

LT in Focus

Bill on added income tax passes Russian State Duma's second reading

Bill No. 325651-7 introducing a tax on added income from hydrocarbon extraction of ("the AIT") adopted by the State Duma today is expected to dramatically reshape the tax treatment of oil and gas companies.

Starting 1 January 2019, the Russian Tax Code will get a new chapter - Chapter 25⁴. "Tax on added income from hydrocarbon extraction".

The bill proposes redistributing the tax burden towards a later stage of a deposit life cycle and requiring the tax payment once the deposit development project have started to generate returns.

Furthermore, the bill was aligned with the transfer pricing rules for taxpayers that generate income (expense) included in the AIT base. The document also expands the list of expenses that are attributed to the development of natural resources to include the expenses incurred by a taxpayer that provided financing for a foreign exploration project under a loan agreement that meets certain requirements as well as such expense deductibility criteria.

[Who must pay AIT?](#)

[Income subject to AIT](#)

[Who is eligible for exemption?](#)

[MET for AIT payers](#)

[Recommendations to AIT payers](#)

Who must pay AIT?

The new taxation regime is expected to apply to the developers of four categories of deposits operating under duly issued licenses that also permit oil exploration and production. As at 1 January of a year in which AIT was applied, such deposits must have recoverable oil reserves attested to by the data from the national register of mineral reserves or a reserve examination report for preceding year.

According to the bill, the deposit development activity includes:

1. Identification and assessment of hydrocarbon reserves, their exploration and extraction;
2. Transportation of hydrocarbons from a production site to a treatment facility or provision to third parties for further transportation and/or treatment;
3. Treatment of hydrocarbons;
4. Storage of hydrocarbons;
5. Establishment of associated petroleum gas utilisation facilities envisaged by the deposit development specifications;
6. Lease of property to an entity performing services or works to a taxpayer in relation to the above-listed activities, if such property is used for the purpose of such activities.

Income subject to AIT

The AIT will be charged on added income from hydrocarbon production from the qualifying deposits.

The deposits can be divided into four categories that can be schematically presented as follows:

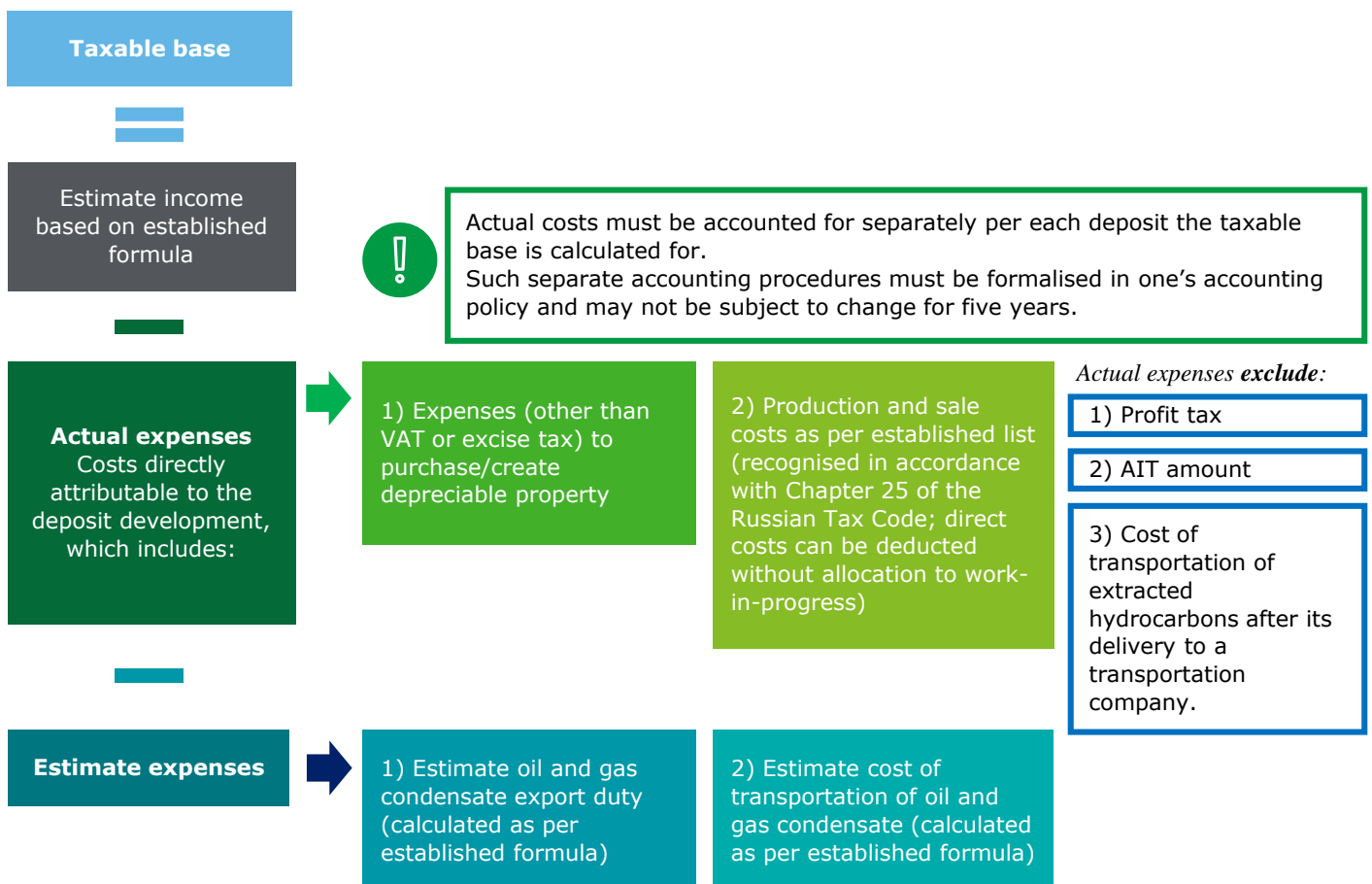
Category	Location criteria	Other criteria
Category One	Location: 1. Within the boundaries of Republic of Sakha (Yakutia), Irkutsk Region, Krasnoyarsk Territory or Nenets Autonomous District; 2. North of 65 ° north latitude, fully or partially within the boundaries of Yamal-Nenets Autonomous District; 3. Within the Russian part of the Caspian seabed.	Depletion of oil reserves $\leq 0,05$ according to the national register of mineral resources as at 1 January 2017; or deposit oil reserves were first put on the national register after 1 January 2017.
Category Two	A deposit is located in Russia and has hydrocarbon reserves as per Note 8 to the EAEU's Commodity Nomenclature of Foreign Economic Activity as at 1 January 2018.	AIT will apply to the above-mentioned deposits upon a taxpayer's request that must be filed by 1 January of a year following the enactment of the new chapter.
Category Three	Deposits located within the boundaries of the Tyumen region, Khanty-Mansi Autonomous District - Ugra, Yamalo-Nenets Autonomous District or the Komi Republic. Precise geographical reference is offered in the bill.	<ul style="list-style-type: none"> • Depletion as at 1 January 2018 ≥ 0.2 or ≥ 0.1 provided as at 1 January 2017 the deposit has been developed for at least six years. • Depletion ≤ 0.8.
Category Four	Deposits located within the boundaries of the Tyumen region, Khanty-Mansi Autonomous District - Ugra, Yamalo-Nenets Autonomous District or the Komi Republic. Precise geographical reference is offered in the bill.	Depletion ≤ 0.05 . Initial recoverable oil reserves according to the national register of mineral reserves as at 1 January 2017 are below 10 million tonnes.

