



# TAXES IN EUROPE

**2021**

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# Russia





 **Capital city:**  
Moscow

 **Language:**  
Russian


 **GDP/capita**  
**2019:**  
USD 12,012

 **Telephone code:**  
+7

 **Area:**  
17,125,191 km<sup>2</sup>

 **Political system:**  
Federal republic

 **Currency:**  
Rouble

 **National day:**  
12 June

 **Population:**  
145,974,205

 **ISO Code:**  
RUS



## SUMMARY – THE MAIN CHANGES IN TAXATION RULES IN 2020

From 1 January 2021 the following main changes in the legal rules of taxation are in force in the Russian Federation:

1. It will be progressive rate system for individual tax, 23 of RF Tax Code). From April 1, 2020, organizations and individual entrepreneurs who are listed on the register of small and medium-sized enterprises can apply reduced rates of obligatory social payments:
  - Rates of obligatory social payments for organizations and individual entrepreneurs will be: for compulsory pension insurance
  - 22% (if the payment is less than minimum wage fixed by law), - within the limit or over - 10% instead of 22%;
  - Obligatory health insurance fund - 5% instead of 5.1%; payments to social insurance fund are not paid.
2. The list of goods subject to mandatory labeling has been expanded, and labeling allows you to track the entire chain of movement of goods from the manufacturer or importer to the final buyer. Alongside with those that are used to be labeled as tobacco products, shoes, medical drugs, in 2021 such goods groups as cameras and lamps-flares, tires and perfumes were added. In the future it will continue to expand.
3. The tax on imputed income has been abolished.
4. Revenue limits for the simplified taxation system were increased, the so-called buffer zone was introduced. In this way, if the income of the the simplified taxation system payer exceeds 150 million rubles, but still not more than 50 million rubles, and the average number of employees is 100 people, but no more than 30 people, then it will be possible to continue to use this tax regime. During the transition period, the tax rate will be slightly increased from 6 to 8% for taxpayers applying the object of taxation in the form of income; and from 15 to 20% for taxpayers applying the object of taxation in the form of income, reduced by the amount of expenses.

5. Some figures of the state duties are changed.
6. The list of countries and territories with which the automatic interchange of tax data is realized, is changed.

# 1. Corporate taxation

## 1.1 Taxes on entities

Legal entities are subject to company income tax on their profits and to land and property tax.

## 1.2 Residence and non-residence

A legal entity registered in the Russian Federation is considered to be resident in Russia.

A foreign company shall be considered to be resident in Russia if:

- this follows from the appropriate double taxation treaty of the Russian Federation;
- the place of its effective administration is located in the Russian Federation if the opposite does not follow from the appropriate double taxation treaty of the Russian Federation.

The legal entity being resident in the Russian Federation is charged on all worldwide income, unless the income is exempt under a double taxation agreement. If there is no double taxation agreement, the fully liable taxpayers may charge the tax to be paid abroad to the corporate income tax to be paid in the Russian Federation in order to cushion the effect of the double taxation. This setoff shall be made on the basis of an approved tax payment certificate issued by a taxation body of a country where the payments have been actually processed.

Foreign legal entities which have neither their headquarters nor effective administration in Russia are liable for tax due to their economic attachment within the Russian Federation with deductions concerned to be an appropriate double taxation agreement.

## 1.3 Tax year and filing

The tax year in Russia is the calendar year.

Generally a corporate income tax return must be filed by 28 March. Corporate

income tax reports for every reporting period must be filed within 28 days after an end of an appropriate reporting period.

The reporting periods are the 1<sup>st</sup> quarter, a half year and 9 months. For tax-payers using the regime of monthly advance payments of Tax the reporting periods are one month, two months etc.

Tax value for every reporting (taxation) period is calculated by a tax-payer as a percentage of a taxable profit for the period using an appropriate rate of Tax.

A sum of monthly advance payable in the 1<sup>st</sup> quarter shall be equal to the monthly advance paid in the previous quarter.

A sum of monthly advance payable in the 2<sup>nd</sup> quarter shall be equal to 1/3 of the sum of tax calculated for the 1<sup>st</sup> quarter.

A sum of monthly advance payable in the 3<sup>rd</sup> quarter shall be equal to 1/3 of the difference between the sum of Tax calculated for the first half year and the sum of tax calculated for the 1<sup>st</sup> quarter.

A sum of monthly advance payable in the 4<sup>th</sup> quarter shall be equal to 1/3 of the difference between the sum of Tax calculated for the 9 months and the sum of tax calculated for the 1<sup>st</sup> half year.

