

Russia

Individual Taxation

Introduction

Individuals are liable for taxes levied by the Russian Federation and its regions (republics, districts, territories, autonomous regions and autonomous districts) and municipalities. The most important tax levied at the federal level is the individual income tax. VAT is payable only by individuals registered as individual entrepreneurs. For VAT, *see* Corporate Taxation section 8.

The structure of the taxes levied by the regions and the municipalities is established by federal law, but the regions and the municipalities are authorized to set their own rates. The main taxes levied by them are the individual property tax, the land tax and the transport tax. Only individuals earning business income must make social security contributions.

The currency is the Russian rouble (RUB).

1. Individual Income Tax

1.1. Taxable persons

Residents are subject to income on their worldwide income, whereas the tax liability of non-residents is limited to certain types of income from Russian sources. An individual is deemed to be a resident of Russia for income tax purposes if he is physically present in Russia for at least 183 days during any 12-month period. Temporary stays abroad of less than 6 months for medical or educational purposes are regarded as being “physically present in Russia”.

Spouses are taxed separately on their income.

General and limited partnerships are taxable entities subject to corporate income tax. Simple and silent partnerships are transparent and their income is taxed in the hands of the partners.

Individual entrepreneurs are subject to personal income tax only if they did not opt for the application of a special taxation regime (*see* section 2.).

1.2. Taxable income

1.2.1. General

Russia applies the worldwide income principle in taxing its residents. The most significant feature of the tax system is that practically all types of the residents' income are subject to tax at low flat rates.

The law lists (non-exhaustively) the following categories of taxable income:

- (1) dividends and interest;
- (2) payments under an insurance contract;
- (3) royalties;
- (4) rent payments;
- (5) income from the alienation of property;
- (6) employment income and income from independent activities, including business income;
- (7) private pensions funded by employers, scholarships and other similar benefits;
- (8) income from transportation; and
- (9) income from the use of pipelines, power lines, data transfer and other similar services.

As a rule, income tax is withheld at source at the time of payment. However, in the case of business and professional income, the income tax is levied by assessment. This procedure also applies in other cases if the tax is exceptionally not withheld at source, e.g. in the case of income paid in kind, or if income is paid by a person not qualifying as a withholding agent (*see* section 1.9.), or in the case of foreign-source income.

At the end of the taxable period, a taxpayer whose income was not taxed by final withholding is obliged to declare his worldwide income for assessment. The same applies to taxpayers who claim deductions or allowances; in that situation any tax withheld is credited against the final tax liability and the taxpayer is eligible for a refund if the tax withheld exceeds his final tax liability on the aggregate income. Only a limited number of deductions and allowances are granted (*see* section 1.7.); these are available only in respect of the income taxable at the rate of 13% (*see* section 1.9.).

1.2.2. Exempt income

The most important exemptions include:

- certain types of interest (*see* section 1.5.);
- state pensions, certain social security benefits (such as unemployment, maternity allowances within certain limits, injury or professional illness allowances paid in accordance with legislation) and payments received under mandatory insurance and long-term insurance contracts;
- bonus shares due to the increase of capital out of retained earnings;
- certain capital gains (*see* section 1.6.);
- reimbursement of employees' business trips expenses within specified limits, provided these expenses are properly documented;
- interest income from rouble deposits in Russian banks in an amount not exceeding the refinancing rate of the Central Bank of Russia increased by 5%;

- interest income from foreign currency deposits in Russian banks received in excess of 9% per year; and
- compensation for the employees' educational expenses and mortgage interest payments.

For inheritances and gifts, *see* section 5.

1.3. Employment income

1.3.1. Salary

Salaries, wages and any other remuneration for employment under an employment contract are subject to income tax at the general rate of 13%. The tax is withheld by the employer.

Although employees may not deduct any expenses, reimbursements of expenses, e.g. for travel or work-related moving, are not taxable within certain limits. Per diem allowances are only subject to tax if they exceed the limits established by the federal government. Redundancy payments are exempt.

For taxation of non-residents, *see* section 6.

1.3.2. Benefits in kind

As a rule, benefits in kind are taxable as employment income. The general valuation rules of the law apply to the valuation of the benefits in kind. Accordingly, goods and services are valued at the market price of similar goods and services, increased by the appropriate amount of VAT and excise duties.

