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Luxembourg Tax Alert

Agreement reached to amend the Luxembourg-Russia tax treaty on withholding tax rates for dividend and interest payments

13 November 2020

On 6 November 2020, Luxembourg and the Russian Federation signed a new amendment to the Luxembourg – Russia Income and Capital Tax Treaty in Moscow as amended.

Based on the Luxembourg Government release, this amendment was negotiated following a request from the Russian Federation due to a change in its conventional policy on withholding tax on dividends and interest.

The wording of the signed protocol was published on the website of the Luxembourg tax authorities. Based on this, the conventional withholding rate on dividends and interest would be increased at 15% with certain exceptions as described below.

The withholding tax rate for dividends could be reduced to 5% if the recipient of the dividend income is a beneficial owner of this dividend income and a tax resident in the contracting state and meets one of the following criteria:

- An insurance undertaking or a pension fun
- The government, or its political subdivision, or a local authorit
- The Central Bank
- A company whose shares are listed in a registered stock exchange provided that no less than 15% of its voting shares are in free float and which holds directly at least 15% of the capital of the company paying
- The dividends, throughout a period of 365 days that includes a day of payment of the dividends

Interest payments could be exempt from withholding taxation if the recipient of the interest income is a beneficial owner of this interest income and a tax resident in the contracting state and meets one of the following criteria:

- An insurance undertaking or a pension fund
- The government, or its political subdivision, or a local authority
- The Central Bank or a bank
- The interest is paid in respect of government bonds, corporate bonds and Eurobonds listed on a registered stock exchange.

The withholding tax rate on interest could be reduced to 5% if the recipient of the interest income is a beneficial owner of this interest income and a tax resident in the contracting state, and is a company whose shares are listed in a registered stock exchange - provided that no less than 15% of its voting shares are in free float – and, which holds at least 15% of the capital of the company paying interest directly, throughout a period of 365 days including a day of payment of interest.

The amendment would apply as from 1 January 2021 provided it is duly ratified by both states by 31 December 2020. The timeline seems to be quite tight taking into account a fast approaching year end but the officials of both states have declared their clear intention to complete all the legislative procedures in this respect by this year end.

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