Cyprus – Switzerland Double Tax Treaty Amendments

In July 2020, Cyprus and Switzerland signed an amending Protocol to the existing Double Tax Treaty agreement to further strength the economic relationship between the two countries.

The Protocol is now undergoing the ratification process in both countries. It introduces the minimum standards of Base Erosion and Profit Shifting (BEPS) actions of the Organization for Economic Cooperation and Development (OECD).

The amendments are mainly focusing on the following:

- Business profits

An addition to the "Business Profits" of Article 7 provides that neither contracting state shall make adjustment to the profits that are attributable to a Permanent Establishment of an enterprise after 6 years provided that such profits would have been attributable to said PE.

- Associated enterprises

The provision of the associated enterprises will be replaced to ensure the appropriate adjustments to the tax charged on profits are allowable, of course, under certain circumstances.
For example, if Cyprus taxes the profits of a Cyprus-based company on which profits another company is also been taxed in Swiss, the profits taxed under the DTT will be those have accrued to the Cyprus-based company if the conditions between the companies were the same as those between to independent companies. Swiss will adjust the tax amount charged on said profits.

- Mutual agreement procedures

Under any circumstances that a person may present his case to the competent authority of any contracting states, if he consider that the actions of the states result or will result in taxation not complying with the provisions under the DTT. The aim of this protocol was to introduce the actions and reduce the tax base and the transfer of profits. It mainly concerns on the benefit entitlement and mutual agreement procedures. It contains an anti-abuse clause which refers to the main purpose of an arrangement or transaction and thus ensures that the DTT is not abused.

A side note on the existing DTT

The Double TAX Treaty with Swiss was signed in 2014 and entered into force since 2015. Under this agreement, there is no withholding tax on interests and royalties. However, the dividends payments shall subject to the below:

- 0% if the beneficial owner of the dividend is a company holding directly at least 10% of the capital of the company paying the dividend.
- 0% if the beneficial owner of the dividend is the government or government authorities.
- 0% if the beneficial owner is a pension fund or other institution recognized as such for tax purpose.
- 15% in all other cases.

Please contact us below for a free consultation tailored to your needs.