters into force

Cyprus expands its Treaty network and strengthens the investment relationship between the two countries.

The new double tax treaty between Cyprus and Spain that was signed on February the 14th, 2013 enters into force on 1st of January 2015.

The new treaty was expected originally to come into force on the 1st of January 2014 however since there was no official exchange of the ratified documents between the Governments of Spain and Cyprus, this was postponed.

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

- Dividend payments will be subject to a 5% withholding tax;
- Interest payments will not be subject to any withholding tax;
- Royalty payments will not be subject to any withholding tax;
- Capital Gains from the direct sale of shares in “property-rich” companies will be taxed in the country where the immovable property is situated.

It is interesting to note that a Limitation of Benefits (LOB) provision has not been inserted in the treaty. However, the Protocol to the treaty clearly stipulates that domestic anti-abuse provisions will apply.

As a result of this very positive development, the economic interaction between the two countries is expected to increase as the new Treaty will be a significant instrument for bilateral investment.