

# Foreign nationals coming to Russia Personal Tax FAQ





# Welcome to Russia!



Deloitte would like to help make your transition to Russia easier by presenting this brief FAQ on Russian personal tax compliance procedures.

As the Russian tax system is currently undergoing a number of changes, we recommend that you use this brochure for general guidance only. Please contact us to discuss your specific situation or any particular questions you may have.



# Frequently Asked Questions About Personal Tax in Russia



## Arrival, Registration and Work Permit

**Question:** Do I have to notify the tax authorities of my arrival/departure?

**Answer:** No. However, a departure tax return must be filed at least one month prior to departure from the Russian Federation (RF).

**Question:** Do I need to notify the Russian migration authorities upon arrival?

**Answer:** Yes. A notification of arrival must be submitted to the local migration authorities within seven days after each arrival in the RF, provided that you will stay for more than seven days. For highly qualified specialists this period is extended to 90 days after arrival.

**Question:** Do I need to have a work permit to work in Russia? If yes, what is the process and timeframe involved in applying and receiving a work permit?

**Answer:** Yes. Unless you are a citizen of a country that belongs to the Eurasian Economic Union (Armenia, Belarus, Kazakhstan and Kyrgyzstan), you are required to obtain a work permit. Traditionally, the employer obtains the work permit for the employee, and the procedure consists of the following stages:

1. Obtaining confirmation from the local Employment Center on the need to employ a foreign citizen in a certain position;
2. Obtaining permission to employ a foreign national from the Federal Migration Service;
3. Obtaining an individual work permit for each individual foreign national employee from the Federal Migration Service.

The employer should also notify the Russian tax authorities of the employment of a foreign national within 10 days of the date of applying for the invitation for the foreign employee to enter Russia, the arrival of the foreign employee in Russia, receipt of the work permit for the foreign employee, or the signing of an employment agreement with the foreign employee.

The whole process of obtaining a work permit is estimated to take about 2-3 months. However, it is not uncommon for there to be some delays, as the authorities introduce changes to the requirements on a regular basis and such changes often take place without any notice.

## Special cases that offer simplified procedures for obtaining a work permit for a foreign employee:

For citizens of countries that do not require a visa to travel to Russia, the procedure for getting a work permit is simplified:

1. Citizens of these countries apply individually for their work permits upon arrival in the Russian Federation, but before being employed.
2. The employer does not need to obtain permission to employ citizens of these countries; however, employers should only employ individuals who have already obtained their work permits as stated in point 1 and should notify the migration authorities of hiring them.

There are special rules for obtaining work visas and work permits for foreign nationals with a certain level of experience, expertise and remuneration, called highly qualified specialists (HQS).

Please note that each employer can only apply for the number of work permits in its particular quota of foreign employees it is allowed to employ in a given year.





A “highly qualified specialist” is defined as a “foreign citizen with experience, skills or achievements in a particular area who, under his employment arrangements, would receive a salary (remuneration) of no less than RUB 167,000 per month (RUB 83,500 for an HQS engaged in scientific or educational work or for an HQS working in the Republic of Crimea or the federal city of Sevastopol; RUB 58,500 for HQS employed by residents of innovation special economic zones).

The migration process for HQS coming to Russia involves obtaining a HQS work permit from the Federal Migration Service (FMS). The estimated timeframe for obtaining a work permit is 14 business days from the date of submitting the application.

It is possible to apply for a work permit that will be valid in several regions of Russia (two or more) through the FMS in Moscow.

In accordance with the procedure, the employer applies for a HQS work permit for an eligible foreigner; however, once issued, the HQS work permit must be picked up in person by the foreign national for whom it is obtained.

**Question:** If I do not need a visa to stay in Russia, do I need to obtain any work permit or other documents permitting me to work in Russia?

**Answer:** Yes. Citizens of countries that do not require a visa to travel to Russia are required to obtain a special document, either a patent or work permit, before being employed.

**Question:** Do I need a local contract?

**Answer:** Yes, in order to obtain a work permit, you must provide the state authorities with a draft employment agreement concluded with a Russian legal entity or a foreign company with a local representative office/ branch, prepared in compliance with the requirements of the relevant Russian labor legislation and signed and stamped on behalf of the employer. Once a work permit has been obtained, the employment agreement should be signed by both parties. HQS applications must be accompanied by a final employment agreement, signed by both the employer (a Russian legal entity or registered branch of a foreign company or representative office of a foreign company accredited in Russia) and the employee.

