EXPLANATORY MEMORANDUM TO

THE DOUBLE TAXATION RELIEF (RUSSIAN FEDERATION) (REVOCATION) ORDER 2025

2025 No. 344

1. Introduction

1.1 This explanatory memorandum has been prepared by His Majesty's Revenue and Customs (HMRC) and is laid before the House of Commons by Command of His Majesty.

2. Declaration

2.1 James Murray MP, Exchequer Secretary to the Treasury confirms that this Explanatory Memorandum meets the required standard.

2.2 James Dunstan, Deputy Director for Business Assets & International at HMRC confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Helen Baird-Parker at HMRC Telephone 03000 586141 or email: taxtreaty.team@hmrc.gov.uk can be contacted with any queries regarding the instrument.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 The instrument revokes an earlier instrument which gave effect to the Double Taxation Convention between the United Kingdom and the Russian Federation ("the Convention") in UK law. The Convention will cease to have effect for the purpose of UK law from 6 April 2025 for income tax and capital gains tax and 1 April 2025 for corporation tax. The Convention has been suspended under international law.

Where does the legislation extend to, and apply?

4.2 The extent of this instrument (that is, the jurisdiction which the instrument forms part of the law of) is the United Kingdom.

4.3 The territorial application of this instrument (that is, where the instrument produces a practical effect) is the United Kingdom.

5. Policy Context

What is being done and why?

5.1 The purpose of a Double Taxation Convention is to prevent income or gains being taxed both in the territory in which they arise and the territory in which the recipient is resident. They do this either by allocating an exclusive right to tax the income or gain to one of the territories, or by providing that one territory must give relief for the tax charged in the other territory in respect of the same income or gain. Double Taxation Conventions also provide additional protection for taxpayers by including specific

measures that combat discriminatory tax treatment. The current Convention was signed on 15 February 1994.

5.2 Russia unilaterally suspended substantially all of the terms of the Convention by Presidential decree dated 8 August 2023 and has ceased to apply them from that date, although the Convention remains in force in international law. The United Kingdom considers Russia's actions to be a material breach of the terms of the Convention.

5.3 The United Kingdom asked Russia to rectify the breach of its obligations, but it has not done so. Therefore, in accordance with international law, the United Kingdom has notified Russia of its intention to reciprocate by suspending the Convention in full.

5.4 The Convention had effect in domestic law through the Double Taxation Relief (Taxes on Income) (Russian Federation) Order 1994 ("the 1994 Instrument"). This instrument will revoke the earlier Order in Council and the Convention will cease to have effect for the purpose of UK income tax and capital gains tax from 6 April 2025 and corporation tax from 1 April 2025. For the purpose of credit relief, it will cease to have effect at those same times for Russian taxes of a similar character. The Convention will continue to have effect for earlier periods pursuant to section 16 of the Interpretation Act 1978.

5.5 United Kingdom tax law will apply from 1 April 2025 and 6 April 2025, as relevant, as though there is no Double Taxation Convention with Russia. United Kingdom tax residence will be determined purely on the basis of United Kingdom law and the United Kingdom will tax United Kingdom sourced income and gains as permitted by domestic law, unrestricted by the terms of the Convention. United Kingdom resident taxpayers will be able to rely on unilateral relief from double taxation for Russian tax to the extent permitted by UK law.

What was the previous policy, how is this different?

5.6 Following Russia's unlawful action, as outlined at paragraph 5.2 above, the United Kingdom requested Russia to return to compliance. In the interim the United Kingdom continued to fulfil its obligations under the Convention in accordance with the rule of law. However, the United Kingdom will not continue to apply the terms of the Convention when that is not reciprocated by Russia and the United Kingdom is not required to do so in international law.

5.7 If Russia comes back into compliance with the terms of the Convention it would be possible to enact a new instrument to give effect once again to the terms of the treaty in UK law.

6. Legislative and Legal Context

How has the law changed?

6.1 This instrument revokes the 1994 Instrument which gave effect to the Convention.

Why was this approach taken to change the law?

6.2 As the Convention was given effect in domestic law by an Order in Council, that instrument is now revoked to cease the effect. It would also be possible to revoke the instrument via primary legislation, but on this occasion secondary legislation is the more proportionate approach.

7. Consultation

Summary of consultation outcome and methodology

7.1 A consultation was not undertaken because decisions concerning international relations with Russia are solely a matter for the Government.

7.2 However, HMRC regularly consults with external interested parties, including business representatives, about the United Kingdom tax treaty network.

8. Applicable Guidance

8.1 General guidance on the operation of the United Kingdom's double taxation agreements can be found on the HMRC pages of the gov.uk website[1] and in the Double Taxation Relief Manual[2].

8.2 The Double Taxation Relief Manual will be updated once the instrument enters into force.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A Tax Information and Impact Note has not been produced for the Order as it relates to a double taxation agreement.

Impact on businesses, charities and voluntary bodies

9.2 There is no, or no significant, impact on business, charities or voluntary bodies because their obligations in United Kingdom law have not changed. Apart from one-off costs of familiarisation with the guidance on the relief from double taxation available in domestic law rather than under the Convention, and the need to apply the full domestic rate of withholding tax to any cross-border payments rather than the reduced rate provided under the Convention, there are not expected to be further costs.

9.3 The legislation does impact small or micro businesses but as with other businesses, the impact is negligible and no special approach for small or micro businesses is necessary.

9.4 There is no, or no significant, impact on the public sector because its obligations in United Kingdom law have not changed.

Impact on individuals

9.5 There is no, or no significant, impact on individuals because their obligations in UK law have not changed. It is not anticipated that there will be any impacts for those in groups sharing protected characteristics.

[1] Guidance on the operation of the UK's DTAs: https://www.gov.uk/hmrc-internal-manuals/international-manual/intm150000

[2] Double Taxation Relief Manual: https://www.gov.uk/hmrc-internal-manuals/double-taxation-relief

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 The approach to monitoring this legislation is dependent on Russia's actions and it will be reviewed should Russia come back into compliance with its obligations under the Convention.

10.2 The instrument does not include a statutory review clause.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 None.

12. European Convention on Human Rights

12.1 The Exchequer Secretary to the Treasury has made the following statement regarding Human Rights:

"In my view the provisions of the Double Taxation Relief (Russian Federation) (Revocation) Order 2025 are compatible with the Convention rights."

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts").