



CIS Countries Introduce Additional Measures on Avoidance of Double Taxation

On November 2, 2018, the Prime Ministers of Armenia, Azerbaijan, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan signed the Protocol on the exchange of information in electronic form between the CIS member states for tax administration. To date, in 2020 Armenia, Kazakhstan, Kyrgyzstan, and Russia have ratified the Protocol.

Due to increasing transparency, both at the level of the CIS and at the level of other supranational organizations, proven business models may lose their effectiveness. While previously it was possible that some controversial approaches would go unnoticed, now it is much less so.

Our experts from Armenia, Belarus, Kazakhstan, Russia, Uzbekistan and Ukraine have assessed the situation in their countries.

What is the essence of the Protocol?

Tax authorities of the countries participating in information exchange will annually get access to data on the activity of their residents on CIS territory.

The Protocol provides for the exchange of the following types of information:

- interest income on debt obligations, royalties, dividends, income from the lease of property, income from the alienation of securities, shares, movable and immovable property
- income received through a permanent establishment
- income from employment, civil law contracts, and other income of individuals
- the property of individuals, including information on the type of property, characteristics of the vehicle
- the amount of taxes accrued and paid, in particular, on property and personal income
- personal data of individuals

The above list is not exhaustive. Nevertheless, it is already evident from this list that considerable transparency is provided, which allows controlling the application of double tax treaty provisions.

As the practice of information exchange via OECD initiatives shows, the political factor has a significant impact on the performance of obligations by participants in tax relations. The absence of exchange agreements generates disputes and the additional burden of tax administration. It should be noted that CIS countries and neighboring countries in close economic cooperation are borrowing the most effective practices of tax administration.

Armenia has long ago moved to an independent process of converting the documentation into an electronic format, and the ratification of this document once again confirms the readiness of the country to take an active part in increasing the level of transparency between countries in the implementation of economic cooperation.

This initiative will make it possible to exchange information between the participating countries more efficiently and without additional delays. As an additional instrument to reduce the shadow economy, it will make it possible to prevent attempts to evade tax obligations for CIS residents.

Belarus, although a member of the CIS, has not yet signed the protocol on automatic exchange of information for tax administration purposes within the CIS for various political and economic reasons. A number of international treaties still provide for exchange of tax information. However, a separate request has to be submitted for this purpose in each case.

Therefore, there are some technical difficulties that affect the speed of exchange. The new procedure of information exchange in electronic form, which will be uniformly applied by tax authorities of the CIS countries, may correct the situation. However, it is not possible to assess the probability that Belarus will sign such a document in the short term.

Since the establishment of the CIS, Kazakhstan has been one of the first countries to support the initiative plans of the CIS member states, as in the case of the Protocol of November 2, 2018. The document was ratified by the Republic of Kazakhstan on August 23, 2019. In connection with these events, the State Revenue Committee of the Republic of Kazakhstan (SRC) is planning to conduct the first information exchange in test mode in August 2020. Since the establishment of the State Revenue Committee of the Republic of Kazakhstan, its main objective has been the transparency and accuracy of information received from taxpayers on the conduct of business activities for the purposes of remote tax administration and reducing tax audits. Accordingly, this initiative to exchange information is the key to rapid access to information on the financial assets of taxpayers and to reduce the risk of tax evasion.

Since this project has a great tax justification, in order to maintain correct accounting on the territory of Kazakhstan, the most effective way will be to re-examine the correctness of accounting by taxpayers and tax agents, as well as administration by the tax authorities.

The Federal Tax Service of Russia has been working for a long time to create analytical information systems that would allow for relatively easy control in a semi-automatic mode. The statistics of tax audits shows the effectiveness of their approach — the number of control measures is decreasing, and the collection of taxes is increasing every year. This initiative, together with other types of international exchange of information for administrative purposes, is a reason for taxpayers and tax agents to look once again at how and to what extent they pay taxes in the CIS and whether there are any economic reasons for such distribution.

Currently, Uzbekistan has not yet ratified the protocol. At the same time, active work is being done to increase the transparency of business relations, as in other CIS countries. For example, very recently electronic invoices in mutual settlements of economic entities within the country have been approved. They have already managed to work with this instrument voluntarily, and from January 1, 2020 this is an official requirement. However, Uzbekistan has not yet joined the exchange of information within the CIS for the purposes of tax administration, as well as the exchange according to the standards of the Organization for Economic Cooperation and Development.

Ukraine is not a member of the CIS, as it has never ratified the charter of the organization, but it had the status of a founding country and a member country of this structure. At present, the interaction between Ukraine and the CIS has been reduced to a minimum level, and the country's participation in the statutory bodies of the association has been terminated. There is a process of gradual denunciation of interstate agreements concluded during Ukraine's participation in the CIS. Thus, Ukraine will not take part in the automatic exchange of tax information within the CIS. At the same time, the country has declared its accession to the CRS (Common Reporting Standard) in the near future, for which purpose it is working to make appropriate changes to national legislation.

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