LT in Focus
VAT increase approved in the first reading

On 3 July 2018, Bill No. 489169-7 (the Bill) passed its first reading in the State Duma. It introduces a number of amendments to the Russian Tax Code, most importantly, raises the general VAT rate from 18 to 20 percent.

The raise is expected to generate additional budget revenue of RUB 620 billion p.a., starting from 2019.

Along with the added revenue from the oil and gas tax maneuver, the measure is viewed as a source of financing for the national development agenda, outlined by the President of the Russian Federation in May 2018.

Read on for the key provisions of the bill and recommended actions upon its adoption.

VAT increase

The Bill calls for the following measures:

- To raise the general VAT rate from 18 to 20 percent
- To raise the VAT rate applied to the sale of an enterprise as a property complex and to the e-services rendered by foreign providers from 15.25 to 16.67 percent.

The new rates will apply to sales of goods (works, services, and property rights) made starting from the respective federal law's effective date, i.e. 1 January 2019.

A lower VAT rate of 10 percent for the socially important goods will remain unchanged (certain food products, children's products, educational, scientific and cultural periodicals, pharmaceuticals and medical appliances).

VAT refund for subsidised car manufacturers remains until 1 January 2019

The bill proposes preserving the right to a VAT refund for car manufacturers subsidised by the government to partially compensate their costs for

- The issue and maintenance of warranties for wheeled, high-performance self-propelled and towed machinery (including for the agricultural use)
- The use of energy resources by energy-intensive car manufacturers
- R&D activities and car tests.

Preserving current rates of pension fund contributions indefinitely

The bill also proposes indefinitely setting a mandatory pension contribution rate of 22 percent on personal income not exceeding the maximum chargeable base and 10 percent for amounts in excess of such base.

As a comparison, the current provisions of the Russian Tax Code set forth that, effective 2021, personal income that does not exceed the maximum chargeable base would be subject to a contribution rate of 26 percent with no contributions charged on the excess.

The mandatory pension regulations are to be amended accordingly.

Summary and recommendations

A number of important points will need to be taken into account if the Bill is adopted.

- By 1 January 2018, businesses will need to adjust their accounting systems in view of the upcoming VAT increase
- Furthermore, all existing contracts need to be reviewed and amended to accommodate the new rate
- We also advise analysing the advance payments due before 1 January 2019 on the goods (works, services, property rights) to be supplied after 1 January 2018
- The taxpayers engaged in VAT-exempt operations that deducted VAT expenses for profit tax purposes (e.g. banks) will need to take into account the VAT rate increase when planning their material expenditure for 2019
- Taxpayers that have their VAT recovered must be mindful of the higher temporary cash outflows.

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

Kind regards,

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