

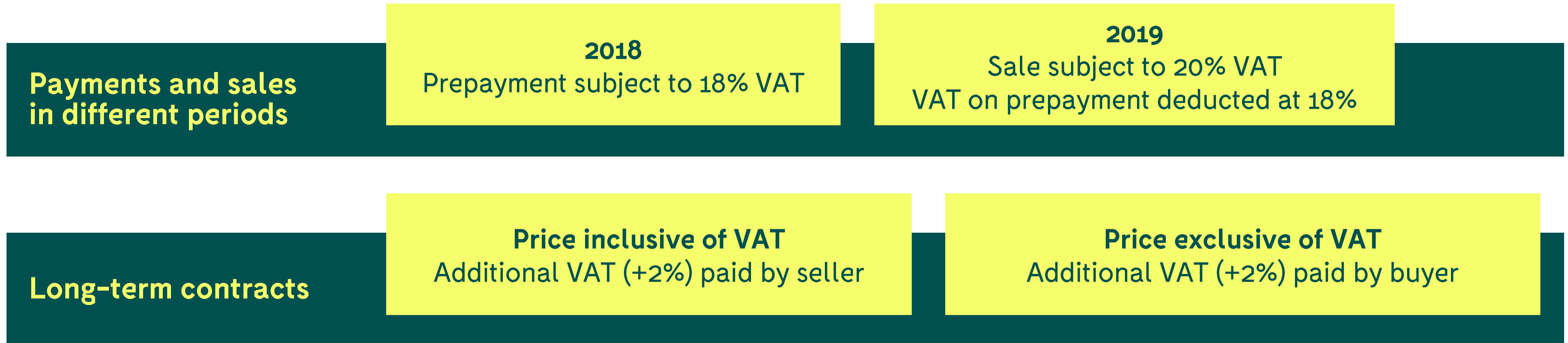
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**Significant changes expected and upcoming
in 2019**

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TaXmas 2018

VAT

- + Tax rate increase: up to 20%
- + 10% rate remains unchanged
- + New rate to apply to sales made after January 01, 2019, including resale of goods acquired in 2018 with 18% rate



! It is necessary to agree upon a procedure for price revision due to VAT rate increase.

VAT for services in electronic form

+ Since 2017 e-services have been subject to Russian VAT if the customer is in Russia

(1) Customer (individual): foreign company registers with Russian tax office, declares and pays VAT on its own

(2) Customer (company): company withholds, declares and pays VAT to authorities

NEW:

× Option (2) canceled. Foreign companies dealing with Russian companies register with Russian tax office, pay and declare VAT on their own

Deadlines for tax registration

One-off services – within 30 days of service provision
Ongoing services – up to February 15, 2019

Deadlines for tax declaration and payment

25th of the month following the reporting quarter

! Russian companies will deduct VAT based on contracts and invoices specifying VAT amount

Corporate income tax

- + From 2019 onwards, local authorities will not be able to decrease tax rates in particular Russian regions

Tax paid to federal budget
3%

Tax paid to regional budget
17% (can be decreased down to 12.5%)

Tax rates decreased before January 01, 2018 can be applied up to the expiration date set by Appropriate local law but no later than January 01, 2023

- + Expenses incurred for recreation of employees and their family will be deductible for tax purposes:
 - Tourism, rest or sanatorium treatment – Russia
 - Travel, accommodation, sanatorium treatment, excursion expenses
 - Contract for voucher sale concluded after January 01, 2019 is necessary
 - Tax deduction limit – RUB 50,000 per employee, 6% of payroll
- + Technological equipment (applying the best available technologies) to be depreciated at higher rates

The list of such equipment has been extended

Corporate property tax

Taxation of movable property

Now

Taxation of movable property determined by regional authorities
Maximum rate – 1.1%

2019

Movable property will not be taxed

Contestation of real estate cadastral value:

Now

Tax is recalculated for the period for which application is submitted

2019

Tax will be recalculated for all periods for which the challenged value was used for tax purposes

Social contributions expected from 2019

Type of contribution	Tax base (= accrued salary per employee)	Tax rate	Tax rate when tax base is exceeded
Pension insurance	RUB 1,150,000 (in 2018 – RUB 1,021,000)	22%	10%
Social insurance	RUB 865,000 (in 2017 – RUB 815,000)	2.9%	
Medical insurance	-	5.1%	5.1%