Russian legal entities with sales revenue for the previous 4 quarters less than RUR 10,000,000, non-profit organizations, representations of foreign companies and certain other types of tax-payers shall pay only quarterly advance payments. Tax is payable 25 March, 25 April, 25 July and 25 October for quarterly advance payments. In the case of monthly advance payments tax is payable till the 28 of each month.

## 1.4 Types of income

Tax assessment is based on the profits received during the financial year (taxation period), sometimes increased by quasi-distributions and some non-deductible payroll costs.

All legal entities may deduct a total sum of profit related to their commercial activities, for an annual amount of depreciation of fixed assets, intangible assets and capital results of scientific researches and production.

Land property and shares do not attract a depreciation allowance.

## 1.5 Group income and grouping arrangements

A consolidated group can be formed where one company has a direct or indirect participation of 90% in the other company. The amount of net assets of the companies must exceed their share capital and there are certain significant size requirements. A group shall be formed for at least two tax years.

## 1.6 Capital gains

Generally, capital gains are treated as an ordinary income. Where a loss is made on a depreciable asset that loss should be taken over the remainder of the useful life of the asset.

## 1.7 Losses

Losses of the tax period may be deducted from the net profit for the current period as follows (deductible losses may comprise of economically reasonable and approved expenditures):

- during the same taxation period, set off of loss against another element of the company's income;
- against profit of the following ten annual taxation period succeeding the taxation period in which losses arise.

Above mentioned rules are not applicable to losses arisen in the taxation period when a tax-payer applied the tax rate equal to 0%.

Those rules are not also applicable to losses related to sales or other retirement of shares of Russian legal entities.

Losses on depreciable assets should be spread over the period of the remaining life of an asset.

## 1.8 Exemptions

A tax rate of 0% is applies to the profit of Russian legal entities arising in the form of dividends in the case if as for the date of the decision on the payment of dividends, the receiving legal entity had been a legal owner of minimum of 50% of shares continuously for no less than 365 days.

In the case those dividends would be paid by a foreign company, the above mentioned rule might be applied provided that foreign company were not a resident of any state listed in the special list of so called "off shore territories" approved by the Ministry of finances of the Russian Federation.

A tax rate of 13% is applied to the profit of Russian legal entities arising in the form of dividends by Russian and foreign legal entities in other cases.

A tax rate of 15% is applied to the profit of foreign legal entities arising in the form of dividends by Russian legal entities.

## 1.9 Rates

A standard rate of Corporate Income tax is 20% regardless whether profits are distributed to shareholders or not (where 2% should be paid to the federal budget and 18% - to the regional budget).

Legal entities processing educational activities and providing medical services, shall use tax rate equal to 0% with special provisions stated in the Article 284.1 of RFTC.

Legal entities receiving profit arisen from sales or other retirement of shares of Russian legal entities, shall use tax rate equal to 0% if those shares had been in the property of tax-payers for more than five years.

Residents of special technology innovative economic zones might also apply tax rate equal to 0% to profits arisen from respective activities proceeded within those special economic zones.

A tax rate 0% might be also applied by agricultural manufacturers meeting criteria stated in the Article 346.2 of RFTC.

Legal entities participating in the regional investment projects have a right to apply tax rate 0% related to payments to the federal budget.

In the following cases a corporate income tax is levied and paid on withholding basis:

- 1) A tax rate 30% is applied to revenues arisen from securities issued by Russian companies and deposited by foreign holders.
- 2) Tax rates for foreign companies are as following:
  - 10% – for profits arisen from freight of aircrafts, vessels and other running transport units used for international carriages;
  - 15% – for dividends arisen from shares of Russian legal entities;
  - 20% – for profit arisen from all other revenues.

### 1.10 Double tax relief

Double taxation relief acts due to the appropriate double taxation conventions of the Russian Federation.



## 2. Personal income taxation

### 2.1 Taxes on income

Personal Income Tax is levied on all individuals being the residents of the Russian Federation (according to all income received) and on other individuals who receive income arising from the Russian Federation.

The tax is calculated on the total income of the taxpayer from a gainful activity, the return on moveable or real estate assets, or other sources of income. Also taken into account in this income are all benefits in kind (for their market value).

There are also social security contributions which are paid by the employee and the employer.

### 2.2 Residence and non-residence

The place of residence of a person is his place of main dwelling (not less than 183 days during 12 subsequent months). If a person's main dwelling is a place within the Russian Federation, then the person shall be recognized as a tax resident of the Russian Federation.

