Russia suspends DTT with Cyprus

As a response to the sanctions placed on Russia, Russia signed, on the 8th of August 2023, a decree suspending (not abolishing) the double tax treaties with multiple 'unfriendly' countries including Cyprus.

30th August 2023

Introduction

As a response to the sanctions placed on Russia, Russia signed, on the 8th of August 2023, a decree suspending (not abolishing) the double tax treaties with multiple 'unfriendly' countries, of which Cyprus is included.

According to the official decree published by the Russian authorities, the suspension of DTT's is justified by Russia's need to respond to 'unfriendly actions' taken by these nations against the Russian Federation, its citizens, and legal entities, in connection with the war in Ukraine.

What does this mean for International Taxation?

The suspension of such agreements in full or in part does not only an increase in the tax burden due to double taxation of the same income, but also has a major impact on reporting.

The decree halts the application of key provisions in approximately half of Russia's DTT's.

The suspension pertains to the following provisions:

- Taxation of dividends, interest, royalties, income from permanent establishments, capital gains, employment earnings, and miscellaneous income.

- Provisions related to property taxation.

- Non-discrimination clauses.

- Limitation of benefits provisions stipulated in several treaties, namely: Sweden, Luxembourg, UK, Switzerland, Cyprus, Lithuania, Austria, and Malta.

- Provisions involving mutual assistance in tax collection for agreements with Belgium, Norway, Cyprus, Austria, and Japan.

From a Cyprus perspective

Cyprus Minister of Finance has confirmed that Cyprus will continue to honour the Tax Treaty with Russia until further notice.

The suspension of the treaty from Russia's side will have tax implications for Cyprus registered companies that receive income from Russian entities. The tax applied on interest, which is deducted at source, will increase from 15% to 20%. As for royalty income, tax applied will rise from 0% to 20%, whereas the tax deducted at source for dividend income, will remain at 15%, as it was before.

However, as confirmed by the Minister of Finance, the non-application of the Double Taxation Avoidance Agreement's provisions, will not have a significant impact on Cypriot entities and individuals. This is due to the existing sanctions and restrictions that have already significantly impacted the economic relations between the two countries.

If you are interested in discussing the above in detail or have questions relating to the article, please contact a member of our team in Cyprus at advice.cyprus@dixcart.com.

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