International Fiscal Association

Tax Brief
IFA Ukraine

July 31, 2015
www.ifa-ukraine.org

Expected Changes to Cyprus-Ukraine DTT

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Double Tax Treaty (hereinafter – DTT) between Cyprus and Ukraine has been heavily discussed in the business environment for quite some time already. After the DTT was signed in autumn 2013 and came into force on 1st January 2014 there was a concern that Ukraine might denounce the signed DTT.

2 July 2015, following a second round of negotiations, the Ministry of Finance of Ukraine together with representatives of the Republic of Cyprus agreed on adjustments to the new DDT and in particular on an increase in the tax rate on certain types of passive income.

As Ministry of Finance announced on its website, its objective is to increase state budget revenues by broadening existing tax base, fighting tax evasion and reducing tax pressure for compliant taxpayers. In addition, the Ministry of Finance actively works on reducing capital outflow to offshore accounts.

The Ministry of Finance and the Government of Cyprus also agreed to sign the new Convention on Avoidance of Double Taxation in line with the OECD recommendations.

The new Convention is expected to include the following:

■ Gains received by a resident of Cyprus from alienation of shares or other corporate rights deriving more than 50% of their value directly or indirectly from immovable property located in Ukraine shall be subject to taxation in Ukraine (currently such gains shall not be taxable in Ukraine);

■ Two conditions shall be satisfied simultaneously for application of 5% withholding tax to dividends payable to Cyprus: 20% ownership in a Ukrainian company and minimum 100 000 EUR investment in the share capital of the Ukrainian company (currently it is sufficient to meet either of the above conditions for application of the reduced 5% tax rate);

■ Withholding tax to interest shall be increased to 5% (2% withholding tax currently applies to interest).

In case the above mentioned DTT is signed and ratified by contracting states, new provisions for taxation of passive income will come into force on 1 January 2019, as stated in Article 27 of the current Convention.