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The Russian Tax Code has been amended with regard to payroll taxes

FAO CFOs, corporate tax managers, accountants and in-house lawyers

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Pepeliaev Group is commenting on the main provisions of the draft law[1], which concerns personal income tax and insurance contributions and has been submitted to the State Duma by the Russian Government.

Please read our other alerts for comments regarding the increase of general profit tax to 25%, VAT being introduced for those who apply simplified taxation and the 'tax amnesty' rules for taxpayers who split their business[2].

Please take into account that the draft law may undergo changes in the course of being considered.

I. Personal income tax

1. The most widely discussed point in the draft law at issue is differentiated tax rates being introduced on the income of individuals.

Starting from 2025, the rates of personal income tax[3] will be established as follows[4].

The amount of the tax base	The tax rate
RUB 0 – 2,400,000	13%* ** 7% 'tax cashback' is also being stipulated for working parents with two or more children and an average per capita income of not higher than 1.5 times the minimum subsistence level (see below)*

[1] https://sozd.duma.gov.ru/bill/639663-8

[2] https://www.pgplaw.ru/analytics-and-brochures/alerts/nalogovaya-amnistiya-pri-droblenii-biznesa/ and https://www.pgplaw.ru/analytics-and-brochures/alerts/izmeneniya-v-nalogovyy-kodeks-rf-po-nalogu-na-pribyl-nds-usn-i-imushchestvennym-nalogam/

[3] Article 210(2.1)(9) of the Tax Code

[4] Article 224 of the Tax Code

RUB 2,400,000 – 5,000,000	15%
RUB 5,000,000 – 20,000,000	18%
RUB 20,000,000 – 50,000,000	20%
over RUB 50,000,000	22%

The increased tax rates will apply only to the ranges of income which are set out in the table rather than to the whole amount.

For instance, if, over a tax period, an individual earns income amounting to RUB 5.5 million, then:

- RUB 2.4 million will be taxed at the rate of 13%;
- RUB 2.6 million (RUB 5 million less RUB 2.4 million) will be taxed at the rate of 15%;
- RUB 500,000 (RUB 5.5 million less RUB 5 million) will be taxed at the rate of 18%.

The obligations of tax agents and of taxpayers will not change in connection with the progressive tax rates being introduced. As at present, a tax agent will have to assess tax based on all of a taxpayer's income of which it is the source.

For instance, if two tax agents pay to an individual the salary of RUB 2.4 million, each agent will withhold tax at the rate of 13%. However, the tax authority will assess the tax at the applicable rate (15% on income of above RUB 2.4 million in the case at hand) and will forward a notification to the individual next year requesting that they pay the difference.

2. Another draft law[5] adds an opportunity, starting from 2026, to obtain what is referred to as a 'tax cashback' at the rate of 7% of the personal income tax which working parents who have two or more children paid for the previous year. An individual will be eligible to receive the payment if the family's average per capita income does not exceed 1.5 of the minimum subsistence level established in the region. Only those working Russian nationals who permanently live in Russia and on whose income the tax was paid will be entitled to receive the payment.

This 'cashback' (officially called a 'family tax payment') is a social welfare payment which, legally speaking, has no relationship with taxation. However, for the recipients the effective tax rate will be 6%. Consequently, in economic

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[5] https://sozd.duma.gov.ru/bill/638814-8

terms, the range of progressive tax rates in relation to the basic income of Russian nationals will vary from 6% to 22%.

3. The current tax rates of 13/15% will be preserved for the income of tax residents who receive such income in connection with their participation in the special military operation.[6]

4. Special rules for determining the tax rate are being established in relation to the following types of income:[7]

1. from the sale of property or an interest in it, in relation to income in the form of its value (except for securities), which was received as a gift;
2. in the form of insurance payouts under insurance contracts and retirement benefits;
3. from a membership interest, including in the form of dividends;
4. under certain transactions with digital assets;
5. under transactions with securities and derivatives;
6. from the sale of membership interests in the issued capital of Russian companies, of shares, bonds and investment units as specified in clause 17.2 and 17.2-1 of article 217 of the Tax Code;
7. under repurchase transactions whose subject matter is securities;
8. under transactions involving securities borrowings;
9. under transactions with securities and derivatives which are booked on an individual investment account;
10. as interest under deposits (balances on accounts) with banks that are situated in Russia.

The rate of 13% will apply to the amount of all the above income per year which does not exceed an aggregate of RUB 2.4 million for a calendar year. Any income that exceeds RUB 2.4 million will be taxed at the rate of 15%.

For instance, if as a result of securities that a taxpayer sells or dividends they receive, the taxpayer earns RUB 2.3 million from each transaction, the income will be added and taxed as follows:

- total amount: RUB 2.3 million (securities) + RUB 2.3 million (dividends) = RUB 4.6 million
  1. RUB 2.4 million will be taxed at the rate of 13%;
  2. RUB 2.2 million will be taxed at the rate of 15%.

