General Information on the Taxation of Individuals in Russia

KPMG in Russia and the CIS
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This brochure contains general information on the taxation of individuals in Russia. Please be aware that the Russian tax system is constantly developing. This brochure should only be used as a general guide.

To discuss your particular situation and its tax implications, please contact your KPMG tax advisors.

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Tax Residency Rules

An individual’s tax status depends on the number of days that person is present in Russia. The days of arrival and departure are both counted as days spent in Russia. Full days completely absent from Russia are not counted. However, if the individual travels outside Russia for short term medical treatment or education, and his/her absence does not exceed six months, these days may in certain cases be counted as days in Russia.

A person’s tax residency status on a particular day (usually for tax withholding purposes) is determined based on the number of days in Russia in the 12-month period that immediately precedes the date of income payment. If the number of days that an individual has spent in Russia is 183 or more, the individual is considered a Russian tax resident. During the year this “intermediary” tax status can change from tax non-resident to tax resident and vice versa. Final reconciliation of the tax status is performed based on the individual’s presence in Russia in the calendar year.

An individual’s final tax liabilities for a tax year (which is a calendar year in Russia) are determined based on that individual’s tax status for the calendar year, which is established based on the 183-day presence-in-Russia test for that tax year.
Scope of Taxation

A tax resident individual is subject to Russia’s personal income tax on their worldwide income.

A tax non-resident is subject to personal income tax only on Russian-source income.

Russian-source income includes, inter alia:

— remuneration received for activities and services performed in Russia regardless of the location of the paying entity;
— remuneration received by the members of boards of directors of Russian legal entities and the members of similar bodies, regardless of where the members perform their duties or the location of the entity that pays income;
— income from property located in Russia;
— income from dividends and interest from Russian companies.

Taxable Income

Taxable income includes income in cash, in kind (benefits in kind) and deemed income (in Russia referred to as “material benefit”). Profits of Controlled Foreign Companies (“CFC”) including trusts, foundations, partnerships, etc. may also be subject to tax as part of income of a tax resident individual who is considered Controlling Person, even if the profits are not distributed.

**Taxable cash income includes:**

— wages, bonuses and similar cash compensations;
— allowances and tax reimbursement made by legal entities, etc.;
— proceeds from the sale of property;
— rental income;
— gains from the sale of securities;
— interest and dividend income.

**Taxable in kind income includes:**

— benefits provided by employers including housing, company cars, employer contributions to foreign pension plans, etc.;
— gifts.

Income received in kind is valued at fair market prices.

**Taxable deemed income includes:**

— deemed income from purchasing company stock at below market prices;
— deemed income from beneficial loans, i.e. savings on interest payments on interest-free or low-interest loans.

A loan in roubles is considered low-interest if the annual interest rate is lower than 2/3rds of the refinancing rate of the Central Bank of Russia. A non-rouble loan is regarded as low-interest if the interest rate is less than 9% per annum. Strictly speaking, using a foreign credit card with an interest-free grace period leads to deemed income.

**CFC income:**

Undistributed profits of a CFC are taxable unless:

— the profits are exempt from taxation in Russia (special rules apply), or
— the profits for the reporting year do not exceed the threshold established by law.

Tax is calculated in Russian roubles. For tax purposes, income received in foreign currency should be calculated in roubles at the official exchange rate set by the Central Bank of Russia on the date the income is received. For ordinary salary payments, the date of income receipt is generally deemed to be the last day of the month for which the salary is paid irrespective of the actual date of its payment.
Tax Exempt Income

The list of income exempt from Russian personal income tax is limited. Some of the most common kinds of tax exempt income are listed below:

— qualifying business travel expenses (e.g., travel and lodging costs, if properly documented);

— specific social security benefits guaranteed by Russian law (e.g., unemployment aid, disability payment, maternity allowance within certain limits);

— gifts of a total annual value of less than RUB 4,000;

— up to RUB 4,000 per annum of additional cash support given to employees and former employees;

— interest income on deposits in Russian banks if:
  – for rouble deposits, the rate on the deposit is less than the refinancing rate of the Bank of Russia plus 5 percentage points;
  – for deposits in all other currencies, the rate on the deposit is less than 9% per annum.

— full gross proceeds from the sale of property if the taxpayer owned the property for more than three or five years (depending on the details of how the property was acquired). This exemption is available to Russian tax residents only.

Tax Relief in Russia

Tax relief with regard to income taxable in another country may be provided only if there is a valid agreement for the avoidance of double taxation between Russia and the other country (“double tax treaty”). Currently Russia has valid double tax treaties with more than 80 jurisdictions.

