19th November 2016

Dear Sir,

Revised Double Taxation Avoidance and the Prevention of Fiscal Evasion (DTAA) Agreement signed between India and Cyprus

A revised Agreement between India and Cyprus for the Avoidance of Double Taxation and the Prevention of Fiscal evasion (DTAA) with respect to taxes on income, along with its Protocol, was signed in Nicosia, which will replace the existing DTAA that was signed by two countries on 13th June 1994. The Protocol was signed by Mr. Ravi Bangar, High Commissioner of India to Cyprus on behalf of India and Mr. Harris Georgiades, the Minister of Finance on behalf of Cyprus.

New DTAA provides for source based taxation of capital gains arising from alienation of shares, instead of residence based taxation provided under the existing DTAA. However, a grandfathering clause has been provided for investments made prior to 1st April, 2017, in respect of which capital gains would continue to be taxed in the country of which taxpayer is a resident.

The new Agreement provides for Assistance between the two countries for collection of taxes. The new Agreement also updates the provisions related to Exchange of Information to accepted international standards, which will enable exchange of banking information and allow the use of such information for purposes other than taxation with the prior approval of the Competent Authorities of the country providing the information. The new Agreement expands the scope of 'permanent establishment' and reduces the tax rate on royalty in the country from which payments are made to 10% from the existing rate of 15%, in line with the tax rate under Indian tax laws. It also updates the text of other provisions in accordance with the international standards and consistent policy of India in respect of tax treaties.

Provisions of new DTAA will enter into force after the completion of necessary internal procedures in both countries and is expected to come into effect in India in respect of income derived in fiscal years beginning on or after 1st April, 2017.

Eapen Kalapurakal
Secretary