TAX GUIDE RUSSIA

Focus on your core business.
We will take care of the rest.

SCHNEIDER GROUP

EXPERIENCE. EXPERTISE. EXCELLENCE.

Eastern Europe, Central Asia, Caucasus and Balkans Since 2003

www.schneider-group.com

GENERAL RULES AND IMPORTANT POINTS IN THE TAX SYSTEM OF RUSSIA

Russian taxes are governed by the Russian Tax Code (Tax Code). The various types of taxes, levies, and social contributions in Russia include:

- Federal taxes, levies, and social contributions: This category includes value added tax (VAT), excise duties, personal income tax (PIT), corporate income tax (CIT), mineral extraction tax, water tax, state duty, and other taxes. The Tax Code also outlines federal social contributions;
- Regional taxes: These include corporate property tax, gaming tax, and transport tax;
- Local taxes: This group consists of land tax, personal property tax, and the trade levy.

Regional and local legislatures cannot impose taxes or levies that are not specified in the Tax Code. However, local governments are allowed to establish:

- Tax rates (within the limits defined by the Tax Code);
- Tax benefits;
- Procedures and deadlines for tax payments.

The three-tier taxation system outlined above indicates that taxpayers registered in various regions or municipalities may face different tax burdens. Additionally, the Tax Code provides for special tax regimes that allow taxpayers to pay a single special tax instead of multiple taxes. These special tax regimes include the simplified tax, the unified agricultural tax, and the taxation system for production sharing agreements, among others.

All the tax liabilities and payments of each taxpayer are reflected on its unified tax account (UTA). Refund of overpaid tax is available.

CIT

Taxpayers

Taxpayers include (i) Russian companies (RLEs) and (ii) foreign companies (FLEs) that operate in Russia through permanent establishments and/or earn income from Russian sources.

Rates

Starting from 2025, the standard CIT rate will be 25% (20% prior to 2025). This rate is divided into two components allocated to different budgets:

– Federal: 8% (3% from 2017 to 2024)
– Regional: 17%

Tax base

The tax base is the taxable profit expressed in monetary terms. For Russian entities, profit is calculated as the revenue received minus allowable deductible expenses.

Taxable income

Income comprises revenue from the sale of goods (including work and services), whether produced in-house or purchased, as well as revenue from the sale of property rights. It also includes non-sales revenue such as interest received from loan agreements, revenue from leased properties, dividends, and other sources of income.

Tax-deductible expenses

The Tax Code permits taxpayers to deduct expenses if they meet the following criteria: (i) the expenses are properly documented, (ii) they are reasonable and economically justified, and (iii) they were incurred while engaging in activities intended to generate income. Additionally, the Tax Code specifies a list of expenses that are considered non-deductible.

Interest

The deductibility of interest is subject to arm's-length and thin capitalization rules.

Under the thin capitalization rules deductibility of interest accrued on loans and credits is limiting to the debt-to-equity ratio of 3:1 for loans provided by a foreign legal entity to a Russian entity.

A debt of a Russian legal entity is deemed controlled by a foreign legal entity in the following cases:

– The foreign entity controls directly or indirectly more than 25% of the Russian entity's registered capital;
– The Russian entity is recognized as an affiliate of the foreign entity;
– the affiliate and/or foreign entity acts as a surety or guarantor for the Russian entity's debt or otherwise undertakes to ensure its debt obligations.

If any of these conditions are met, any interest exceeding the allowable limit will not be deductible for the borrower. Instead, it will be treated as dividends for corporate income tax purposes, and withholding taxes will apply.

From January 1, 2015, taxpayers can fully deduct interest on the loan at the actual rate, provided that the loan did not originate from a controlled transaction. If a transaction is classified as controlled under transfer pricing rules, the lender can recognize interest income at the actual rate, as long as it is above the lower limit of the permissible range. Conversely, the borrower can deduct interest calculated at the actual rate if it falls below the upper limit of that range. If the debt arises from a controlled transaction and the agreed interest rate is outside the permissible range, the resulting income (or expense) must be recognized at the rate determined by transfer pricing rules.

