

## Cyprus is out of the Russian black list

As many of us will recall the Protocol amending the Double Tax Treaty between the Republic of Cyprus and the Russian Federation was ratified in February 2012. While some amendments will take effect starting from 2013, others will become law only from 2017.

Despite this achievement, Cyprus remained on the Russian Ministry of Finance list of «offshore» zones, commonly known as the so called «white list», although it was announced some time ago that Cyprus is not any more listed in Russia. On 31 October 2012, the Russian Ministry of Finance published its new «white list», without Cyprus appearing there; It means that Cyprus, apart from other things, is not any more considered as an «Offshore» destination for Russia.

The significance of this news can be outlined below:

### **Taxation of dividends participation exemption rule**

Under this rule, dividends earned by Russian companies that meet certain conditions (mainly holding more than 50% of the share capital of the company that pays the dividend) are taxed at 0%. However, this tax benefit does not apply if dividends are derived from a jurisdiction included on the MinFin «whitelist». In other words, after receiving dividends from Cyprus, a Russian corporate shareholder will no longer pay tax at 9%. For Russian holding companies, this will make Cyprus a more efficient venue for owning foreign assets.

A transaction is deemed by the Russian Tax Authority to be controlled if one of the parties is incorporated or domiciled, or has tax residency, in a blacklisted jurisdiction.

While Cyprus was on the «whitelist», transactions between a Cyprus and a Russian company for goods, services, royalties etc were opened to dispute by the Russian authorities. With Cyprus removal from the «blacklist», and moreover, from the list of offshore destinations, it is expected that such transactions will not be considered as controlled any more.

Although it could be seen that the Cyprus Government has reciprocated to the Russian Government on offering greater information exchange between the Cypriot and Russian fiscal authorities for the removal of Cyprus from the «whitelist», this possibility is totally rejected by the Cyprus side, which claims that there is no change to the methodology of exchanging information between governments, which is by way of a court order.

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