



## Upcoming clarification of VAT rules on e-services

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We are aware that, following a meeting between advisers/industry representatives and the Russian tax authorities last week, a draft position paper has been prepared which the Russian tax authorities plan to issue as an official document in the near future. The paper aims to address certain questions regarding the obligations of foreign suppliers of e-services in Russia in light of the new VAT payment mechanism applicable to B2B supplies from 1 January 2019.

EY Russia attended the meeting and obtained clarification on a number of key points on which we understand there has been some confusion with regard to interpretation.

Prior to the implementation of the B2B e-services rules on 1 January 2019, when non-residents made B2B supplies of e-services into Russia the customer was responsible for paying VAT directly to the tax authority via the withholding (“tax agent”) method.

The change in the VAT payment rules for e-services, effective from 1 January 2019, means that Russian customers now pay Russian VAT directly to the non-resident supplier, who is in turn obliged to VAT register in Russia and pay VAT to the tax authority via its own quarterly VAT return.

The change has given rise to a number of transitional issues (such as the need for underlying contracts to be amended to reflect the new VAT payment mechanism) and uncertainties, particularly over a potential scenario in which, despite the new rules, a Russian customer continues to pay VAT directly to the tax authorities under the old withholding method after 1 January 2019. A number of questions arise in this situation, such as:

- ▶ How does the overseas supplier report this in the VAT return? The supplier has not received VAT from the customer, but failing to remit VAT could be construed as underdeclaration. However, the tax authorities have received the VAT and are not out-of-pocket, so any assessment would lead to double payment of tax
- ▶ Can the customer recover input tax? The customer has received the supply and paid the VAT, but there is still a risk of input tax recovery being challenged on the basis that the customer paid it voluntarily instead of applying the new rules and transferring it to the supplier

**As a result of last week’s meeting, the Russian authorities confirmed (first orally, then in its draft position paper) that if a service provider did not charge a customer Russian VAT, including, for example, by reason of not being VAT-registered in Russia, and the customer applied the withholding mechanism (voluntarily, since there is no obligation to do so) and reclaimed VAT, then:**

- ▶ the overseas supplier would be excused from any underdeclaration penalty, as VAT cannot be assessed and paid a second

time. The overseas supplier could then leave that transaction out of the VAT return, but would still be obliged to submit a VAT return even if there were no transactions to declare in the tax period (a nil VAT return); and

- ▶ the customer would not be required to recalculate its VAT obligations

**This clarification (which is in draft form only) confirms that the registration requirement for service providers remains in place, and has not been abolished.** Furthermore, the obligation to calculate VAT due lies primarily with the service provider and the customer cannot be obliged to apply a reverse charge (and cannot be penalised for not doing so). Failure to register would trigger practical risks for a foreign supplier of e-services in Russia, since the relevant penalties are still in place.

From a practical standpoint, we recommend that suppliers discuss with their customers what evidence they are ready to provide that VAT has been remitted via the previous withholding (“tax agent”) method. We understand that obtaining such confirmation is easier in practical terms in the case of intra-group supplies, meaning that the application of the withholding method might be more feasible for companies purchasing e-services from other companies in the same group.

It is worth pointing out that the draft paper prepared by the tax authorities does not clarify the VAT payment mechanism applicable where a foreign supplier of e-services provides other, non-electronic, services that are subject to VAT in Russia. At the same time, we are aware that the draft of the amended VAT return for foreign suppliers of e-services requires suppliers to report supplies of both electronic and non-electronic services in the same return. Thus, there is still no specific guidance on this issue and many practical questions remain.

It is important to bear in mind that the tax authorities’ position is still only in draft and is subject to change.

