August 2026

TAX BRIEF

Double Tax Treaty (DTT) between Cyprus and the Kyrgyz Republic was signed on 8 June 2026. The treaty marks an important development in the tax relationship between the two countries and is expected to facilitate cross-border investment and trade by providing greater tax certainty and reducing potential double taxation.

Before becoming effective, the treaty must complete the remaining legal procedures in both jurisdictions and formally enter into force. Once in force, its provisions will apply from 1 January of the year following the year of entry into force.

Historical Context

According to the Cyprus tax authorities, the 1982 Double Tax Treaty between Cyprus and the former USSR technically remains in force with respect to Kyrgyzstan. However, Kyrgyzstan has not been applying the USSR treaty in practice. The new bilateral DTT is therefore expected to replace uncertainty with a clear and dedicated treaty framework governing tax relations between the two countries.

Key Features

Dividends

The treaty introduces reduced withholding tax (WHT) rates on dividend payments:

- 7% WHT where the beneficial owner is a company (other than a partnership) that directly holds at least 25% of the capital of the distributing company.
- 10% WHT in all other cases.

Interest

The treaty limits withholding tax on interest payments to 8% WHT on the gross amount of interest.

Royalties

The treaty provides for 8% WHT on the gross amount of royalty payments.

The definition of royalties covers payments for the use of, or the right to use:

- copyrights, including software;
- patents;
- trademarks;
- designs and models;
- secret formulas or processes;
- industrial, commercial or scientific equipment; and
- industrial, commercial or scientific know-how.

Capital Gains

The treaty permits a state to tax gains arising from the disposal of shares where more than 50% of the value of the shares is derived, directly or indirectly, from immovable property situated in that state.

Key limitations include:

- taxation applies only to the portion of gains attributable to the immovable property; and
- the rule does not apply to shares listed on an approved stock exchange.
- The treaty also contains provisions allowing taxation of gains relating to certain offshore property rights.

Anti-Abuse Rule (Principal Purpose Test)

The treaty incorporates a Principal Purpose Test (PPT) consistent with international anti-abuse standards. Under this rule, treaty benefits may be denied where obtaining such benefits was one of the principal purposes of an arrangement or transaction, unless it can be demonstrated that granting the benefit would be consistent with the object and purpose of the treaty provisions.

Cyprus Withholding Tax Rules

Under current Cyprus tax legislation:

- Dividends paid by a Cyprus company to a non-Cyprus tax resident are generally exempt from Cyprus withholding tax, regardless of the applicable DTT rate.
- Interest paid to non-Cyprus tax residents is generally not subject to Cyprus withholding tax.
- Royalties paid to non-Cyprus tax residents are generally not subject to Cyprus withholding tax, except where the intellectual property rights are used within Cyprus.

Anti-Avoidance Exceptions

The above exemptions may not apply where payments are made to persons resident in:

- jurisdictions included on the EU list of non-cooperative jurisdictions for tax purposes (EU blacklist); or
- jurisdictions designated by Cyprus as low-tax jurisdictions under its domestic anti-abuse rules.

As of the date of signing, Kyrgyzstan is neither included on the EU blacklist nor classified by Cyprus as a low-tax jurisdiction.