

VERBA / LEGAL

Russia and UAE Sign New Double Taxation Treaty



On February 11, 2025, the Government of the Russian Federation **published** Executive Order No. 280-r on signing the Double Taxation Treaty (DTT) between Russia and UAE. Russia and UAE **signed** the DTT on February 17, 2025 during the First Session of the UAE-Russia Financial Dialogue.

The effective taxation treaty between Russia and UAE was concluded on December 7, 2011. This treaty is a non-standard treaty different from conventional taxation treaties based on OECD and UN Model Conventions. The old revision of DTT applied only to governmental bodies and companies and did not cover individuals.

The new revision of DTT between Russia and UAE follows the standard model for international taxation treaties. The new revision of DTT will cover ordinary individuals and legal entities and govern the income and capital taxation procedure.

If DTT is ratified in 2025, its provisions will apply starting from January 1, 2026.

DTT Principal Provisions

DTT scope of application (Article 1 and Article 4): DTT shall apply to all tax residents of Russia and UAE, including residents of Free Zones in UAE that use 0% corporate tax rate.

Business income (Article 7 of DTT): DTT establishes the standard taxation rules for business income. Such income shall be subject to taxation in the income source state only if it is earned via a permanent establishment.

Hence, if a Russian company pays the income from services (works) to a mutually dependent company that is a tax resident of UAE, the withholding tax at the 15% rate **effective from January 1, 2024 will not be charged (sub-clause 9.4, clause 1, Article 309 of the Tax Code of the Russian Federation).**

Dividends, interest, royalty (Articles 10 to 12 of DTT): The standard “triad” of passive income (dividends, interest, royalty) is subject to a reduced withholding tax rate at 10%. The prerequisite for applying the reduced rate is the recipient’s actual right to income.

Proceeds from sale of interests (shares) (Article 13 of DTT):

The proceeds from sale of interests (shares) may be subject to tax in the source state only if, at any time within 365 days preceding the date of the sale, at least 50% of the value of such interests (shares) is directly or indirectly represented by immovable property located in the source state.

Hence, for instance, any proceeds of individuals who are tax residents of UAE from the sale of Russian companies will be subject to personal income tax in Russia only if the interests (shares) are alienated in the so-called property-rich companies (the companies where more than 50% of assets is represented by Russian immovable property).

In the absence of DTT, any proceeds of non-resident individuals from the sale of Russian companies shall be subject to personal income tax in Russia irrespective of the share of Russian immovable property in the assets (sub-clause 5, clause 1, Article 208 of the Tax Code of the Russian Federation).

Salary (Article 14 of DTT): clause 1 in Article 14 of DTT stipulates a standard rule whereby the salary of a tax resident of UAE received under an employment relationship may be subject to tax in Russia if the work is performed in Russia.

Pursuant to the notes to Article 14 of the OECD MC, the place of employment for the purposes of DTT shall be defined as the actual location of the employee. Therefore, according to standard DTT, the employees working remotely for Russian companies were not subject to personal income tax in Russia.

However, clause 4 of the Minutes to DTT between Russia and UAE specifies that the notion of “the work performed in the contracting state” shall include remote work under an employment agreement with a resident of any contracting state.

⚡ Note that starting from 2024, the income of non-resident employees who work remotely for Russian companies is subject to personal income tax in Russia (sub-clause 6.2, clause 1, Article 208 of the Tax Code of the Russian Federation). In view of clause 4 of the Minutes, DTT will not prevent the salary of UAE tax residents working remotely for Russian companies from being subject to personal income tax.

Other income (Article 21 of DTT): income that cannot be classified under any types of income listed in DTT shall be subject to tax only in the income source state. Therefore, for instance, if a Russian company acting as the lender waives the body of debt under a loan to a UAE borrower, the Russian company acting as the lender shall charge the withholding tax at 25%.

Elimination of double taxation (Article 23 of DTT): Individuals who are Russian tax residents will be able to offset the taxes paid in UAE. This is due to the fact that, pursuant to Article 232 of the Tax Code of the Russian Federation, taxes may be offset only if such offset is directly stipulated by DTT. Given that no personal taxation exists in UAE, the offset possibility will not have any perceptible effect on individuals.

As a general rule, Russian companies may offset the tax paid in a foreign state when paying the tax in Russia without any link to DTT, so the renewal of DTT between Russia

➤ The only exception to this rule is offsetting the tax on dividends paid by foreign companies to Russian companies (clause 2, Article 275 of the Tax Code of the Russian Federation). In this case, the offset is possible subject to the corresponding provisions being available in DTT between Russia and the income source foreign state. Accordingly, DTT will enable Russian companies to offset the tax on dividends paid in UAE.

However, the withholding tax rate in UAE is 0%, thus the application of the provision on offsetting the tax paid in a foreign state will not yet have any perceptible effect on Russian companies either.

Potential Removal of UAE from the Blacklist of the Ministry of Finance

As [pointed out](#) by Alexey Sazanov, Deputy Minister of Finance of the Russian Federation, execution of DTT between Russia and UAE may constitute grounds for removing UAE from the “blacklist” of offshore territories of the Ministry of Finance of the Russian Federation (Orders by the Ministry of Finance of the Russian Federation No. 86-N dated June 5, 2023 and No. 35n dated March 28, 2024).

In its turn, removal of UAE from the list of offshore territories will have the following implications:

- 01 — Russian companies will be able to apply the 0% income tax rate (participation exemption) if they receive dividends from a UAE company subject to compliance with the participating interest and ownership length provisions (sub-clause 1, clause 3, Article 284 of the Tax Code of the Russian Federation).
- 02 — Russian companies will be able to apply the 0% income tax rate to the proceeds from sale companies from UAE subject to compliance with the minimum ownership length (5 years) and asset composition provisions (Article 284.2 of the Tax Code of the Russian Federation).
- 03 — Russian companies will not be required to take into account the proceeds in the form of donated property (property rights) from a UAE subsidiary when determining the income tax base amount subject to compliance with the participating interest provision (sub-clause 11, clause 1, Article 251 of the Tax Code of the Russian Federation).
- 04 — Transactions with UAE independent parties (excluding transactions with specific commodity groups) will not be deemed as controlled transactions for the purpose of transfer pricing (sub-clause 3, clause 1, Article 105.14 of the Tax Code of the Russian Federation).
- 05 — Controlled foreign companies (CFC) which are active holding and sub-holding companies may be exempt from income tax (clause 7, Article 25.13-1 of the Tax Code of the Russian Federation).

Matters Outside of DTT Scope

Execution of revised DTT will not affect those tax regulations, which are linked to availability of DTT as such, because Russia and UAE have already had an effective taxation treaty concluded in 2011.

For example, the income of CFC remains tax-exempt if such CFC is an issuer of marketable bonds (clause 7, Article 25.13-1 of the Tax Code of the Russian Federation).

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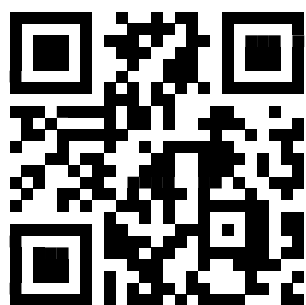
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