



Legislative Tracking In Focus

Taxation of the deemed income of individuals from low interest loans will change as of 1 January 2018

On 27 November 2017, the President of the Russian Federation signed a federal law (the "Law"), changing the approach to the taxation of deemed income received by individuals. One of the changes concerns the benefits from the use of loans according to Article 212 of the Russian Tax Code.

In accordance with the effective tax legislation, a loan received by an individual at an interest of under 9 percent p.a. for foreign currency loans or 2/3 of the CBR's key rate for rouble loans creates taxable income for such individual. This taxable income is calculated as the difference between the above-mentioned limits and the actual interest rate on the loan.

As an example, if an individual receives a loan of USD 1,000 at 2 percent p.a., his taxable deemed income is $1,000 \times (9 \text{ percent} - 2 \text{ percent}) = \text{USD } 70$.

Deemed income from a low-interest loan is taxed in Russia at 35 percent for residents/30 percent for non-residents.

Starting from 1 January 2018, taxable deemed income (i.e. a benefit) from a loan will arise if at least one of the criteria below is met:

- The loan is received by an individual from an affiliated party (as defined in Article 105 of the Russian Tax Code) or from his employer
- Such benefit (deemed income) is a form of financial aid or mutual consideration, received by the individual

Once these changes come into force, an arm's length loan received by an individual will not create a taxable event for him, while currently the total tax liability often exceeds the interest payable on such loan.

We hope that you will find this information useful. Our professionals will be glad to advise you on this issue and answer any questions you may have.



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