

LT in Focus

Tax & Legal



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Law to reform tax system is signed

The [law](#) has almost doubled in size from the first reading.

Read on for an overview of changes facing taxpayers.



Controlled foreign companies (CFCs)

Controlling owners will have the right to notify the tax authority if their participation ceases so long as the controlling owner or the CFC is subject to foreign sanctions resulting in external administration over the CFC.

As such, controlling owners will be able to withdraw from their participation if they, in essence, have lost control over the CFC because of sanctions.



Personal income tax (PIT)

A progressive PIT scale will be introduced on 1 January 2025.

Individual's annual income (other than income taxed at preferential rates)	PIT rate
Less than RUB 2.4 million	13%
Between RUB 2.4 million and RUB 5 million	RUB 312 thousand + 15% on the income amounts in excess of RUB 2.4 million
Between RUB 5 million and RUB 20 million	RUB 702 thousand + 18% on the income amounts in excess of RUB 5 million
Between RUB 20 million and RUB 50 million	RUB 3.402 million + 20% on the income amounts in excess of RUB 20 million
More than RUB 50 million	RUB 9.402 million + 22% on the income amounts in excess of RUB 50 million

The employment income earned in Russia by highly qualified non-residents will be taxed at the same rates.

The new progressive ladder does not apply to the payments related to participation in Russia's special military operation in Ukraine, as well as to northern allowances. These will continue to be taxed at 13% or 15% (for income over RUB 5 million).

Beneficial rates of 13% or 15% (for income over RUB 2.4 million) are established for certain types of tax bases such as:

- Income from the sale of property and/or property interests, as well as income representing the value of donated property;
- Income in the form of insurance and pension payouts;
- Income from participating interests, including dividends;
- Income from transactions with digital financial assets (DFAs) and/or digital rights that include both DFAs and utility tokens;
- Income from transactions with DFAs in the form of payments not related to their redemption if such

DFAs provide for the payment of income that equals the dividends received by the issuer;

- Income from transactions with securities and derivatives;
- Income from the sale of participating interests in Russian entities;
- Income from the sale of participating interests in Russian entities, shares, bonds and investment units qualifying for the exemption as meeting the ownership test (under the new rules income from such transactions exceeding the established threshold of RUB 50 million becomes taxable);
- Income from securities repurchase transactions;
- Income from securities lending transactions;
- Income from transactions with securities and derivatives recorded on an individual investment account;
- Interest income on deposits (account balances) in Russian banks.

When calculating the tax base, these types of income are reduced by deductions envisaged by the Russian Tax Code.

Significant changes are introduced to the exemption rules for proceeds from the sale of participating interests in Russian entities, as well as shares meeting the ownership test (Article 217 ([17.2](#)) and Article 217 ([17.2-1](#)) of the Russian Tax Code):

- The exemption will be available only to residents rather than to both residents and non-residents as is currently the case.
- The exemption will not apply to the tax base from such transactions in excess of RUB 50 million.

Other important developments are listed below:

- Income in the form of life insurance payouts will be exempt only to the extent of insurance premiums paid (currently, the exemption covers insurance premiums indexed to the key rate of the Central

Bank of Russia);

- Russian regions will be able to increase the reduction factor used to determine the tax base for real estate sale transactions from 0.7 to 1;
- Subject to a medical examination, a deduction of RUB 18 thousand will be available to the individuals who have achieved the national physical fitness standards (GTO);
- The standard PIT deduction for families with children will be doubled with respect to the second and subsequent children, and the upper income limit will be increased to RUB 450 thousand.

These changes will apply as of 1 January 2025.



PIT on fixed CFC profits

Currently, a controlling person can annually pay a fixed tax charge of RUB 5 million irrespective of the number of CFCs such person controls.

Under the amendments, the PIT will be RUB 5 million per each of the four CFCs.

Thus, individuals controlling five or more CFCs will have to pay RUB 25 million, with no additional charge for all CFCs beyond this number.

The amendments are effective from 1 January 2025.



Corporate income tax (CIT)

CIT rates

The standard CIT rate will be increased from 20% to 25%, with 7% (8% in 2025-2030) being the federal component and the rest — the regional component.

