



Tax Update

Treaty Signed Between Cyprus and Portugal

December 2012

*Delivering results on time ...*

Following the removal of Cyprus from the so called Portuguese “black list” of jurisdictions with privileged tax regimes, on 19 November 2012 a treaty and protocol was signed between Cyprus and Portugal. The treaty will take effect on the 1st of January following the exchange of notification of ratification between the two states.

The treaty is based on the OECD Model Convention on Income and Capital and its most significant provisions are as follows:

- It applies to Portuguese personal income tax, corporate income tax and surtaxes on corporate income as well as to Cypriot personal income tax, corporate income tax, special defense contribution and capital gains tax.
- According to the treaty withholding tax rate on dividends, interest and royalties is 10%.
- Under the Portuguese domestic legislation the above withholding tax rate can be reduced to 0% based on the relevant EU directives.
- Under Cypriot domestic legislation there is no withholding tax on dividends and interest paid to non-residents and where withholding tax on royalties applies, if rights are used in Cyprus, such withholding tax can be reduced to 0% under the relevant EU directives.
- Income from the sale of shares in property rich companies will be taxed in the State in which the property is located.

**Our View:** The treaty should encourage investments between the two countries as it will reduce Portuguese withholding taxes.

P & V CY Fiduciary Services Ltd

P.O.Box 30021,  
5340 Ayia Napa, Cyprus

Tel. +357 23 721 070  
Fax +357 23 721 125

info@cyfiduciary.com  
www.cyfiduciary.com

This document is for general information purposes only and should not be used for decision making