CENTAUR TRUST

Russia—Cyprus Tax Deal

New Protocol to the Russia-Cyprus tax treaty

On 16 April 2009 representatives from the respective Ministries of the Republic of Cyprus and the Russian Federation have initialed a double-taxation protocol to the 1998 tax treaty between the two countries, paving the way for the removal of Cyprus from Russia's "black-list". The Protocol is expected to be ratified by both countries in 2009 so that it will become effective as from 1 January 2010.

The relevant protocol was signed in Nicosia by Cypriot Minister of Finance Mr Charilaos Stavrakis and Director of the Department of Tax and Customs Tariffs Policy at the Russian Ministry of Finance Mr Ilya Trunin, who both expressed satisfaction that the tough negotiations had led to this agreement.

The Protocol is viewed as very beneficial and will continue to foster and encourage economic relations between Cyprus and Russia through one of the most favourable treaties the Russian Federation has concluded.

Removal from Russian "BlackList"

Two years ago, Russia added Cyprus to its black-list, along with 53 other countries, on the grounds that Cyprus was "uncooperative". This was the result of an amendment to the Russian tax code which introduced a tax exemption on the repatriation of dividends from foreign subsidiaries of Russian companies, subject to certain conditions. The subsidiaries of Russian companies based in countries on the so-called "black-list" were excluded from the exemption.

This move raised concerns that the position of Cyprus, as a growing international financial centre would be undermined, with possible knock-on effects on the local banks that hold sizable deposits from international Russian companies based in Cyprus. Estimates of these deposits are in excess of Euro 20 billion.

Contact Us

Address:

122 Athalassis Avenue
1st Floor, 2024 Nicosia,
Cyprus

Tel: +357 22 499 994
Fax:+357 22 499 984

Email:
cyprus@centaurtrust.com

Website:
www.centaurtrust.com

"Removal from Russian Blacklist"

Russia—Cyprus Tax Deal

New Protocol to the Russia-Cyprus tax treaty

Commenting on the agreement, Mr Stavrakis said "There was pressure from the Russian authorities for a renegotiation of this treaty for the last four or five years and we have started extensive negotiations, we have been to Moscow on five occasions, where we met with the Russian Minister of Finance and the rest of the delegation. Our friends came to Cyprus on a number of occasions," he added.

Stavrakis explained that the break-through was achieved after Cyprus passed legislation last May facilitating the exchange of information between the authorities of the two nations. "Cyprus maintains its competitive position as a very important country through which investments are made in Russia, and Russia, on its part, has got a significant number of concessions they were asking for," he added.

The Minister noted that "once there is the full formal agreement, Cyprus will be removed from the so-called black-list."

He also said that each country will now take the necessary steps to formally ratify the agreement and that "we can safely say that what remains is much easier."

Stavrakis said that "basically the very low and competitive factors Russians are enjoying today concerning investments through Cyprus, as well as the foreign investors in Russia, are being maintained, so we probably have the most competitive factors in the world."

He added that the new agreement "establishes Cyprus' position as a high specification centre for attracting investments."

Trunin said that "it was indeed a very tough and long negotiation between our two countries on the agreement on double taxation. "The result of these negotiations is beneficial for both countries.

Contact Us

Address:

122 Athalassis Avenue
1st Floor, 2024 Nicosia,
Cyprus

Tel: +357 22 499 994
Fax:+357 22 499 984

Email:
cyprus@centaurtrust.com

Website:
www.centaurtrust.com

"Cyprus maintains its competitive position for inward investment into Russia"

Mr Charilaos Stavrakis

Cyprus Minister of Finance

Russia—Cyprus Tax Deal
New Protocol to the Russia-Cyprus tax treaty

Existing withholding tax provisions unchanged

It should be noted that the existing withholding tax provisions remain unchanged.

Specifically, there are no changes to the nil rates of withholding tax on interest and royalties.

In respect of dividends, the withholding tax rates of 5% or 10% remain unchanged also. The only change applies to the conditions for eligibility for the 5% rate, which now requires an investment of Euro 100,000 in the capital of the company in whose shares are held, rather than US$100,000 as it was.

"Existing withholding tax rates unchanged"

"Interest 0%

Royalties 0%

Dividends 5%"

Russian properties holdings to be taxed - Will apply after 2014

The main and principle difference that will apply once the new agreement is ratified is that after five years, the capital gains tax on Russia property holdings will be taxed in Russia, at the prevailing rates there.

This means in five years, the profit made on the shares of Russian subsidiaries of Cyprus holding companies who will have more than 50% of their assets in property in Russia will be taxed in Russia, on the tax rate applicable in Russia, something that at the moment does not exist.

In the meantime, there are likely to be a number of planning opportunities available to mitigate any negative implications of this change.

Contact Us

Address:

122 Athalassis Avenue
1st Floor, 2024 Nicosia,
Cyprus

Tel: +357 22 499 994
Fax:+357 22 499 984

Email:
cyprus@centaurtrust.com

Website:
www.centaurtrust.com