

Cyprus and Russia sign the Protocol to amend double tax treaty

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Executive summary

On 8 September 2020, the Republic of Cyprus and the Russian Federation signed the Protocol to amend the double tax treaty between the two countries. The amendments to the Treaty should be effective as of 1 January 2021 (provided the Protocol is ratified by both parties by the end of 2020).

Detailed discussion

Background

- ▶ On 25 March 2020, Russian President Vladimir Putin announced the increase of withholding tax (WHT) rates on dividends and interest paid from Russia to a number of foreign jurisdictions. The President's address specified that the "measure is aimed primarily at countries through which significant resources of Russian origin pass."
- ▶ Shortly after, the Russian Ministry of Finance sent an official request to the Cyprus Ministry of Finance to modify the existing Double Tax Treaty between the two countries (the Treaty).
- ▶ On 10 August 2020, after intense negotiations, the Cypriot Minister of Finance, Constantinos Petrides, and the Russian Deputy Prime Minister, Alexei Overchuk, reached an agreement on the Protocol to amend the Treaty.

- ▶ The Russian Federation assured the Republic of Cyprus that the changes are purely fiscal measures and, moving forward, they would discontinue any actions aimed at terminating the Treaty and further, to maintain a level playing field, they would seek the same agreement with other countries to be effective on 1 January 2021.
- ▶ The changes concern WHT on dividends and interest.
- ▶ WHT on royalties remains unchanged at 0%.

Changes to the Treaty

Withholding tax on dividend payments

- ▶ The ordinary WHT rate under the Treaty is increased to 15% (provided the recipient is a beneficial owner of the dividend income).
- ▶ A reduced 5% WHT is applied, among others, to the following categories:
 - The beneficial owner of the dividends is a company whose shares are listed on a registered stock exchange, provided no less than 15% of the voting shares of that company are in free float, and it holds directly at least 15% of the capital of the company paying the dividends throughout a 365-day period that includes the day of payment of the dividends, or
 - The beneficial owner of the dividends is an insurance undertaking or a pension fund.

Withholding tax on interest payments

- ▶ The ordinary WHT rate under the Treaty is increased to 15% (provided the recipient is a beneficial owner of the interest income).
- ▶ A reduced 5% WHT rate is applied if the beneficial owner of the interest is a company whose shares are listed on a registered stock exchange, provided that no less than 15% of voting shares of that company are in free float, and it holds directly at least 15% of the capital of the company paying the interest throughout a 365-day period that includes the day of payment of the interest.
- ▶ A reduced 0% WHT rate is applied, among others, to the following categories (provided the beneficial ownership test is met):
 - Insurance undertakings or pension funds
 - Banks
 - The interest on government bonds, corporate bonds, Eurobonds listed on a registered stock exchange

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