



## Cyprus Tightens Tax Rules on Low-Tax and Blacklisted Jurisdictions

Cyprus has amended its tax legislations to tighten the rules on outbound payments to associated companies located in low-taxed jurisdictions (as well as their permanent establishments). The pre-existing withholding tax ('WHT') provisions, targeting EU blacklisted jurisdictions, as well as the new rules, are summarized below:

| Jurisdiction of Payee  | Dividends | Interest                            | Royalties                           |
|--|-----------|-------------------------------------|-------------------------------------|
| <b>EU Blacklisted</b><br>(Pre-existing: effective from <b>31/12/2022</b> ) | 17% WHT   | 17% WHT                             | 10% WHT                             |
| <b>Low-Taxed</b><br>(New: effective from <b>01/01/2026</b> )               | 17% WHT   | Restriction of Expense <sup>1</sup> | Restriction of Expense <sup>1</sup> |

In addition, the amendments have introduced anti-avoidance rules, as well as an obligation for taxpayers to maintain supporting evidence, in case no WHT is applied to such jurisdictions. Where a double tax treaty with a low-taxed, or an EU blacklisted jurisdiction, restricts Cyprus from WHT application, Cyprus will notify the treaty partner within three years to initiate a renegotiation process.

<sup>1</sup> The denial of deduction does not apply in cases where WHT is imposed under the pre-existing provisions.

## KEY DEFINITIONS

The amendments introduced the following definitions:

- ▶ **Blacklisted Jurisdiction:** Refers to a non-EU jurisdiction that is included in the [EU's official list of non-cooperative jurisdictions](#) for tax purposes ('Annex I'). A jurisdiction is considered blacklisted if it appears on the EU list at the relevant time, as well as during the previous calendar year;
- ▶ **Low-taxed Jurisdiction:** Defined as a non-EU jurisdiction where the statutory corporate income tax rate is lower than 50% of the applicable corporate tax rate in Cyprus. Given that the corporate tax rate in Cyprus is currently at 12.5%, this means any jurisdiction with a rate below 6.25%;
- ▶ **Level of Association:** The level of association, for the purpose of the defensive measures, is based on a wide 50% relationship threshold capturing companies and individuals.

## SUPPORTING EVIDENCE REQUIREMENT

Further, the regulatory degree ([Κ.Δ.Π. 110/2025](#)) states that in case no WHT is applied to such jurisdictions, the taxpayer must retain supporting evidence for a period of six years from the end of the relevant tax year. The evidence should demonstrate the recipient company's profile and genuine business activity. This evidence must show that the recipient company meets at least five of the following criteria:

- ▶ At least one member of the board of directors:
  - Has the authority and responsibility to make decisions relating to the activities, assets, or rights that generate the company's income; and
  - Actively and independently performs their duties.
- ▶ At least one board member making decisions resides in the jurisdiction where the recipient is tax resident (or within commuting distance);
- ▶ The company has office space in that jurisdiction where its directors and employees perform their duties;
- ▶ The majority of board meetings take place in that jurisdiction;
- ▶ Its operating expenses (including director fees and staff salaries) which are incurred in that jurisdiction are proportionate to its activity;
- ▶ The group is not structured in such a way that the recipient company's only activity is to receive interest or royalties from the Cypriot company and then transferring all or nearly all of that amount, shortly after its receipt, to another associated company, so that it retains only an insignificant portion of taxable income.

The above requirement does not apply if the recipient company:

- ▶ Is tax resident in Cyprus; or
- ▶ Is tax resident in an EU or EEA Member State; or
- ▶ Is part of a multinational group and subject to a minimum effective tax rate of 15%, in accordance with Pillar 2 rules / EU Directive; or
- ▶ It is a member of a consolidated group for accounting purposes and does not have a presence in a non-cooperative jurisdiction, either through a company or through a permanent establishment.

### FINAL REMARKS

These amendments form part of Cyprus's continued commitment to strengthen its tax framework and align with international standards on enhancing tax transparency and fairness. Taxpayers should take a proactive approach in reviewing their cross-border arrangements to ensure ongoing compliance with the updated provisions.



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