

LT in Focus

Increase of Russian VAT rate

Federal Law No. [303-FZ](#) 'On Amendments to Certain Tax Laws of the Russian Federation' of 3 August 2018 (hereinafter, "Federal Law No. 303-FZ") has introduced amendments to the Tax Code of the Russian Federation (hereinafter, the "Russian Tax Code"), including an increase of 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 amendments introduced by the Federal Law No. 303-FZ and action points for the companies.

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Increase of Russian VAT rate

According to Federal Law No. 303-FZ,

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

The new rates will apply to goods (work, services, and property rights) supplied starting from the Federal Law's effective date, i.e. 1 January 2019.

A lower VAT rate of 10 percent will preserve for the 'goods of social value' (certain food products, products for children, educational, scientific, and cultural periodicals, pharmaceuticals and medical appliances).

Preserving the right to reclaim VAT on subsidised purchases until 1 January 2019

Federal Law No. 303-FZ stipulates that certain categories of taxpayers retain the right to reclaim the VAT charged on the purchases of goods (work, services) or property rights made with the state investments and (or) subsidies received up to 31 December 2018.

Moreover, certain categories of taxpayers retain the right to reclaim the VAT paid on imported goods, if such goods were purchased using the state investments and (or) subsidies received up to 31 December 2018.

The amendments relate to goods (work, services), property rights purchased by the following categories of taxpayers:

- natural monopolies using the state investments received up to 31 December 2018,
- agricultural producers using the state subsidies received up to 31 December 2018,
- manufacturers, using the state subsidies to reimburse their costs attributable to:

- ✓ the issue and maintenance of warranties for wheeled, high-performance self-propelled, and towed machinery (including agricultural machinery);
 - ✓ the use of energy resources by energy-intensive car manufacturers;
 - ✓ the R&D and car test activities.
 - concessionaires that implement road (re)construction projects using the state investments received up to 31 December 2018 and operating under concession agreements signed before 1 January 2018.
- With respect to the above categories of taxpayers the previous version of Item 1 and Sub-Item 6, Item 3, Article 170 of the Russian Tax Code will be applied.

Zero-rating the air transportation of passengers and luggage to and/or from locations in the Far-Eastern Federal District

The Law sets a zero VAT rate for the air transportation of passengers and luggage to and/or from locations in the Far-Eastern Federal District until 1 January 2025 and preserves the same for Kaliningrad Region.

The changes will apply effective 1 October 2018.

Recommendations

A number of important points will need to be taken into account from the practical perspective:

- By 1 January 2019, businesses will need to adjust their accounting systems in view of the upcoming VAT increase.
- 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 for the goods (work, services, property rights) to be supplied after 1 January 2019.
- The taxpayers engaged in VAT-exempt operations that deduct VAT expenses for profit tax purposes (e.g. banks) will need to take into account the higher VAT rate when planning their expenditure for 2019.
- The taxpayers that reclaim VAT must be mindful of higher temporary cash outflows, going forward.

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

Best regards,

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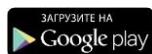


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