The period of residence shall not be interrupted via short-term departures off site the Russian Federation (for less than 6 months) for the purposes of medical care, education and to carry out labor duties on site of sea oil and gas fields.

If an individual is judged resident in the Russian Federation, the charge to income tax is on all his worldwide income. However, some income may be exempted under the terms of a double taxation agreement.

### 2.3 Tax year and filing

The tax year is the calendar year.

In general a tax return should be filed by 30 April after the end of the tax year concerned.

After filing, a return on assessment is received. Provisional assessments are used which are payable in the course of the year.

### 2.4 Types of income and rates

There exist the following categories of Income for tax-payers in the Russian Federation:

- Income of a Profession

Includes all income received in cash or in-kind form arising from the fulfillment of person's responsibilities under labor contracts (salaries and wages) and other forms of legal agreements related to the Civil Code of the Russian Federation (hereinafter – RF Civil Code).

For the purposes of taxation in-kind-form of income include:

- receipt of goods for labor and other duties provided;
- coverage of utility charges, insurance, leisure, education etc.

The basic rate of taxation is 13% with the possible deductions. The tax related to the salaries, wages and similar revenues is withheld and paid by the revenue payers. The income above 5 million rubles will be imposed by rate 15%.

Income in the form of financial benefits - includes income received via:

- general purpose loan percentage economy – calculated as the positive difference between actual loan interest rate and 2/3 of key interest rate. The rate of taxation is 35% and is withheld by the bank – lender;
- percentage economy due to the loans related to the construction or acquirement of apartments, private houses etc. – shall not be the object of taxation in the case of existence of the deductible expenditures (Article 220 of RFTC);
- benefits arising from the acquirement of goods and services of mutual dependent parties – calculated as the difference between the actual cost of the acquisition and the market cost of the similar goods and services (Item 3, Article 212 of RFTC);
- benefits arising from the acquirement of shares, securities and futures – calculated as the difference between the actual cost of the acquisition and the market value of the acquired financial instruments (Item 4, Article 212 of RFTC).

Income in the form of insurance payoffs (see Articles 213, 213.1 of RFTC) - the rate of taxation is 13%.

Income in the form of dividends arising off site the Russian Federation – calculated by the tax-payers using the rate 13% with the possible deductions arising from double taxation treaties.

Income in the form of dividends arising in the Russian Federation – calculated at the rate 13% and withheld and paid by the dividends' payers.

Income from deals with financial instruments (see Articles 214.1, 214.3, 214.4, 214.6 of RFTC) – the rate of taxation is 13%.

Income in the form of capital gain – calculated as the difference between the actual capital gain rate and “key interest rate + 5%”; taxation rate is 35%, and the tax is calculated and withheld and paid by the actual payers of capital gain revenue.

Income in the form of betting winnings and other similar revenues – calculated at the rate equal to 35% and is withheld by the sources of the revenue.  
Income in the form of the lottery winnings and other similar revenues calculated at the rate equal to 35% and is withheld by the sources of the revenue.

All revenues of foreign citizens not recognized as tax residents of the Russian Federation received as salaries and wages, are taxed with the rate 13%.

All revenues of persons not recognized as tax residents of the Russian Federation received as dividends arising from the Russian legal entities, are taxed with the rate 15%.

All other revenues of persons not recognized as tax residents of the Russian Federation are taxed with the rate 30%.

## 2.5 Capital Gains

Income in the form of capital gain calculated as the difference between the actual capital gain rate and “key interest rate + 5%” is taxed 35%, and the tax is calculated and withheld and paid by the actual payers of capital gain revenue.

## 2.6 Losses

There exist several types of deductible expenditures applicable to the calculation of the taxable income:

1. standard monthly deductions applied to persons participated in Chernobyl Catastrophe conservation and similar situations;
2. monthly deductions related to the birth of the first and subsequent children provided up to 18<sup>th</sup> birthday (24<sup>th</sup> birthday of students);
3. social deductions related to the reimbursement of self-education expenditures and expenditures for the education of children (younger than 24 years) – this deduction is valid if the education is processed in the appropriately licensed institution and if a tax-payers presents confirmation of expenditures (except the cases of usage of “mother capital”);