The rate increase to 25% will also apply to withholding tax, except for special rates that will continue to apply for dividends, income from international transportation and income from intragroup works/services.

There will be no increase in beneficial rates provided to certain categories of taxpayers (personal trusts; participants of special investment contracts, investment protection and promotion agreements, regional investment projects; residents of advanced development territories and other businesses, except for IT companies), as well as for certain types of income such as dividends and interest on particular debt instruments.

For IT companies, the CIT rate will be raised from 0% to 5% for the six-year period from 2025 to 2030.

The preferential CIT rate for electronics manufacturers will not be extended and will expire as planned, on 1 January 2025.

The amendments also provide for new preferential rates.

Russian regions will be allowed to offer a reduced regional CIT rate to small technology companies in 2025-2030.

In addition, participants of registered regional investment projects will no longer have a time limit to benefit from preferential rates.

Federal investment allowance (FIA)

The FIA will be introduced as a new type of incentive for investors.

The Russian Tax Code establishes the following FIA parameters:

- The federal CIT component can be reduced by up to 50% of the taxpayer's investment in fixed and intangible assets.
- Once the FIA has been applied, the amount of federal CIT payable cannot be less than the amount calculated at the rate of 2% (3% in 2025-2030).
- The right to claim the allowance may be assigned to another entity in the corporate group subject to the taxpayer receiving the relevant tax accounting data and copies of the documents confirming the investment amount.
- The unused allowance will be carried forward, but the Russian Government has the right to limit the carry forward period.
- The assets to which the FIA is applied are not depreciable.
- The decision to exercise the right to the FIA must be documented in the taxpayer's accounting policies.
- The FIA is not available to voluntary residents; participants of investment protection and promotion agreements; credit institutions and manufacturers of certain excisable goods such as ethanol, ethanol-containing products, alcohol, beer, tobacco, tobacco products, e-liquids, and sugary beverages.
- Where a fixed asset to which the FIA was applied is disposed of (other than through liquidation) earlier than five years after the commissioning date (except where the asset's useful life has expired prior to the disposal), the taxpayer shall reinstate and pay the tax that was not paid because of the FIA.

The specific parameters of the FIA (eligible taxpayer categories; eligible asset categories; characteristics of the corporate group within which the right to claim the allowance may be assigned) will be determined by the Russian Government.

The relevant government decree is being drafted and may be approved this fall.

Having faced criticism from business, the first draft with the FIA envisaged only for technological sovereignty and structural adaptation projects is likely to be reworked.

Regional investment allowance (RIA)

Investors applying the RIA will no longer be able to reduce the federal CIT component to zero. Once the RIA has been applied, the amount to be paid cannot be less than the amount calculated at the rate of 5%.

There will also be no time limit for applying the RIA (originally, the allowance was to be used until the end of 2027).

Increasing coefficients

The law stipulates an increase from 1.5 to 2 in special coefficients, namely:

- The coefficients used to assess the historical cost of fixed assets included in the single register of Russian radio electronic products in the area of artificial intelligence or included on the list of Russian high-tech equipment; or to assess the historical cost of software/databases included in the unified Register of Russian software and databases (to apply a coefficient, taxpayers will no longer need to classify a software/database product as artificial intelligence).
- The coefficients used to assess R&D expenses included on the approved list (small-sized technology companies will be able to apply an increasing coefficient irrespective of whether their particular expenses are on the list, with no requirement to submit an R&D report).
- The coefficients used to assess license fees for Russian software/databases. The applicability of these will be expanded significantly. To begin with, the requirement to classify software/databases as artificial intelligence will be canceled. In addition, taxpayers will be able to apply increasing coefficients to license fees for registered software and hardware packages, as well as to expenses incurred to customize and modify registered software/databases.

The new rules will apply as of 1 January 2025.



VAT for businesses using the Simplified Tax System (STS)

Companies and individual entrepreneurs applying the STS will now be required to pay VAT.

However, they will be exempt if their prior year income is less than RUB 60 million.

There is no need to apply for the exemption - it will be granted automatically.

