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Tax Update

Treaty Signed Between Cyprus and Poland

March 2012

Delivering results on time …

On 22nd March 2012 the protocol amending the double tax treaty between Cyprus and Poland was signed. The new provisions will take effect on the 1st of January following the exchange of notification of ratification between the two states.

The most significant changes are as follows:

- The withholding tax rate on dividends has been reduced from 10% to 0% provided that the dividend receiving company owns at least 10% of the share capital of the company distributing the dividends for 24 months. The withholding tax in all other cases has been reduced to 5%.

- The withholding tax rate on interest has been reduced from 10% to 5%

- The withholding tax rate on royalties remains unchanged at 5%.

- Tax sparing provisions are now terminated, in other words, tax payers can only reduce the tax to be paid in their country of tax residency by deducting the tax which they have actually paid in the other state according to the treaty.

- Director fees will only be taxed where the individual receiving them is a tax resident.

- Changes have been implemented in the definition of the term "Royalties" and an "Exchange of Information" article has been the included, both in line with the OECD Model Convention.

Our View: The structures traditionally used which often resulted in (a) Payment of dividends from Cyprus to Poland that were taxed only in Poland at reduced tax rates and (b) Payment of directors' fees from Cyprus to Polish individuals that were totally tax free will no longer be efficient. Therefore, some adjustments might need to be made in existing structures in order to benefit from the still favourable tax treaty between the two states.

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