

Amendments to the Russian Tax Code, Autumn 2025: Specific Taxes

FAO CEOs, CFOs, chief accountants, and tax managers

The Government has put before the State Duma its **draft law amending the Russian Tax Code¹. In addition to the widely discussed measure of increasing the VAT rate to 22%, the draft also makes provision for other important changes. The first reading of the bill is expected in the coming days. There may be less than a month left for amendments.**

Below we review the proposed new developments affecting specific aspects of key taxes.

1. Minimum tax for multinational groups of companies

Russian members of multinational groups of companies controlled by tax residents of foreign states that have set requirements for a minimum effective level of taxation or extraterritorial taxation under the OECD Model Rules, if the group's revenue exceeds EUR 750 million for each of the two preceding years, will be obliged to determine the effective profit tax rate in Russia. If this rate is below 15%, they must pay top-up tax at the rate of 15% instead of the tax calculated under general rules (new article 284(1.20) and article 288.5 of the Russian Tax Code). Stabilisation clauses that protect taxpayers from worsening conditions under certain preferential regimes will not apply (the amendments to article 5 of the Tax Code).

In the absence of the new rules, there is a risk that the profit of such organisations could be taxed in foreign states that have implemented the OECD model.

During the development of the new rules, two systemic flaws were noted²:

- the effective tax rate is determined not for all Russian members of the group collectively, but for each entity individually, which distorts the assessment of the group's overall tax level in cases where a member has a loss;
- it is the entire profit that is subject to top-up tax, rather than only the portion of foreign members that foreign countries might claim to tax.

¹ Draft Federal Law No. 1026190-8 "On Amending Parts One and Two of the Tax Code of the Russian Federation."

² V. Voinov: The New Profit Tax: Why Russian Business Will Suffer.

These flaws have not yet been corrected in the text of the draft law.

2. VAT for Russian software, the servicing of payment cards, and mining

The draft law proposes to abolish the VAT exemption for licensing the use not only of foreign software but also of Russian software (article 149(2)(26) of the Russian Tax Code). We examine in more detail the broader tax changes in the IT sector separately.

For transactions under contracts signed before the draft law was published and the exemption was abolished, if the buyer is unable to claim input VAT, the question arises as to which party must pay the additional VAT. The same issue previously emerged when the exemption for foreign software was repealed. We will discover the answer after the Russian Constitutional Court hands down its resolution regarding the appeal of PJSC VTB Bank on this issue. The hearing took place on 7 October 2025.

The draft also removes the VAT exemption for the servicing of payment cards (articles 149(3)(3)(4), 149(3)(3.1), and 149(3)(4) of the Russian Tax Code).

The Russian Constitutional Court's forthcoming position may also affect all VATable transactions in the light of the VAT rate increasing to 22% and other exemptions being abolished.

The draft changes the place of supply for the rental of mining infrastructure and the provision of computing power for mining. Currently, the place is determined by the place where the lessee operates (article 148(1)(4) of the Russian Tax Code) or the location of the recipient of the computing power (article 148(1)(4); and article 174.2(1) of the Russian Tax Code). A new rule will be in effect that it is determined by the seller's location (article 148(1)(5) of the Russian Tax Code).

3. Conditions for applying the "five-year benefit" under personal income tax

The conditions for the "five-year benefit" relating to personal income tax on the sale of shares and membership interests are being clarified (article 217(17.2) of the Russian Tax Code).

The benefit will not apply in cases of withdrawal from an LLC. Previously, the Russian Ministry of Finance had clarified in relation to profit tax that a withdrawal is not a disposal of a membership interest because it generates dividend³ income for the member, whereas for personal income tax purposes the position was the opposite⁴,

³ Letters No. 03-03-06/1/78216 and No. 03-03-06/1/85298 of the Russian Ministry of Finance dated, respectively, 11 October 2019 and 6 November 2019.

⁴ See also: Letter No. 03-04-05/24239 of the Russian Ministry of Finance dated 5 April 2019.

even though the nature of the income is the same. There are no clear grounds for such differing approaches.

The company whose shares or membership interests are being disposed of must be Russian, and no more than half of its assets may consist directly or indirectly of Russian real estate. Currently, the first condition applies only to membership interests, and the second only to shares⁵. For corporate profit tax purposes, the conditions for applying the five-year benefit remain unchanged, while for disposing of shares or membership interests in foreign entities (outside blacklisted countries) the benefit remains, if the remaining conditions are met.