## Tax Residence Status and Tax Rates

**Question:** What are the tax residency rules in Russia?

**Answer:** You are considered a Russian tax resident if you are physically present in Russia for 183 calendar days or more during any 12-month rolling period. This rule is mainly applied when determining the tax withholding rate, as the tax authorities consider that the final tax liability should still depend on physical presence during a tax year (equal to a calendar year).

The presence of an individual in Russia is not interrupted by a period of his/her short-term (less than six months) departure from Russia for medical treatment or study, as well as for employment or other activities related to the execution of work/services on sea deposits of hydrocarbon raw materials. Documents supporting periods of departure for short-term education or medical treatment abroad have to be in place to confirm such trips.

Citizens of member states in the Eurasian Economic Union (Armenia, Belarus, Kazakhstan and Kyrgyzstan) pay personal income tax on Russian-sourced income at 13% regardless of their actual tax residency status in Russia. This policy came into effect for citizens of Armenia, Belarus and Kazakhstan on 1 January 2015 and for citizens of Kyrgyzstan on 12 August 2015.

The concept of domicile for tax purposes does not exist in Russian legislation.

**Question:** What tax rates will apply to my income?

**Answer:** Residents are generally taxed at 13% on their worldwide income paid in cash and in kind.

A 35% tax rate applies to:

- Interest on bank deposits that exceeds the established limits;
- Deemed income resulting from a beneficial loan (with the exception of deemed income from loans used to buy real estate or from credit cards during the established grace period).

**Question:** Do I pay tax in Russia if I qualify as a non-resident for tax purposes?

**Answer:** Yes. If you have been physically present in Russia for a period of less than 183 days during any 12-month rolling period you will qualify as a non-resident for tax purposes and will be taxed at 30% on all your Russian-sourced income. Russian-sourced income is defined as income related to duties performed/services rendered in Russia, income from property located in Russia, etc, irrespective of where such income is paid.

Employment income derived from activities performed in Russia on the basis of a HQS work permit is generally taxable at 13%, even during periods of non-residency for tax purposes.

However, application of the 13% rate to income paid to HQS employees who are not tax residents is not clearly prescribed in Russian tax legislation. In practice, the tax authorities may challenge the application of the beneficial tax rate to any income other than salary and bonus if the HQS employee is considered a tax non-resident. Any income received after termination of a Russian employment contract and other income received in relation to a Russian assignment (e.g. income received from the home country employer, benefits received through third-party providers, etc.) will be taxed at the rate of 30% (in case of tax non-residency status).

## Filing Requirements

**Question:** Do I need to file a tax return in Russia?

**Answer:** Generally, yes. If you have income taxable in Russia, you should file a tax return unless all taxes were withheld at the correct rate at the source of payment and paid to the Russian tax authorities. It is not unusual for this to be the case if you are employed by a local entity where all withholding is performed at the source.

**Question:** What is the tax year in Russia?

**Answer:** The tax year is a calendar year.

**Question:** When do I have to file a tax return?

**Answer:** Your annual tax return should be filed with the Russian tax authorities at your place of tax registration no later than 30 April following the tax year. No extensions are granted. If you leave during the tax year, you are required to file a departure tax return no later than one month before your departure date.

**Question:** Are there preliminary tax filings in Russia?

**Answer:** No, unless you are an individual entrepreneur duly registered in Russia.

**Question:** Can joint returns be filed (taxpayer and spouse)?

**Answer:** No.

**Question:** In what currency should I report my taxable income?

**Answer:** All amounts of income received should be reported in two ways:

- In the currency in which it was received;
- In rubles at the exchange rate of the Central Bank of Russia on the date it was received.

**Question:** Are there penalties for filing late tax returns?

**Answer:** Yes. Late returns may be assessed a late filing penalty by the tax authorities. The fine for late filing of a tax return is 5% of the tax liability not paid by the deadline established for tax payment charged for each full or partial month of delay in submitting the tax return, with a cap of 30 % of the tax due and a minimum fine of 1,000 RUB.

## Tax Payments

**Question:** How is tax paid in Russia?

**Answer:** Personal income tax can be paid either via withholding at the source (when the paying entity has that obligation) or personally by you if you have the obligation to file a tax return (where withholding is not done at the source).