4. social deductions related to the reimbursement of expenditures for medical services – in the cases defined in Para.3), Article 219 of RF Tax Code;
5. social deductions related to the reimbursement of expenditures for retirement investments – in the cases defined in Para.4), Article 219 of RF Tax Code;
6. property deductions equal to the total sum of approved expenditures related to the acquisition of the appropriate real estate;
7. property deductions equal to RUR 1,000,000 (RUR 250,000) in the case of sale of the real estate (other property) which had been in possession of a tax-payer for less than 3 years. Property deductions shall be given to a certain tax-payer under the rules defined in Items 3 – 10 of Article 220 of RFTC;
8. professional deductions equal to the total sum of the actually made and approved expenditures directly related to the revenues received – applies to all persons registered as individual contractors and to private notaries, attorneys founded a private legal practice, and other persons (e.g. private patent attorneys, private appraisers, bankruptcy executive officers) involved in private practices. The applicable set of expenditures shall be defined by the tax-payers themselves according to the rules of Chapter 25 of RFTC;
9. professional deductions applied by tax-payers who receive revenues arising from activities based on the agreements made upon RF Civil Code – in the total sum of the actually made and approved expenditures directly related to the revenues received;
10. professional deductions for the authors of scientific, art, literature creations etc. – in the total sum of the actually made and approved expenditures directly related to the revenues received, but not less than 20% of the revenues. The applicable expenditures also include all mandatory taxes and duties paid in relation to the above mentioned activities, all mandatory payments to social funds.

Losses cannot generally be carried forward or back although capital losses relating to the disposal of securities may be set off in later years. Listed securities are treated separately from other securities.

## 2.7 Exemptions

The following revenues are not charged by personal income tax:

1. government allowances of all types (public welfare payments, social security disability payments etc.);
2. retirement pensions (including all legal social additions);

3. all legally stated reimbursements (within the legally stated limitations);
4. redresses of all health and other similar injuries;
5. dismissal compensations stated by the Labor Code of the Russian Federation, excluding compensations for the unused vacation, special extra compensations to executives and chief accountants;
6. reimbursement of expenditures for the professional skill upgrading;
7. reimbursement of business trip expenditures (within the legally stated limitations – see Para.3), Article 217 of RFTC);
8. international and Russian grants, premiums and awards – see Para. 6), 7), Article 217 of RFTC;
9. sale revenues of real estate and sale revenues of other property – in the case a certain tax-payer had been an approved proprietor during 3 years or more;
10. sale revenues of shares in the equity of legal entities of the Russian Federation – in the case a certain tax-payer had been an approved proprietor during 5 years or more;
11. revenues in the form of gifts made and received by close relatives;
12. other tax exempts defined in the Article 217 of RFTC.

## 2.8 Rates

There are certain extra reductions in tax for people in certain circumstances.

## 2.9 Social security

In the Russian Federation, there are compulsory contributions for:

- pension provisions;
- health insurance;
- social insurance for sickness and motherhood liabilities (including pregnancy and after-birth baby care);
- accident insurance.

Contributions are payable by the employers. From 1 January 2017 all contributions to the above mentioned targets are recognized and considered as the new type of taxes payable to the Russian budget.

Rates for the contributions are:

- Pension contributions 22% (10% in the case if an annual gross income of an employee exceeds RUR 1,021,000);

- Health insurance: 5.1%;
- Social insurance: 2.9%.

The rate for contributions towards accident insurance depends on what class of risk hazard a company is classified and varies from 0.2% to 8.5% of the gross wage.

## 2.10 Expatriates

There are no special rules for the taxation of expatriates.

## 2.11 Options

Stock options are taxable when exercised on the difference between the market price and the price paid for the option.

## 2.12 Partnerships

Partnerships (which are named as “Full partnerships” in RF Civil Code and joint arrangements) are treated as fiscally transparent, the tax being levied on the individual members of those partnerships.

## 2.13 Pensions

State pensions are exempt from taxation. Where an individual contributes to a pension fund the pension received is also exempt. Payments to other non-governmental pension plans in the basis of contributions by the employer are treated as taxable income.

# 3. Inheritance and gift tax

There is no inheritance or gift tax. However, in certain cases gifts in the form of real estate and shares received from persons other than close relatives might be subject of taxation in the form of an ordinary personal income tax.

# 4. Wealth Tax

There is no wealth tax.

## 5. Value Added Tax

The value added tax is paid at the stage of delivery of goods or provision of services in the territory of the Russian Federation, as well as import of goods, incurred in connection with a business activity.

Place of delivery of goods shall be the territory of the Russian Federation if the place of shipping or the place of origin of the transportation of goods is in the territory of the Russian Federation.

Place of provision of services depends on the kind of services provided (e.g. the place of provision of services related to tourism and sports is the place of their actual provision; the place of provision of a certain scope of consulting services is the place of residence of their customer etc.).

