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Deferral of source-based taxation of gains on disposal of shares in property-rich companies



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The Ministry of Finance has announced that the Russian government has agreed to defer the introduction of source-based taxation of capital gains on disposals of shares in 'property-rich' Russian companies, which was due to take place on January 1 2017.

Under the 1998 double taxation agreement between Cyprus and Russia, gains on disposals of shares are taxable only in the country of residence of the person disposing of the shares. Since Cyprus imposes no capital gains tax on disposals of shares in companies unless they own immovable property in Cyprus, this makes Cyprus an advantageous location for holding shares in Russian companies.

A protocol to the 1998 double taxation agreement, which was signed in 2010 and took effect from the beginning of 2013, provided for source-based taxation of gains on the disposal of shares in companies which derive their value principally from immovable property in Russia (so-called 'property-rich' companies) after a four-year transition period. This meant that gains on the disposal of shares in property-rich companies would be subject to tax in Russia from January 1 2017. Shares in other companies were unaffected.

However, the application of this provision of the protocol has been suspended until similar provisions are introduced into Russia's double taxation agreements with other European countries. Disposals of shares in property-rich companies will continue to be taxable only in the country of residence of the person disposing of the shares, in the same way as other shares. This means that gains on disposals of shares in all Russian companies made by Cyprus-resident companies will continue to be tax free.

An additional protocol is being prepared in order to formalise the deferral.

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