Russell Bedford
taking you further

INTERTAXAUDIT
audit | tax | assurance

www.intertaxaudit.com

CYPRUS SIGNS A TAX TREATY WITH SAUDI ARABIA FOR THE AVOIDANCE OF DOUBLE TAXATION

ISSUE No. T(1)0118 JUN 2018

The Republic of Cyprus has recently concluded a Double Tax Treaty with Kingdom of Saudi Arabia. The treaty was signed on the 3RD January 2018.

The new treaty shall enter into force upon both Cyprus and Saudi Arabia exchanging notifications that the formal ratification procedures have been completed. The provisions of the treaty with respect to taxes will have **effect** in both contracting states **on or after 1 January post ratification**.

The new treaty is based on the Organisation for Economic Co-operation and Development (OECD) Model Tax Convention framework, with some modifications and will contribute to the expansion of Cyprus' trade and economic relations between the two countries.

The preamble to the double tax treaty refers to both the avoidance of double taxation and prevention of tax evasion.

THE MAIN PROVISIONS OF THE DOUBLE TAX TREATY

<u>The convention shall apply to the following taxes:</u>

1. In the Republic of Cyprus:

- **a. The income tax**
- **b. The corporate income tax**
- **c. The special contribution for the defence of the Republic; and**
- **d. The capital gains tax**

2. In the Kingdom of Saudi Arabia:

- **a. The Zakat; and**
- **b. The income tax including the natural gas investment tax**

PERMANENT ESTABLISHMENT

The definition of the permanent establishment in the context of the double tax treaty is a fixed place of a business through which the business of an enterprise is wholly or partly carried on. Any building site or construction or installation project constitutes a permanent establishment only if it lasts *more than 6 months.*

CAPITAL GAINS TAX

Gains from the disposal of *immovable property* are taxed in the country where the immovable property is situated.

The term *"immovable property"* shall have the meaning which it has under the laws of the Contracting State in which the property in question is situated.

Gains from the alienation of substantial participation (at least 25%) in a company which is resident of a Contracting State may be taxed in that Contracting State.

SHIPPING AND AIR TRANSPORT

Profits from the operations of ships or aircraft in international traffic shall be taxed only in the Contracting State in which the place of effective management is situated.

DIRECTORS' FEES

Directors' fees derived by a resident of a Contracting State in his capacity as a member of the board of directors of a company which is a resident of the other Contracting State may be taxed in that other State.

<u>The convention shall apply to the following taxes:</u>

- 0% withholding tax
  Interest includes income from Debt-Claims arising in a Contracting State and paid to a resident of the other Contracting State

<u>Withholding tax rate on dividend payments</u>

- 5% withholding tax

<u>Withholding tax rate on royalties payments</u>

- 5% withholding tax on the use of industrial commercial and scientific equipment / 8% on all other

KEY CONTACTS

For more information on how this development might affect you or your business, please contact:

Mr. Aris Theophanous
Chief Executive Officer

E-mail: arist@intertaxaudit.net

Mrs Karina Spitaliotis
Tax Manager

E-mail: karinas@intertaxaudit.net

Mrs Irene Danou
External Tax Consultant

E-mail: irened@idanou.com

Mr. Kyriakos Hadjikyriakou
Assistant Tax Manager

E-mail: kyriakosh@intertaxaudit.net

INTERTAXAUDIT is a member of ICPAC and
is the trade name of InterTaxAudit Auditors & Consultants Limited

NAVARINO BUSINESS CENTRE
18 Navarinou Street, Agios Andreas, CY-1100 Nicosia, Cyprus
Mailing Address: P.O. Box 24300, CY-1703 Nicosia, Cyprus

T: +357 22 400400 **| F:** +357 22 400401 **| E:** info@intertaxaudit.net **| W:** www.intertaxaudit.com