



## CYPRUS – RUSSIA AMENDMENT OF THE DOUBLE TAXATION TREATY

AUGUST 2020

## OVERVIEW

On 10th August 2020 Cyprus and Russia have agreed to amend their Double Tax Avoidance Treaty after extensive negotiations between the competent authorities of the two States in Moscow. The revised protocol is expected to be signed in September. The aim of both sides is for the Protocol to be ratified before the end of 2020 so as to apply from 1<sup>st</sup> January 2021.

The Cyprus Minister of Finance (MoF) stated on his personal Twitter account that “The agreement reassures economic ties between Cyprus and Russia” adding that “it was an important and mutually beneficial deal.”

Furthermore, the Cyprus Ministry of Finance had expressed in its announcement: [Cyprus MoF Press Release](#) its satisfaction for the conclusion of the extensive negotiations on the Agreement for the avoidance of Double Taxation between the Republic of Cyprus and the Russian Federation.

The Russian Government has confirmed the termination of the process to denounce the Cyprus – Russia DTT. As a result, the process for the unilateral revocation of the treaty by the Russian Federation ceases and a period of uncertainty, following the request on 1<sup>st</sup> April by the Russian Federation to amend the Cyprus - Russia DTT, ends.

At the same time, the Russian Government has confirmed that the same provisions will also apply to agreements that Russia has concluded with other treaty partners, such as Luxembourg, Netherlands, Malta and Switzerland, as this reflects Russia’s fiscal and tax policy to raise Government revenues.

## OUR ANALYSIS

### A. Agreed amendments to the Cyprus - Russia DTT for dividends and interest

In accordance with the press releases of both sides, the withholding tax rate on dividend and interest payments will be 15%, with a number of exceptions where the lower rates of 5% or 0% respectively will continue to apply. Moreover, no amendments have been effected on the provisions regarding royalty payments for which the 0% withholding tax rate was maintained.

### B. Exceptions

As per the Cyprus MoF press release, both States have reached an agreement that lower withholding tax rates of 0% or 5% (as appropriate) should apply in respect of dividend and interest payments, in the following cases, where the recipient/beneficial owner amongst others are:

- (a) certain regulated entities, such as pension funds and insurance undertakings;
- (b) listed companies with specific characteristics.

Moreover, exemption from the said withholding tax applies on interest payments from listed corporate bonds, government bonds and Eurobonds.

Further details of the above mentioned exceptions will be analysed once the detailed text of the agreed amending Protocol is signed and released in September 2020.

### **C. Cyprus withholding tax rates remain at 0%**

Cyprus will continue to apply no withholding tax on dividends and interest payments. Specifically, as per the relevant provisions of the local Cyprus domestic law there is no withholding tax on dividend and interest payments to non-Cyprus tax residents.

### **D. Applicable date for the amendments**

The intention of both States is for the changes in the Cyprus-Russia DTT to be effective as of 1<sup>st</sup> January 2021.

The Russian Federation State Secretary - Deputy Minister, Alexey Sazanov, has confirmed that the negotiations with other treaty partners, such as Luxembourg, Netherlands, Malta and Switzerland are planned to be completed on the same terms as agreed with Cyprus, and with effective date also being 1st January 2021, as this reflects Russia's fiscal and tax policy to raise Government revenues. Therefore, Cyprus will not find itself at a disadvantage compared to other European countries mentioned above.

## **CONCLUSION**

It is hoped the announced amendments to the Cyprus–Russia DTT will contribute to the further development of trade and economic relations between the two contracting States.

It should be emphasized that the updating of the existing network of double tax agreements in line with international developments is a priority for the Cyprus Government.

It worth noting that the exceptions agreed in the amending Protocol to the Cyprus-Russia DTT along with a number of the other non-tax considerations relating to Cyprus, such as the easy access to EU markets, the common law system, the asset security protection and the establishment of headquarters in Cyprus, continue to provide opportunities for inbound investments into Russia and making international transactions through Cyprus entities.

## HOW WE CAN HELP

If you are a business affected by the above mentioned amendments please contact us to arrange a meeting.

Our expert tax team is at your disposal to discuss your needs and to provide advice on the most appropriate tax structure for your business.

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