



Cadastral Value Corporate Property Tax in 2016

1. The list of regions where corporate property tax is calculated on the basis of cadastral value has been expanded as of 1 January 2016

Since Art. 378.2 of the Tax Code of the Russian Federation was adopted at the end of 2013, Russian regions have been actively switching to calculating corporate property tax on the basis of cadastral value. As of 1 January 2016, this approach to taxation has already been enacted in 64 regions of Russia.

Nevertheless, the regional authorities' approach to the changes differs from region to region. This is due in part to the complexity of identifying property taxed based on its cadastral value and the necessity of carrying out regular cadastral appraisal of such properties.

In terms of administration, the simplest types of property to bring in line with the new property tax calculation procedure are properties belonging to foreign entities and not associated with their operations in Russia through permanent establishments, and residential buildings and residential premises not carried on taxpayers' balance sheets as fixed assets (this category includes apartments belonging to developers and accounted for as inventory).

In view of the complexity of identifying premises designed to be, or actually used to, accommodate offices, retail facilities, public catering facilities and personal service facilities, some regions have restricted the application of the new taxation rules to trade centers and administrative and business centers only, often introducing additional restrictions as to the size of the premises eligible for the new rules. Nevertheless, 2016 has seen a growing number of regions using the new property tax calculation procedures to the greatest possible extent. Many regions, to simplify the administrative procedures, have set a minimum size for properties eligible for the new tax calculations.

The graphic below notes the number of regions where property tax will be calculated on the basis of cadastral value in 2016, showing the types of immovable assets recognized as taxable objects:



* The tax base for such properties is determined as cadastral value only if they are included in the list that is to be approved by every region for every tax period. As of 2016, such lists have been approved in 39 regions. There are lists that are not yet available in the public domain in six regions, but we do not rule out the possibility that these lists might become public before the date of calculation of tax liabilities. With regard to properties not included in the list, for 2016, the tax base is determined as the average annual value of the property.

15 regions also offer corporate property tax relief where the tax base is determined as the cadastral value of the property. The most general type of relief is reducing the tax base for one immovable property by the amount of cadastral value of a part of the area (from 20 to 300 square meters depending on the region or the taxable object) at the initiative of the taxpayer. However, some regions have established additional eligibility conditions for such relief. For example, some regions have introduced conditions regarding the number of employees and their average salary, activity type and taxation system adopted by the company. Some regions provide relief in the form of a decreasing coefficient applied to companies carrying out certain activities or adopting special taxation regimes.

According to our information, so far, for the vast majority of taxpayers, applying the new rules leads to an increased tax burden.

In **2015** in Moscow, which applies the new taxation regime, the amount of tax owed declined or stayed the same for 164 objects assessed at their cadastral value for property tax purposes; the amount of tax owed doubled for 339 objects; increased between 2-6 times for 1,282 objects; between 6-10 times for 711 objects; and rose between 10-99 times for 646 objects.

At the same time, there are cases where objects have been improperly included in the list of properties for which the tax base is calculated on the basis of the cadastral value. In the past two years, since the introduction of the new procedure for calculating property tax, the Supreme Court has already examined 70 disputes on this matter, which indicates the presence of significant gaps in the legislation, as well as the absence of an effective procedure for interaction between the Cadastre and cartography authorities and the Tax authorities.

The situation is complicated by the fact that contesting the results of cadastral valuation is a long and time-consuming process, tying up administrative resources of taxpayers at the expense of operational tasks. The business community is waiting for consideration of **a draft law** that may abolish the obligatory pre-trial stage contesting the results of the cadastral valuation, which would help reduce the time required for contesting.

If your company owns real estate in several regions, we recommend to carry out constant monitoring of the changes come into force in the regional legislation on property tax. We regularly update the database of the regional legislation on the calculation of the property tax on the basis of the cadastral value and can help you to adapt a new approach to the taxation of real estate. If you are interested in this issue, please consult **Natalia Vagina**.

2. Change in reporting periods for corporate property tax in cases where the tax base is determined as the cadastral value of the property

On 28 November 2015, **Federal law №327-FZ** was adopted, which changed reporting periods for property tax with respect to taxpayers calculating tax on the basis of cadastral value. As of 1 January 2016, reporting periods are the first, second, and third quarters of the calendar year. The new approach simplifies the calculation of advance payments on property tax with respect to the properties in cases where the taxation ceases (starts) during a tax (reporting) period. The changes, as exemplified by the cessation of corporate rights to an immovable property in March, are presented in the table below.

	Before 1 January 2016		After 1 January 2016	
	Period	Coefficient	Period	Coefficient
Reporting periods	the first quarter	3/3	the first quarter	3/3
	half-year period	3/6	the second quarter	0
	nine months	3/9	the third quarter	0
Tax period	year	3/12	year	3/12

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