



Cyprus Tax News

Tax treaty with Bahrain effective from 1 January 2017

On 9 March 2015, Cyprus signed its first tax treaty with the Kingdom of Bahrain. Following the completion of the relevant ratification procedures, the tax treaty entered into force on 26 April 2016 and will apply as from **1 January 2017**.

The main provisions of the treaty, which is based on the OECD model treaty, are as follows:

Permanent establishment: A building site or construction or installation project or any supervisory activities in connection with such a site or project will constitute a permanent establishment only if it lasts more than **12 months**.

Dividends: Nil withholding tax.

Income from debt claims: Nil withholding tax

Royalties: Nil withholding tax

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It is worth noting that Bahrain currently does not levy withholding taxes on dividends, interest or royalties. Therefore, if Bahrain decides at some point in the future to introduce withholding taxes under its domestic law, the treaty provides certainty that there would be no withholding tax on payments made to Cypriot tax residents.

Capital gains: Gains derived by a resident of a contracting state from the disposal of immovable property situated in the other contracting state may be taxed in that other state. Gains arising from the disposal of shares will be taxable only in the contracting state in which the alienator is a resident.

Deloitte view: The tax treaty between Cyprus and Bahrain is a useful tool in the two countries' efforts to embrace economic diversity and attract foreign direct investment.

We are at your disposal to discuss the above development with you.



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