Investment tax credit

Taxpayers can claim an investment tax credit that reduces their regional CIT liability. This credit is available only to the extent permitted by the applicable regional law. Typically, the amount of the credit for a given period may not exceed 90% (or a lower percentage if specified by regional law) of the expenditures incurred for acquiring, creating, reconstructing, or modernizing fixed assets.
Loss carry-forward

According to the general rule, taxpayers are allowed to carry forward losses from previous years when calculating CIT. However, the tax base may not be reduced by more than 50% in any single reporting or tax period.

Tax reporting and payment

Taxpayers can choose to file CIT returns either quarterly or monthly. Generally, large taxpayers, especially those affected by seasonal factors, opt for the monthly filing. With certain exceptions, taxpayers must make monthly advance tax payments equal to one-third of the total advance payments from the previous quarter. Alternatively, those who select monthly filing can pay tax by the 28th of each month based on the profits earned in the preceding month. The final return and CIT liability for the year are determined based on actual results, with final returns due by March 28 following the end of the tax year.

VAT

Taxpayers

Taxpayers include individual entrepreneurs and legal entities (including foreign entities) that make taxable supplies of commodities as well as works and services (Goods) and/or property rights within Russia and its jurisdictions as part of their business activities, or that import goods into these territories.

Taxable operations

VAT applies to the following transactions:
- Supplies of Goods within Russia and its jurisdictions,
- The transfer of property rights,
- The transfer of Goods in Russia for internal use, where expenses are not deductible for profits tax purposes,
- The performance of construction and installation works for internal consumption,
- The importation of commodities into Russia and its jurisdictions.

Additionally, the transfer of Goods without consideration is treated as a sale.

Place of supply of goods and services

Goods are considered supplied in Russia if either (I) they are located in Russia and are not shipped or transported, or (II) they are located in Russia at the moment shipment or transportation begins.

Generally, VAT applies to services only if, according to the rules of the Tax Code, the supplier's place of activity is located in Russia. However, there is a limited list of services that are deemed supplied at the customer's place of activity. So, if in an international transaction the customer's place of activity is outside Russia, no VAT would apply. This includes, among others, the transfer or licensing of intangible property, services related to the development, adaptation, or modification of computer programs, consulting, legal, accounting, audit, advertising, marketing services, personnel secondment services (when staff work in Russia), renting of movable property (excluding land motor vehicles), and certain other services.

On the other hand, Russian law specifically identifies certain services as being provided in Russia. These include services related to immovable or movable property located in Russia, services rendered in Russia in the fields of culture, art, education, tourism, leisure, or sport, certain types of transportation services, and others.

Rates

VAT is imposed at a standard rate of 20% on taxable supplies, which encompass most domestic sales of Goods. Certain basic food products, children's items, medical devices, medicines, newspapers, and magazines are subject to a reduced rate of 10%.

A zero VAT rate applies to specific supplies, in particular to exports of commodities.

To apply the zero VAT rate for these supplies, it is necessary to collect supporting documents and submit them with a VAT return to the Russian tax authorities within a specified time frame. If the required documents are not submitted on time, the standard VAT rate will be applied.

Time of supply

The point at which VAT becomes due is referred to as the "time of supply." For taxpayers, the time of supply is determined by the earlier of the following dates:

– The day on which Goods and property rights are dispatched (transferred);
– The day on which payment or partial payment is received for future supplies of Goods and the transfer of property rights.

Calculation of VAT

VAT due is calculated by multiplying the VAT base (typically the value of the supply) by the applicable VAT rate. Taxpayers may reduce their payable VAT by the amount of input VAT incurred on purchases of Goods, as well as property rights provided they meet the general criteria for input VAT recovery.
Recovery of VAT by taxpayers

Input VAT charged by suppliers is generally recoverable by the buyer, provided that the related costs pertain to the buyer's taxable business activities and that properly issued VAT invoices from suppliers are available. Input VAT includes the VAT charged on Goods and property rights supplied in Russia, VAT paid on imported commodities, and VAT paid by a customer acting as a tax agent when acquiring Goods as well as property rights from a foreign legal entity.

Tax reporting and payment

Taxpayers are required to file VAT returns quarterly, by the 25th day of the month following the relevant calendar quarter, using electronic submissions through telecommunications channels. VAT payments to the Russian budget must be made in equal installments by the 28th day of each of the threemonthfollowing the end of each tax period.

