

Cyprus signs the Multilateral Instrument

Cyprus - along other 67 countries and jurisdictions - formally signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (“MLI”) on 7 June 2017 in Paris. The MLI will implement a series of tax treaty measures to update the existing network of bilateral tax treaties and reduce opportunities for tax avoidance by multinational enterprises. Another 8 countries or jurisdictions have expressed their intent to sign the MLI as it remains open for additional signatories.

The first modifications to bilateral tax treaties are expected to enter into effect in early 2018.

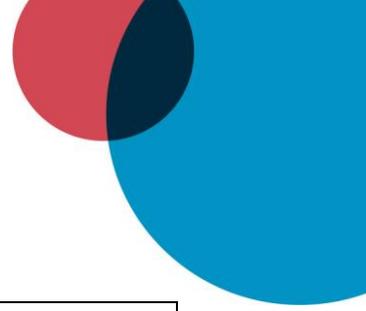
It is important to note that, according to OECD representatives, the MLI will not be amending the bilateral tax treaties by changing or adding particular words or phrases, but will rather be used in conjunction and will modify existing treaties to which it has application.

Upon signing the MLI, each country had the right to list the treaties to which the MLI will apply. Below is the list of Cyprus’ Reservations and Notifications at the time of signature.

The main expected impact on Cypriot companies will be the result of Articles 6 and 7 which relate specifically to treaty abuse. As a result of Article 7 of the MLI, Cyprus will implement in its double tax treaties, at a minimum, a principle purpose test (PPT) and a limitation of benefit clause (LoB) (simplified or detailed).

As a result of the below mentioned notifications, it is essential that Cyprus’ companies ensure that they have sufficient substance in Cyprus so as to avoid complications which could result from the implementation of the PPT and LoB.

Treaties applied by the Republic of Cyprus (Notifications)	Treaties not applied by the Republic of Cyprus (Reservations)
Article 2 – Interpretation of terms	Article 3 – Transparent entities
Article 6 – Purpose of a covered tax agreement including Articles 6(3) and 6(5) which were optional	Article 4 – Dual resident entities
Article 7 – Provision of treaty abuse including the provisions of Article 7(2) and Article 7(4)	Article 5 – Application of methods for elimination of double taxation
Article 16 – Mutual agreement procedure	Article 8 – Dividend transfer transactions
Article 17 – Corresponding Adjustments	Article 9 – Capital Gains from alienation of shares or interest of entities deriving their value principally from immovable property
	Article 10 – Anti-abuse rules for permanent establishments situated in third jurisdictions



	Article 11 – Application of tax agreements to restrict a party’s right to tax its own residents
	Article 12 – Artificial avoidance of permanent establishment status through commissionaire arrangements and similar strategies
	Article 13 – Artificial avoidance of permanent establishment statues through the specific activity exemptions
	Article 14 – Splitting-up of contracts
	Article 15 – Definition of a person closely related to an enterprise.
	Article 35 – Entry into effect. The Republic of Cyprus reserved the right to replace specific terms of the Article

Part VI (arbitration) of the MLI will apply in relation to two Contracting Jurisdictions with respect to a Covered Tax Agreement only when both Contracting Jurisdictions have made such a notification.

As mentioned above, it is essential that Cyprus companies’ owners examine the impact that these changes will have on their structures, as failure to do so could lead to significant tax implications.

Our team of professional advisors can assist you in examining your existing structures and providing you with an analysis of how these changes could impact your companies.

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