



Russia

Introduction

A person's liability to Russian tax is determined by residence status for taxation purposes and the source of income derived by the individual. The scope of taxation and tax rates applicable to individuals in Russia depends mainly on their tax residence status in Russia in a particular tax year. Income tax is levied at flat rates (general rates are 13 percent for Russian tax residents and 30 percent for Russian tax nonresidents) on an individual's taxable income for the year. Due to the fairly low income tax rate for tax residents, there are a very limited number of possible tax deductions, and the most significant is the property tax deduction on the sale or purchase of land or dwellings. Tax deductions are only available for Russian tax residents.

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Key messages

Extended business travelers are likely to be taxed on employment income relating to their Russian workdays. Such an approach, however, is not directly addressed in Russian tax law, and there are various potential interpretations of taxation rules for extended business travelers.

Income tax

Liability for income tax

A person's liability for Russian tax is determined by residence status. A person has unlimited liability to taxation (as a "tax resident") if the person is physically present in Russia for a total of not less than 183 days during the previous 12 consecutive months. In order to determine an individual's tax residence status for a reporting calendar year, the 183-day check should be made in this calendar year (i.e., January 1– December 31) rather than in any other 12-month period. According to the clarifications of the Russian Ministry of Finance, for the purpose of calculations of Russian days, both days of arrival in Russia and days of departure from Russia should be counted.

If the "183 days of presence" test is not fulfilled, the person has only limited liability to taxation (as a nonresident) in Russia, that is, the individual is generally assessable only on income derived directly or indirectly from sources in Russia.

Extended business travelers will be considered nonresidents of Russia for the particular calendar year unless they spend 183 days or more in Russia during the calendar year.

Definition of source

Employment income is generally treated as Russian-sourced compensation where the work is performed in Russia.

Tax trigger points

Technically, there is no threshold/minimum number of days that exempts the employee from the requirements to file and pay tax in Russia. To the extent that the individual qualifies for relief in terms of the dependent personal services article of the applicable double tax treaty, there should not be a tax liability. The treaty exemption will not apply if the salary is borne by the Russian entity or by a permanent establishment that the foreign employer has in Russia.

Types of taxable income

For extended business travelers who do not qualify for tax residence in Russia, the types of income that are generally taxed are employment income, reimbursement of certain expenses, provision of benefits-in-kind that can be attributable to activity in Russia, and proceeds (if any) from transactions with property in Russia.

Tax rates

Remuneration is taxed at the flat rate of 13 percent for a Russian tax resident and at 30 percent for nonresidents. Effective July 1, 2010, the 13 percent tax rate also applies to Russian employment income of nonresidents – foreign specialists who work in Russia under the "highly qualified specialist" regime and have obtained the relevant work permit.¹ Other rates apply to specific categories of nonemployment income.

If an individual changes tax residency status during a calendar year from nonresident to resident, the individual is entitled to receive a tax refund of 17 percent of income tax excessively withheld (the difference between the resident's and the nonresident's income tax rate). Beginning in 2011, such a tax refund can only be obtained by the individual through the Russian tax authorities based on an annual tax return and documents confirming the individual's residency status. Tax agents (employers, etc.) are no longer allowed to provide the tax refund in these cases.

Social security

Liability for social security

Currently, Russian social security contributions are payable in the form of social contributions to the pension fund, social security fund, and mandatory medical insurance funds and contributions for mandatory social insurance against occupational accidents and diseases (MSI). Generally, employment in Russia is the criterion for paying social security contributions.

Social security costs are borne by the employer only; employees are not required to contribute.

Contributions to the pension fund, social security fund, and mandatory medical insurance funds are assessed on the gross payroll of each employee. The combined rate is 34 percent. These contributions are kept at the level of 463,000 Russian rubles (RUB) of accumulated remuneration per employee per annum.

Contributions to the Pension fund, social security fund, and mandatory medical insurance funds are not payable by foreign nationals who, for migration purposes, have a status of temporarily present in the territory of Russia.²

MSI is payable on the total payroll at a flat rate, which varies depending on the risk category of the employer, as determined by the Russian Social Insurance Fund. The current minimum rate is 0.2 percent of payroll, and the maximum is 8.5 percent.

Compliance obligations

Employee compliance obligations

The general deadline for filing annual Russian tax returns is April 30 and for paying income tax based on the tax return is July 15 of the year following the reporting year. No extensions are available.

Expatriate nationals who terminate their Russian assignment and leave Russia during a tax year are required to submit a tax return one month prior to departure. Income tax due should be paid within 15 days after submission of the tax return.

Generally, a tax return must be filed if the individual receives income that is subject to taxation in Russia if Russian income

¹A foreign specialist is generally considered as "highly qualified" if the professional obtained work experience, skills in a particular sphere, and the professional activities in the Russian Federation are remunerated with a gross salary of at least RUB 2,000,000 per 365 calendar days.

