

India and Cyprus renegotiate double taxation avoidance agreement

July 01, 2016

In brief

On July 01, 2016, the Government of India ('GoI') announced that negotiation on the Double Taxation Avoidance Agreement ('DTAA') between India and Cyprus had been completed to provide for source-based taxation of capital gains and grandfathering of investments made prior to April 01, 2017. Further, it has been agreed between both countries that India will consider removal of Cyprus from the list of notified jurisdictional areas under the Income-tax Act, 1961 ("the Act") and initiate necessary procedures.

This news alert summarises the key announcements stated in the press release issued by the Central Board of Direct Taxes, India ('CBDT').

In detail

On November 01, 2013, the GoI had notified Cyprus as a "notified jurisdictional area" under section 94A of the Act.¹

Pursuant to the above, the Cyprus Ministry of Finance had consultations with the GoI to address the concerns that had caused India to notify Cyprus as a "notified jurisdictional area". On July 01, 2016, the CBDT issued a Press Release² with the following key announcements:

- India will consider removal of Cyprus from the list of notified jurisdictions with retrospective effect from November 01, 2013;
- Source-based taxation for capital gains from alienation (disposal) of shares. In other words, India shall have the right

to tax capital gains arising to Cyprus tax residents on transfer of shares of an Indian company; and

- Grandfathering of investments undertaken prior to April 01, 2017.

Way forward

This is a very significant development and will contribute to further develop the trade and economic links between India and Cyprus.

As was expected, the GoI is in the process of amending the India-Cyprus DTAA to align it with the recently proposed amendments to the India-Mauritius DTAA. While the press release mentions the key amendments, one will have to wait for the fine print of the protocol to examine if there are other amendments to the India-Cyprus DTAA.

Following the trend, one would expect the GoI to be in active discussions with other countries (like Singapore) for DTAA renegotiations.

Let's talk

For a deeper discussion of how this issue might affect your business, please contact:

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¹ Notification No. 86 dated November 01, 2013

² Press Release is available [here](#).

http://www.incometaxindia.gov.in/Lists/Press%20Releases/Attachments/489/PressReleaseIndia-CyprusNegotiations1_7_2016.pdf

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