



## Cyprus Tax Update – Year 2020

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### INCOME TAX LAW

#### Agreement reached to amend the Cyprus-Russia Double Tax Treaty (DTT)

On 10<sup>th</sup> August 2020, Cyprus and Russia concluded the negotiations of a new protocol to amend the existing provisions of the Cyprus-Russia tax treaty.

#### 15% WHT on dividend and interest payments

According to the agreement reached, the existing withholding tax (**WHT**) rates on **dividend** and **interest** payments made from Russia to Cyprus will increase to **15%** subject to certain **exceptions** noted below.

#### Exceptions from the 15% WHT

The two countries have agreed that a 5% WHT should apply, where the recipient/beneficial owner of a dividend is:

- a regulated entity such as a pension fund or insurance undertaking;
- a company the shares of which are listed on a registered stock exchange (subject to conditions);
- the Government or a political subdivision or a local authority;
- the Central Bank.

In addition, the two countries have agreed that no WHT shall apply on interest payments if the beneficial owner is:

- an insurance undertaking or a pension fund;
- the Government or a political subdivision or a local authority;
- the Central Bank;
- a banking institution.

Furthermore, no WHT shall apply in respect of interest earned on the following listed bonds:

- corporate bonds;
- government bonds and
- Eurobonds.

Finally, where the beneficial owner of the interest is a company whose shares are listed on a registered stock exchange (subject to conditions), the WHT shall not exceed 5%.

#### Nil WHT on royalty payments

The nil WHT on royalty payments from Russia to Cyprus will not change.

#### Effective date

The intention of both countries is for the revised WHT rates to be effective from 1<sup>st</sup> January 2021, through the signature of a protocol amending the existing tax treaty over the next months.

#### Concluding remarks

*On 25<sup>th</sup> March 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 (1<sup>st</sup> January 2021). In this way, Russia would provide a "level playing field" for European countries competing for investments into Russia.*