Imported commodities

Imported commodities are subject to import VAT, which is levied at the customs border. This VAT is generally collected at customs and is payable by the entity declaring the commodities for import, based on the total value of the commodities, including any applicable import duties and excise duties.
Withholding of VAT on purchases from foreign legal entities

When Russian legal entities purchase Goods from foreign legal entities that are not registered for tax purposes in Russia, and the place of supply is in Russia, the tax base is determined by the buyer, who acts as a tax agent. The tax agent is responsible for withholding and paying VAT on the payment made to the foreign legal entity.

Particularities of the EAEU

As noted, the legislation of the Eurasian Economic Union (EAEU), which includes Russia, Belarus, Kazakhstan, Armenia, and Kyrgyzstan, has established a unified customs territory for its member states. The EAEU's legislation outlines special VAT rules for transactions between entities in different member states. Exports of commodities from one member state to another are subject to a zero VAT rate. To apply this zero VAT rate for exports, a taxpayer must provide relevant documents certified by the tax authority of the member state into which the commodities are imported.

Imports of commodities from one member state to another are subject to import VAT in the receiving member state. The taxpayer is required to submit a separate VAT return for commodities imported from another EAEU country.

PIT

Russia implements a progressive scale of PIT rates for tax residents.

The new PIT rate scale for salaries starting in 2025 is as follows:

- 13% on annual income up to RUB 2.4 million;
- 15% on annual income from RUB 2.4 million to RUB 5 million;
- 18% on annual income from RUB 5 million to RUB 20 million;
- 20% on annual income from RUB 20 million to RUB 50 million;
- 22% on annual income exceeding RUB 50 million.

The PIT rate for Russian tax non-residents is 30%, although a rate of 15% applies to certain types of income.

Russian simulation of payroll taxation, EUR (€)

Gross salary	Payment description	Rate	575 €	1,149 €	2,299 €	% for 500 €	% for 1,000 €	% for 2,000 €	Average %
PIT	Personal income tax	**13 %** (progressive tax rates - depends on salary amount)	75	149	299				
Net salary			500 €	1,000 €	2,000 €	87%	87%	87%	87%
CT	Employer Social Contributions regular rate	**30%** (15.1% on the amounts exceeding the YTD marginal base of RUB 2.76 million)	173	345	690				
OAI	Workplace accident insurance	0.2% – 8.5%	1	2	5				
Total employee			**75**	**149**	**299**	13%	13%	13%	13%
Total employer			**174**	**347**	**695**	30.2%	30.2%	30.2%	30.2%
Total taxes		**13%**	**249 €**	**496 €**	**994 €**	**43.2%**	**43.2%**	**43.2%**	**43.2%**

Who is legally responsible?

Payers of Russian PIT include tax residents of Russia and non-resident individuals who receive income from Russian sources.

Definition of resident

Individuals are considered tax residents of Russia if they are present in the country for 183 days or more within a 12-months period.

Object of taxation

Russian tax residents are taxed on their worldwide income, which includes undistributed profits from controlled foreign companies (CFCs).

In contrast, non-resident individuals are taxed only on their Russian-source income, which includes:

- Remuneration for employment duties, services, and activities performed in Russia (regardless of the payment location)
- Dividends and interest paid by Russian organizations
- Insurance payouts made by Russian organizations
- Revenue from the sale of property in Russia and from the sale of Russian securities

Tax collection procedure

For most taxpayers, PIT will be paid by withholding at the source. Tax agents for PIT include Russian legal entities, individual entrepreneurs, stand-alone subdivisions and permanent establishments of foreign legal entities that pay income to individuals. These tax agents are required to withhold PIT at the rates based on the individual's resident status (or special status) and remit the withheld PIT to the Russian tax authorities on a monthly basis. Withholding applies to each payment made through a tax agent.

Annual PIT returns must be filed by April 30 of the year following the reporting (calendar) year, with no extensions available. The self-assessed PIT indicated in the tax declaration must be paid by July 15 of the same year. Additionally, foreign nationals who are permanently leaving Russia must file a PIT return one month prior to their departure and pay any tax due within 15 days of filing the return.

Capital gains and losses

A capital gain from sale of assets, including securities transactions, is generally determined as the difference between the proceeds from the sale of the assets and the documented purchase costs, including any fees related to the purchase or sale.

