

Global Rewards Update: Russian tax authorities paying more attention to income received from equity incentive plans

September 2013

Background

The Russian tax authorities have begun to focus their attention on the tax returns of Russian citizens, who receive income through participating in equity plans. Over the last year we have witnessed an increase in the number of tax audits initiated by the tax authorities with respect to income from incentive plans.

Key points

Many local employees of Russian and multinational companies participate in equity incentive plans. When awards start vesting or are exercised, the participants receive income which should be reported on their tax returns. However, as our experience shows, many participants do not have a clear understanding of their tax compliance responsibilities or how to respond to the tax authorities' requests when they start auditing the tax returns. The rules for taxation of income received from equity plans are not directly stipulated in the Russian Tax Code.

The Russian tax authorities are becoming better-informed on how such equity plans operate and they have actively started to formulate technical positions on the issue. Therefore, more tax audits are being initiated with respect to tax returns with equity plan income. If an individual does not file a tax return reporting income received, the tax authorities may charge fines for failure to submit the tax return and interest on unpaid tax. Criminal liability may also apply.

Russian currency control legislation also needs to be taken into account when receiving income from an equity plan. Income received by Russian citizens in connection with equity plans i.e. dividends or proceeds of sale, should be paid only into the Russian bank accounts of the employees. Failure to comply with currency control requirements may lead to fines which can be 75-100% of the transaction value.

Action

In Russia equity plans should be carefully structured and adapted, taking into account the requirements of Russian legislation. We also recommend providing employees with additional information on the tax and legal aspects of reporting income that they receive from the plan, enabling them to do so correctly and punctually, both in Russia and, if necessary, elsewhere.

People to contact

For assistance with this matter, or any other issue related to the operation of your global rewards plans, please contact your local Deloitte global rewards consulting services adviser or email us at

globalequity@deloitte.com, and a global rewards consultant will contact you.

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