

# TAX MEASURES TO ENCOURAGE STABLE ECONOMIC DEVELOPMENT IN RUSSIA DURING THE COVID-19 PANDEMIC

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In response to the economic difficulties presented by the current public health situation, the Russian President, legislature and government are enacting initiatives designed to support businesses through easing tax payment and compliance burdens. While some provisions apply to businesses of all sizes and in all sectors, there are special measures targeted at helping small and medium sized businesses and those operating in the industries most heavily affected by the current public health situation.

Specifically, the law to amend the Tax Code has been urgently adopted by the State Duma and signed by the President. There is also a Government Resolution drafted and expected to be enacted in the coming days.

These are positive developments for taxpayers and we are happy to summarize them here.

## 1. Amending the Tax Code

On 25 March 2020, the Russian President proposed a number of key tax-related measures aimed at mitigating the negative economic effects of the coronavirus COVID-19 in Russia. Further to the President's proposals, the State Duma urgently adopted a law amending the Russian Tax Code ("**Tax Law**")<sup>1</sup>. The Tax Law was signed by the Russian President on April 1, 2020 and came into force with immediate effect, save for certain provisions which apply from January 2021.

The Tax Law, authorises the Russian Government to take several actions to ease burdens on taxpayers throughout 2020. The list of such measures includes:

- freezing, deferring, or cancelling tax control measures;
- deferral of tax payments and social contributions;
- extension of tax and financial reporting deadlines; and
- define in which cases there shall be no tax liability.

Similar authority to defer the payments of regional and local taxes is granted to the heads of the constituent entities (regions). In making determinations as to the range of beneficiaries of such tax payment deferrals,

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<sup>1</sup> Federal Law of 01.04.2020 N 102-FZ "On Amendments to Parts One and Two of the Tax Code of the Russian Federation and Certain Legislative Acts of the Russian Federation".

the regional authorities should consider the taxpayer's business activity through March 1, 2020 as well as financial reporting data and tax information data held by the Russian Federal Tax Service.

## 2. Proposed Government Resolution

The Russian Government is ready to take action on the amendments to the Tax Code. A draft resolution containing measures to encourage economic development has been prepared (the "**Resolution**").<sup>2</sup> We expect the Resolution to be adopted in the coming days.

The Russian Government has already approved a list of economic sectors most harmed by the COVID-19 pandemic ("**Harmed Sectors**")<sup>3</sup> and under the Resolution, companies operating in Harmed Sectors will be provided with extended support measures. Harmed Sectors include:

- air and auto-transportation, including airport activity;
- culture, leisure and entertainment;
- sports and fitness;
- travel agency and tourism services;
- hotels;
- food service;
- continuing education and non-governmental educational institutions;
- conference and exhibition organizing; and
- household services (repair, laundry, dry cleaning, hairdressing and beauty salons).

## 3. Key Measures Proposed by the Resolution

### *a. General support measures (applied irrespective of the size of the business or type of business activity)*

The Resolution introduces a number of measures designed to give significant relief to business of all sizes and in all sectors (not only in the Harmed Sectors), including:

- freeze scheduling of any new and suspension of ongoing on-site tax audits (including repeated on-site audits) and specific transfer pricing audits until June 1, 2020;
- suspension of procedural deadlines related to tax audits including deadlines for providing and reviewing taxpayers' objections and issuing tax audit acts or decisions;<sup>4</sup>
- freeze scheduling of any new or the suspension of ongoing currency control audits until June 1, 2020 (except for ongoing audits where the limitation period for administrative liability expires before June 1, 2020)<sup>5</sup>;
- a three-month deferral of tax reporting (except for VAT returns) and financial reporting to be filed in the period of March through May 2020;

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<sup>2</sup> The Draft Resolution was published 27 March 2020.

<sup>3</sup> [https://www.economy.gov.ru/material/news/ekonomika\\_bez\\_virusa/pravitelstvo\\_opredelilo\\_22\\_otrasli\\_kotorye\\_pervymi\\_poluchat\\_gospodderzhku.html](https://www.economy.gov.ru/material/news/ekonomika_bez_virusa/pravitelstvo_opredelilo_22_otrasli_kotorye_pervymi_poluchat_gospodderzhku.html)

<sup>4</sup> On March 20, 2020 the Federal Tax Service issued decree No.ЕД-7-2/181@ enforcing the deferral of scheduling new tax and currency control audits and a limitation of communication with taxpayers to online solutions only until May 1, 2020. We expect that such decree will likely be amended upon the adoption of the Resolution.

<sup>5</sup> See note 4 above.

- extension by up to 20 working days of any deadline for responding to requests of the tax authorities received between March and May 2020;
- freeze until June 1, 2020 of suspensions of bank operations of taxpayers ordered by the tax authorities;
- extension by up to three months of any deadline for filing applications for tax monitoring for 2021;
- removal of tax liability for failing to provide the tax authority with information necessary for tax control (Article 126 of the Russian Tax Code) within the period from March through May 2020; and
- extension by up to six months of any deadline for tax authorities to send requests for payment of taxes, social insurance contributions, late payment interest and fines, and to withdraw them.

