



# VAT Exemption in IT Sector: Changes as of 2021



# VAT Exemption for Software and Databases: Changes as of 2021



The VAT exemption will apply to the provision of rights to use software and databases (hereinafter – the “Software”) included in the Unified Register of Russian software and database (hereinafter – the “Register”).



The VAT exemption will apply to the rights to use these Software (including updates and additional functionality) through the remote online access



The VAT exemption will not apply if the “rights to use Software consist of the receipt of an opportunity to disseminate advertising information in the Internet and/or receive access to it, post offers on the acquisition (sale) of goods (work, services), property rights in the Internet, look for information on potential buyers (sellers) and/or conclude transactions” (hereinafter “Advertising Software”).

# VAT Exemption for Software and Databases : Consequences

## Software included in the Register

The provision of exclusive rights and rights to use Software (excepting “Advertising Software”) under a license agreement will be still VAT exempt.



Provision of rights to use the Software (excepting “Advertising Software”) including updates and additional functionality under mixed agreements should be VAT exempt.



Software as a services (“SaaS”) – it is still not clear if the VAT exemption should apply.



## Software not included in the Register and “Advertising Software”

The Software provided between Russian companies should be subject to 20% VAT to be recoverable by the Russian business customer (if the Software is acquired for VATable activity).



The Software provided by the Russian companies to foreign customers should not be subject to VAT (as the place of supply of the Software is not deemed to be Russia). At the same time, these Russian companies should be eligible to recover VAT incurred on the development of the Software and other expenses related to such Software.



The Software provided by foreign suppliers to Russian customers should be subject to VAT recoverable by the Russian business customers (if the Software is acquired for VATable activity).



Additional VAT costs will arise on the Software sold to certain companies (e.g., banks, insurance and healthcare companies), SMEs applying special tax regimes and individuals.



# VAT Exemption for Software and Databases: What to Do?

## What to Do?



to identify the Software included in the Register and assess whether it is possible to include in the Register the Software, which is not currently included there



to analyze the possibility to apply the VAT exemption to the “cloud” Software and services which are currently subject to VAT



to identify types of the Software which should be classified as “Advertising Software” and be subject to VAT



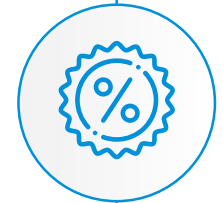
to agree with counterparties on the approach to the fee for the Software (whether the fee will be increased by the amount of VAT)



to assess whether it is necessary to introduce amendments to agreements for the provision of Software



to implement changes to accounting systems and the documents (in particular, to invoices issued by the foreign companies)



to ensure the changes in calculations for the input VAT allocation and separate accounting between VATable and non-VATable activities, and check that the documents required for VAT recovery or refund are in place.

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