



Wolters Kluwer



# GLOBAL TAX WEEKLY

## a closer look

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**SUBJECTS** TRANSFER PRICING INTELLECTUAL PROPERTY VAT, GST AND SALES TAX CORPORATE TAXATION INDIVIDUAL TAXATION REAL ESTATE AND PROPERTY TAXES INTERNATIONAL FISCAL GOVERNANCE BUDGETS COMPLIANCE OFFSHORE

**SECTORS** MANUFACTURING RETAIL/WHOLESALE INSURANCE BANKS/FINANCIAL INSTITUTIONS RESTAURANTS/FOOD SERVICE CONSTRUCTION AEROSPACE ENERGY AUTOMOTIVE MINING AND MINERALS ENTERTAINMENT AND MEDIA OIL AND GAS

**COUNTRIES AND REGIONS** EUROPE AUSTRIA BELGIUM BULGARIA CYPRUS CZECH REPUBLIC DENMARK ESTONIA FINLAND FRANCE GERMANY GREECE HUNGARY IRELAND ITALY LATVIA LITHUANIA LUXEMBOURG MALTA NETHERLANDS POLAND PORTUGAL ROMANIA SLOVAKIA SLOVENIA SPAIN SWEDEN SWITZERLAND UNITED KINGDOM EMERGING MARKETS ARGENTINA BRAZIL CHILE CHINA INDIA ISRAEL MEXICO RUSSIA SOUTH AFRICA SOUTH KOREA TAIWAN VIETNAM CENTRAL AND EASTERN EUROPE ARMENIA AZERBAIJAN BOSNIA CROATIA FAROE ISLANDS GEORGIA KAZAKHSTAN MONTENEGRO NORWAY SERBIA TURKEY UKRAINE UZBEKISTAN ASIA-PAC AUSTRALIA BANGLADESH BRUNEI HONG KONG INDONESIA JAPAN MALAYSIA NEW ZEALAND PAKISTAN PHILIPPINES SINGAPORE THAILAND AMERICAS BOLIVIA CANADA COLOMBIA COSTA RICA ECUADOR EL SALVADOR GUATEMALA PANAMA PERU PUERTO RICO URUGUAY UNITED STATES VENEZUELA MIDDLE EAST ALGERIA BAHRAIN BOTSWANA DUBAI EGYPT ETHIOPIA EQUATORIAL GUINEA IRAQ KUWAIT MOROCCO NIGERIA OMAN QATAR SAUDI ARABIA TUNISIA LOW-TAX JURISDICTIONS ANDORRA ARUBA BAHAMAS BARBADOS BELIZE BERMUDA BRITISH VIRGIN ISLANDS CAYMAN ISLANDS COOK ISLANDS CURACAO GIBRALTAR GUERNSEY ISLE OF MAN JERSEY LABUAN LIECHTENSTEIN MAURITIUS MONACO TURKS AND CAICOS ISLANDS VANUATU

## Cyprus' New Double Taxation Agreement With Bahrain

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On March 17, 2015, Cyprus signed a new double taxation agreement with Bahrain. Like all of Cyprus's recent DTAs, it closely follows the 2010 OECD Model Tax Convention. Its main provisions are summarized below.

### Taxes covered

The agreement applies to taxes on income imposed by either country. In Bahrain, these are currently the income tax payable under Legislative Decree No. 22/1979 ("the Oil Tax"); in Cyprus, they are 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. 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 12 months.

### Hydrocarbon Activities

The 12-month 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 that permanent establishment if in that state 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 dealing with business profits reproduces the corresponding article of the OECD Model 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 a resident of 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 movable 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 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, Cyprus's 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.

## **Conclusion**

The new agreement is a valuable extension of Cyprus's network of DTAs. Trade between the two countries has been relatively modest until now, and, together with other agreements between the two countries signed at the same time, it should boost trade between them, which has hitherto been modest. Investment flows between Cyprus and Bahrain 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

Cyprus tax authorities will doubtless follow their normal practice of allowing unilateral relief for taxes paid overseas.