Corporate Tax - Cyprus

Double tax agreement signed with Bahrain

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Details of double tax agreement
Comment

On March 9 2015 Cyprus signed a new double tax agreement with Bahrain. Like all of Cyprus's recent double tax agreements, it closely follows the 2010 Organisation for Economic Cooperation and Development (OECD) Model Tax Convention. The double tax agreement's main provisions are summarised below.

Details of double tax agreement

Taxes covered
The agreement applies to taxes on income imposed by either country. In Cyprus, this includes income tax, corporate income tax, Special Contribution for Defence (known as SDC tax) and capital gains tax.

Permanent establishment
The permanent establishment article closely follows the OECD Model Tax Convention. A building site, construction or installation project or any supervisory activities in connection with them constitute a permanent establishment only if they last for more than twelve months.

Hydrocarbon activities
The minimum duration does not apply to hydrocarbon exploration, exploitation or refining activities. An enterprise is deemed to have a permanent establishment in a contracting state and to carry on business through the permanent establishment if it is directly engaged either in the exploration for or production of crude oil or other natural hydrocarbons from the ground in that state for its own account or in refining crude oil owned by it or by others, wherever produced, in its facilities in that state, irrespective of the duration of the activities.

Income from immovable property
Income derived by a resident of a contracting state from immovable property situated in the other may be taxed in the state in which the property is located.

Business profits
The article of the agreement that deals with business profits reproduces the corresponding article of the OECD Model Tax Convention verbatim, with profits (apart from profits of a permanent establishment in the other contracting state) being taxable only in the contracting state in which the enterprise is resident.

Shipping and aviation
Profits from the operation of ships or aircraft in international traffic are taxable only in the contracting state in which the enterprise concerned is resident.

Dividends, interest and royalties
Dividends, interest and royalties paid by a company which is resident in one contracting state to a resident of the other contracting state are taxable only in the contracting state in which the recipient is resident, unless they relate to the activities of a permanent establishment in the contracting state in which they arise, operated by the recipient.

Capital gains
Gains derived by a resident of one contracting state from the alienation of immovable property (or of moveable property associated with a permanent establishment) situated in the other may be taxed in the contracting state in which the property is situated. Gains derived from the alienation of all other property

(including ships or aircraft operated in international traffic) are taxable only in the contracting state in which the alienator is resident.

Elimination of double taxation
In either contracting state a credit is given against local tax for tax paid in the other contracting state in respect of the income concerned. The credit may not exceed the local tax payable on the income.

Exchange of information
The information exchange article follows the corresponding article of the OECD Model Tax Convention and the protocol contained in several of Cyprus's recent agreements setting out the material required to support a request for information and the procedures to be followed is not included. However, the Assessment and Collection of Taxes Law provides Cyprus residents with identical safeguards.

Entry into force and effect
The agreement will enter into force once both countries have exchanged notifications that their formal ratification procedures have been completed. It will have effect in respect of taxes withheld at source on or after the following January 1 and in respect of other taxes, for tax years commencing on or after that date.

Comment

The new agreement is a valuable extension of Cyprus's network of double tax agreements. Together with other agreements between Cyprus and Bahrain signed at the same time, the double tax agreement should boost trade between them, which has hitherto been modest. Investment flows between the two countries are more substantial and the new agreement should also encourage these.

As Cyprus has a comprehensive participation exemption and does not impose any tax on capital gains, apart from gains derived from disposal of real estate located in Cyprus, the provisions relating to dividends and gains should provide tax mitigation opportunities.

It is therefore to be hoped that the remaining steps required to bring the agreement into effect can be achieved quickly. In the meantime the Cypriot tax authorities will doubtless follow their normal practice of allowing unilateral relief for taxes paid overseas.

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