



# Russia denounced agreement for avoidance of double taxation with Cyprus



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The Ministry of Finance announced the start of the denunciation procedure today.

Implementing the instruction of the President of the Russian Federation on the adjustment of agreements to avoid double taxation (AADT) the Ministry of Finance of Russia held talks with the Ministry of Finance of Cyprus, but the agreement never came.

As reported, the Finance Ministry proposed the increase in interest rates on income, dividends and interest borrowing up to 15% was rejected by Cyprus, while Cyprus submitted proposals did not meet the interests of the Russian Federation on maintenance of national economy and preserve the ability of the tax-free withdrawal from the Russian Federation to Cyprus a significant amount of funds.

According to the Russian Ministry of Finance, many Russian companies have used the jurisdiction of the Republic of Cyprus during the period of the AADT, for example, in 2018, 1.4 trillion rubles were withdrawn to Cyprus, and in 2019 – more than 1.9 trillion rubles.

The Cyprus jurisdiction was often used by Russian companies, since the provisions of the AADT allowed for a significant reduction in the rates for paying dividends (up to 5% or 10%), as well as for paying interest on loans (up to 0%), whereas in the Russian Federation similar rates are 13-15%.

It is also worth noting that the Russian Ministry of Finance has sent proposals to revise the terms of double taxation agreements to Luxembourg and Malta. It is likely that these countries will be the next to whom Russia denounces the AADT, if these countries are not ready to increase interest rates to 15%.

The Russian Ministry of Finance also notes that the Government intends to make the jurisdiction of administrative regions for the transfer of holding companies to Russia.

As a way to minimize the negative consequences of abandoning AADT, we recommend:

- consider the possibility of paying dividends in the current year
- analyze the situation for possible changes in the beneficial owner. Please note that such a change must be economically justified and appropriate, and it cannot be considered as an independent goal to reduce the tax burden
- to analyze the consequences of the cancellation of the tax AADT – how much tax will be paid in a foreign jurisdiction and whether it can be reduced by the amount of tax paid in Russia.

We are closely monitoring developments and will inform our partners and clients of any changes.

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