**Question:** I have to pay my taxes personally. How should I do this?

**Answer:** The tax due should be paid to the tax authorities in cash or by a wire transfer from your personal bank account with a Russian bank no later than 15 July of the year following the tax year. Tax due based on a departure tax return should be paid within 15 days from the date when the departure tax return was filed.

**Question:** In what currency do I pay tax?

**Answer:** Russian personal income tax should be paid in rubles (Russian tax authorities do not accept tax payments in currencies other than rubles). In order to facilitate the payment, we advise that you open a personal bank account with a Russian bank (or a Russian subsidiary of a foreign bank).

**Question:** Can my employer make a tax payment on my behalf to the tax authorities?

**Answer:** Under no circumstances should the payment of your personal tax liability be made from a corporate bank account. If your tax is paid from a corporate bank account, the payment may be considered as a violation of the Tax Code and you may be required to submit documents proving that the legal entity was merely acting as a paying agent on your behalf.

**Question:** Are there penalties for late payment of tax?

**Answer:** Yes, late payment interest is charged for each day of delay at the interest rate calculated as 1/300 of the Central Bank refinancing rate (11% as of 1 January 2016).



## Taxable Income

**Question:** Which parts of my remuneration are taxable?

**Answer:** Items subject to tax include the following:

### Employment-related items

- Salary
- Bonuses
- Living allowance
- Overseas premium
- Hardship allowances
- Car provided for private use
- Housing allowances
- Rest & Recreation
- Home leave payments
- Tax paid or reimbursed by employer
- Stock option income
- Employer contributions to pension plans

### Income from investments

- Dividends
- Capital gains

### Miscellaneous

- Winnings from Russian lotteries
- Gambling income
- Certain insurance payouts
- Certain gifts received from individuals

**Question:** What income is non-taxable?

**Answer:** There are limited types of income that are tax exempt in Russia:

- Certain business-related expenses
- Certain Russian state allowances
- Certain pension and insurance payouts

**Question:** What if I do not report my personal income?

**Answer:** Currently financial information is exchanged between countries on the basis of requests with regard to particular individuals and implies disclosure by banks of personal details (name, address/name and address of beneficial owner/s, the account number, information about income accumulated on the bank account, etc.) upon a formal request from the tax authorities of various countries. Existing international agreements do not allow the tax authorities to exchange tax information automatically. However, in light of international trends towards developing an international system of financial information exchange, global standards for automatic information exchange are expected to be introduced in the nearest future.

Taking this into account, please note that if you have any assets held with your foreign and/or Russian bank accounts or income generated from these assets (investment income, including interest, dividends and other similar types of income, etc.) information on such income potentially can be shared with the tax authorities of various jurisdictions and may be subject to an audit initiated by the tax authorities.

## Tax Deductions

**Question:** What deductions can decrease my taxable income?

**Answer:** There are a limited number of deductions that only Russian tax residents can claim in order to reduce taxable income:

### Social deductions

- Charitable donations to eligible entities and organizations up to 25% of your income that is taxed at 13%
- Certain educational expenses for you and your children (up to RUB 50,000 per annum per child).
- Certain medical expenses and medical insurance coverage for you and your family members
- Payments made towards a voluntary life insurance policy
- Deductions for education (except for the education of your children), and medical expenses and pension contributions may be taken in the amount of actual expenses but are limited to RUB 120,000 for all deductions. Starting from 1 January 2016, taxpayers can apply for social tax deductions (expenses incurred on education and medical treatment) through their employer (tax agent)

Please note that the time and supporting documentation required to claim some of the above deductions generally outweigh any potential tax savings.



Please note that starting from 1 January, 2016 the minimum period of ownership of immovable property is five years.

