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ProsperoScope

Prospects, comments, solutions

Introduction

In this issue of ProsperoScope we would like to draw your attention to some recent information regarding the latest changes in the Russian tax legislation.

On 25 November 2014 **Federal Law No. 366-FZ as of 24 November 2014 "Concerning amendments to part two of the Tax Code of the Russian Federation and certain legislative acts of the Russian Federation"** was published in regard of increasing the tax rate on dividend income received by the individual – Russian tax resident from 9% to 13%.

On 30 November 2014 **Federal Law No. 382-FZ as of 29 November 2014 "Concerning amendments to parts one and two of the Tax Code of the Russian Federation"** (hereinafter, the “Law”) was published which, among other provisions, introduced new personal income tax (hereinafter, “PIT”)

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regulations in regard of income from fixed asset sales, as well as the social tax deduction under voluntary personal life insurance contracts.

If you need our assistance in this matter, please let us know.

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Law on raising the tax rate on dividends for individuals from 9% to 13%

Please note that on 25 November 2014 Federal Law No. 366-FZ as of 24 November 2014 "Concerning amendments to part two of the Tax Code of the Russian Federation and certain legislative acts of the Russian Federation" was published in regard of increasing the tax rate on dividend income received by the individual – Russian tax resident from 9% to 13%. As it was noted in our previous ProsperoScope issue as of **27 October 2014**, these amendments will be effective starting from 1 January 2015.

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New rules for applying PIT to income from the sale of real estate property

In accordance with the Law, from 1 January 2016 the minimum ownership period for a real estate property - upon expiration of which the income of an individual, who is a tax resident of the Russian Federation, received from the sale of this property will be exempted from PIT in full – will be increased from 3 up to 5 years. The new rules will not apply to property obtained by a taxpayer by way of gift, inheritance, or privatization, or under an agreement for lifelong annuity. With respect to these properties, the minimum ownership period remains 3 years.

In accordance with the Law, restrictions have also been introduced on the application of tax deductions for the sale of property considered to be non-residential and owned by a taxpayer less than the minimum ownership period. The amount of tax deduction for such properties will be reduced from RUB 1 million to RUB 250 000.

Changes introduced by the Law will also affect the procedure for determining the PIT base on property sold for an amount less than the cadastral value of the property multiplied by a decelerated ratio of 0.7. Therefore, for the purpose of calculating taxable income from the sale of real estate property the following principle will be applied:

PIT base **≥** *Cadastral value of the property* **x** *0.7*

The new Law also stipulates that regions of the Russian Federation may reduce the minimum ownership period and the decelerated ratio down to zero.

The above rules are effective from 1 January 2016 and applicable with respect to properties for which ownership is acquired after 1 January 2016.

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New rules for obtaining social tax deductions under voluntary life insurance agreements

From 1 January 2015, the Law introduces provisions which give the opportunity to obtain a social tax deduction in the amount of the insurance contributions paid by an individual, who is a tax resident of the Russian Federation, under a voluntary life insurance agreement. This social tax deduction can be obtained either on the basis of a tax return or through the employer. However, the maximum amount of social tax deduction (with respect to all types of actual expenses except for expenses incurred on children), that can be deducted from an individual's tax base within one tax period (calendar year), cannot exceed RUB 120 000.

An obligatory condition for obtaining the above social tax deduction is that the voluntary life insurance agreement is made for a period no less than 5 years. If the voluntary life insurance agreement is terminated, the insurance company shall withhold the amount of PIT on the value of insurance contributions paid by an individual under this agreement for each calendar year in which the taxpayer had the right to obtain a social tax deduction. Responsibility to withhold PIT will not arise if the individual provides the insurance company with a tax certificate confirming that they did not receive the social tax deduction.

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We hope you find this information useful and interesting. If you have any questions, please feel free to ask.

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