



The amendment of the Cyprus-Russia Double Tax Treaty

Cyprus and Russia have reached an agreement to amend existing provisions of the Cyprus-Russia tax treaty. The revised withholding tax rate on dividend and interest payments was signed on September 8th 2020 and will come into force on January 1st 2021.

According to the new Protocol of Cyprus-Russia DTT, an increase to 15%, on the existing withholding tax (WHT) rates on dividend and interest payments will be implemented.

Adding to this, a number of exemptions are available where WHT rate shall not surpass 5%, which is only applicable when the recipient/beneficial owner of a dividend is:

- a pension fund or insurance undertaking;
- from company shares which is listed on a registered stock exchange;
- the Government or a political subdivision or a local authority;
- the Central Bank

In addition to the above, NO withholding tax shall apply on interest income payable to the beneficial owners whose source of such income comes from pension funds or insurance undertakings, the Government, a political subdivision, a local authority or the Central Bank or Banking institution.

Furthermore, NO withholding tax shall apply in respect of interest earned on listed bonds, including corporate, government and Euro bonds.

The withholding tax rate shall not exceed 5% in the case that the beneficial owner of a publicly listed company meets the following criteria:

- at least 15% of the shares of the receiving company are freely traded on a registered stock exchange; and
- the receiving company holds (for not less than 365 days) at least 15% of the shares in the company paying out the dividends.

Lastly, Cyprus will continue to apply no withholding tax on royalty payments from Russia.

How will this Protocol benefit Russia and Cyprus?

This Protocol will be able to give rise to new and profitable opportunities for

Cyprus-based companies with the possibility of bringing further development of trade and economic relations between the two countries.

The protocol, does not only grant tax-concessions, but also other incentives such as having an easy access to EU markets and international capital markets, the application of the common law system and lastly the possibility of establishing headquarters in Cyprus. These measures can have a cumulative effect by creating new investments for the Russian economy to streamline international monetary transactions through Cypriot entities.

Concluding remarks

On March 25th 2020, Vladimir Putin, president of the Russian Federation, proposed that Russia should withhold a higher percentage of taxes on dividend and interest payments leaving Russia, to mitigate the adverse economic effects of COVID-19. The agreement reached between the two countries is in line with the above plan and puts an end to the uncertainty triggered that Russia would denounce the Cyprus-Russia tax treaty.

Russia confirmed its intention to introduce similar provisions to its bilateral tax treaties with Malta, Luxembourg and the Netherlands with the same effective date, being January 1st 2021. In this way, Russia would provide a “level playing field” for European countries competing for investments into Russia.