Tax on capital gains may either be withheld at the source by the income payer or paid by the taxpayer when filing a tax return. Losses from the sale of securities can be offset against gains from securities of the same class.

PIT deductions

PIT-resident taxpayers are entitled to the following PIT deductions, including:

- Standard PIT deductions;
- Social PIT deductions, including educational fees for themselves and their dependent children; expenses for medical services, medications, and medical insurance contributions for themselves, their spouses, parents, and children, as long as the services are provided by a licensed medical institution in Russia and other;
- Investment PIT deductions; and
- Property PIT deductions on sale and purchase of real property and mortgage interest.

Double Taxation Treaty Relief

If there is an effective Double Taxation Treaty (DTT) in place to which Russia is a party, tax residents of Russia and the respective partner countries are entitled to double tax relief as provided under such DTT, subject to the applicable Multi-Lateral Instrument (MLI) provisions.

As of 08.08.2023, Russia has unilaterally suspended most provisions of its DTTs with 38 “non-friendly” jurisdictions, including European Union countries, UK, USA, Japan and some other.

SOCIAL SECURITY CONTRIBUTIONS

In Russia, social contributions are solely the responsibility of the employer, with no matching contributions from employees. These contributions cover obligatory pension, medical, and social insurance.

Social contributions are applicable to payments made to individuals in employment relationships and civil contracts for work or services (excluding individual entrepreneurs and self-employed individuals) and copyright agreements. In 2025, the marginal year-to-date base for social contributions was set by the Government at RUB 2,759,000.

The contribution rates for most companies will be as follows:

- 30% on income up to the marginal base
- 15.1% on income exceeding the marginal base

Payments to Highly Qualified Specialists are exempt from social contributions, as this category of individuals is not considered insured under the Russian social security system.

Workplace accident insurance

In addition to the social contributions mentioned earlier, all employers are required to pay insurance contributions for workplace accidents and occupational disease. The rate of these contributions varies based on the company's principal economic activity and associated occupational risk, ranging from 0.2% to 8.5%. Generally, the rate is 0.2% for most employers who primarily employ office workers. This rate is applied to the remuneration for work without any cap.

The contributions are assessed on all payments made to individuals under employment agreements. Employment income payable to foreign nationals is not exempt from these contributions.

WHT

When a foreign organization receives passive income from Russian sources, that income is subject to WHT. The Tax Code defines a list of income types that are considered Russian taxable source income, which includes various forms of passive income such as dividends, interest, royalties, and other. Also, beginning from 01.01.2024 payments for intercompany services to related entities became subject to WHT. Additionally, the category “other similar Russian source income” is included, which is broadly interpreted by Russian tax authorities. This means they may classify any payments from Russian entities abroad not explicitly listed as “other similar Russian source income.”

There are also local anti-abuse rules that empower Russian tax authorities to classify certain payments from Russian entities as Russian source income (for instance, as deemed dividends), regardless of the payment’s legal form. This can occur if the authorities believe that the economic substance of the transaction differs from its legal form and/or if the transactions appear to be artificial.

Domestic tax rates

Starting in 2025, the standard WHT rate in Russia will be 25% (up from 20% before 2025). Special WHT rates apply to the following types of Russian source income:

– Dividends: 15%;
– Income from the operation, maintenance, or leasing of ships, aircraft, or other means of transport or containers in international traffic: 10%;
– Intercompany services: 15% starting in 2024.

Tax agents

If WHT is applicable, it must be calculated and withheld by the person making the relevant payment if it qualifies under the Tax Code as a tax agent. Typically, WHT is withheld on each payment of Russian source income. WHT is generally applied to the gross amount of income paid, unless certain exceptions or conditions apply, and it is applicable regardless of the payment form (e.g., in kind, set-off, debt forgiveness, etc.).

Benefits under applicable DTTs

Domestic WHT rates can generally be reduced or eliminated under an applicable DTT, subject to the applicable MLI provisions. To benefit from this, a foreign income recipient that is a foreign organization must provide the tax agent, prior to payment, with documents which confirm the recipient’s eligibility for DTT benefits, including proof of tax residency, beneficial ownership status, and compliance with the requirements of the relevant DTT, such as the principal purpose test and/or limitation of benefits provisions.