Given the practical issues and uncertainties surrounding the VAT treatment of e-services supplied in Russia, we would be happy to assist you with the following:

- ▶ Analysing whether services may be classified as e-services for Russian VAT purposes (or reviewing the conclusions of an internal classification) and determining whether they qualify for VAT exemption
- ▶ Providing guidance and practical recommendations regarding the need for modifications to existing contracts and internal systems to comply with the new VAT payment mechanism
- ▶ Reviewing invoices issued by suppliers of e-services to Russian customers
- ▶ Identifying and examining possible risks for the supplier where it supplies non-electronic services or goods subject to VAT in Russia
- ▶ Registering with the tax authorities in Russia for VAT purposes;
- ▶ Preparing and submitting quarterly VAT returns
- ▶ Communicating with the Russian tax authorities when queries are made to the supplier, including in the course of a tax audit of VAT returns

*Authors:*

*Vadim Ilyin*

*Olga Odintsova*

*Sofia Ingman*

**For additional information please contact the authors of this publication:**

**Vadim Ilyin**

+7 (495) 648 9670

[Vadim.Ilyin@ru.ey.com](mailto:Vadim.Ilyin@ru.ey.com)

**Olga Odintsova**

+7 (495) 664 7859

[Olga.Odintsova@ru.ey.com](mailto:Olga.Odintsova@ru.ey.com)

## Inquiries may be directed to one of the following executives:

### Moscow

CIS Tax & Law Leader Irina Bykhovskaya	+7 (495) 755 9886	Cross Border Tax Advisory Vladimir Zheltonogov Marina Belyakova Andrey Vostokov	+7 (495) 705 9737 +7 (495) 755 9948 +7 (495) 755 9708
Oil & Gas, Power & Utilities Alexei Ryabov Victor Borodin	+7 (495) 641 2913 +7 (495) 755 9760	Transfer Pricing and Operating Model Effectiveness Evgenia Veter Maxim Maximov	+7 (495) 660 4880 +7 (495) 662 9317
Financial Services Alexei Kuznetsov Maria Frolova Ivan Sychev	+7 (495) 755 9687 +7 (495) 641 2997 +7 (495) 755 9795	Tax Policy & Controversy Alexandra Lobova Alexei Nesterenko	+7 (495) 705 9730 +7 (495) 622 9319
Industrial Products Andrei Sulin	+7 (495) 755 9743	Global Compliance and Reporting Yulia Timonina Alexei Malenkin	+7 (495) 755 9838 +7 (495) 755 9898
Consumer Products & Retail, Life Sciences & Healthcare Dmitry Khalilov	+7 (495) 755 9757	Law Georgy Kovalenko Alexey Markov	+7 (495) 287 6511 +7 (495) 641 2965
Real Estate, Hospitality & Construction, Infrastructure, Transportation Anna Strelnichenko Svetlana Zobnina	+7 (495) 705 9744 +7 (495) 641 2930	<b>St. Petersburg</b> Dmitri Babiner	+7 (812) 703 7839
Technology, Telecommunications, Media & Entertainment; Tax Performance Advisory Ivan Rodionov	+7 (495) 755 9719	<b>Vladivostok</b> Alexey Erokhin	+7 (914) 727 1174
Tax Technology Sergey Saraev	+7 (495) 664 7862	<b>Ekaterinburg</b> Irina Borodina	+7 (343) 378 4900
People Advisory Services Ekaterina Ukhova Gueladjo Dicko Sergei Makeev	+7 (495) 641 2932 +7 (495) 755 9961 +7 (495) 755 9707	<b>Krasnodar</b> Alexei Malenkin	+7 (495) 755 9898
Private Client Services Anton Ionov	+7 (495) 755 9747		
Customs & Indirect Tax Vadim Ilyin	+7 (495) 648 9670		
Transaction Tax Yuri Nechuyatov	+7 (495) 664 7884		

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### Contacts

Almaty	Moscow
+7 (727) 258 5960	+7 (495) 755 9700
Astana	Novosibirsk
+7 (7172) 58 0400	+7 (383) 211 9007
Atyrau	Rostov-on-Don
+7 (7122) 99 6099	+7 (863) 261 8400
Baku	St. Petersburg
+994 (12) 490 7020	+7 (812) 703 7800
Bishkek	Tashkent
+996 (312) 39 1713	+998 (71) 140 6482
Ekaterinburg	Tbilisi
+7 (343) 378 4900	+995 (32) 215 8811
Kazan	Togliatti
+7 (843) 567 3333	+7 (8482) 99 9777
Kyiv	Vladivostok
+380 (44) 490 3000	+7 (423) 265 8383
Krasnodar	Yerevan
+7 (861) 210 1212	+374 (10) 500 790
Minsk	Yuzhno-Sakhalinsk
+375 (17) 240 4242	+7 (4242) 49 9090

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