

## DTT between Russia and the UAE

*FAO heads of companies, and of companies' legal and financial departments*

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### **Pepeliaev Group advises that the Double Tax Treaty with the UAE has been signed**

The finance ministers of the two countries officially signed the Double Tax Treaty (the "DTT" or "Treaty") on 17 February in Abu Dhabi.<sup>1</sup>

At present, only the draft of the Treaty is available of which the text is contained in the Russian Government's Instruction No. 280-r dated 11 February 2025. Yet, as follows from that Instruction, the Russian Finance Ministry is permitted to amend the Treaty, provided that such amendments are non-critical in nature. This means that the final text of the signed Treaty will hardly undergo any substantial changes and we can already assess its provisions.

On the part of the UAE, the Treaty will apply to all residents of this state, rather than only those who are subject to taxation in it. Consequently, companies registered in the free zones of the UAE can also count on the DTT's provisions being applied.

Please note some of the most significant provisions of the Treaty:

- a permanent establishment arises if, among other situations, services are provided through a permanent place of business within 6 months in any 12-month period;
- the rate of tax on dividends, interest and royalties is 10%;
- dividends include income from the distribution of additional paid capital and from a reduction of companies' issued capital, as well as payments with respect to units of unit investment funds (except real estate funds);
- income from immovable property that is taxed at the place of its location is understood to be income received through unit investment funds, among others;
- income from copyright and licences include payments for the lease of the equipment;

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<sup>1</sup> [https://minfin.gov.ru/ru/press-center?id\\_4=39604](https://minfin.gov.ru/ru/press-center?id_4=39604)

- income from the sale of shares of (membership interests in) companies is subject to withholding tax if more than 50% of the assets of the company being sold consisted of immovable property for 365 days before (or as at) the date of the sale;
- other income is to be taxed in the state where it has emerged.

The following provisions of the Treaty are to be noted:

- 1)** article 5(8) – an exception to the status of an independent agent is a situation when the agent acts “exclusively or almost exclusively on behalf of an enterprise or several enterprises to which it is closely related”;
- 2)** article 30 provides that profit and income received from activity connected with hydrocarbons may be taxed according to the national rules of each of the states where the relevant activity is performed;
- 3)** clause 4 of the Protocol provides that work in the corresponding state is deemed to include remote work under an employment or civil law contract concluded with a resident of the corresponding state regardless of the actual place where such work is performed;
- 4)** the Protocol to the Treaty provides that a certificate of residency does not require an apostille or legalisation.

The conclusion of the Treaty allows for a reduced rate of the tax to be applied to income of foreign companies and for some types of income to be exempted from taxation in Russia, such as the cost of intra-group services provided by a related party. Russian taxpayers will be able to apply special rules of taxation that are available only if there is a signed DTT and/or the foreign state is not in the Russian list of “offshore jurisdictions”<sup>2</sup>.

Such rules include, among other things:

- 1)** individuals who are tax residents of Russia being able to offset tax paid in the UAE;
- 2)** the zero rate of tax being applied with respect to dividends and income from the sale of shares (membership interests) of companies from the UAE subject to compliance with other conditions of article 284.2 of the Tax Code;
- 3)** the rules of transfer pricing being applied only to transactions between related parties or to transactions in the area of foreign trade in goods of certain commodity groups;
- 4)** it being possible within the scope of a look-through approach to deduct tax on profits of foreign companies from the amount of personal income tax of an

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<sup>2</sup> At present, the UAE is included in the national “lists of offshore jurisdictions” approved by the Ministry of Finance’s Orders No. 35n and 86n dated 28 March 2024 and 5 June 2023, respectively. The entry into a double tax treaty with the UAE is highly likely to result in the Emirates being removed from these lists.

individual who is a Russian resident and has received dividends through a company in the UAE.

### **What to think about and what to do**

It is planned that the Treaty will come into effect starting from 1 January 2026.

The adoption of the DTT establishes rather favourable tax treatment of cross-border incomes of residents of Russia and the UAE. Combined with the low tax rate in the UAE and the possibility for rules of the treaty to be applied to all tax residents of this state, including those who apply the zero tax rate, the Treaty will make this jurisdiction attractive for structuring foreign investments of Russian companies.

Russian businesses should consider the UAE as a place for locating their foreign intermediaries, trade, service, holding and other companies, for making investments both in countries of the Far East and other regions. The extensive network of international tax treaties that the UAE has concluded with many states allows for companies from this jurisdiction to be used for structuring investments all over the world.

### **Help from your adviser**

Pepeliaev Group's lawyers are ready to provide the necessary legal assistance on issues of structuring investments in the UAE taking account of the provisions of the Treaty, the requirements of Russian legislation, as well as the national legislation of the UAE.

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