World Tax News: Russia terminates Tax treaty with 38 unfriendly countries including UK & USA and more…

Editorial Team

World Tax News provides a weekly snippet of tax news from around the globe. Here is a glimpse of the tax happening in the world this week.

1. Russia terminates Tax treaty with 38 unfriendly countries, including UK & USA

On August 8, 2023, Russian President Vladimir Putin signed Decree No. 585, leading to the suspension of a few specific provisions within the international tax treaties of the Russian Federation. This Decree, which was promptly published in the Official Gazette, became effective on the same day.

The Decree outlines around 18 to 22 articles suspended from tax treaties entered into by Russia with 38 countries deemed "unfriendly."

The suspended articles cover crucial aspects such as permanent establishment, income from immovable property, business profits, associated enterprises, dividends, interest, royalties, capital gains, employment income, and more.

Additionally, suspended provisions within certain treaties include those pertaining to non-discrimination, limitation on benefits, and cooperation in tax collection, wherever they exist. Notably, the suspension does not extend to articles concerning individuals and taxes covered, residency, relief from double taxation, mutual agreement procedures, or the exchange of tax-related information.

The tax treaties impacted by this measure encompass agreements between Russia and the following countries:

Albania, Australia, Austria, Belgium, Bulgaria, Canada, Croatia, Cyprus, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Lithuania, Luxembourg, Malta, Montenegro (formerly part of Yugoslavia), New Zealand, North Macedonia, Norway, Poland, Portugal, Romania, Singapore, the Slovak Republic, Slovenia, South Korea, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

It's important to note that Denmark has decided to terminate its tax treaty with Russia, effective January 1, 2024.

Source: Decree No. 585 On the suspension by the Russian Federation of certain provisions of international treaties of the Russian Federation on taxation issues

2. Ukraine Terminates Double Taxation Agreement with Iran

The Ukrainian Cabinet of Ministers has endorsed the proposed legislation for the cancellation of the Double Tax Avoidance Agreement (DTAA) between Ukraine and the Islamic Republic of Iran. The DTAA was executed initially on May 21, 1996.

The legislation has been proposed in response to ongoing threats to Ukraine's national interests and security. These threats stem from Iran's provision of weaponry to the Russian Federation, thereby holding Iran accountable for the outcomes of the armed aggression by the Russian Federation against Ukraine and causing significant damage to the bilateral relationship.

The consequences of termination of the Agreement are:

(a) Applicability of general rate of tax of 15% to dividends, interest and royalty instead of 10%

After the termination of the Agreement, the general tax rate of 15% will apply to all incomes of residents of Iran received from sources in Ukraine instead of the preferential rate established by the Agreement of 10% - for dividends, interest, or royalties.

(b) No credit for tax paid in Iran

The termination allows the prevention of losses to the budget of Ukraine due to crediting of tax paid in Iran by residents of Ukraine conducting activities in Iran.

(c) Removal of obligations for exchange of information

The termination of the tax treaty releases Ukraine from its obligations regarding the exchange of information with Iran on tax matters;

Source: Release dated 04-08-2023

3. Italy imposes 40% tax on excess profits of financial institutions

The Italian Council of Ministers endorsed the Decree-Law addressing urgent measures for safeguarding users, economic activities, and strategic investments. Among the provisions outlined, a notable provision imposes a 40% tax on the surplus profits earned by financial institutions.

This tax will apply to a financial institution's net interest margin in the fiscal year 2022 if it exceeds its net interest margin in 2021 by at least 5% or if the net interest margin in the fiscal year 2023 surpasses its net interest margin in 2022 by at least 10%. The taxable base will be determined based on the higher value between these two years.

This extraordinary tax is scheduled to be paid in 2024 and will not be eligible for deductions in terms of income tax and the regional tax on productive activities (IRAP).

Following the announcement from the Council of Ministers, and in response to a significant market reaction, Italy's Ministry of Economy and Finance has released a statement indicating that the excess profits tax will be limited to 0.1% of the total assets of financial institutions.

Source: Press Release by the Italian Government

Press Release by Italy's Ministry of Economy and Finance