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**Amendments to the existing Tax Law involving the distribution of dividends/ interest/ royalties –**

**Blacklisted Jurisdictions**

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**Definition of Tax Residency for Companies**

The Cyprus Income Tax Laws provided up to now that a Cyprus Company is considered as Cyprus Tax Resident if its management and control is exercised in Cyprus.

Now with the amendment to the Law any company incorporated or registered in Cyprus whose management and control is exercised outside Cyprus will still be considered Cyprus Tax Resident, unless this company is considered as Tax Resident in any other state.

With the introduction of this paragraph in the amendment, this will disable foreign investors registering companies in Cyprus and appearing themselves as sole Director if the Cyprus company and with this arrangement, the profits of this company not being taxable in Cyprus.

With the introduction of this amendment, the taxable profits of this company will be taxed either in another country or in Cyprus without the possibility of such profits fully escaping taxation.

With this new amendment to the Law the Cyprus Tax Authorities will require the company to provide its tax computations filed in any foreign country and failing to do so the Cyprus company will be taxed in Cyprus.

Therefore, there will be no longer possibility to have a Cyprus incorporated company not being considered as tax resident in any jurisdiction.

**Payments to companies incorporated in blacklisted countries**

As this new amendment to the Law is an EU driven legislation to protect the EU Member states and the corporate services provided by those members, more stringent rules have been introduced for dividends/ interest/ royalties to protect the European centers providing similar services.

The countries that are considered as blacklisted countries are the following as listed by the EU council on 5TH October 2021:

American Samoa, Fiji, Guam, Palau, Panama, Samoa, Trinidad and Tobago, US Virgin Islands and Vanuatu.

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The withholding taxes to be applied on the payments made by Cyprus companies to these blacklisted countries are the following:

1. Dividends: 17% withholding tax if the recipient holds more than 50% of the voting rights in the Cyprus company
2. Interest: 30% withholding tax subject to special contribution for defense tax
3. Royalties: 10% withholding tax

These new amendments to the Law will come in force on 31st December 2022.

**How can DADLAW help?**

We can provide our advice for restructuring of existing operations to avoid potential imposition of withholding tax on dividends/ interest/ royalties in Cyprus.

Moreover, as there is a growing demand for adequate substance to be maintained, it is imperative that substance is proved in Cyprus to the foreign Income Tax Authorities provided and the economic activities of the Company justifies this for doing so. DADLAW can fully assist with the services offered through DADLAW Business Center NEO.

**DEMETRIOS A. DEMETRIADES LLC**

DADLAW HOUSE       
3 THASOS STREET                           
P. O. BOX 22360  
NICOSIA             
CYPRUS               
   
TEL: +357 22 769000  
FAX: +357 22 769004

WEBSITE: [www.dadlaw.com.cy](http://www.dadlaw.com.cy/)

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