Tax monitoring: more accessible and more complex

FAO employees of companies currently under tax monitoring or planning to transition to this form of tax control

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Pepeliaev Group advises that amendments are planned to the Russian Tax Code concerning the regulation of tax monitoring.

The widely discussed draft law of the Russian Government (the "Draft Law") on large-scale amendments to the Russian Tax Code (the "Tax Code") also includes provisions amending the regulation of tax monitoring. These changes almost fully replicate those previously proposed by the Russian Ministry of Finance (earlier in 2025). Let us recap what they concern.

The transition to tax monitoring

It is proposed that, for a company to transition to tax monitoring, it will need to meet only **one** of the three monetary thresholds (at least RUB 80 million in taxes paid / RUB 800 million in revenue / RUB 800 million in asset value), instead of all three simultaneously, as at present.

Pepeliaev Group's Comment

As early as 2020, the concept for the development of tax monitoring provided for the range of eligible participants to be expanded by allowing a transition if any one of the monetary thresholds is met. These provisions are now reflected in the Draft Law. If the changes are adopted, this would mark the third reduction in monetary criteria for entering into tax monitoring since this form of tax control was introduced.

The Draft Law proposes to expand the powers of tax authorities conducting monitoring:

- the list of grounds for an inspection (article 92 of the Tax Code) is expanded, and it may now be carried out when inconsistencies or contradictions are found in a company's documents or information, where tax has not been properly paid, or actual expenses under Special Investment Contracts have been verified;
- a new right to conduct a search is added (article 94 of the Tax Code).

Pepeliaev Group's Comment

When tax monitoring was first introduced, the tax authorities were entitled only to request documents or information related to tax payments.

Over time, the rights of tax inspectorates have expanded and, if the Draft Law is adopted, the powers of the tax authorities under tax monitoring will become equivalent to those in field tax audits.

Given this expansion, it would be logical to abolish (or at least narrow) the grounds for conducting field audits of companies already taking part in monitoring: in particular, audits conducted by higher tax authorities over subordinate ones, or those initiated owing to the non-implementation of a reasoned opinion (article 89(5.1) of the Tax Code).

It is unclear why such grounds for audits should remain when the volume and speed of data being transferred between companies and tax authorities during monitoring continue to grow, and when the powers of tax inspectorates under monitoring are becoming equivalent to those in field audits.

What new findings could a tax authority uncover through a field audit if a company is already being examined thoroughly under monitoring? Such duplication can only be called redundant tax control, which is contrary to the principles of tax monitoring.

Terminating tax monitoring

The Draft Law more than doubles the list of grounds for tax monitoring to be terminated early. New grounds include, among others:

- a systematic violation (twice or more during the monitoring period) of procedures or deadlines for granting tax authorities access to the company's information systems;
- the company's regulations on information interaction, its information systems, or internal control systems not complying with the requirements set by the Russian Federal Tax Service (the "FTS").

It is also proposed to add a provision to the Tax Code that the FTS will approve a procedure for verifying whether the information systems of a company that is under monitoring comply with the requirements that have been established.

Pepeliaev Group's Comment

The amendments are aimed at improving the discipline of companies that are under monitoring in terms of compliance with the information system and internal control requirements.

On one hand, it is reasonable that, since certain criteria are set for entry into and participation in monitoring, non-compliance with them should indeed have adverse consequences.

On the other hand, is now really the right time to introduce such a strict measure of liability as the early termination of monitoring, for example, for breaching the requirements for information systems? The FTS's requirements are constantly being updated and becoming more complex, demanding significant investment from companies, while the overall economic environment in Russia remains challenging.

As for the internal control system, it is unclear which specific requirements non-compliance refers to. Companies entering monitoring may have control systems that are developed to differing levels. To which benchmark is compliance to be assessed under this proposed rule?

In our view, lawmakers should at least include provisions easing the grounds for the consequences to be applied of companies breaching the relevant requirements. For example, it could be stated that that only systematic violations of the requirements, and only those that actually hinder the carrying out of monitoring, should trigger this negative consequence. In addition, the law should also clarify what is defined as the non-compliance of a company's internal control system with the FTS's requirements.

Tax monitoring of the successor companies of participants in monitoring

Several amendments concern the monitoring of the successor companies of participants in monitoring following reorganisations.

Currently, a company's state registration ceasing to be in effect as a result of a reorganisation is a ground for monitoring to be terminated early (article 105.28(1)(4) of the Tax Code).

Under the Draft Law, after a reorganisation, tax monitoring will automatically be carried out with respect to the successor company.

Reorganised companies will need to verify that the data submitted before the reorganisation remains current. In the case of discrepancies, they will have one month from the date of the reorganisation to update the information. If the successor fails to update the data within a month, this will be a ground for monitoring to be terminated early.

If a successor company wishes to leave monitoring following a reorganisation, it must submit an application to withdraw from it.

Pepeliaev Group's Comment

The provisions with regard to preserving the right to be under monitoring clearly simplify life for successor companies. Reorganisation in such a situation will require them only to update monitoring-related information for the new entity, rather than to go through the entire transition procedure again.

Tax monitoring of participants in a special investment contract ("SPIC")

Under the current regulation, participants in a SPIC must, during the first monitoring period, provide the tax authorities with information about the actual expenses from the date when the SPIC was concluded.

The amendments propose to establish that, during the first monitoring period, information about the actual expenses should be submitted from the earlier of the following dates:

- when the capital expenditure budget is approved;
- when the resolution to carry out the investment project is adopted.

Pepeliaev Group's Comment

These amendments are aimed at making tax monitoring deeper for companies that have entered into SPICs.

Such companies, it should be noted, do not have a choice of whether or not to move over to monitoring. It is mandatory for them.

What to think about, what to do

Given that the current version of the amendments to the Draft Law on tax monitoring regulation almost fully repeats the Ministry of Finance's earlier proposals, it is highly likely that the law will be adopted in this form, probably by the end of the year.

Accordingly, companies planning to join monitoring and meeting any of the monetary thresholds can start thinking more purposefully about the transition.

Companies that have already moved over to monitoring should audit their information systems and internal control systems to rule out the risk of having tax monitoring terminated early.

Help from your adviser

Pepeliaev Group’s experts have extensive experience advising on issues that concern joining tax monitoring and operating under this form of control.

We are ready to assist you with: assessing and internal control systems and coming up with recommendations for improving them; preparing documentation for joining tax monitoring and providing support during the process of transitioning to it; and enhancing internal control systems and internal documentation.

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