



Tax Update

Amendment of the Treaty Signed Between Cyprus and Russia

April 2009

Delivering results on time ...

On 16th April 2009 the protocol amending the double tax treaty between Cyprus and Russia was signed. The new provisions will take effect on the 1st of January following the exchange of notification of ratification between the two states.

P & V CY Fiduciary Services Ltd

P.O.Box 30021,
5340 Ayia Napa, Cyprus

Tel. +357 23 721 070
Fax +357 23 721 125

info@cyfiduciary.com
www.cyfiduciary.com

The most significant provisions of the new protocol are as follows:

Dividends, interest and royalties remain unchanged:

- WHT rate on interest: 0%
- WHT rate on royalties: 0%
- WHT on dividends: 5% - 10%, however, to qualify for the 5% rate the dividend receiving entity must have invested at least €100,000 in the capital of the dividend paying company (as opposed to \$100,000 according to the original treaty). Additionally, the new protocol states that distributions on shares of mutual investment funds will be treated as dividends.

Taxation of capital gains:

- In general the taxing of the capital gains arising from a disposal of shares or any other movable property is granted to the State in which the person making the disposal is tax resident.
- Capital gains of companies residing in one state from the sale of shares of property rich companies residing in the other state will be taxed in the state where the property is located unless the company making the sale is a pension fund, a provident fund, the government of Cyprus or the Russian Federation, or the gains are from the disposal of shares in a listed company or the transfer of the shares is due to a corporate restructuring. Please note that this amendment will become effective on the 1st of January 4 years after the new protocol takes effect.

This document is for general information purposes only and should not be used for decision making. No responsibility for any loss occasioned to any person acting or refraining from action as a result of material in this newsletter is accepted.

Other changes:

- The taxation right of income from international traffic, such as shipping and air transport, will belong to the country where the management of the entity receiving such income is situated.
- Some less important changes which bring some provisions of the treaty in line with the OECD Model Convention.

Our View: Despite the amendments, the treaty remains one of the most beneficial treaties in the Russian treaty network which should continue to encourage economic relations between the two states. Existing corporate structures should investigate their efficiency, taking into consideration the amendments, and make the necessary adjustments, if there are any, especially if:

- (a) The investment in the capital of a subsidiary company is less than €100,000
- (b) The group includes property rich companies
- (c) The group includes companies which are tax resident in Cyprus but have been incorporated outside Cyprus
- (d) The group includes international traffic companies
- (e) You are concerned about the tax authorities of the two states exchanging information

This document is for general information purposes only and should not be used for decision making. No responsibility for any loss occasioned to any person acting or refraining from action as a result of material in this newsletter is accepted.