Rate increase (30% → 34%) scheduled for 2021 canceled

Transfer pricing

+ New thresholds for controlled transactions

Now	2019
Controlled transactions with related foreign entities	
All transactions regardless of their amounts	Transaction amounts exceeding RUB 60 million per year
Transactions with related Russian entities	
<ol style="list-style-type: none">1. All transactions over RUB 1 billion per year2. Transactions over RUB 60 million per year when<ul style="list-style-type: none">+ Parties apply different CIT rates+ A party pays MET calculated in %+ A party is exempt from taxation, etc.3. Transaction over RUB 100 million per year when a party operate under a special tax regime (SAT, STII)	<p>Transactions over RUB 1 billion per year when</p> <ul style="list-style-type: none">+ Parties apply different CIT rates+ A party pays MET+ A party is exempt from taxation+ A party operates under a special tax regime (SAT, STII)
Reporting rules for 2018 remain unchanged:	<ul style="list-style-type: none">+ Notification up until May 20, 2019 – NEW format!+ TP-documentation 2018 can be requested until June 01, 2019

International exchange of tax data

Applicable to MNEs with an annual turnover of over RUB 50 billion

- + **Notification of participation in MNEs**

- To be sent to tax authorities within 8 months of end of financial year

- + **3 levels of transfer pricing reporting**

- + Country-by-Country report (sent within 12 months of end of financial year by Russian company if it is a parent company in the group of companies or an authorized entity in the group of companies)
 - + Global File (sent within 3 months of request)
 - + Local File (sent within 30 working days of request)

Fines: RUB 50,000 for non-submission of notification and RUB 100,000 for non-submission of other transfer pricing reports

- + The convention on mutual assistance in tax matters was ratified in 2014 (Federal Law No. 325-FZ dated November 04, 2014) and has been effective in Russia since July 01, 2015

3-level transfer pricing documentation: Deadlines

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- + **Notification** of participation in MNE Group to be sent to tax office by August 31, 2018 (or within 8 months of the group's financial year)
- + **Country-by-Country report** to be sent to tax office by December 31, 2018 (or within 12 months of the group's financial year). Russian entity does not send CbC report if it is sent by the group's reporting entity in the country that exchanges data with Russia

2019:

- + From January 01, 2019 **Global Files** of the group may be requested for verification by Russian tax office
- + From June 01, 2019 **Local Files** of Russian entity may be requested for verification by Russian tax office

Accounting standards

- + A new program for development of Federal Accounting Standards has been launched
New FAS will enter into force in 2019–2021

(Russian Ministry of Finance Decree No. 83n dated April 18, 2018)

- + Amendments to Federal Law No. 402-FZ On Accounting dated December 06, 2011:
Russian accounting standards issued after October 01, 1998 are considered to be
Federal Accounting Standards

(Federal Law No. 160-FZ dated July 18, 2017)

- + Amendment to RAS 3/2006 Accounting of Asset and Liability Value Expressed in Foreign
Currency. Amended version will be applied from 2019 onwards

- + Federal inventory standard has been developed and will enter into force in 2019

- + RAS 18/02 Income Tax Accounting might change in 2020 (draft amendments under consideration)

ISA in Russia

International Standards of Auditing (ISA) issued by the International Federation of Accountants (IFAC) have been effective in Russia since 2017

The scope of audit work has been extended, global audit approaches are applied, audits cover different areas of a company's activity (risks, internal control, etc.)

Criteria for statutory audit of financial statements as of December 31, 2018:

If in the year preceding the reporting year, i.e. 2017 for 2018

Asset value > RUB 60 million and/or

Net turnover > RUB 400 million

Multinational Convention to Implement Taxation Treaty Measures for BEPS Prevention

- + Convention was signed on June 07, 2017 by 68 countries, including Russia
- + Multilateral instrument (MLI) aimed at the legislative implementation of BEPS (Base Erosion and Profit Shifting) principles
- + Russia intends to apply the Convention to 66 Double Taxation Treaties
- + Ratification of MLI and peer review of DTTs are due soon

Multinational Convention to Implement Taxation Treaty Measures for BEPS Prevention

NEW:

- + Principle Purpose Test (PPT): if the transaction purpose is to receive benefits, such benefits are not awarded
- + Limitation on benefits (LOB): the entities that can apply DTT are individuals, state institutions, public companies, non-profit organizations and active companies
- + Dividends: reduced rates apply if shares are held at least 365 days prior to profit distribution
- + Sale of shares: income from the sale of shares in Russian companies whose assets consist of more than 50% of real estate property in Russia must be taxed in Russia

Thank you!

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