The following are the most important benefits listed in the law as taxable:

- expenses incurred by the employer for the benefit of his employees, in particular the cost for goods, works and services or of property rights with respect to housing, as well as the cost of meals and drinks (except for seasonal agricultural workers), recreation, continuing education in the interest or on behalf of the employee;
- payment of salary in-kind; and
- goods received or services rendered as gifts or free of charge.

Although the law does not explicitly mention the private use of a company car made available by the employer, the benefit is taxable on the basis of the general rule. No specific regulations are provided for the taxation of stock option plans. However, the granting of stock options may constitute a taxable event if the stock options are qualified as property rights and, consequently, as a benefit in kind.

Material benefits

In a broad sense, material benefits are also in-kind benefits, but the Tax Code makes a distinction between benefits in kind and material benefits.

The following are the most important material benefits listed in the law as taxable:

- the (negative) difference between the price of goods or services sold to the employees and the market price of those goods and services usually charged to

third parties, if the seller and the buyer are related parties;

- the interest advantage on loans granted by the employer or another company or entrepreneur (except for benefits from operations with credit cards and loans granted for purchase of housing premises) to the extent that the rate charged is lower than two thirds of the central bank refinancing rate and 9% per year for foreign currency loans; and
- the (negative) difference between the price of purchase of securities or financial instruments of future transactions and the market price of those securities and financial instruments.

Although the law does not explicitly mention the private use of a company car made available by the employer, the benefit is taxable on the basis of the general rule. No specific regulations are provided for the taxation of stock option plans. However, the granting of stock options may constitute a taxable event if the stock options are qualified as property rights and consequently as a benefit in kind.

1.3.3. Pension income

State pensions, payments on the basis of private pension plans and payments from private pension funds on the basis of contributions by an individual himself are exempt from tax. Payments under other voluntary pension schemes (e.g. those based on contributions by an employer or by another individual) are taxable. The income tax is generally withheld at the time the pension is paid to the recipient.

1.3.4. Directors' remuneration

There are no special rules on directors' remuneration derived by Russian residents; the ordinary rules on employment income apply.

1.4. Business and professional income

An individual taxpayer deriving income from business activities shall be registered as an individual entrepreneur (or have a status of private notary or advocate) and is generally taxed on the profit from these activities, which is the difference between earnings from such activities and expenses related thereto. In general, the rules of corporate income taxation apply when determining the deductible expenses. Instead, an individual entrepreneur may opt for a lump-sum deduction of 20% of the gross income received.

For income derived from a profession, the taxable base is the difference between gross receipts and expenses related to such activities. Instead of actual expenses, for certain professional income, a taxpayer may apply the following lump-sum deductions (expressed as percentages of gross income):

- 40% for income derived from the creation of classical music and music works of a similar character;
- 30% for income derived from the creation of cinematographic films (including videotapes), the activities of photographers, designers, architects, etc., as well as income from discoveries, inventions and cre-

- ations of industrial samples received within the first 2 years of use of the right;
- 25% for income derived from the creation of music other than that qualifying for the 40% deduction; and
 - 20% for income derived from the creation of literary and artistic works (e.g. theatre, cinema, stage and circus performances), performance of artistic activities, and the creation of scientific works and designs.

Business and professional income is taxed in an assessment procedure. Any tax withheld by the person paying the income is credited against the final tax liability.

With effect from 1 January 2013, qualifying individual entrepreneurs may elect to be taxed under a patent system of taxation (*see* section 2.1.), or a simplified tax regime (*see* Corporate Taxation section 3.1.).

1.5. Investment income

Dividends derived from resident companies are subject to a 9% final withholding tax. Foreign dividends are taxed by assessment at the same rate. No deductions or allowances are granted from dividend income.

Interest is generally taxed by way of withholding. If the tax is not withheld at source, it is levied by assessment. In both cases, the rate is 13%. Interest on mortgage bonds issued prior to 1 January 2007 is taxable at a 9% withholding tax rate.

No tax is levied on interest derived from state or municipal securities.

Interest on bank deposits is generally exempt. However, a 35% withholding tax is levied to the extent that the interest exceeds:

- the central bank refinancing rate plus five percentage points for domestic currency deposits; or
- 9% per year for foreign currency deposits.