### Property deductions

- Income from the sale of residential property, apartments, rooms, dachas (country houses), garden cottages or allotments, and shares in such property is tax exempt if the property has been owned for three years or more. If it has been owned for less than three years, only amounts of up to RUB 1 million are exempt in the year of sale. Alternatively, the taxpayer has the option to tax the difference between the sale price and the documented expenses upon the acquisition and sale of the property
- Other property owned at least for three years is generally exempt from tax. If owned for a shorter period, amounts up to RUB 250,000 are exempt in the year of sale. Alternatively, the taxpayer has the option of calculating the income or loss by deducting the documented expenses upon the acquisition and sale of the property
- Capital costs of residential property located in Russia are eligible for a one-off deduction for costs up to RUB 2 million. The same deduction is allowable for properly documented investments in residential property. Interest on a loan to construct or acquire such property is also deductible. If the mortgage contract was concluded before 2014, there is no limit for the interest deduction, if later - only up to RUB 3 million is tax deductible.
- There are special rules for the taxation of transactions with securities. Generally, income on the sale of securities is calculated by deducting the documented expenses, including those incurred on the acquisition and sale of securities

The deductions may be claimed either through a Russian payroll (if locally employed) or by filing an annual tax return, depending on the type of the deduction and the particular situation.

### Social Security Contributions

**Question:** Do I pay social security contributions in Russia while I am on an assignment?

**Answer:** No.

**Question:** Does my employer pay social security contributions in Russia on my behalf?

**Answer:** If you are working on the basis of an employment contract, your employer is liable for obligatory pension contributions with respect to your remuneration. In 2016, the rate for such contributions is 22% of your earnings up to an annual cap of RUB 796,000, and 10% of earnings exceeding the cap.

If you are working in Russia on the basis of a HQS work permit and you do not have a Russian residence permit, the above provisions are not applicable to you. Accident insurance contributions are also payable by your employer with respect to your remuneration.

Social security contributions (except pension contributions) for citizens of Eurasian Economic Union member states working in other member states are made under the same conditions and in the same manner as for local citizens. The employment (insurance) experience of employees who are citizens of member states is included in the total length of service for the purposes of social security contributions in accordance with the laws of the state of employment.

**Question:** Will I be eligible to receive any social security benefits or payments in Russia, during my time working there or afterwards?

**Answer:** No, not unless you acquire a Russian residence permit or become a Russian citizen.



## Double Tax Treaties

**Question:** Is it possible for an expatriate to be exempt from Russian income taxes?

**Answer:** You should first determine if your home country has a Double Tax Treaty with Russia or the USSR. In certain cases, income may be exempt from taxation in Russia under such tax treaties (for tax non-residents in Russia) or the amount of tax paid in your home country can be credited against Russian tax liability (for tax residents in Russia).

**Question:** How can I claim a Double Tax Treaty exemption?

**Answer:** In order to claim an exemption, you may need to file an application for exemption. You should also be prepared to provide the Russian tax authorities with official confirmation from the tax authorities of your country of residence that you were a tax resident there. Additionally, the Russian tax authorities may request confirmation of the taxes paid in your home country. Both documents must be issued/certified by the tax authorities of the country of tax residence. They should be translated into Russian, and an Apostille may be required.

**Question:** How can I claim a foreign tax credit in Russia?

**Answer:** In order to offset the income tax that you have paid elsewhere against Russian tax liability on income taxable in two jurisdictions, you need to file a tax return disclosing the amount of foreign income tax paid and provide supporting documentation to the Russian tax authorities. The documentation should include confirmation of the income tax payment in your home country certified by the tax authorities of said country, and it should be translated into Russian. An Apostille may be also required. Starting from 1 January 2016, in order to support such a claim, you may provide either a copy of the submitted foreign tax return and a copy of the payment confirmation document with notarized translations into Russian, or a document issued by the source of income confirming that tax was withheld at source with a notarized translation into Russian. Such confirmation documents must be submitted together with your Russian tax return. All documents should be translated into Russian and an Apostille may be required. A foreign tax credit claim on tax paid in a foreign country during the reporting period can be included in a Russian annual tax return within 3 years from the reporting period.

**Question:** How can I claim DTT benefits in my home country?

**Answer:** In order to claim DTT benefits in your home country, you may need to obtain a tax residency and/or tax payment certificate from the Russian tax authorities. Russian tax residency confirmation may be issued by the Russian tax authorities on the basis of a written application supported by documents, including copies of passport pages to confirm physical presence and registration in Russia, and copies of contracts. Russian tax payment confirmation may be issued by the tax authorities upon the submission of an application supported by tax payment confirmations. The tax authorities are required to process such applications within one month.

# Contacts

**We will be happy to provide you with advice on personal taxation in Russia, discuss your Russian tax status and find the best way to deal with your particular tax situation. If you have any questions, please do not hesitate to contact us.**

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