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Cyprus as a Gateway for Indian Cross Border Transactions

A tax resident in Cyprus will enjoy the favourable corporate tax regime on offer. The many benefits a Cyprus company include:

By **Jake Magell**, 28th January 2025

Introduction

Cyprus and India have long maintained close and friendly bilateral relations, progressively strengthening their economic, scientific, and technical cooperation.

On 18 November 2016, Cyprus and India signed a revised agreement for the avoidance of double taxation and prevention of fiscal evasion concerning taxes on income (Double Taxation Treaty "DTT"), replacing the previous DTT established in 1994.

With minor adjustments, the DTT agreement aligns closely with the OECD Model Convention for the Avoidance of Double Taxation on Income and on Capital.

Advantages of the Cyprus Corporate Tax Regime

Provided a company meets the economic substance requirements and is considered a tax resident in Cyprus then they will enjoy the favourable corporate tax regime on offer. Some of the many benefits a Cyprus company can enjoy include:

- Corporate tax rate of 12.5%, one of the lowest in Europe. Thiscan be lowered to 2.5% through the use of the Notional Interest Deduction (NID). Please see our detailed article on the NID here.

- Inbound dividends are not taxable (subject to conditions), and there are also no capital gains tax on the sale of securities and disposal of shares.

- The revised treaty assigns taxing rights to the source country for capital gains from the alienation of shares. Gains from shares acquired before 1 April 2017 are taxable only in the seller's country of residence, while gains from shares acquired on or after 1 April 2017 may be taxed by the source country.

- There is no withholding tax on dividends, interest, and royalties paid from Cyprus, provided the royalty rights were exercised outside Cyprus.

- The following are the maximum withholding tax (WHT) rates on inbound payments from Cyprus to India under the treaty (subject to possible lower rates or exemptions under domestic law provisions):
  - Dividends: 10%
  - Interest: 0%*/10%
    - NIL, if the beneficial owner of the interest is the Government, a political subdivision, a local authority of the other Contracting State, or specified financial institutions such as the Reserve Bank of India.

    - Royalties: 10%
      - A WHT rate of 10% also applies for payments of a technical, managerial, or consulting nature.

- Cyprus has a vast network of Double Tax Treaties (DTTs) aimed at preventing double taxation.

Cyprus Holding Company

As a result of the above, Cyprus companies can be effective holding entities for Indian companies involved in international cross-border transactions. A Cyprus company can own 100% of an Indian company engaging in various investments. From a Cyprus perspective, no participation or holding requirements are necessary to obtain tax benefits. Incoming dividends from India are exempt from Cyprus corporation tax and will also be exempt from Special Defence Contribution (SDC) at a rate of 17%, provided that:

- The Indian company paying the dividend engages directly or indirectly in more than 50% of activities generating non-investment income, or

- The Indian tax burden on the income of the paying company is not significantly lower than the Cyprus tax burden (defined as less than 50% of Cyprus's corporate tax rate, i.e., lower than 6.25%).

Additionally, a Cyprus entity can be used as an intermediary for channelling foreign direct investments (FDIs) into India or other countries or can be used to accumulate group profits which can be reinvested without triggering additional tax liabilities.

How Can Dixcart help?

For over 50 years, Dixcart has been a trusted partner, assisting clients with international structuring, company incorporation, and management. Our extensive local expertise and dedicated team have established us as leaders in the field.

We are committed to guiding you through every stage of the process, from setting up and registering a Cyprus company to providing management, accounting services, and fully serviced office space. Dixcart Cyprus is your comprehensive solution for incorporating a Cyprus entity and maximising the advantages it offers.

Our team will support you in gathering and organising all necessary documents while ensuring full compliance with local and international regulations. We will liaise directly with governing bodies on your behalf to streamline the process and safeguard regulatory adherence.

If you would like to explore the benefits of establishing a Cyprus company or have any questions about our services, please contact Dixcart Cyprus for further information at: advice.cyprus@dixcart.com.