For deductions and allowances from interest income, *see* section 1.7.

1.6. Capital gains

Capital gains derived within the framework of a business are included in business income.

Income from the alienation of private property is not taxable, provided that a minimum holding period of 3 years is fulfilled. If the holding period is not fulfilled, the income from the alienation of private property is subject to income tax at the general rate of 13%. However, an individual is entitled to get a property-related tax deduction in the amount of RUB 1 million for immovable property or RUB 250,000 for movable property. Property-related tax deductions are only available:

- upon filing a tax return at the end of the year; and
- to individuals who are Russian tax residents.

Each taxpayer can claim a property-related tax deduction on a “once in a lifetime” basis. If the property-related tax deduction cannot be used fully in a given tax period, the remaining amount may be transferred to following tax periods.

Instead of being taxed on the gross sales proceeds exceeding the amount of property-related deduction, the taxpayer may opt for taxation of the net capital gain, which is determined as the difference between the sales price and all expenses incurred in the course of acquisition and the maintenance of property, including the acquisition cost.

Income from the alienation of securities and derivative financial instruments based on securities is generally taxable. The taxable base is the net capital gain, which is determined separately for each register of securities and derivative financial instruments as follows:

- securities quoted on the financial market;
- securities not quoted on the financial market;
- derivatives quoted on the financial market;
- derivatives not quoted on the financial market.

However, from 1 January 2011, income from the alienation of shares in Russian companies, held for a period longer than 5 years, is exempt from the individual income tax.

For treatment of losses realized on operation with securities, *see* section 1.8.

1.7. Personal deductions, allowances and credits

1.7.1. Deductions

Apart from expenses incurred in the course of acquiring business and professional income (*see* section 1.4.), personal deductions are granted only in respect of income that is taxable at the rate of 13% (*see* section 1.9.). The law requires documentary proof of the expenses incurred. Personal deductions are granted at the end of the taxable period at the taxpayer’s request upon filing a tax return.

Expenses incurred in construction or acquiring dwellings are deductible within a framework of a housing allowance (property-related tax deduction), which is subject to a lifetime maximum of RUB 2 million (RUB 1 million for houses constructed or acquired before 1 January 2008). The allowance may be carried forward if not used in the taxable period. The housing allowance covers all payments, including the principal of mortgage loans. With effect from 1 January 2014, all interest payments related to the construction or purchase of a house or residential premises can be deducted up to a maximum of RUB 3 million.

The taxpayer may deduct his own educational expenses (social tax deduction) as well as payments related to the education of his children. In the case of children, a maximum of RUB 50,000 per child applies. For example, if an educational expense deduction for a child is RUB 15,000 for one parent, the deduction for the other parent on the same child cannot exceed RUB 35,000.

The taxpayer may deduct medical expenses (social tax deduction), including voluntary health insurance premiums, paid for himself and his spouse, children and parents. Expenses for certain expensive types of medical care, as determined by the government, may be deducted irrespective of the limit mentioned below.

The above-mentioned educational and medical expenses (with the exception of the expenses for child education and expenses for certain expensive types of medical care), and private pension contributions may not exceed in total RUB 120,000 per taxpayer.

The law provides for a deduction of charitable contributions for income tax purposes (social tax deduction), provided that they are paid to educational, cultural, scientific or medical institutions, as well as certain payments made to institutions providing sports education. The deduction may not, however, exceed 25% of the taxpayer's total income in a calendar year.

The taxpayer is also entitled to an investment tax deduction in respect of its income from the sale of tradable (listed) securities. The deduction may be claimed if the securities are acquired on or after 1 January 2014 and are held by the taxpayer for more than 3 years.

The amount of deduction may not, however, exceed the amount equal to RUB 3 million multiplied by and a special coefficient.

1.7.2. Allowances

Taxpayers whose cumulative income since the beginning of the year does not exceed RUB 280,000 are eligible for a child allowance (standard tax deduction) of RUB 1,400 for the first and second children and RUB 3,000 for each additional child. These allowances are granted only in respect of income taxable at the rate of 13% (*see* section 1.9.). The allowances must be deducted from the taxable base at the time the employer or other withholding agent pays the income. If the taxpayer has not applied for this exemption, it may be claimed at the time the taxpayer files the annual income tax return.