Newly registered companies and individual entrepreneurs using the STS will also be exempt from VAT.

If a taxpayer's income exceeds RUB 60 million during the calendar year, the exemption will cease from the first day of the month following the month in which the excess occurred.

The maximum allowable amount of RUB 60 million must be calculated inclusive of all types of income except for foreign exchange differences and subsidies recognized for free-of-charge transfers of property/property rights to the federal /local government.

The taxpayers with incomes above RUB 60 million will be given a choice in relation to the payment of VAT:

- Paying tax at standard rates and keeping the right to tax deductions; or
- Applying beneficial tax rates depending on the

amount of income (5% for income less than RUB 250 million or 7% for income between RUB 250 million and RUB 450 million), but without tax deductions for input VAT.

If the taxpayer opts for a beneficial rate, the election cannot be changed during the period of 12 VAT periods (quarters). An exception is made where the yearly income exceeds RUB 450 million. In this case, the taxpayer must apply standard rates from the first day of the month in which the excess occurred.

There is no application form to switch to a preferential rate. Filing a VAT return with applied preferential rates will apparently suffice.

The preferential rates come with some exceptions:

- For certain transactions, including exports and international transportation services, the 0% VAT option is still available, but without deductions for input VAT.
- The beneficial rate will not be applicable to import VAT and agency VAT. These taxes will be paid at the standard rates established by the Russian Tax Code.

There are no exceptions for the deduction of VAT charged to a taxpayer at the rate of 5% or 7%. Therefore, such VAT may be deducted if the general requirements are met.



Reorganization of IT companies

The existing rules envisage no preferential CIT and social contributions rates for:

- Organizations established as a result of reorganization (other than conversion) or reorganized in the form of an acquisition of another legal entity or spin-off of one or more legal entities after 1 July 2022;
- Organizations in which the Russian Federation directly and/or indirectly holds a participating interest of more than 50%.

The law introduces certain breaks provided that the general conditions are met. Eligible organizations will include:

- IT organizations accredited by the Russian Ministry for Digital Technology, Communication and Mass Media before 1 July 2022 that applied a preferential CIT rate in 2022. A similar provision is already in

place but it stipulates the application of a preferential CIT rate until the end of 2024. The amendments were necessitated by the extension of the CIT benefit until the end of 2030. For social contributions, the benefit is valid indefinitely.

- Accredited IT organizations established in 2025 and 2026 as a result of reorganization in the form of a merger or reorganized in 2025 and 2026 through an acquisition of another legal entity, as long as all legal entities that were merged to create the organization (or the organization itself and all acquired legal entities) applied a preferential income tax rate/social contribution rate in 2024.;
- Accredited IT organizations reorganized in 2024-2026 through a spin-off of another legal entity, provided that the organization applied a preferential CIT rate/social contribution rate in 2023.



Social contributions

A preferential rate of 7.6% is introduced for small and medium-sized manufacturers on the amount of their payments made for the benefit of an individual. This amount shall be determined at the end of each calendar month as an excess over the minimum salary.

The preferential rate will be subject to the following conditions:

- The organization's core business must be in the "Manufacturing" section of OKVED (Russian National Classifier of Types of Economic Activity) as per the Government's list. Disallowed activities include the manufacture of beverages, tobacco products, coke and petroleum products and metals.
- This core business must be specified as the organization's main type of economic activity in the

Unified State Register of Legal Entities/Unified State Register of Individual Entrepreneurs.

- Income generated by the organization from said activity calculated based on its results for the previous calendar year and its results for the reporting/tax period must be at least 70%.

The list of qualifying income for taxpayers included in the register of radio electronic companies has been expanded. The income from the sale of equipment manufactured by an organization for the production of electronic components (modules) and electronic (radio electronic) products as per the Government list of such equipment will be considered as qualifying income.

The changes will apply as of 1 January 2025.



STS

The changes will include the following:

- The maximum income for transitioning to the STS will be increased to RUB 337.5 million. Such income will be calculated exclusive of foreign exchange differences and subsidies recognized in free-of-charge transfers of property/property rights to the government/municipality.
- The maximum allowable headcount will be increased from 100 to 130 employees.
- The maximum residual value of fixed assets will be increased from RUB 150 million to RUB 200 million subject to further indexation.

