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Cyprus Tax Alert

Limassol, 3 June 2025

CYPRUS PARLIAMENT APPROVES DEFENSIVE TAX MEASURES TARGETING LOW TAX AND 'BLACKLISTED' JURISDICTIONS

This alert summarizes the introduction of the legislative amendments on taxation of dividends, interest and royalties earned by companies in EU-listed 'blacklisted' jurisdictions (BLJs) and low-tax jurisdictions (LTJs), as well as documentation to be kept on payments to overseas associated companies in EU-listed 'blacklisted' jurisdictions and low-tax jurisdictions.

OVERVIEW

On 10 April 2025, the Cyprus House of Representatives has passed legislation introducing defensive measures aimed at companies located in low-tax jurisdictions and blacklisted jurisdictions. More specifically, dividends earned from Cyprus by associated companies located in EU BLJs and LTJs will be subject to withholding tax at the rate of 17%.

In addition, interest and royalties earned from Cyprus will not be deductible for corporate tax purposes.

The measures are effective from 1 January 2026.

KEY DEFINITIONS

Low-tax jurisdiction (LTJ):
A jurisdiction with a statutory corporate income tax rate lower than 50% of the Cypriot rate (currently is 12,5%)

Non-cooperative /EU blacklisted jurisdiction

- Blacklisted jurisdictions are those included in the EU list of non-cooperative jurisdictions (AnnexI) *https://taxation-customs.ec.europa.eu/taxation/common-eu-list-third-country-jurisdictions-tax-purposes_en* at the time of the transaction and in the previous calendar year. These are the American Samoa, Anguilla, Fiji, Guam, Palau, Panama, the Russian Federation, Samoa, Trinidad & Tobago, US Virgin Islands, and Vanuatu.

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SUMMARY AND APPLICATION OF THE RULES

Jurisdiction	Dividends	Interest	Royalties
Blacklisted	17% Withholding tax		
Low tax	17% Withholding tax (from 1/1/26)		
Blacklisted		17% Withholding tax	
Low tax		Deduction denied (from 1/1/26)	
Blacklisted			10% Withholding tax
Low tax			Deduction denied (from 1/1/26)

The defensive measures will apply where the recipient of the income is an associated company registered in blacklisted or low tax jurisdictions and is not tax resident in a jurisdiction that is not blacklisted or low tax.
For the measure to apply, the recipient should have a direct or indirect association with the Cypriot company making the payment that exceeds the 50% either alone or together with other associated persons.

The rules also extend to payments made to permanent establishments in blacklisted or low tax jurisdictions regardless of whether the PE is maintained by a company that is not BLJ/LTJ.

GENERAL ANTI-ABUSE RULE

An anti-abuse mechanism is set to counteract arrangements which lack commercial substance that are primarily designed to avoid the application of the defensive measures.

The key consideration is to confirm that there is adequate documentation of commercial substance for payments made to associated companies in jurisdictions that are not BLJs or LTJs (mostly dividends, interest and royalties).

Requirements for satisfying the anti-abuse provisions

The Cyprus paying entity must check and retain for at least six years from the end of the tax year in which the transactions occurred, supporting documentation in relation to the recipient entity on the following:

a. Decision making:
At least one member of the Board of Directors is qualified and authorized to make decisions regarding the entity's operations, assets, or rights that generate the

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income of the entity and acts independently when exercising their duties.

b. ***Local presence:***
At least one member of the BOD, who is qualified and authorized to make decisions regarding the entity, resides in the jurisdiction where the entity is tax resident.

c. ***Office space:***
The entity has office space in the jurisdiction of its tax residence.

d. ***Board of Directors meetings:***
Most of the meetings take place in the jurisdiction in which the entity is a tax resident.

e. ***Operational expenses:***
The operational expenses of the entity, including payments to its directors and employees, that are paid within the jurisdiction of its tax residency for the tax year in which the transaction took place, are proportional to the entity's activities.

f. ***Beneficial ownership:***
The group of companies to which the entity belongs is not organized in a manner where the entity's only function is to receive income from the Cyprus paying entity and transfer the amount to another associated entity right after, to minimize its taxable income.

The anti-abuse provisions will not apply if the recipient entity satisfies at least five of the six criteria listed above.

Exceptions

The supporting documentation requirements will not apply if the recipient entity is:

- A tax resident in Cyprus
- A Tax resident in another EU member state or in the European Economic Area
- Part of the multinational group and subject to a minimum tax of 15% based on legislation adopting the EU directive on global minimum taxation or the OECD global anti-base erosion (GloBe) model rules or
- A member of a consolidated group for accounting purposes that does not have a presence in a jurisdiction listed in annex I of the EU list of noncooperative tax jurisdictions (company or PE).

FINES

The following administrative fines may apply if the Cypriot paying entities do not share supporting documentation to tax authorities in connection with the dividends, interests and royalties upon request and within 60 days:

- €2.000 for non-compliance between 61 and 91 days
- €4.000 for non-compliance between 91 and 120 days
- €10.000 for non-compliance exceeding 121 days

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SUMMARY

It is essential for companies to consider undertaking a comprehensive review of their companies to identify whether they fall within the scope of this legislation and act upon if necessary. PKF may assist you in any enquiries you may have.

In case of any further clarification please do not hesitate to contact us.

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