

Russia Hikes Taxes on Firms Sending Profits to Cyprus

The Kremlin is on a high-profile drive against Russian companies headquartered in low-tax jurisdictions overseas.

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Sergei Lavrov and Nikos Christodoulides **Foreign Ministry / Flickr**

Russia and Cyprus signed a new deal Tuesday to hike the taxes that Russian companies have to pay on profits they send to holding companies incorporated on the Mediterranean island.

Most Russia-based firms will now have to pay a 15% tax on dividend payments they send from Russia to Cyprus — up from previous rates of 5% or 10%.

President Vladimir Putin has made targeting the flow of profits to low-tax jurisdictions a [high-profile pillar](#) of the Kremlin's economic response to the coronavirus, saying it is unfair that firms cut their tax bills by incorporating abroad. He [threatened](#) to abandon long-standing double tax treaties should the other countries not agree to Russia's terms.

Similar agreements have been struck with Malta and Luxembourg and Russia is currently negotiating a deal with The Netherlands.

Cyprus has proved a favorite destination for Russian firms to register holding companies due to its low taxes, status as an EU member, privacy rules and judicial system based on English law.

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The island's "golden passport" scheme has also been extremely popular among wealthy Russians looking to get an EU passport. A recent Al Jazeera [investigation](#) found more than 1,000 Russians, including high-profile business and political elites, obtained Cypriot citizenship between 2017-2019 by investing the required \$2.5 million, mostly into real estate.

However, in recent years a tightening of anti-money laundering rules on the island and U.S. sanctions had [prompted](#) a number of Russian companies to move to other offshore locations or cut down their Cypriot presence. New laws now ban so-called "Politically Exposed Persons" (PEPs) from gaining citizenship through investment.

The agreement with Cyprus was signed Tuesday as part of Russian Foreign Minister Sergei Lavrov's visit to Nicosia. A 15% tax will also be levied on interest payments from Russia to Cyprus, although there are a number of exemptions for state-linked institutions.

Tax experts at consultants PricewaterhouseCoopers [estimate](#) Russia could gain 150 billion rubles (\$2 billion) in extra revenues per year from the new agreement, which comes into force in January 2021.

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