- The maximum income for applying the STS will be increased to RUB 450 million subject to further indexation.
- Current transitional rates that are used for income between RUB 150 million and RUB 200 million (8% for income-based taxes and 20% for "income less expenses") will be canceled.

The changes will come into effect on of 1 January 2025.



Amnesty for splitting a business

The concept of "business splitting" is introduced into the legislation. It will be defined as **dividing a single business between several formally independent entities (a group of entities) controlled by the same persons, aimed exclusively or primarily at the understatement of tax amounts through applying preferential tax regimes in violation of the limits of taxpayers' rights** related to the assessment of the tax base and/or the amount of taxes **as per Article 54.1 of the Russian Tax Code.**

The law does not set out the specific criteria for splitting. The Federal Tax Service earlier explained that the amendments are based on the existing court decisions on business splitting and there are no plans to make the wording ponderous.

As part of the amnesty, tax arrears for 2022-2024 related to business splitting will be forgiven subject to full or partial voluntary abandonment of splitting schemes by involved parties in 2025 and 2026.

The voluntary abandonment of splitting practices must be understood to include the assessment and payment of taxes by the parties previously involved in such arrangements. The amount of the taxes must be assessed by **consolidation of the entire group's income and/or other indicators** that shall meet certain thresholds for applying preferential tax regimes.

The amnesty will not cover tax authorities' decisions issued following tax audits if such decisions are in effect as of 12 July 2024.

Businesses will not have to apply for the amnesty or confirm their discontinuation of splitting. The tax authorities will need to undertake field audits to confirm that a business works “in white” in 2025 and 2026.

The amnesty stipulates the following:

- The tax authorities’ decisions related to business splitting that were issued following tax audits for 2022-2024 will be suspended from the law’s effective date. However, taxpayers will retain the right to challenge those decisions.
- Taxpayers will be discharged of their obligation to pay arrears in case no splitting is identified upon results of the field audits for 2025 and 2026.
- If no field audits are undertaken for 2025 and 2026, the arrears will be written off on 1 January 2030.
- If tax audits for 2025 and 2026 uncover business splitting, the decision issued based on the audit for 2022-2024 will come into effect simultaneously with that for 2025-2026.
- If tax audits for 2025 and 2026 reveal partial abandonment of splitting schemes, the arrears for

2022-2024 will be written off to the respective extent.

- If the taxpayer discontinued business splitting after the tax authorities initiated a field audit for 2025 and 2026, the taxpayer will be able to write-off only its arrears for 2022-2023 and subject to voluntary abandonment of business splitting in 2024 before a decision on the 2025-2026 audit is made.

In case of liquidation of a business that was found to engage in splitting in 2022-2024, its tax arrears will be written off. However, if the taxpayer is subsequently found to have in fact been using the splitting techniques in 2025 and/or 2026 through a different group of entities controlled by the same person that controlled the taxpayer previously, such entities will have to pay its tax arrears.

The amnesty does not provide for release from criminal liability.

Nevertheless, the tax authorities will not send the 2022-2024 tax audit documents on to investigators if the obligation to pay the related arrears is discharged through the amnesty.



Property taxes

The following changes are envisaged:

- For real estate with a cadastral value of more than RUB 300 million, regional authorities will be able to set the rate of corporate property tax at 2.5% (the current maximum rate for assets taxed based on their cadastral value is 2%).
- For land plots with residential buildings and/or utility infrastructure facilities, as well as land plots

allotted for non-commercial gardening and general-purpose land plots with a cadastral value exceeding RUB 300 million, the land tax rate may be set at 1.5% (currently 0.3%).

- The rate of personal property tax for assets with a cadastral value above RUB 300 million may be set at 2.5% (currently 2%).

The changes will apply as of 1 January 2025.