An exception applies to foreign tax paid by a CFC. In particular, such tax may be credited against Russian income tax assessed on the CFC profit taxable for taxpayer even if there is no effective double tax treaty in place.

Generally, tax relief is claimed via a personal tax return and/or an application. Documentation must support the claim (e.g., a certificate confirming tax residency in the foreign state and/or a document confirming that income was received and foreign taxes paid). In certain cases the documentation should be certified (usually by means of an Apostille affixed to the documentation). Documents issued in a foreign language should be translated into Russian with the translation being notarized by a Russian notary.

Generally, tax relief provided via foreign tax credits can be claimed during the three years following the tax reporting period.

Tax Rates

Russian income tax is levied at flat tax rates, which vary depending on the type of income and/or an individual’s tax status.

Tax residents

The most commonly applied tax rate is 13%; it applies to most income types, including employment income. Specific types of income, for example deemed income on loans and interest on deposits in Russian banks that exceed non-taxable limits, are taxed at 35%.

Other rates may also apply in accordance with the provisions of a double tax treaty, if applicable.

Tax non-residents

A general tax rate of 30% applies to the majority of income types.

Dividends from Russian companies are subject to tax at 15%.

Other rates may also apply in accordance with the provisions of a double tax treaty, if applicable.

Highly-Qualified Specialists

Expatriate employees can be hired locally in Russia as Highly-Qualified Specialists (HQS). This special regime applies, inter alia, if the annual remuneration of an expatriate employee is generally not less than RUB 167,000 per month.

The HQS regime has many advantages over the general expatriate employment regime. It provides a simplified and accelerated procedure for obtaining a work permit. Another advantage is that the 13% flat tax rate applies to the employee’s remuneration, paid under the HQS contract, irrespective of the actual tax status of that foreign employee.

However, income paid outside of the HQS regime is subject to taxation based on the general rules.

EurAsEC citizens and individuals working in Russia under patent

13% flat tax rate applies to:

— income for work in Russia paid by a Russian employer to tax residents of Eurasia Economic Union countries irrespective of their actual tax status in Russia;

— income for work in Russia paid by a Russian employer to individuals working under patent irrespective of their actual tax status in Russia.

Other income should be taxable according to the general rules.
Tax Withholding

Generally, companies that pay income in Russia, including salary, to individuals have to withhold income tax from that income. However, in some cases tax withholding does not apply. For example:

— If the income is paid from outside of Russia by a company not registered with the Russian tax authorities;
— If the income is paid from the sale of property/property rights owned by the individual;
— If the individual is registered as an entrepreneur in Russia.

Tax withholding is made based on the individual’s intermediary tax status. Therefore, the amount of tax withheld throughout the year may be different from the final tax liability calculated based on the final tax status (see section Tax Residency Rules above). In this situation, the individual may be liable to pay additional tax or he/she may be entitled to a tax refund. Depending on the circumstances, this may be arranged by filing a personal tax return or via the company what withheld tax, or on the basis of a tax assessment issued by the tax authorities.

Tax Filing Requirements

If tax withholding was not performed in full or if income was not subjected to tax withholding in Russia at all, the individual is generally required to file a tax return.

Generally, the tax return must be filed by 30 April of the year following the reporting tax year. The tax payment should be made no later than 15 July of the year following the tax year.

A foreign national may be required to file a departure tax return if he/she terminates activities leading to a filing requirement and permanently leaves Russia. A departure tax return should be filed not later than 1 month prior to departure. Tax due based on the departure tax return should be settled within 15 days from the date the tax return is filed.

Penalties for late submission of tax returns apply. Failure to file a tax return in time may result in penalties of RUB 1,000 or 5% of the tax payable per each month of delay depending on the circumstances. The total amount of late filing penalty is limited to 30% of the tax liability payable, based on the tax return, but cannot be less than RUB 1,000. Failure to pay tax may result in a penalty of 20% of the non-paid liability. Delay in tax payment may result in interest being charged at 1/300 of the refinancing rate per each day of delay. Failure to report income and pay tax on it may trigger criminal liability.

Calculation of income received/expenses incurred in non-Russian currency

All tax calculations are made in Russian roubles, therefore the rouble equivalent of each receipt of income/deductible expenses that occurs in a currency other than Russian roubles should be calculated at the exchange rate of the Bank of Russia effective on the date income receipt/expense occurs.

This rule may expose taxpayers to the risk of currency exchange rate fluctuations and should be taken into consideration when the sale of assets (e.g. securities) is planned.
Tax Deductions

The number of tax deductions is limited. Tax deductions can be claimed only by a tax resident and only if he/she has income taxable at the rate of 13%, except for deductions on the sale of securities.

