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The price of long-term contracts is changing as a result of a VAT increase: the position of the Russian Constitutional Court and practical recommendations

FAO chief executives, employees of legal departments, finance directors, chief accountants and tax managers

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Pepeliaev Group advises that the Russian Constitutional Court has issued Ruling No. 41-P dated 25 November 2025 (the "Ruling of the Russian Constitutional Court") on the relationship between VAT and the price of long-term civil-law contracts. It is relevant both to a specific case of the abolition of a tax benefit and to the increase, from 1 January 2026, of the VAT rate from 20% to 22%, the lowering of the VAT exemption threshold under the simplified taxation system and the abolition of a number of benefits.

Parties to long-term contracts that remain in force in 2026 should, if such contracts lack provisions on the allocation of the risk of an increase in VAT and until legislative certainty is introduced, take into account the temporary legal regulation of this issue established in the Ruling of the Russian Constitutional Court. This applies to both contracts already concluded and those currently being concluded.

The Russian Constitutional Court has divided long-term contracts into three categories.

1. B2B. As a general rule, in contracts involving organisations and individuals engaged in business activity, the need for an additional payment in the event of an increase in VAT depends on whether the buyer is able to deduct VAT.

If the buyer is not entitled to deduct additionally charged VAT (for example, it is a bank or another person whose goods or services are exempt from VAT and for whom input VAT is treated as an expense), the seller may recover an additional payment in the amount of half of the VAT calculated as payable. However, this is on the condition that the buyer has refused to amend or terminate the contract.

In other words, in order to receive the additional payment, the seller:

1) must propose to amend or, where applicable, to terminate the contract;

2) is entitled to go to court to claim the additional payment if the buyer has not accepted this proposal, and only within the limits of half of the increased VAT burden

(for example, 1% of the price when the rate increases by 2, or 11% of the price where a benefit is abolished and the general rate is applied).

The court will uphold this claim if the seller proves property losses resulting from the VAT burden increasing (for example, a reduction in the estimated profitability of the transaction that the seller assumed at the time the contract was concluded).

The situation where the buyer can deduct the additionally charged VAT was not reviewed by the Russian Constitutional Court. However, since the buyer can make use of the deduction, we believe that there are no legal obstacles for the seller in claiming an additional payment of the full amount of the VAT additionally arising.

2. B2C. In contracts involving individuals (consumers), an additional payment is not possible unless the contract provides for it. However, standard forms of contracts involving consumers often provide for such a possibility, with either party having a right to withdraw from subsequent performance of the contract.

3. B2G. In contracts concluded within procurement procedures for state and municipal needs (funded from the state budget), the Russian Constitutional Court ordered that procurement legislation be applied.

Previously, when VAT was increased in 2019, procurement legislation contained temporary regulation that allowed the parties to increase the price within the limits of the commitments to the state budget. This regulation is no longer in force.

We do not rule out similar regulation being introduced in the near future.

If the relevant limits are insufficient, the only way to restore a project's profitability is to seek to increase them. It will not be possible to obtain, through court action, a price increase in excess of the limits.

Such a decision places significant risks of a loss of profitability on suppliers.

The Ruling of the Russian Constitutional Court does not address reverse situations, where VAT has been charged at the time the contract was concluded but this obligation has subsequently ceased. Judicial practice proceeds from the price being unable to be changed, despite the buyer losing the right to deduct VAT. It is possible that the legislature will clarify the approach to this issue.

What to think about, what to do

In view of the legal position of the Russian Constitutional Court, we recommend:

- conducting an audit of long-term contracts and assessing how the clauses on the relationship between price and VAT are formulated and whether they provide for an additional payment;
- in the absence of provisions concerning an additional payment, negotiating with buyers to amend the contract's terms and conditions or terminating the contracts;
- if negotiations are unsuccessful, applying to the court with a claim to increase the contract price.

Help from your adviser

Pepeliaev Group's experts are ready to:

- analyse the terms and conditions of long-term contracts in order to determine the prospects for increasing the price;
- prepare a position for negotiations with the counterparty on whether to change the price;
- assist in having an economist prepare calculations and professional opinions on issues of a contract having reduced profitability, property losses, and more, which are required to substantiate a claim for the price to be increased;
- if necessary, we are also ready to draft and substantiate amendments to the current legislation on how VAT correlates with the price.

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