

## Presidential Address: Tax Changes

In his television address on 25 March 2020, the Russian President outlined key decisions and measures triggered by the current coronavirus situation, including new tax arrangements:

### For small and medium-sized businesses in affected industries

- A six-month deferral of all tax payments, other than VAT, in addition a deferral of insurance contributions for micro-enterprises
- Insurance contributions on salary amounts exceeding the minimum wage rate have been reduced from 30% to 15% as a permanent measure

The criteria for recognising businesses as small, medium-sized and micro-enterprises are provided in Article 4 of Federal Law No. 209-FZ dated 24 July 2007 "On Developing Small and Medium-sized Enterprises in the Russian Federation". Medium-sized enterprises have under 250 employees and annual proceeds of less than RUB 2 bn.

### For all companies in affected industries

- A six-month moratorium on bankruptcy petitions and debt recovery claims from creditors

According to the President, the above arrangements will cover companies in the most affected industries, as determined and revised by the Government.

### New taxes

- 13% PIT on interest income from bank deposits and investments in debt securities worth over RUB 1 m
- 15% tax on dividends and interest paid to recipients abroad

Precisely how the changes to withholding tax are to be configured is not quite clear yet since, by default, dividends payable to foreigners are already subject to 15% tax. Judging from the fact that the President mentioned the possibility of amending or terminating double tax treaties stipulating lower rates, the change might equally affect distributions to offshore companies and other foreign shareholders.

A communication posted recently on the Russian Ministry of Finance website states that the above rise in the withholding tax rate will only affect so-called 'transit jurisdictions', primarily Cyprus and similar. The wording used by the Ministry suggests that it considers the list of such jurisdictions to be an open one.

The Ministry also explained that the change would not affect interest income paid on eurobonds and bonds issued by Russian companies or loans granted by foreign banks.

Please note that, under the DTTs, they may only be terminated in the calendar year following that when a denunciation notice is furnished by one of the Treaty states. Moreover, many of the Treaties stipulate that a denunciation notice may only be sent before 30 June (e.g., those with Switzerland, Austria, the Netherlands and Luxembourg).

The precise conditions and wordings of the above measures will be provided in the relevant laws, which might also impose additional restrictions and conditions. We will be monitoring further progress of any draft laws introducing the above changes and keep you posted. This is important, particularly for assessing when the additional taxes might become applicable. Under the current version of Russian Tax Code Article 5, Clause 1, new taxes may only start to apply on 1 January 2021 to dividends and interest paid after this date (the Ministry of Finance gives the same timeline).

#### **Get in touch**

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