

**OVERVIEW OF TAX EVENTS
FOR MAY 2014**

REGULATORY DEVELOPMENTS

On 23 May, the following *draft laws* were put before the State Duma:

- to establish in the Russian Tax Code limits on taxpayers exercising rights and performing obligations within tax relationships. The principle of a taxpayer's good faith is introduced, while the concept of an "abuse of law" is defined.

If during tax audits the fact is established that a supplier has not paid taxes, the tax authority may refuse to allow the taxpayer to take its expenses and tax deductions into account, as long as the taxpayer could have known that the supplier lacked the necessary resources (equipment, staff and so on) and was thus unable to perform its obligations;

- to introduce into tax legislation the institution of tax monitoring. Even before it files its tax return, a taxpayer will be able to find out what view the tax authority takes concerning contentious tax issues. The tax authority will obtain real-time access to the taxpayer's bookkeeping and tax accounting data, meaning that it can check whether the taxpayer has booked business operations correctly and on a timely basis for tax purposes.

- 'On tax consulting' - it is proposed to regulate tax consulting activity in Russia.

The Russian Government has supported a *draft law* aimed at creating the legal conditions for information to be exchanged between Russian and foreign financial institutions and tax authorities. However, the State Duma's Financial Market Committee has sent it back to be reworked: Russian banks should not, on their own, cooperate with the tax authorities of the USA in the absence of the relevant agreement between the governments of the two countries.

itar-tass.com, 14 May 2014

www.kommersant.ru, 16 May 2014

In addition:

(www.rbcdaily.ru, 16 May 2014)

The Russian subsidiaries of foreign banks have begun to register with US tax authority the Internal Revenue Service so that they may register for FATCA (the Foreign Account Tax Compliance Act). UniCredit Bank, Raiffeisenbank and Home Credit have already received a positive decision from the US taxman.

The completed *draft of the federal law 'On amending the first and second parts of the Tax Code of the Russian Federation'* has been placed on the Russian Finance Ministry's website; this deals with taxation of the profit of controlled foreign companies (CFCs) and the income of foreign companies.

The draft has retained the requirement to pay tax on all overseas assets in which Russian beneficial owners hold at least 10%. It is still mandatory to notify the tax authorities of ownership of at least 1% in a CFC, even though it had been proposed either to raise the threshold to 25% or drop the notification requirement altogether. A solitary exception will be made for companies that trade on international stock exchanges. However, the Finance Ministry has opted to reject the idea of a blacklist of offshore jurisdictions - instead there will be a "white" list, which is worse for business.

www.minfin.ru, 27 May 2014,

Vedomosti, 30 May 2014

The Russian Ministry of Economic Development has drafted *amendments to the Law on appraisal activity*, and these provide that it will be possible to retrospectively apply a cadastral value set as a result of disputes being litigated. The tax period will be calculated in relation to the year in which an application was filed with the court. It is proposed to make the pre-trial dispute resolution procedure compulsory.

www.rbcdaily.ru, 28 April 2014

On 29 May, the Russian Government examined the *Main Directions of the Russian Federation's Tax Policy for 2015 and the 2016-2017 Planning Period*. Most notably, the Government has agreed to introduce a local real estate tax in Russia, and this will be based on the cadastral value of such real estate.

The two tasks which the government faces in the area of tax are to improve tax administration further, and to create a balance which will ensure that the regions develop. Special tax regimes will be launched in what are known as the "advanced development areas" of the Far East, as well as in Crimea.

**ria.ru, 29 May 2014,
www.rg.ru, 30 May 2014**

The Russian Government has instructed the Ministry of Finance and the Ministry of Economic Development to amend their legal and regulatory documents by 1 September to provide that: tax benefits set by federal legislation will be optimised in relation to federal, regional and local taxes; there will be more effective administration of property taxes, corporate profit tax and personal income tax; the necessary volume of information will be safeguarded for constituent entities of the Russian Federation so that they may form budgets in conditions where consolidated groups of taxpayers are in operation (see <http://www.vedomosti.ru/politics/news/27169671/pravitelstvo-ogranichilo-do-2018-goda-ustanovlenie-novyh-30.05.2014>).

The Finance Ministry is working through the issue of increasing the rate of property tax for businesses with obsolete production facilities.

www.gazeta.ru, 23 May 2014

The Russian Government is discussing a mechanism which will allow VAT to be applied to telecommunications services supplied by foreign IT giants to Russian companies and individuals. It is proposed that the draft law, which will amend the Tax Code, will be adopted before the end of the year.

izvestia.ru, 12 May 2014

PRACTICE

Business is preparing for a real estate tax to be introduced. This will be calculated based on cadastral value. Regions are to launch this when they are ready.

www.rg.ru, 27 May 2014



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Andrey Belyaninov, the Head of the Russian Federal Customs Service (FCS), believes that it would be reasonable to merge his authority with the Russian Federal Tax Service (FTS). The FCS and FTS work with the same companies, but because the agencies do not interact with one another, the state budget loses out on income.

www.vedomosti.ru, 27 May 2014

According to the FTS's data, results for 2013 showed a reduction of almost one third in the number of field tax audits, while the number of appeals by taxpayer companies continues to fall: it dropped by 7% in 2013, and by a factor of 1.5 over the last four years. The burden on the court system has fallen 1.4 fold. At the same time, the tax authorities have been litigating more effectively: in 2013, 72% of legal entities' claims that courts examined were resolved in favour of the state budget, whereas only a few years ago this figure was no higher than 44%.

www.nalog.ru, 15 May 2014