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# *Cyprus ratifies the Cyprus - Saudi Arabia first-time double tax treaty*

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Cyprus ratified on 5 March 2018 the Cyprus - Saudi Arabia first-time Double Tax Treaty (DTT) which was signed on 3 January 2018. Certain legal procedures now need to take place following which the DTT will enter into force. Once the DTT enters into force it will take effect as from 1 January of the next calendar year.

## ***Income from debt-claims***

The DTT provides for a 0% withholding tax (WHT) rate on payments of income from debt-claims.

## ***Dividends***

A 0% WHT rate applies to payments of dividends if the recipient is a company (other than partnership) that directly or indirectly holds at least 25% of the capital of the payer company. In all other cases the DTT provides for a 5% WHT rate on dividends. We note that irrespective of this 5% WHT rate provided for in the DTT, as per the domestic Cyprus tax legislation there is no Cyprus WHT on payments of dividends to non-Cyprus tax residents.

## ***Royalties***

For royalties the DTT provides for a 5% WHT rate in the cases of royalty payments for the use of, or the right to use, industrial, commercial or scientific equipment. In all other cases the DTT provides for an 8% WHT rate on royalties. We note that irrespective of these WHT rates provided for in the DTT, as per the Cyprus domestic tax legislation Cyprus applies WHT on royalties paid to non-Cyprus tax residents only where the royalties relate to rights for use within Cyprus.

## ***Capital gains***

For capital gains, under the DTT, Cyprus retains the exclusive taxing rights on disposals of shares made by Cyprus tax residents except in the following cases:

- Where the disposal is of a substantial participation (a taxpayer is considered to have a substantial participation when holding at least 25% of the capital of the disposed-of company at any time within twelve months prior to the disposal). This does not apply to listed shares.
- Where the shares derive the greater part of their value from certain offshore rights relating to exploration or exploitation of the seabed or subsoil or their natural resources located in Saudi Arabia.

## ***Other***

Special provisions apply to income and gains derived by the two Governments as well as on insurance activities.

## ***Let's talk***

For a deeper discussion of how this development might affect you or your business, please contact:

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