Mineral extraction tax (MET)

The changes will include the following:

- The ad valorem MET rate on diamonds and other precious and semi-precious stones will be increased from 8% to 8.4%.
- The MET on iron ore will grow 1.4 times due to the replacement of the 0.048 coefficient with the 0.067 coefficient.
- The approach to determining the deflator coefficients applied to MET rates for coal will be revised.
- The formula for calculating MET on coal will take into account prices in ports of the Far Eastern, Northwestern and Southern federal districts.

- There will be a change of approach to determining the Kug and Kks coefficients.
- Some MET reliefs will be introduced on potassium salts extracted from the areas depleted by less than 1% as of 1 January 2021. The extraction activity must be under a new investment project for which an investment protection and promotion agreement or a special investment contract has been signed. A relief will also be available for potassium salts extracted as part of an investment project for which a special investment contract is signed between 1 January 2021 and 30 June 2024 and extraction will commence after 1 January 2025.

- The approach to calculating MET for apatite-nepheline, apatite and phosphorite ore, as well as apatite-staffelite, apatite-magnetite and low-iron apatite ore will change as follows: the MET rate will be set at one Russian ruble per metric ton and will be multiplied by the Kfr coefficient calculated via a special formula.

- The MET on semi-finished products containing one or more precious metals extracted as a result of complex operations will be additionally increased by applying the Kdrm coefficient.

The changes will apply as of 1 January 2025.



Excise taxes

Excise taxes will be introduced on:

- Pharmaceutical ethanol (along with a full deduction of excise tax on ethanol used to produce medicines);
- Liquid nicotine (along with a deduction of excise tax on raw materials used to produce nicotine-containing products);
- Natural gas used to produce ammonia (as per the second-reading amendments, the tax rate will be determined using a special formula, based on the average FOB export price of carbamide in Baltic ports for the tax period. Certain deductions will be

introduced, including those for the production of ammonia at new facilities and the use of ammonia to produce caprolactam.

The procedure for calculating the coefficient for deduction of excise tax on grapes used to produce protected vines has been amended.

The new law also provides for indexation of excise tax rates for ethanol, alcohol and tobacco products, automobiles and motorcycles, and petroleum products in 2025-2027.

The changes are effective from 1 January 2025.



State duties

The changes will include the following:

- There will be an increase in civil registration charges (for example, a divorce charge will be raised from RUB 650 to RUB 5,000).
- The registration charge for rights, restrictions of rights and encumbrances of rights to real estate, as well as the registration charge for transactions with real estate (with some exceptions) will now depend on the cadastral value of the asset:
 - For real estate with a cadastral value of more than RUB 20 million, the registration fee for individuals will be 0.02% of the asset's cadastral value/transaction price, but not more than RUB 500 thousand.

- For real estate with a cadastral value of more than RUB 22 million, the registration fee for legal entities will be 0.2% of the asset's cadastral value/transaction price, but not more than RUB 1 million.

- New fees are introduced for certain registration actions with real estate. An example is a cadastral registration fee for updating information about a real estate asset.
- Some other state duties will also be increased.

The changes will apply as of 1 January 2025.



Tourist tax

The Russian Tax Code will be amended to include provisions replacing the resort fee with a tourist tax.

The tourist tax will have the following parameters:

- This will be a local tax introduced independently by municipalities.
- It will be paid by organizations and individuals that provide temporary accommodation in their registered accommodation facilities.
- The tax base will be the cost of accommodation.

- Taxpayers may benefit from incentives in the form of tourist tax exemption for accommodation of certain categories of individuals (disabled, participants of Russia's special military operation in Ukraine, etc.).
- The tourist tax rate will be determined by municipalities but will not exceed 1% in 2025, 2% in 2026, 3% in 2027, 4% in 2028 and 5% in 2029 and beyond.

- The minimum amount of the tourist tax will be RUB 100 multiplied by the number of days of stay.
- The tax amount will be presented to the tourist together with the final cost of accommodation and will be shown in a separate line.
- The tax period is a calendar quarter.
- A tax return will be filed at the end of each tax period.

The provisions will come into effect on 1 January 2025.

We hope you have found our update helpful.

Please feel free to contact us if you have any questions.

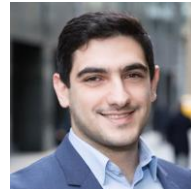
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