The tax will not be charged if hydrocarbons are produced fully or partially from new offshore deposits.

between estimate production income and the total of actual and estimate production expenses.

The taxable base will be calculated as a difference

Schematically, it can be illustrated as follows:



The taxable base is assessed separately per each deposit.

The bill envisages special rules for carrying forward losses, including historical (i.e. retrospectively).

The tax is charged at a 50-percent rate. The document also sets forth the procedures for assessing and paying

the tax and advance tax and introduces a concept of a "minimum tax". For AIT purposes, the minimum tax is calculated as percentage (matching the tax rate) of a minimum taxable base calculated in accordance with the established procedures.

Who is eligible for exemption?

Companies may be exempt from AIT with respect to the following deposits:

- 1) Category One deposits;
- 2) Deposits with the share of recoverable reserves of all types of gas in the total hydrocarbon reserves exceeding

50 percent as per the data of the national register of mineral reserves as at the first date of a year of filing the exemption notification.

The exemption is granted on the basis of a notification filed within the deadlines set by the Russian Tax Code.

MET for AIT payers

MET payers will calculate AIT on oil according to the following formula: MET rate (RUB 1 per 1 oil tonne)x AIT coefficient (calculated as per a formula introduced by the bill).

Recommendations to AIT payers

The taxpayers are advised to thoroughly consider introducing a separate accounting for expenses attributable to different hydrocarbon deposits (in particular, the deposits that will be subject to AIT) and adjust their chart of accounts, tax accounting policy and tax registers as well as IT systems settings accordingly.

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,

Deloitte CIS Partners

Contacts

Tax & Legal

Oil & Gas, Energy & Resources, Mining



Andrey Panin
Partner
apanin@deloitte.ru



Alexandra Konova
Director
akonova@deloitte.ru



Yulia Urban
Senior Manager
yurban@deloitte.ru



Yuliya Menshikova
Director
ymenshikova@deloitte.ru



Ekaterina Kondratyeva
Manager
ekondratyeva@deloitte.ru

TaxSmart App



deloitte.ru

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, including their affiliates (DTTL), each of which is a legally separate and independent entity. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please visit www.deloitte.com/about for a more detailed description of DTTL and its member firms.

Deloitte provides audit, consulting, financial advisory, risk management, tax and related services to public and private clients spanning multiple industries. Deloitte serves four out of five hundred Fortune Global 500® companies through a globally connected network of member firms in more than 150 countries bringing world-class capabilities, insights, and high-quality service to address clients' most complex business challenges. More than 264,000 Deloitte's professionals around the globe make an impact that matters. To learn more about Deloitte, please connect with us on [Facebook](#), [LinkedIn](#) or [Twitter](#).

This publication contains general information only, Deloitte Touche Tohmatsu Limited, its member firms, or its and their affiliates (the "Deloitte Network"), are, by means of this publication, rendering any professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.