*b. Support to organisations and individual entrepreneurs operating in Harmed Sectors*

The Resolution also provides specific benefits to business operating in the Harmed Sectors, including:

- waiver of late payment interest for the period from March through May 2020 with respect to unpaid taxes and social insurance contributions for 2020;
- new rules of applying for a deferral or an instalment plan for payment of taxes (except for excise and minerals extraction tax) social insurance contributions for 2020, as well as related interest on late payments (except for those accrued for March – May 2020; see above) subject to certain conditions.<sup>6</sup>

Depending on the volume of the decrease in revenue, a deferral may be provided for up to one year, while an instalment plan may be granted for up to three years. Special (more favourable) terms are stipulated for strategic enterprises, enterprises important to infrastructure and enterprises around which towns are built, lists of which are established by the Russian Government<sup>7</sup>, as well as for entities considered to be major taxpayers.

Provided the taxpayer complies with the terms of the deferral or instalment plan, no late payment interest will be accrued during the granted deferral or instalment plan.

The set of documents to be provided by a taxpayer to request a deferral or instalment plan is streamlined from the standard procedure provided by Article 64 of the Tax Code.

*c. Special support to micro-enterprises<sup>8</sup> operating in Harmed Sectors*

The Resolution includes provisions specifically designed to help very small businesses ("micro-enterprises") operating in the Harmed Sectors, including:

- a six-month deferral of social insurance contributions on salaries (other income) paid between March and May 2020; and
- a four-month deferral of social insurance contributions on salaries (other income) paid in June and July 2020.

<sup>6</sup> Organisations and individual entrepreneurs operating in Harmed Sectors will be entitled to claim for a deferral or instalment plan if one of the following criteria met: a decrease in income by more than 10%; a decrease in sales revenue by more than 10%; a decrease in revenue from sales subject to 0% VAT by more than 10% (if such income represents more than 50% of total sales revenue); loss for any quarter of 2020 (provided no loss was reported for 2019). For small-to-medium sized enterprises applied special tax regimes such deferral or instalment plan will be provided automatically.

<sup>7</sup> Resolutions of the Russian Government of 20 August 2009 No.1226-p and 20 March 2020 No.3 (strategic and backbone organisations). An enterprise around which town is built is the entity with an average of more than 5000 employees (insured persons) for the last four reporting periods.

<sup>8</sup> Up to 15 employees and an income of RUB 120 million (VAT net), plus certain limitations on shareholders.

d. *Special support to small and medium sized enterprises<sup>9</sup> operating in Harmed Sectors*

The Resolution contains measures to support small to medium sized businesses in the Harmed Sectors, including:

- a six-month deferral of corporate income tax, unified tax paid under the simplified tax system, and single agriculture tax for 2019;
- a six-month deferral of all taxes (excluding VAT) for the 1st quarter of 2020;
- a four-month deferral of all taxes (excluding VAT) for the 2nd quarter of 2020;
- postponement of deadlines for advance payments of transport tax, property tax and land tax for the 1st quarter of 2020 until 30 October 2020 and for the 2nd quarter of 2020 until 30 December 2020 (applicable where such advance payments are provided for by regional legislation).

#### 4. Key Measures Proposed by the Tax Law

The Tax Law introduces the following key measures:

- *Insurance contributions for small-to-medium sized enterprises.* Social insurance contributions are cut in half from 30% to 15% in total for small-to-medium sized enterprises. The reduced rates apply to that part of the employee's salary that exceeds the minimum monthly wage.
- *Personal income tax on interest earned on bank deposits.* Interest income earned by an individual on any Russian bank deposit (except for escrow accounts and rouble deposits where the annual interest rate does not exceed 1%) shall be taxed only if it exceeds a certain limit calculated by multiplying RUB 1 million by the key rate of the Central Bank as of January 1 of the respective year. This would apply to interest earned from January 1, 2021.
- *Interest (a coupon or discount) earned on debt securities of Russian organisations* denominated in roubles and issued after January 1, 2017 will no longer be relieved from personal income tax. This would apply from January 1, 2021.
- *Non-working days and tax related deadlines.* The "non-working" days declared by the President due to the COVID-19 pandemic should be treated as weekend days and public holidays for tax purposes. This means that any statutory deadlines provided by the tax legislation which expire during such non-working period will be automatically postponed to the next working day.

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These amendments to the Tax Code and the benefits proposed in the Resolution present significant advantages to business through easing tax payments and compliance burdens. We would be glad to provide a more detailed review of any of these measures upon your request.

All information presented in this summary is based on the draft Resolution available to us on April 2, 2020. It is possible that the Resolution in its final version may be changed. In addition, new legislation, governmental enactments and administrative regulations on tax related measures may appear at any time as the pandemic progresses.

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<sup>9</sup> Up to 250 employees and an income of RUB 2 billion (VAT net), plus certain limitations on shareholders.