Other types of income do not allow for tax to be deducted. Claiming a tax deduction is usually associated with substantial paperwork and most deductions lead to relatively low tax savings. The most significant tax deductions are property-related deductions.

Property-related tax deductions

Property related tax deductions are available on expenses related to the purchase of (construction of) dwellings and on land plots for the construction of a dwelling (or along with a dwelling place) in Russia (up to RUB 2,000,000). Interest on the loans used for the above mentioned purchases/constructions may also be claimed as a deduction (up to RUB 3,000,000).

This deduction reduces the taxable income of an individual in Russia to the 13% tax rate only once in a lifetime.

Income from the sale of property that has been owned by the seller for three or five years (depending on the details of how the property was acquired) or more is tax-exempt, provided that the seller is Russian tax resident in the year of sale.

On the sale of residential property and land plots that have been owned for less than three or five years (depending on details of how the property was acquired), a deduction of up to RUB 1,000,000 or of the amount of documented actual expenses for the acquisition can be claimed. On the sale of other property owned for less than three or five years (depending on the details of how the property was acquired), a deduction of up to RUB 250,000, or of the amount of actually documented expenses for the acquisition, may be claimed.

Social tax deductions

Social tax deductions are available on donations given to specific charities which qualify against government criteria, though only on up to 25% of the income taxable in Russia received in the tax period.

Social deductions are also available on:
- Expenses incurred by the taxpayer on the education of him/herself and each of his/her children;
- Expenses for medical treatment and medicines for the taxpayer and his/her spouse, parents, children;
- Contributions to Russian voluntary medical insurance for the taxpayer and his/her spouse, parents and children;
- Contributions to Russian private pension funds for the benefit of the taxpayer, his/her spouse, parents and any disabled children;
- Additional insurance contributions made to the cumulative part of Russian state pensions.

The above deductions cannot exceed RUB 120,000 in one calendar year per taxpayer (except expenses for certain expensive medical treatments in accordance with those on a specific list approved by the Russian government, and for which the actual expense amounts are deductible; and except for expenses for the education of the taxpayer, taxpayer’s sibling(s) and taxpayer’s children, deductible within a limit of RUB 50,000 per individual).

Investment tax deductions

Certain deductions are available on the investments/financial results from the sale of specific types of securities via individual investment accounts opened in Russia.
Social Security

Social security contributions are payable by registered employers in Russia. These contributions can be divided in two groups:

1. Contributions for mandatory pension, social and medical insurance. These contributions are generally assessed on gross payments to each employee and are not payable for foreign nationals hired under the HQS regime.

2. Contributions for mandatory social insurance against occupational accidents and diseases. These contributions are assessed on the gross payroll.

Employees are not required to contribute. In most cases foreign employees would not be eligible for Russian pension and social insurance benefits.

Other Aspects of Taxation and Reporting to the Tax Authorities

Foreign employees working in Russia are required to register with the tax authorities. Other foreign nationals who temporarily stay in Russia, generally, have no tax registration or de-registration requirement.

Land, property and transport taxes are assessed by the local tax authorities and paid based on the tax notification issued. If an individual does not receive a tax assessment on property and/or vehicles that the individual owns, then they are obliged to inform the tax authorities about the property/vehicle by 31 December of the subsequent calendar year.

Foreign citizens who hold a Russian permanent residence permit and live in Russia are required to comply with tight Russian currency control rules that apply to residents under Russian currency control laws and to notify the Russian tax authorities of any bank accounts opened outside of Russia, and to file reporting concerning their foreign bank accounts on an annual basis.

Frequently Asked Questions

— What is the tax year in Russia? — The tax year is a calendar year.

— How is tax residency established? — Tax status is determined solely based on 183+ days of physical presence in Russia in a tax year.

— Can spouses file a joint tax return? — There is no joint tax filing in Russia.

— How do I pay my tax? — Tax is calculated and paid in Russian roubles by a wire transfer or in cash (via banks and organisations that accept cash payments). The taxpayer must pay tax from his/her own funds. In certain cases, tax payments may also be made by a third party (an individual or a legal entity) on behalf of the taxpayer.

— Can I pay Russian tax from my overseas bank account? — Direct payment of Russian tax from a foreign bank may be possible, but there is a high risk that such a payment would not reach the Russian authorities.

— Are there any specific wealth, unemployment, inheritance and gift taxes in Russia? — No. General income taxation rules apply.
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