Russia suspends DTT with Cyprus

28 August 2023 - **Russia has unilaterally suspended its Double Tax Treaties (DTTs) with 38 nations around the world, including Cyprus.**

On 8 August 2023 Russia published Presidential Decree No. 585 "On the Suspension of the Validity of Certain Provisions of International Treaties of the Russian Federation on Taxation Issues" (the Decree). The Decree suspended certain main articles of 38 DTTs concluded by Russia with so-called "unfriendly" states, including Cyprus.

The list of 38 "unfriendly countries" encompasses a wide array of nations from different regions of the world. This decision by Russia not only includes European Union nations, including, among others, Belgium, Italy, France and Cyprus, but also key economic players like the US, Canada, the UK, and Australia. The broad scope of this action raises questions about the potential ripple effects on global trade and financial ties.

According to the official decree, the suspension of DTTs is justified by Russia's need to respond to "unfriendly actions" taken by these nations against the Russian Federation, its citizens, and legal entities. While the decree itself does not explicitly detail the specific actions that prompted this response, it underscores the diplomatic tensions that have been simmering between Russia and these countries.

Impact on International Taxation

The suspension of the DTTs comes into force immediately after the publication of the Decree, i.e. the new tax regime applies to income paid starting from 8 August 2023.

The suspension concerns the DTT articles allocating the rights of the Contracting States (e.g. Cyprus and Russia) to tax all types of income and capital. Thus, it will not be possible to apply reduced tax withholding rates and tax exemption in respect of passive income, income from employment, professional and other similar activities.

The decree halts the application of key provisions in approximately half of Russia's DTTs. The suspension pertains to the following provisions:

- Distributive rules, outlining the taxation of various items of income and allocating taxing rights between states (typically articles 5-21). This includes articles addressing taxation of dividends, interest, royalties, income from permanent establishments, capital gains, employment earnings, and miscellaneous income.
- Provisions related to property taxation.
- Non-discrimination clauses.

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- Limitation of benefits provisions stipulated in several treaties, namely: with Sweden, Luxembourg, the United Kingdom, Switzerland, Cyprus, Lithuania, Austria, and Malta.
- Provisions involving mutual assistance in tax collection for agreements with Belgium, Norway, Cyprus, Austria, and Japan.

Articles related to the elimination of double taxation, mutual agreement procedures, and the exchange of information remain unaffected.

Impact on Cyprus in particular

Cyprus entities receiving dividends, interest, royalties, or other income subject to withholding tax from Russian entities will no longer be entitled to preferential withholding tax rates or exemptions as stipulated by the respective double tax treaty. Instead, withholding tax will be applied at the rates specified in the Russian Tax Code. Specifically, the tax rate for dividends will be 15%, and for interest, royalties, and other income subject to withholding tax, the applicable rate will be 20%.

We recommend conducting a thorough evaluation of the implications of this decree on your cross-border payments. We would be pleased to offer our assistance in evaluating these consequences and addressing any inquiries related to the suspended agreements.

As always, the Department of Taxation of Costas Tsielepis & Co Ltd is at your disposal should you require any further information, clarifications or assistance with this or any other tax-related matter.