

LT in Focus

Federal Law on Tax Free in Russia signed

On 27 November 2017, the President of the Russian Federation signed a [federal law](#) (the "Law") that sets forth the key principles of the tax-free system in Russia. According to the Law, citizens of foreign non-EAEU states will be entitled to a refund of VAT paid on the purchases made in Russian retail stores, provided the purchased goods are then moved outside the EAEU customs territory.

The new regime is primarily aimed at boosting the retail sales and fostering tourism. Tax-free was discussed for quite a while in Russia, but never made it into the legislation until recently. Now the implementation is expected in 2018.

Read on for an overview of the key provisions of the Law and opinions of Deloitte's specialists, who were actively involved in the development of the Russian tax-free system, on its systemic impact on the Russian retail industry and the economy in general.

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Who can claim VAT refund

To claim a refund of the VAT paid on a purchase at a retail store, an individual must produce a passport of a foreign non-EAEU state, used to enter Russia. VAT refund is granted, provided the VATed goods are transported across the EAEU customs territory (except the transit across the EAEU) via the Russian border checkpoints.

Similar to the global experience, tax will be refunded against the original receipt, stamped by a Russian customs authority.

A VAT refund can be claimed within a year of the date of purchase, provided the purchased goods had crossed the Russian border within three months of such purchase.

The tax-free option does not apply to excised goods. The Russian Government may set a list of other ~~any~~ articles not covered by the tax-free system.

How much is VAT refund

According to the Law, the VAT refundable to an individual will be calculated as follows:

VAT paid on purchased goods

less

Cost of VAT refund services

BUT:

To be eligible for a refund, an individual must make a purchase of **at least RUB 10,000** (inclusive of tax) from one retailer within **one calendar day**, confirmed by one or several cash receipts.

Participating stores

The list of retailers offering tax-free will be determined by the Russian Government.

The form of request for participation in the tax-free system, as well as the admission criteria will be approved by the Russian Ministry of Industry and Trade.

To qualify as a participating store, a retailer will have to comply with the following criteria:

- Have a sales outlet at one of the locations approved by the Russian Government
- **Meet the selection criteria** established by the Russian Government.

The Russian Government has already drafted [a respective resolution](#).

According to the document, to participate in the tax-free system, a retailer will have to meet all of the following criteria:

- Be a VAT payer
- Have a point of sale at a location from the approved list
- Be established at least two years prior to the calendar year, in which it applies for participation in the tax-free system;
- Have no outstanding taxes, levies, social contributions or tax offence penalties as at the first day of the month, in which it applies for participation in the tax-

free system (a certificate of good standing needs to be issued by a tax authority)

The document also sets forth a list of approved locations in Moscow, Moscow Region, St. Petersburg, Krasnodar Territory, Novgorod Region, Kaliningrad Region, and Primorskiy Territory.



Andrey Silantiev
Partner
Indirect Tax

"Tax-free is currently offered by about 60 countries with indirect taxation (VAT or sales tax). It works out well for them, as the foregone tax revenues are largely compensated by the development of related industries: new jobs, higher production volumes, and better sales of domestically produced good.

Russian retailers expect a lot of tax-free, including a revenue growth of up to ten percent."

Upcoming changes in VAT treatment of retailers

Retailers will become entitled to deduct VAT, previously assessed on the sales of goods to foreign individuals and further reclaimed by the latter when crossing the EAEU border.

The deduction will be granted within a year of such VAT refund to an individual based on a customs-stamped invoice and only for the goods validated by the Russian customs authorities as having crossed the border.

The Law sets forth that the errors in the invoices

presented for tax-free purposes invoices that do not prevent the tax authorities from identifying:

- The tax-paying retailer
- The foreign state that issued passport to the individual claiming a VAT refund
- The goods sold
- The amount of tax assessed by the retailer on the purchase will not trigger a denial of VAT deduction.

Benefits of tax-free in Russia

The implementation of tax-free is expected to improve the country's touristic appeal and shape its perception as a destination committed to the world's best trade and customs practices.

Coupled with the current rouble rate, the new development is to foster the sales of Russian goods to foreign tourists, which in the long-term perspective may contribute to the promotion of Russian products and brands abroad.

In the long run, the tax-free mechanism is expected to become a strong budget contributor. The absence of VAT revenues is in the mid-term perspective well compensated by:

- The taxation of retailers' income, which is to grow with higher sales to foreigners
- Higher customs revenues from imports of foreign goods by Russian retailers
- New jobs in retail sector
- A stronger employment growth and development of related industries (tourism and hospitality, souvenir sales, etc.)

We will keep you informed on how the tax-free mechanism is implemented and developed in Russia.

We hope that you will find the information in this edition interesting and useful. Please feel welcome to contact us for more information on the topics covered.

Best regards,

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