5. Income of non-residents in the form of interest on deposits (balances on accounts) with Russian banks will be taxed at the rate of 15%.[8]

6. Income earned in the form of insurance payouts under voluntary life insurance will not be taken into account for determining the tax base in

[6] Article 210(6.1) of the Tax Code
[7] Articles 210(6) and 224(1.1) of the Tax Code
[8] Article 224(3) of the Tax Code

respect of payouts that do not exceed the amounts of insurance contributions paid.[9]

7. The Tax Code stipulates: if a taxpayer who sold real estate has not submitted a tax return and the tax authority does not have information regarding the price of the transaction with the real estate or if the price is lower than the cadastral price of the real estate item multiplied by 0.7, the amount of income is recognised as equal to 0.7 of the corresponding cadastral value of the real estate item.

The draft law establishes that the above coefficient may be increased up to 1 inclusive, by a law of a constituent entity of the Russian Federation.[10]

8. The draft law introduces changes in how the exemption will be regulated from the taxation of income from the sale (redemption) of:

- membership interests in the issued capital of Russian companies and shares that are indicated in article 284.2(2) of the Tax Code which the taxpayer has held for more than 5 years[11] on the date of sale (what is known as the '5-year ownership benefit');
- securities, shares and bonds of Russian companies that are circulated on the market and investment units which a taxpayer has held for more than 1 year on the date of sale.[12]

First, only tax residents of Russia will apply such benefits starting from 2025.[13]

Second, no tax exemption will apply to the part of the tax base that exceeds RUB 50 million.[14]

9. The composition of tax deductions is being expanded to a certain extent.

Thus, taxpayers who pass the tests of the sports competition "Ready for Work and Defence" and obtain a merit badge will be eligible to apply a standard tax deduction of RUB 500 for each month of the tax period. The tax deduction will be granted starting from 1 January of the year in which the badge was awarded or verified and will be valid for 12 months provided that the taxpayer completes a full medical check-up.[15]

The standard tax deductions granted to a parent (an adoptive parent, guardian or a foster parent) who has two or more dependants will be doubled[16]: from RUB 1,400 to RUB 2,800 for the second child and from RUB 3,000 to RUB 6,000 for the third and the next child.

10. The rules are being changed of how controlling persons should pay personal income tax on the fixed profit of a CFC.

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[9] Article 213(1)(2) of the Tax Code
[10] Article 214.10(9) of the Tax Code
[11] Article 217(17.2) of the Tax Code
[12] Article 217(17.2.1) of the Tax Code
[13] Article 217(17.2) and 217(17.2.1) of the Tax Code
[14] Ibid.
[15] Article 218(1) of the Tax Code
[16] Ibid.

The current version of the Tax Code provides that a CFC's fixed profit does not depend on the number of them and amounts to RUB 34 million per year. However, the draft law changes this rule (although it remains voluntary to switch to the payment of personal income tax on fixed profit).

Starting from 2025 (according to the draft law), a CFC's fixed profit will be established in the following amount[17]:

The number of CFCs	The fixed amount of income[18]	Amount of tax
1	RUB 27,990,000	RUB 5,000,000 1) 13% for RUB 2,400,000 = 312,000 2) 15% for RUB 2,600,000 = 390,000 3) 18% for RUB 15,000,000 = RUB 2,700,000 4) 20% for RUB 7,990,000 = RUB 1,598,000
2	RUB 52,718,000	RUB 9,999,960 1) 13% for RUB 2,400,000 = 312,000 2) 15% for RUB 2,600,000 = 390,000 3) 18% for RUB 15,000,000 = RUB 2,700,000 4) 20% for RUB 30,000,000 = RUB 6,000,000 5) 22% for RUB 2,718,000 = RUB 597,960
For each subsequent CFC, starting from the third one, the amount of income is increased by RUB 22,727,300 (in other words, the tax is increased by 22% of the amount, which equals RUB 5,000,006)		

II. Insurance contributions

A new reduced tariff of 7.6% is being introduced. The conditions for this to be applied are as follows:

— it can be applied by small or medium-sized enterprises;

— the relevant type of economic activity should be indicated from the section: "Manufacturing" as the principal type of economic activity in the Unified State Register of Legal Entities or the Unified State Register of Individual Entrepreneurs (other than the production of beverages, production of tobacco, production of coke and refined petroleum products, or metallurgical production);

— at least 70% of the income should be income from the principal business activity (based on the results of the previous year and of the last

[17] Article 227.2(2) of the Tax Code
[18] For keep the calculations simple, let us assume that a taxpayer does not earn any income to be included in the main tax base other than the profit of a CFC.

reporting period).

What to think about and what to do

The amendments that are being made to the Tax Code affect various aspects of taxpayers' business activities. The draft law provides that the amendments will come into effect in 2025.

On the whole, the rules for the taxation of income of well-off individuals are becoming increasingly complicated. Owners of businesses rarely receive their main income in the form of a salary to which increased tax rates of 15 to 22% will apply. Meanwhile, income in the form of dividends and fixed profits of CFCs will be subject to different tax rates. This creates opportunities for lawful tax planning.

Help from your adviser

Pepeliaev Group's lawyers are well versed in advising their clients on the risks associated with changes in legislation and in protecting their clients' interests when they challenge the claims of tax authorities.

We are ready to advise you on any issues relating to the forthcoming amendments to the Tax Code.

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