Additionally, a foreign investor may need to demonstrate compliance with local anti-abuse rules. It should be noted that provisions of Russian laws on the confirmation of beneficial ownership and compliance with these tests are vaguely defined and can be broadly interpreted by the tax authorities. Russian legislation also introduces a “look-through” approach, allowing a party that is not the immediate recipient of income to claim treaty benefits as if they were directly receiving the Russian source income. To utilize this approach, certain additional documentation must be submitted to the tax agent before payment is made.

Overview on Domestic and DTT WHT Rates

Type of Russian source income	Tax Rate	DTT Application
Dividends	**15%**	Reduced rates or exemption possible, if a DTT applies 0%-15% (depending on DTT)
Income from the operation, maintenance, or leasing of ships, aircraft, or other means of transport or containers in international traffic	**10%**	Reduced rates or exemption possible, if a DTT applies 0%-10% (depending on DTT)
Income from international transportation	**10%**	Exemption or reduction under certain DTTs is possible
Intercompany services	**15%**	Exemption or reduction under certain DTTs is possible
Royalty	**25%**	Exemption or reduction under certain DTTs is possible
Interest	**25%**	Exemption or reduction under certain DTTs is possible

TRANSFER PRICING (TP)

A transfer price should be viewed as a price subject to monitoring by the tax authorities. The tax authorities monitor prices to ensure that they are established for commercial purposes and not for the reduction of the tax burden.

Russian TP rules are largely founded on the principles established in the OECD Guidelines. At the same time the OECD TP Guidelines are acceptable only if they are not in contradiction with the Russian Tax Code.

Russian TP rules mainly concentrate on transactions between related parties, but some third-party transactions (such as sales of global traded commodities or transactions involving parties from blacklisted jurisdictions) are also subject to TP control. From 2022 a threshold of RUB 120 million is used to determine whether cross-border transactions are considered controlled. Additionally, domestic transactions that meet specific criteria and exceed a threshold of RUB 1 billion annually are also subject to TP rules in Russia.

The Tax Code defines a related party as one where there is a certain ownership or control relationship. The criteria include, in particular:

- A person (individual or legal entity) and a legal entity in which such person own directly or indirectly 25% or more of shares or participation shares;
- Legal entities where (i) more than 50% of the directors are the same individuals or (ii) not less than 50% of the directors are appointed/selected by the same individual;
- Legal entities where the same individual/entity acts as the sole executive body;
- Individuals belonging to the same family or who are subordinate to each other.

Courts may recognize related-party relationships based on evidence such as control, influence over decision-making, economic dependence, or other facts indicating that parties are not independent for transfer pricing purposes. This can include factors like shared management, family ties, or significant influence over operations.

For TP purposes, taxpayers should follow the implementation of one or combination of the following methods:

- Comparable Uncontrolled Price Method
- Resale Price Method
- Cost Plus Method
- Transactional Net Margin Method
- Profit Split Method

In respect of stand-alone transactions to which none of the aforementioned methods may be applied, it is possible to support “arm’s length” nature of such transactions it with appraisal report.

Since January 1, 2018 the three-tier documentation requirement is established under the Tax Code of Russia. The obligation to prepare and submit transfer pricing documentation applies specifically to controlled transactions—i.e., transactions between related parties (controlled entities). The documentation aims to demonstrate that such transactions are conducted at arm’s length.

National TP documentation (local file) (TPD) must be provided by the controlled entity in case of tax audit upon a request from the tax authorities. TDP may be requested from 1 June of the year following the reporting calendar year and must be provided within 30 business days of the request. TPD should contain, in particular detailed information on controlled transactions, functional analysis, comparability analysis, financial analysis.

Country-by-country report (CBC report) must be filed with the tax authorities annually in XML format not later than 12 months after the end of reporting period (period refers to the fiscal year for which the taxpayer reports financial data and controlled transactions — typically aligned with the calendar year unless specified otherwise). A Russian subsidiary of a foreign multinational enterprise group (MNE) may be exempt from filing a CbC report if (i) its ultimate (or surrogate) parent entity has submitted a CbC report in its jurisdiction and (ii) that jurisdiction has activated the exchange of CbC reports with Russia. Otherwise, the CbC report must be submitted in Russia within 3 months of the request. CBC report should contain key financial indicators by jurisdiction, as well as a description of the business activities of MNE members.

