

# **COVID 19: TAX MEASURES TO SUPPORT THE BUSINESS IN RUSSIA**

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In many countries State authorities are making efforts to support their economies experiencing difficulties in the situation of coronavirus, in particular, by reducing the tax burden. The Russian authorities are no exception and recently have introduced a number of tax measures aimed at supporting the Russian economy.

The measures can be grouped as follows:

## ***Group 1: Extension of deadlines for payment of taxes***

The Russian Government has postponed<sup>1</sup> certain deadlines for payment of taxes due for 2019 and first half of 2020.

For example, deadlines for corporate profits tax, agricultural tax, tax paid under the simplified tax system due for 2019 were extended for 6 months. In respect of taxes (excluding value added tax, professional income tax, withholding taxes) and advance payments due for March and the first quarter of 2020 the deadlines were extended for 6 months. For taxes, which were due for the periods April-June and for the second quarter and the first half of 2020, the deadlines were extended for 4 months, etc.

Another significant mandatory payment in Russia are insurance contributions, the deadlines of which were extended as follows: for the period from March to May 2020 – for 6 months, for the period from June to July 2020 – for 4 months.

The above measures may look impressive, but unfortunately, they can be used by a limited list of taxpayers. They may be applied by taxpayers that: (a) meet the criteria for small and medium-sized enterprises (SMEs), (b) are recorded in the register of SME as of 1 March 2020, and (c) operate in

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<sup>1</sup> Resolution of the Government of the Russian Federation No. 409 dated 04.04.2020 (as amended by Resolution No. 570 dated 24.04.2020)

the economic sectors most affected<sup>2</sup> by Covid-19. All these requirements must be fulfilled in order to be eligible for these benefits.

In order to qualify as SME, a company must meet the following criteria:

- 1) average number of its employees shall not exceed 250;
- 2) its annual income shall not exceed RUR 2 billion;
- 3) state and municipal authorities, as well as certain other legal entities, cannot own more than 25% of its share capital;
- 4) foreigners (foreign citizens and foreign companies) cannot own more than 49% of its share capital.

There are only a few exceptions to the above restrictions, e.g. criterion 4 is not applicable in case foreign companies can be qualified as SME themselves, because they meet criteria (1) and (2) mentioned above (this is not applicable to foreign companies - residents in offshore jurisdictions listed by the Ministry of Finance of the Russian Federation).

### ***Group 2: Extension of the deadlines for submitting tax returns and tax calculations***

The Russian Government has also extended a number of the deadlines for submitting tax returns and tax calculations.

For instance, deadlines for submitting tax returns (except for VAT returns), tax calculations of withholding taxes, personal income tax calculations, calculations of advance payments, financial (accounting) reports, falling within the period from March to May 2020, were extended for 3 months.

Deadlines for submitting VAT declarations (with record book) for first quarter and calculation of insurance contribution for first quarter were extended until 15.05.2020.

These extensions may be applied to all taxpayers.

### ***Group 3: Suspension of tax control***

The Government also suspended until 31 May 2020 the performance of various tax control measures, e.g. adopting a decision concerning performance of onsite tax audits, terms for taking decisions upon results of tax audit, initiation of control on currency legislation compliance, adopting a decision concerning suspension of operation with bank accounts, etc.

This suspension shall be applied to all taxpayers.

### ***Group 4: extension of deadlines following period of non-working days.***

Due to the Covid-19 emergency, the Russian President declared certain days as non-working days and extended some deadlines for payment of taxes and submitting tax returns.

Initially the President declared<sup>3</sup> that the days from 4 to 30 April were non-working days. Afterwards, this period was extended<sup>4</sup> so as to include also the days from 6 to 8 May. The tax legislation<sup>5</sup> establishes that when a particular term falls in a non-working day (such as weekend, holidays,

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<sup>2</sup> The list of the 'most affected sectors' is established by Resolution of the Government of the Russian Federation No. 434 dated 3 April 2020 (as amended by Resolution No. 479 dated 10.04.2020, No. 540 dated 18.04.2020, No 657 dated 12.05.2020).

In order for a company (or individual entrepreneur) to be considered as doing business in the 'most affected sector', as of 1 March 2020 its code of main business activity stated in the Unified state register of legal entities (or in the Unified state register of individual entrepreneurs, as the case may be) must correspond with the codes listed in Resolution No. 434 (as amended).

<sup>3</sup> Decree of the President No. 239 dated 2 April 2020

<sup>4</sup> Decree of the President No. 294 dated 28 April 2020

<sup>5</sup> Paragraph 7 of article 6 of the Tax Code of the Russian Federation

etc.), the deadline shall be postponed until the following working day. As a result, deadlines for submission of tax returns and tax calculations, as well as for payment of taxes, were extended for the period of non-working days declared by the President and for the period of ordinary holidays in May.

It is worth noting that the presidential decrees do not apply to some categories of companies listed therein, such as continuously operating organizations, medical and pharmacy organizations, etc. These companies must submit tax returns and pay taxes within the ordinary deadlines without possibility to avail themselves of the prolongation.

### **Group 5: granting deferrals on individual basis**

New rules for providing deferrals (or payment by instalments) for taxes, advance payments and insurance contributions were adopted by the Government<sup>6</sup> (the “Rules”). They establish the procedure for granting deferrals (instalments) for payment of taxes, advance payments for taxes and insurance contributions on an individual basis. More in particular, the Rules specify conditions for provision of deferrals, list of taxes, which may be deferred, term of deferral.

The deferrals may be requested by taxpayers doing business in the ‘most affected sector’, as of 1 March 2020 and by strategic, system-forming and city-forming companies affected by the deterioration of the situation due to the spread of the infection and doing business in other sectors of economy.

As the situation develops, it becomes obvious that the above tax measures may be insufficient to support Russian businesses and, in particular, SME. Therefore, in the future other benefits and allowances may be expected. For example, the President has already suggested that the government should consider possibility to exempt SME from taxes (except VAT) and from insurance contributions for second quarter of 2020.

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Il presente articolo ha esclusivamente finalità informative e non costituisce parere legale.


*This article is exclusively for information purposes, and should not be considered as legal advice.*



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<sup>6</sup> Resolution of the Government of the Russian Federation No. 409 dated 04.04.2020 (as amended by Resolution No. 570 dated 24.04.2020)

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