

Cyprus-South Africa Double Tax Agreement - Why is it so Attractive?

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Introduction

South Africa, still remains a jurisdiction where investment, in the correct manner, can be attractive.

This is due to the South African economy offering a diversity of sectors and industries. It has a modern and extensive transport infrastructure, highly qualified financial serviced experts and ordinary labour costs are priced competitively.

South Africa's significant natural resources and exceptional tourism potential have dominated the investment opportunities for a number of years but there are a number of new growth areas such as philanthropic investment opportunities.

These factors, along with a weak Rand resulting in a higher purchasing power for international investors, have made South Africa an interesting and increasingly popular investment destination.

The Double Tax Treaty between Cyprus and South Africa

The initial Cyprus-South Africa Double Tax Treaty (DTT) was signed in 1997, and an adjusting Protocol was signed in 2015, which amended certain key clauses. The key highlights and benefits of the DTT are:

- A reduced withholding tax on interest and royalties to 0%.
- A rate of 5% or 10% withholding tax on dividends:
- 5% if the beneficial owner of the company holds at least 10% of the capital of the company paying the dividend.
- 10% in all other cases

withholding tax payments for dividends, detailed above, only relate to the payment of dividends from South Africa to non-resident shareholders. Dividend payments from a Cyprus company are taxed at 0% withholding tax.

In addition to the above rates of withholding tax it is worth noting that The Exchange of Information article was revised in 2015 and brought in line with the OECD Model Tax Convention.

Opportunities created by the favourable DTT and the Cyprus tax regime.

Use of Cyprus Financing Companies for South Africa

As a result of the above benefits we can see that there are benefits in using a Cyprus company as a financing company for South Africa.

More specifically the 0% withholding tax rate on interest payments from South Africa to Cyprus coupled with and a 15% rate of corporation tax applied to any margin on the interest in Cyprus. When you combine this with the fact that there is no withholding tax applicable on interest payments from Cyprus you can see just how beneficial this structure can be.

Cyprus as a Location for the Holding of Intellectual Property (IP) used in South Africa

Cyprus has long been a location which offers advantages for IP structures. The use of one of these structures for IP utilised in South Africa is no exception. This is due to the below facts:

- Zero withholding tax on royalty income paid from South Africa to Cyprus.
- Subject to meeting the specific requirements, only 20% of royalty income is taxed in Cyprus. Application of the Cyprus corporate tax rate of 15% therefore provides an effective tax rate of 2.5%.
- It is possible to transfer profits from a Cyprus company without there being withholding tax payable on dividends or on onward royalty payments.
- On disposal of the IP rights, 80% of the proceeds are exempt from corporation tax in Cyprus.

Other Advantages available in Cyprus

There are a number of additional benefits available in Cyprus, including:

- Profits from a permanent establishment located outside of Cyprus are exempt from Cypriot tax as long as no more than 50% of the income has arisen from investment income (dividends and interest).
- There is no capital gains tax. The only exception to this is on gains from the sale of immovable property in Cyprus or shares in companies owning such property.
- No tax on dividend income.
- No withholding tax on dividends, interest and royalties. Low rate of 15% corporation tax which could be lowered to 2.5% through the IP box regime or the [Notional Interest Deduction \(NID\)](#) – click the links for more information on these.

It is also important to highlight that through availability of tax rulings from the Cypriot Tax Authority we can make the tax planning a more certain and efficient process.

Summary

The Double Tax Treaty between Cyprus and South Africa can be extremely beneficial for the right investor, due to its zero-withholding tax on interest, royalties and dividends paid from Cyprus, and its relatively low rate of withholding tax on dividends paid from South Africa.

It's particular strength is through the use of IP rights held in Cyprus that are utilised in South Africa, and the use of Cyprus financing companies for South African subsidiaries.

If you are interested in making the most of the Cyprus-South Africa DTT or if you have any questions about how we can help you, please contact us at the Dixcart office in Cyprus for further information: advice.cyprus@dixcart.com.