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Russia suspends DTAs with "unfriendly" states

On 8 August 2023, a presidential decree was published, under which the selected provisions of international double tax treaties (DTTs) must be suspended until "the respective foreign states eliminate the violations of legitimate economic and other interests of the Russian Federation."

Specifically, the Presidential Decree addresses the DTAs with Poland, USA, South Korea, Bulgaria, Sweden, Luxembourg, Romania, UK, Hungary, Ireland, Slovakia, Albania, Belgium, Slovenia, Croatia, Canada, Montenegro, Switzerland, Czech Republic, Denmark, Norway, Italy, Finland, Germany, France, Macedonia, Cyprus, Spain, Lithuania, Iceland, Austria, Portugal, Greece, New Zealand, Australia, Singapore, Malta and Japan.

Among others, the agreement between Germany and Russia (GER/RU DTT) is affected. According to the Presidential Decree, Articles 5 to 22 and Article 24 of the respective DTT and Articles 2 to 7 of the Protocol are suspended.

It is interesting to note that the articles regulating the avoidance of double taxation (e.g. Article 23 DE/RU DTA) and the mutual agreement procedure (Article 25 DE/RU DTA) are not addressed and do not fall under the scope of the decree. In this respect, the decree seeks to impose higher taxes on the domestic income of residents of the Contracting States concerned, but at the same time avoid double taxation of Russian residents.

The Russian Ministry of Foreign Affairs will send appropriate notifications of the unilateral suspension of the regulations to the above-mentioned Contracting States concerned.

For taxpayers, the question arises as of when the DTT between Russia and Germany will no longer be applicable. The respective draft bill is about to be prepared by the Russian government and submitted to the parliament. Nevertheless, it can be assumed that the Russian tax authorities will consider the respective provisions of the DTTs to be no longer applicable already as of the date of entry into force of the Presidential Decree, i.e. as of 8 August 2023 (such opinion was already expressed by the Russian Ministry of Finance in the case of the suspension of the DTT between Russia and Latvia).

It was also announced that further measures will be introduced to counteract the effects of the DTT suspension on the Russian economy.

Other developments:

In the recent past, Russia has doubled the so-called blacklist of the Ministry of Finance RF (Germany was also included in the list). This measure results in, among other things, taxation of dividends from "unfriendly" states.

In addition, Denmark recently announced the termination of the DTT with Russia from 1.1.2024.

If you have any further questions on this subject, please do not hesitate to contact us.

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