The date of delivery is the earliest of the following dates:

- the date of shipping of goods, provision of services or of right holding transfer;
- the date of advance payment for delivery.

### 5.1 Rates

The normal rate is 18%. This is applied to all supplies that are not specified as being subject to a reduced rate of tax.

A considerable number of supplies are specified in RF Tax Code as being subject to a reduced rate of tax of 10%. These include:

- agricultural products: vegetables, fruit, cereals, other plants, fish (except luxury sorts of fish), meat, breeding stock, living animals, animal feed;
- foodstuffs, with the exception of luxury produce, the majority of drinks and food sold for consumption at the point of sale;
- certain goods for children: clothes, footwear (except sports footwear), baby beds, baby carriages, goods for educational purposes;
- medicines and medical materials and goods except where listed as tax exempt;
- certain other products: books, newspapers, magazines except where related to advertisements and erotic subjects.

A reduced rate of 0% applies to all export supplies of goods abroad upon presentation of the special set of approved documents to the taxation body, including a customs approval of an export supply.

## 5.2 Distance selling to an individual located in Russia by a company located in the European Union

RF Tax Code does not contain any special VAT regulations related to the distance sales of goods to individuals located in Russia, by companies located in the EU.

RF Tax Code does not contain any special VAT regulations related to the distance sales of goods to individuals located in Russia, by companies located in the EU, as well.

In both cases the general rules mentioned at the beginning of this Paragraph above, are applied.

At the same time, there are special regulations related to the calculation of VAT in the cases of the sales of services in the electronic form to the individuals in the Russian Federation, made by foreign companies, not only by companies located in the EU (Charter 174.2 of RF Tax Code).

The main rule states that s

# 6. Other taxes

## 6.1 Land and property taxes

There are three taxes levied on the property of tax-payers in the Russian Federation: Land tax, Property Tax and Transport Tax.

**Land tax** is levied on all legal entities and individuals being the legal proprietors of land, legal perpetual users of land and legal proprietors of a right of usufruct of land.

Legal entities and individual who possess a right of fixed term use of land without consideration or who are lessees of land, shall not be recognized as tax-payers of Land Tax.

Land Tax is an annual tax. An amount of Land tax payable is determined as a cadastral appraisal of a land plot multiplied by 0.3% for land plots of agricultural, housing funds and private plots, and multiplied by 1.5% for land plots of other types.

**The objects of Property Tax** for Russian legal entities are real estate and other property (except land, water resources and other natural resources) counted as fixed assets according to the Russian standards of accounting.

The objects of Property Tax for foreign companies with the registered represen-



tative offices in the Russian Federation are real estate and other property (except land, water resources and other natural resources) counted as fixed assets. The objects of Property Tax for other foreign companies are real estate with the legal rights of property.

Property Tax is calculated as an average annual historical total value of fixed assets deducted by the amortisation values. Tax rates vary depending on the regional laws and should not exceed 2,2%.

**Transport Tax** is levied on legal entities and individuals being the registered legal proprietors of the objects of taxation.

The objects of taxation are vehicles, motorcycles, buses, other tracked vehicles, aircrafts, helicopters, ships, yachts, wave runners and other transport vessels registered due to laws of the Russian Federation. The following types of transport shall be exempted: boats without engine or with engine with power up to 5 kW, harvesting and passenger sea and river vessels, tracks and other transports for agricultural needs and some other certain types of transports.

Rates of Transport Tax are determined on the basis of the engine power defined in horse powers (for vehicles, buses, vessels and other objects of taxation), gross capacity on tonnes (for non-powered vessels) and kilogram force (for jet-motor aircrafts), which shall be multiplied by a certain rate fixed in the RFTC.

## 6.2 Tax with respect to the extraction of mineral resources

Taxpayers should be all legal entities and individual contractors recognized as users of mineral resources.

A taxable basis and rates of tax are calculated according to the special rules stated in the RFTC and governmental instructions.

## 6.3 Excise duties

Excise duties are levied on all legal entities and individual contractors processing business activities upon excisable goods, which, in particular, include:

- alcohol and alcohol-containing goods;
- tobacco;
- passenger cars;
- motor petrol.

Excise duties are paid on a monthly basis.

## 7. Foreign income

Subject to double taxation conventions, tax is levied on all income. The income derived from activities carried out abroad, of permanent establishments and real estate located abroad, are nevertheless exempt. However they are, with regard to the rate of taxation, taken into consideration.

Where those conventions are available a double tax relief is normally given on a tax credit basis.

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