1.7.3. Credits

There are no tax credits.

1.8. Losses

Losses arising in respect of income which is taxable at the general rate of 13% may not be set off against income which is taxable at the other rates (*see* section 1.9.). Losses cannot be carried forward or backward.

Income realized in each register of securities has to be included in the taxable base without the possibility to be set off against losses in another register. However, loss incurred from commodity derivatives may be set off against income from stock derivatives and vice versa. From 1 January 2010, losses from quoted derivatives (derivatives concluded on a stock exchange) may be set off against income from quoted securities and vice versa. Previously, income from securities, stock and commodity derivatives had to be accounted for in different registers.

Losses from operations with quoted securities and derivatives may be carried forward starting on 1 January 2010 for a maximum period of 10 years.

1.9. Rates

Individual income tax is generally levied by withholding at source when the payment is made by withholding agents, i.e. resident legal entities, individual entrepreneurs and permanent establishments of non-resident legal entities. This does not apply to business income of individual entrepreneurs (who apply the self-assessment procedure).

The general rate of individual income tax for residents is 13%, which applies to employment income, business and professional income, interest, royalties, income from immovable property and capital gains. The tax is generally withheld at source. In the case of business and professional income, the tax is levied by assessment.

Individual entrepreneurs taxed under the patent system of taxation (*see* section 2.1.) and the simplified tax regime (*see* Corporate Taxation section 3.1.) are subject to different rates.

Dividends paid to resident individuals from domestic and foreign sources are subject to a 9% tax, which is withheld at source if paid by resident withholding agents, and otherwise levied by assessment. Interest on mortgage bonds issued prior to 1 January 2007 is taxable by way of a 9% withholding tax.

A 35% withholding tax applies to interest on bank deposits, if taxable (*see* section 1.5.), income calculated on the basis of the interest advantage (*see* section 1.3.2.) and lottery winnings exceeding RUB 4,000.

The withholding tax is generally final. However, any type of income subject to withholding tax at the 13% rate may be taxed by assessment at the end of the taxable period if so requested by the taxpayer in order to take advantage of the personal deductions and allowances (*see* section 1.7.).

For non-residents, *see* section 6.

1.10. Administration

1.10.1. Taxable period

The taxable period is the calendar year.

1.10.2. Tax returns and assessment

The individual income tax is in most cases withheld at source at the time of payment (*see* section 1.2.1.). Because the tax is final, the taxpayer is not obliged to file a tax return. In the following cases, however, the income tax liability is calculated by way of assessment:

- income from which no tax has been withheld either exceptionally or because the payer does not qualify as a withholding agent;
- income of individual entrepreneurs, private notaries and other persons engaged in a private practice;
- income from the sale of property, securities and derivative financial instruments based on securities; and
- foreign-source income.

The taxpayer may file an annual tax return if he claims deductions and allowances not taken into the consider-

ation in the computation of the tax base at source. Where actual expenses or other deductions are claimed, documentary proof must be provided. For deductions or allowances, *see* section 1.7.

The tax return is generally due on 30 April following the end of the taxable period. In the case of a termination of a business or professional activity, the taxpayer must file the tax return within 5 days of the termination.

Starting from 2 September 2010 tax returns can be filed electronically.

Tax assessments are made by the local tax authorities on the basis of the tax returns.

Failure to submit a tax return after the filing deadline may result in a fine of 5% of the tax due under the tax return for each full or partial month of delay (up to a maximum of 30% of the tax due, and with a minimum of RUB 1,000).

1.10.3. Payment of tax

Individual entrepreneurs, private notaries and other persons engaged in private practice must estimate their business income for the following year and calculate the expected tax liability for the current year, one half of which is due on 15 July of the current year. The rest must be paid in equal amounts on 15 October of the current year and on 15 January of the following year. Adjustment must be made in the case of substantial changes in the expectations. The final tax levied by assessment is due by 15 July following the end of the taxable period.

Where income is taxed at source (*see* section 1.9.), the withholding agent must pay the tax to the authorities. For employment income, the tax liability arises on the last day of each month. Other income is taxed on the day of actual payment or handing over of benefits in kind to the taxpayer. The whole amount of tax must be withheld by the agent, unless it exceeds 50% of cash actually paid to the taxpayer. This rule is applicable whenever income is paid, irrespective of whether payment is in cash or in kind. Although the tax must be paid by the withholding agent, the recipient of income may also be held liable for it.