Global TP Documentation (Masterfile) must be provided by the controlled entity in case of tax audit upon a request from the tax auditors within 3 months (90 days) after request from tax authorities. The Global TP Documentation may be requested no earlier than 12 months and no later than 36 months from the end date of the MNE's financial year. It contains information about the MNE group, including organizational structure, description of the MNE's business, etc.

Moreover, TP Notification must be filed with the tax authorities annually in XML format till May 20 of the year following reporting period.

Notification on participation in an MNE Group must be filed with the tax authorities annually in XML format not later than 8 months after the end of reporting period.

CONTROLLED FOREIGN COMPANIES (CFC) RULES

A CFC is a foreign organization or structure that is not a resident of Russia, which is considered to be under the control of a Russian resident (controlling person).

The Russian CFC rules aim at ensuring that Russian residents cannot avoid taxation by holding profits offshore through CFC. Controlling persons are required to report their holdings and pay taxes on profits derived from CFC if certain control thresholds are met.

A foreign entity or structure is classified as a CFC if it is:

- Not a resident of Russia. and
- Controlled by a Russian resident (controlling person).

A controlling person can be a legal entity or an individual. Control may be established if the person:

- Owns more than 25% of the shares in the foreign company,
- Owns more than 10% of the shares in the foreign company and the amount of shares in such foreign company of all persons being tax residents of Russia is more than 50%,
- Exercises or has the ability to exercise decisive influence over the foreign company's decisions regarding profit distribution. Control involves exercising or having the ability to exercise decisive influence over decisions related to the distribution of after-tax profits (income) or the management and operational decisions affecting profit allocation.

Controlling persons must:

- File a (control over their) CFC notification by March 20th of the year following the reporting period during which income from the CFC was recognized,
- File an ownership notification within three months since the relevant foreign company has been acquired,
- Calculate and pay taxes on CFC profits attributed to the respective controlling person.

YOUR CONTACTS

Thomas Mundry
Partner

MundryT@schneider-group.com

Sofia Tsyryulnikova
Head of Tax & Currency Control Practice

TsyryulnikovaSS@schneider-group.com

SCHNEIDER GROUP

EXPERIENCE. EXPERTISE. EXCELLENCE.

Eastern Europe, Central Asia, Caucasus and Balkans Since 2003

www.schneider-group.com

18 offices
15 countries
1 team

ALMATY, KAZAKHSTAN
+7 727 355 44 48
almaty@schneider-group.com

ASTANA, KAZAKHSTAN
+7 7172 425 822
astana@schneider-group.com

ATYRAU, KAZAKHSTAN
+7 727 355 44 48
atyrau@schneider-group.com

BAKU, AZERBAIJAN
+994 12 310 53 15
baku@schneider-group.com

BERLIN, GERMANY
+49 30 615 089 10
berlin@schneider-group.com

BELGRADE, SERBIA
+49 30 615 089 10
belgrade@schneider-group.com

BISHKEK, KYRGYZSTAN
+7 727 355 4448
bishkek@schneider-group.com

CHISINAU, MOLDOVA
+374 60 50 66 05
chisinau@schneider-group.com

KYIV, UKRAINE
+380 44 490 55 28
kyiv@schneider-group.com

MINSK, BELARUS
+375 17 290 25 57
minsk@schneider-group.com

MOSCOW, RUSSIA
+7 495 956 55 57
moscow@schneider-group.com

ST. PETERSBURG, RUSSIA
+7 812 458 58 00
spb@schneider-group.com

TASHKENT, UZBEKISTAN
+998 78 120 44 30
tashkent@schneider-group.com

TBILISI, GEORGIA
+995 32 223 10 30
tbilisi@schneider-group.com

VIENNA, AUSTRIA
+49 30 615 089 10
vienna@schneider-group.com

VILNIUS, LITHUANIA
+ 370 611 555 61
vilnius@schneider-group.com

WARSAW, POLAND
+48 22 695 03 10
warsaw@schneider-group.com

YEREVAN, ARMENIA
+374 60 50 66 05
yerevan@schneider-group.com

Eastern Europe, Central Asia,
Caucasus and Balkans
Since 2003

SCHNEIDER GROUP

EXPERIENCE. EXPERTISE. EXCELLENCE.