Hungary; Russia

Hungary Publishes Information on Effects of Russia's Unilateral Suspension of Tax Treaty Provisions

6 October 2023

Report from IBFD Tax Treaties Unit

On 5 October 2023, the Hungarian government released information on the application of the Hungary - Russia Income and Capital Tax Treaty (1994), following Russia's unilateral decision to suspend specific provisions of the treaty.

With this suspension, Russia will now apply its internal rules for the taxation of income and assets arising from transactions between Hungarian and Russian parties. The treaty itself remains in effect, but during the suspension period, Russia will not fulfill its obligations set out in the suspended provisions. However, Hungary will continue to apply the provisions of the treaty and work to guarantee its benefits. Nevertheless, this unilateral action cannot fully prevent double taxation of income of individuals and companies.

Article 23(1) of the treaty only applies to income taxed in accordance with the treaty within Russia. This means that income can only be exempt from tax in Hungary if Russia taxes it in line with the treaty's provisions, or the tax deducted in Russia can be credited only with respect to dividend income and at a maximum rate of 10%.

Hungary also reiterated that provisions not affected by the suspension remain in force. Therefore, among others, conflicts can still be resolved regarding dual residence, dispute resolution can still be initiated under article 25 of the treaty, and it is still possible to exchange tax information under article 26 of the treaty.

Russia suspended provisions of 38 tax treaties on 8 August 2023, including the tax treaty with Hungary. The suspension affects articles 5-22 and 24 of the Hungary - Russia Income and Capital Tax Treaty (1994). For previous reporting, *see* Russia Temporarily Suspends Certain Provisions of 38 Tax Treaties with 'Unfriendly' States (8 August 2023).

Further developments will be reported as they occur.

Hungary; Russia - Hungary Publishes Information on Effects of Russia's Unilateral Suspension of Tax Treaty Provisions (06 Oct. 2023), News IBFD.