In the case of a termination of a business or professional activity or a contractual obligation, the tax liability is due within 5 days of the date of filing of the final tax return.

In cases of non-payment or under payment of taxes, fines may be imposed of 20% or 40% of the non- or underpaid amount. Late-payment interest is also charged for each day of late payment of the tax and is calculated as the amount of underpayment multiplied by 1/300 of the current Central Bank refinancing rate (currently 1/300 * 8.25%) per day.

1.10.4. Rulings

Currently, there is no advance rulings system in Russia. However, the taxpayer is entitled to receive free information from the local tax authorities on taxes, legislation, and other provisions as well as written explanations from the tax authorities on the application of the tax legislation. Such information, which should be given within 2

months of the request, is not binding on the taxpayers or the tax authorities.

2. Other Taxes on Income

None of the various regional and municipal taxes are levied on income. An individual entrepreneur may, instead of the individual income tax, opt for a simplified system of taxation (*see* Corporate Taxation section 3.1.), a tax on deemed income (which will be abolished as of 1 January 2018) or, with effect from 1 January 2013, a patent system of taxation (*see* section 2.1.). These regimes apply to a limited number of small business activities.

2.1. Patent system of taxation

With effect from 1 January 2013, a “patent system of taxation” is available to individual entrepreneurs engaged in certain kinds of activities (e.g. hairdressing and cosmetic services, furniture repairing, renting out residential property and retail sale).

Entrepreneurs applying this system are exempt from individual income tax, individual property tax and VAT.

A patent may be obtained for a period of 1 to 12 months within a calendar year. To qualify for the system, the average number of employees should not exceed 15, and the amount of potential annual income of an individual entrepreneur must conform with the laws of the relevant region. The minimum threshold of the potential annual income may not be less than RUB 100,000 (approximately EUR 2,207), and the maximum threshold may not exceed RUB 1 million (approximately EUR 22,075). The regions may, however, increase the amount of potential annual income for certain types of activities.

If the amount of income from the beginning of the calendar year exceeds RUB 60 million, the taxpayer is no longer entitled to apply a patent system of taxation.

The tax due is calculated as 6% of the potential annual income from a certain activity, which, as mentioned above, is determined by the regions.

The tax period is the period for which a patent is granted.

Taxpayers subject to the patent system must keep their books based on the cash method.

3. Social Security Contributions

In the case of employees, only the employer pays social security contributions (*see* Corporate Taxation section 4.2.).

Self-employed individuals are subject to social security contributions on their net income at the same rates applicable to employees.

4. Taxes on Capital

4.1. Net wealth tax

There is no net wealth tax. There is, however, a tax on immovable property and certain transport vehicles; *see* section 4.2.1.

4.2. Real estate tax

4.2.1. Individual property tax

The individual property tax is levied on buildings, apartments, garages, constructions and certain transport vehicles (e.g. air planes, helicopters and motor boats) owned by resident or non-resident individuals. The individual property tax is a municipal tax, which is regulated at the federal level. Land, however, is not subject to this tax. Instead, it may be subject to the land tax (*see* section 4.2.2.).

The maximum rates are determined by federal law (currently from 0.1% to 2%, depending on the value of the building), but the actual rates vary from municipality to municipality.

The tax is payable in two equal instalments by 1 November of the following year. The tax authorities assess the amount of tax and notify the taxpayer at least 30 days before the tax is due. The tax authorities may levy the tax for 3 preceding years, if the amount of tax was not notified for those years.

4.2.2. Land tax

Land tax is a municipal tax payable by all individuals who own plots of land or possess them on the basis of certain in rem titles. The taxable base is the value of land as stated in the state land register as at 1 January of the relevant tax year. The tax rate depends on the purpose for which the land is used. The maximum rates are established at the federal level at 0.3% for agricultural land and land used for housing purposes and 1.5% for other types of land. Specific rates are set by the municipal authorities.

For real estate taxation of companies, *see* Corporate Taxation section 5.