²Foreign nationals are considered as temporarily present in the territory of Russia if they have a migration card without a residence permit or without a permit for temporary residence in Russia.

tax has not been withheld by a tax agent. A tax return is also required in order to apply for tax deductions, reliefs/ tax credits under the double tax treaty, and tax refund due to change of tax residence status from “tax nonresident” to “tax resident” during a calendar year.

Employer reporting and withholding requirements

If remuneration is paid by an employer in Russia (i.e., Russian legal entity or representative office of a foreign legal entity in Russia), the employer is considered a tax agent, is obliged to calculate income tax on the employee’s behalf, and must withhold and remit it to the budget at the source of payment. The employer is liable for the correct remittance. As a tax agent, the employer is obliged to report income paid to the individual and tax withheld during a reporting year on Form 2-NDFL, which must be submitted to the Russian tax authorities no later than April 1 of the following year.

Other issues

Work permit/visa requirements

A visa must be applied for before the individual enters Russia. The type of visa required will depend on the purpose of the individual’s entry in Russia.

A foreign national can commence employment in Russia only on obtaining a work permit, i.e., permission for a foreign employee to work at the position specified in the work permit within a certain period and region of Russia. Generally, only a direct employment contract with the employer can be used to obtain employment and work permits.

Double taxation treaties

Russia currently has agreements on avoidance of double taxation with more than 70 countries to prevent double taxation.

Permanent establishment implications

There is a potential that a permanent establishment could be created for a foreign employer as a result of an employee’s extended business travel and consequent activity in Russia, but this would depend on the type of services performed and the level of authority the employee has, as well as the provisions of the relevant double tax treaty.

It should also be considered whether the presence of the expatriate employee in Russia during extended business travel leads to registration requirements with the Russian tax authorities for the foreign employer.

Indirect taxes

Supplies of goods and services are generally subject to value-added tax (VAT).

The applicable VAT treatment depends on the types of goods delivered or the nature of services provided. VAT is also imposed on most imports into Russia.

The standard VAT rate is 18 percent and applies to most goods and services. The reduced VAT rates apply, inter alia, in the following cases:

- 10 percent rate: bread, milk, meat (specified), fish (specified), and medical goods (specified)
- 0 percent rate: international transportation of cargo and individuals; export operations

VAT-exempt supplies include the domestic sale of some medical goods and services, some other specified goods and services, banking and insurance services, etc.

Also, cross-border provision of services may be VAT-exempt under the “place-of-supply rules,” i.e., depending on the particular type of service and on whether the providing/ receiving party operates in or outside Russia.

Generally, taxpayers are entitled to claim for recovery input VAT related to purchased goods and services subject to certain conditions. If input VAT exceeds the amount of output VAT charged on supplies of goods and services, the difference may be refunded to the taxpayers from the budget.

Beginning in 2010, taxpayers are entitled to a refund of the VAT through the accelerated VAT refund procedure, which generally allows them to receive the cash tax refund prior to completion of a desk tax audit. For instance, the taxpayer may apply for this accelerated VAT refund procedure by obtaining a bank guarantee from a bank approved by the Ministry of Finance.

Beginning July 1, 2010, there are specific procedures and exceptions relating to transactions within the Customs Union of Russia, Belarus, and Kazakhstan.

Transfer pricing

Transfer pricing rules allow the tax authorities to adjust taxable profits where transactions are not carried out at an arm’s-length basis. The transfer pricing regime applies to transactions between interdependent parties inclusive of any charges made to the Russian company for business travelers, as well as to foreign trade and barter transactions. Transfer pricing control also covers transactions performed by the taxpayer, where prices differ by more than 20 percent in a short period of time.

Local data privacy requirements

Russia has a data privacy law.

Exchange control

Foreign currencies can be exchanged at the daily exchange rates. Credit cards are accepted almost everywhere in Moscow, St. Petersburg, and other large Russian cities.

Generally, foreign currency transactions between residents and nonresidents can be performed without limitation. Currency transactions between nonresidents generally can be performed without restrictions.

There are no limits for foreign or Russian currency brought into Russia (both residents and nonresidents). In the case of bringing cash into Russia, travelers' checks or certificated securities in excess of the equivalent of 10,000 US dollars (USD), the entire amount needs to be reported to the Russian Customs Authorities.

The maximum amount of foreign or Russian currency that can be taken out of Russia without reporting it to the Russian Customs Authorities is an equivalent of USD3,000. Amounts between USD3,000 and USD10,000 must be reported to the Russian Custom Authorities. Taking an amount in excess of the equivalent of USD10,000 out of Russia is not allowed unless the amount was previously brought into Russia within the limits indicated in the documents confirming such importation.

Nondeductible costs for assignees

Generally, Russian tax nonresidents cannot deduct any expenses from their gross income.

A very limited list of deductions is available to Russian tax residents. Generally, they can deduct (within certain limits) only their expenses for education, medical treatment in Russia, voluntary personal insurance, and some others. These deductions are allowed by the Russian tax authorities on the basis of a person's individual tax return. Proper confirmation documentation should be also provided.

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