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Cyprus Will Remain a Valuable Partner for Russia

By The Moscow Times

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In response to "Cyprus, Not WTO, May Modernize Russia," a comment by Daniel Klein on April 25.

Editor,
To borrow a phrase from U.S. writer Mark Twain, the report of the death of the so-called Cypriot tax haven is greatly exaggerated. Daniel Klein predicts in his comment that the recently agreed amendments to the double tax agreement between Russia and Cyprus will bring about the end of the special relationship between Russia and Cyprus, particularly in the commercial field, by closing tax loopholes hitherto exploited by Russian businesses.

The argument that Cyprus will lose its attractiveness to Russian business following the changes to the double tax agreement is based on a dual misunderstanding concerning the changes themselves and the reasons why Russian businesses use Cypriot holding companies.

First, Klein's statement that the protocol "was finally ratified in February this year" is incorrect. The protocol was approved by Russia's parliament, but that is not the end of the story. The ratification process will be complete only when the Russian and Cypriot governments have exchanged official notices of ratification. While this may sound like a mere formality, it is an essential step and there is no guarantee as to when it will happen.

Second, Klein's assertion that "Russia will require companies to withhold 20 percent of their profits in Russia and pay that to the government prior to transferring the remaining 80 percent to Cyprus" is simply wrong. The recent changes to the double tax agreement do not affect the current favorable withholding tax rates between Russia and Cyprus. The rate of withholding tax on dividends paid from Russia to Cyprus remains at 5 percent if the investment in the Russian company amounts to 100,000 euros ($128,000) or more and at 10 percent otherwise, giving considerable benefits compared with the general Russian withholding tax of 15 percent on dividends.

Third, the author's statement that "Phase Two will impose capital gains on the transfer of shares of Cypriot companies to be paid again to the Russian tax authorities" is an erroneous generalization. Only gains on shares in property-rich companies will be subject to tax in Russia. Furthermore, Klein neglects to mention that Cyprus will not be disadvantaged as a result, since Russia has undertaken to introduce similar provisions into all its significant double tax agreements. It has already done so in the case of its agreements with Switzerland and Luxembourg.

Furthermore, the amendments to the double tax agreement regarding information exchange contain robust safeguards for taxpayers against their abuse by the tax authorities, and in particular against "fishing expeditions," but no mention is made of these positive aspects in Klein's comment.

These factual errors and omissions are only part of the picture, however. Klein's comment presents Cyprus as an economic basket case that has been used by sleazy Russian businesses solely as a tax haven. Nothing could be further from the truth. Cyprus has the highest standards of transparency, integrity and corporate governance. Cyprus is a member of the European Union and complies fully with EU and other international standards regarding tax. It has been on the Organization for Economic Cooperation and Development's "white list" of countries following best practice in tax matters ever since the list was drawn up.

The use of Cypriot holding companies brings large amounts of foreign investment into Russia and facilitates investment worldwide by successful Russian businesses. It would take inordinate time and expense to establish a similar infrastructure.

Cyprus will continue to welcome Russian people and businesses, and we look forward to the ties between the two countries continuing to flourish.

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Editor,

Klein's depiction of Cyprus, a member of the European Union and a participant in numerous economic organizations, as a "tax haven" is a generalization at best and a lack of knowledge at worst.

A tax haven cannot be a place that fully complies with global and EU guidelines and directives on the prevention of money laundering. A tax haven cannot be a jurisdiction whose transparency and creditworthiness has been accredited with the "white list'' status since 2009 by the Organization for Economic Cooperation and Development, or OECD.

The investment links between Cyprus and Russia have often been subject to inaccurate comments and analysis. There is no other provision of the Cyprus-Russia Double Tax Treaty that has been subject to more comments than the Exchange of Information article. The amendments to this article bring the wording in line with the OECD Model Convention and extend the scope of information that may be requested by Russian authorities from the Cypriot government.

But this is not something unique to Cyprus. The Russian tax system is not static, and it is constantly modernizing itself, as all tax systems do. Therefore, the amendment of the exchange of information article can only be seen as a natural consequence of global tax trends. It is no surprise that jurisdictions such as Luxembourg and Switzerland have also included almost identical exchange of information articles in their treaties. It would be a great surprise if a new treaty concluded by Russia did not include such an article. Cyprus should by no means be singled out.

Most important, Cyprus is a state that operates and abides by the rule of law. The Cypriot authorities do not automatically collect information from a person in Cyprus after receiving a request to do so. The inquiring country must produce a substantiated request that specifies information required by Cypriot law and must prove to the Cypriot tax authorities that it has exhausted all the resources available in its own territory to obtain information, with the exception of those that would cause excessive difficulties.

Tax is a living concept. It is embedded into economic development and cannot remain unchanged. The recent changes in the double tax treaty and in other similar agreements with Russia — and also in the Russian tax system itself — are a clear illustration of this. Cyprus, a country that will assume the rotating presidency of the Council of the European Union starting July 1, has a vibrant economy and cannot be an exception to world economic and tax developments.

Cyprus is a very attractive investment destination for investors from around the world — and particularly for Russian investors who seek a stepping stone within the EU, or those who seek to obtain benefits from the Cypriot treaty network.

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