5. Inheritance and Gift Taxes

There is no inheritance or gift tax in Russia. However, gifts of immovable property, vehicles and shares received from individuals other than close relatives (e.g. spouse, parent/child, grandparent/grandchild or sibling) are subject to income tax under the general provisions. Gifts received from individual entrepreneurs and legal entities are exempt up to RUB 4,000 per calendar year. The excess is taxed at the general rates of income tax (13% for residents and 30% for non-residents).

Inheritances are exempt from income tax.

6. International Aspects

6.1. Resident individuals

For the concept of residence, *see* section 1.1.

6.1.1. Foreign income and capital gains

Resident individuals are subject to tax on their worldwide income, including foreign-source business income, dividends, interest and royalties, and on their worldwide capital gains. Foreign-source income is treated in the same manner as domestic income; however, different rules apply with respect to the collection of taxes.

6.1.2. Foreign capital

No tax is levied on capital located abroad. For the individual property tax, *see* section 4.2.1.

6.1.3. Double taxation relief

There is no unilateral double taxation relief. Under Russia's tax treaties double taxation relief is generally granted by a credit for foreign tax. The credit is limited to the amount of the Russian tax payable on the same item of income.

6.2. Expatriates

No general provisions exist on the taxation of outward expatriates.

6.3. Non-resident individuals

For the concept of residence, *see* section 1.1.

6.3.1. Taxes on income and capital gains

Non-residents are subject to tax on their Russian-source income, including:

- dividends and interest paid by resident companies and other legal entities, individual entrepreneurs or permanent establishments of non-resident legal entities;
- payments under insurance contracts concluded with a Russian insurance company and capital gains from the disposal of debt claims if paid by resident companies and other legal entities as well as permanent establishments of non-resident legal entities;
- royalties if the underlying rights are used in Russia;
- rental income and income from the disposal of immovable property or movable property located in Russia;
- income from the disposal of shares and other securities, if the alienation takes place in Russia;
- employment income and income from independent services if the activities have been performed in Russia;
- directors' fees if the paying company or other legal entity is resident in Russia, regardless of the place where the functions are actually performed;

- pensions, scholarships and other similar benefits paid by resident companies or other legal entities or by permanent establishments of non-resident legal entities;
- income from transportation and related services supplied in Russia;
- income from the use of pipelines, power lines, data transfer and other similar services if the relevant facilities are located in Russia; and
- any income not previously mentioned if the relevant activity has taken place in Russia.

The rate of income tax on dividends paid to non-resident individuals is 15%. All other income derived by non-resident individuals is taxed at a 30% rate.

From 1 July 2010, income derived from activities of highly-skilled specialists (as defined by the law) is taxed at a 13% rate.

In general, the tax is withheld at source as a final tax; no deductions or allowances are available to non-residents. However, non-residents are taxed on the net basis in respect of the sale of securities and derivatives.

For withholding tax rates on dividends, interest and royalties under tax treaties, *see* Corporate Taxation section 6.3.5.

The most important exempt items of income are:

- interest on certain public bonds and interest on bank deposits within the limits indicated in section 1.5.; and
- state pensions and pensions based on the individual's contributions.

6.3.2. Taxes on capital

Property located in Russia and owned by non-residents is taxed in the same way as the property owned by resident individuals (*see* section 4.).

6.3.3. Inheritance and gift taxes

See section 5.

6.3.4. Administration

In general, the rules outlined in section 1.10. for residents apply also to non-residents.

At the request of a non-resident taxpayer, the withholding agent should issue a statement certifying the amount of income paid and the tax withheld.

Reduced withholding tax rates under tax treaties (*see* Corporate Taxation section 6.3.5.) may be applied if the non-resident individual has provided the tax authorities with a certificate of residence and a confirmation of the foreign tax authorities that the tax on the Russian-source income was paid in the country of residence. Otherwise, the excess income tax is refunded upon request filed within 1 year after the end of the taxable period.

When a non-resident employee becomes a tax resident during a calendar year (i.e. spends more than 183 days in Russia during any consecutive 12 months), the employee has a right to recalculate his income tax at the rate of 13% instead of the 30% rate (*see* section 6.3.1.).

From 2011, a foreign employee whose status changes during the tax period to that of resident may apply for a tax refund. The refund applications should be submitted to the tax authorities with which the employee is registered. Such application should be filed together with a tax return for the relevant tax period and the documents confirming the employee's status as a tax resident.