4. Tax implications of reimbursing the cost of lost property, providing in-kind compensation, and not paying a penalty

Personal income tax will not be levied on the reimbursement of the cost of lost property, if it does not exceed the market value or the expenses on restoring it (article 217(1) of the Russian Tax Code).

Pepeliaev Group's comment

Even under the current legislation, the reimbursement of damage does not generate income for an individual. Although the person receives money to have at their disposal instead of the actual property, their wealth does not increase because they have merely had harm eliminated.

However, the draft law specifies that a payment is not taxed only when the compensation is paid by the person who is at fault. Taking this literally, one might conclude that payments by insurers give rise to income.

It is also unclear why the draft law refers to cases of reimbursement that are provided for in statutes or by decisions of local government bodies. Any damage should be reimbursed under civil legislation. If it was contemplated that not all reimbursements of harm would be exempted from tax, then it is not apparent what the basis is for differentiating the approaches in this way.

We hope this will be clarified before the draft law receives its second reading.

When personal income tax is calculated, it is unclear whether double taxation can be avoided when a person acquires a membership interest in an LLC at a discounted price, thus receiving a "material benefit" in calculating tax, and later sells that interest. A rule allowing taxpayers to deduct previously taxed amounts exists for securities (article 214.1(13)(9) of the Russian Tax Code) and certain other assets

⁵ Letter No. SD-4-11/3112@.of the Russian Federal Tax Service dated 11 March 2021

(article 220(2)(2) of the Russian Tax Code), but not for membership interests themselves.

The draft law contains a rule about how to account for previously assessed tax, which applies to any property other than securities (the new paragraph of article 220(2)(2) of the Russian Tax Code), but only to what has been received “as settlement of obligations owed to the taxpayer”. This is when the taxpayer accepts in-kind compensation whose value exceeds that of the debt being repaid, or when exchanging property of unequal value. The draft law is silent on a discount on the price at which membership interests in an LLC are acquired.

The reason for this gap lies in the illogical approach to regulating tax. We hope that this omission will be rectified through the draft law being amended.

When a monetary debt is settled in kind, the revenue for profit tax purposes will be the amount of the obligation discharged (the new paragraph of article 249(2) of the Russian Tax Code).

A penalty imposed when revenue is recognised as doubtful debt will also qualify as such (article 266(1)(1) of the Russian Tax Code). This means it can be offset against a reserve at the same time as being recognised as income but will, like any doubtful debt, again generate income when paid.

5. Harsher tax regulation for persons with “foreign agent” status

Individuals who have had “foreign agent” status for at least one day during the tax period, as well as entities with such status or at least a 10% membership share on the part of a foreign agent as at the reporting date, will be unable to apply the following benefits:

- the exemption from personal income tax when property is disposed of that has been held for a long and uninterrupted period (articles 217(17.1), 217(17.2) and 217(17.2-1) of the Russian Tax Code);
- the exemption from personal income tax when gifts and inheritances are received (articles 217(18) and 217(18.1) of the Russian Tax Code);
- investment-related tax deductions (article 219.1 of the Russian Tax Code);
- tax deductions on long-term savings (article 219.2 of the Russian Tax Code);
- reduced tax rates for certain types of non-residents’ income (articles 224(3), 224(3.1), 224(5) and 224(6) of the Russian Tax Code);
- reduced corporate profit tax rates (articles 284 and 288.1 of the Russian Tax Code); however, dividends will be taxed as before;
- the exemption from tax on property received free of charge (article 251(1)(11) of the Russian Tax Code).

What to think about and what to do

Before the second reading, amendments could still be introduced, including those initiated by business associations. Clarification is needed most of all for the new rules on the minimum effective tax for multinational groups.

In the light of the growing VAT burden, it may be useful to review the template contracts you apply in terms of how VAT is allocated between parties. This could help avoid potential financial losses from VAT being levied.

We cannot recommend hurrying to withdraw from an LLC in 2025 to apply the “five-year benefit”, since the Russian Ministry of Finance’s approach, which is favourable in formal terms, may not hold up in court given the draft’s new tougher approach.

Help from your adviser

We are ready to advise you on any practical matters relating to the proposed amendments to the Russian Tax Code discussed above.

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