Executive summary


The Guidelines propose a number of tax initiatives to promote a competitive environment and stable fiscal conditions. These include important changes in tax law such as introducing “focus of vital interests” and a shorter stay in Russia to determine tax residency for individuals as well as taxing the income of companies in the digital sector by the location of users.

It has not yet been determined when these changes in tax law will take effect. Experience indicates that the changes may be introduced into law within a period of one to three years.

This Alert summarizes the changes proposed in the Guidelines, especially those that impact taxation.
Detailed discussion

International tax
Under the Draft Law, changes are to be made in the approach to taxing companies in the digital sector. The Guidelines recommend that such companies’ profit be taxed in the location of users. This is consistent with current international initiatives under Action 1, “Addressing the Tax Challenges of the Digital Economy,” of the Organisation for Economic Co-operation and Development’s Base Erosion and Profit Shifting (BEPS) project. The Ministry of Finance proposes to tax profits in jurisdictions where digital companies’ users (clients) are located and where profit is generated as a result of the engagement, cooperation and contribution of users as well as to take intangible marketing assets into account in the relevant countries in distributing profit.

The Guidelines call for a stricter approach to taxing benefits in situations where a foreign entity acknowledges that it lacks the right to income, and the beneficial owner is a Russian tax resident. In this case, the beneficial owner will retain the right to tax benefits if the foreign entity transfers the income to it within 180 days after the foreign entity receives such income from a source in Russia.

The approach to taxing mutual funds is to be clarified, and the income earned from a mutual fund by a foreign company that is a mutual fund shareholder is to be equated with dividends.

Changes are also proposed with respect to the tax rules for selling shares of closed-end mutual funds whose assets are made up of more than 50% real estate.

Profits tax
Under the Guidelines, constituent entities of the Russian Federation would be authorized to provide investment tax credits for research expenses.

The net book value of intangible assets would be calculated as for fixed assets.

Corporate assets tax
The number of sites for which the cadastral value is used as the tax base is to be expanded. The Guidelines would include real estate received as collateral and liquidated damages as well as real estate that is temporarily not being used for core activities.

Special tax regimes
The Guidelines envisage a number of amendments to make special tax regimes even more attractive for taxpayers.

Simplified tax system (STS)
The requirement to submit tax declarations would be eliminated for individual entrepreneurs who pay tax on income under the STS. This is because individual entrepreneurs are required to use cash register equipment which automatically transmits fiscal data to the tax authorities.

A transition period is to apply to taxpayers that exceed the limits for the STS (maximum income and/or average headcount) so that they won’t have to reconstruct the amount of tax payable.

Patent-based tax system
There are plans to make insurance payments deductible in the patent-based tax system.

Tax on professional income
According to the Guidelines, several more constituent entities of the Russian Federation may be included in the plan to introduce a special tax regime for the self-employed. The number and list of these constituent entities is not specified.

The Guidelines would also allow the tax regime for the self-employed to be used by citizens of CIS countries that are not members of the Eurasian Economic Union, i.e., Azerbaijan, Georgia, Moldova, Tajikistan and Uzbekistan.

Indirect tax
Value Added Tax (VAT)
The Guidelines do not call for any major changes in VAT but propose that sales of precious metals in the form of bullion be VAT-exempt.

Excise duties
The Guidelines call for a 4% increase in excise rates in 2022 to compensate for inflation.

Excise duties are to be made deductible for manufacturers of ethane-based petrochemical products if the equipment for such production was put into use after 1 January 2022.

The Guidelines also envisage measures to secure tobacco companies’ obligation to mark products, i.e., bank guarantees or a transfer of funds to the regional body of the Federal Treasury. The amount of such security is to be calculated taking into account the excise rate.
Personal tax

Tax residency criteria
The Guidelines call for a reduction in the period that individuals must stay in Russia to be treated as tax residents from 183 to 90 days in a period of 12 consecutive months.

It is also proposed to introduce the criterion of “focus of vital interests,” meaning that individuals may be regarded as tax residents even if they are in Russia for less than 90 days. The Guidelines do not clearly define this criterion, but refer to an individual’s personal, social and economic ties.

Personal income tax
In addition to the new residency rules, the Guidelines envisage a 13% rate of personal income tax for nonresidents. Such income is currently taxed at a rate of 30%.

Other initiatives
According to the Guidelines, any legislative amendments that impair the position of taxpayers and are published after 1 September should enter into force no earlier than a year later.

A unified information space is to be created to enable taxes to be collected from the shadow economy. Special attention in this initiative will be given to personal income tax and insurance payments.

For additional information with respect to this Alert, please contact the following:

Ernst & Young, Moscow
- Ivan Rodionov ivan.rodionov@ru.ey.com
- Natalia Khobrakova natalia.khobrakova@ru.ey.com
- Anton Serebryakov anton.serebryakov@ru.ey.com

Ernst & Young LLP (United States), Russian Tax Desk, New York
- Kirill Lukyanets kirill.v.lukyanets1@ey.com
About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2019 EYGM Limited.
All Rights Reserved.
EYG no. 004613-19Gbl
1508-1600216 NY
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com