



Key changes in taxation of personal income in Russia effective from 2021



Changes in Personal Income Tax effective from 1 January 2021

The Personal Income Tax rate will be increased to 15% for individuals who earn more than 5 million rubles per calendar year.

	up to RUB 5m	over RUB 5m
Income earned by Russian residents; income earned by non-residents that is taxed at the resident rate; income earned on deposits opened with Russian banks	13%	15%
Income earned by non-residents pursuant to the general rule	30%	

The increased rate will not be applicable to

- proceeds from the sale of a property and/or an interest in a property (except for securities)
- the value of a property received as a gift (except for securities)
- payments under insurance contracts and pension payments.

Standard, social, property and investment tax deductions will be applicable for calculation of only so called "general tax base" (which includes salary but does not include income from transactions with securities).

If an individual earns income from several sources in Russia and its total amount exceeds 5 million rubles per year, the tax authorities will reassess personal income tax. The individual will not have to file a tax return. The tax will have to be paid based on a tax assessment notice issued by the Russian Tax Authorities by 1 December of the next year.

If an individual receives income from abroad, he/she should file a tax return and pay tax on a self-assessment basis.



Changes in taxation of interest income on deposits/balances of accounts opened with Russian banks

Income exempt from taxation

now	from 2021
<ul style="list-style-type: none"> • interest income on deposits/accounts in Russian rubles if its amount does not exceed the key rate of the Bank of Russia increased by 5 p.p. (the rate exempt from taxation as of 2 December was 9.25% p.a.) • interest income on deposits/accounts in foreign currencies if its amount does not exceed 9% p.a. 	<ul style="list-style-type: none"> • interest income in the amount of 1 million rubles multiplied by the key rate of the Bank of Russia as of 1 January (if the key rate as of 1 January 2021 remains 4.25%, the amount of interest income on all deposits/accounts exempt from personal income tax will be 42.5 thousand rubles) • interest income on deposits/accounts in Russian rubles with the rate not exceeding 1% during the whole tax period • interest income on escrow accounts

All interest on deposits/balances of accounts opened with banks in other countries is still subject to personal income tax.



'Fixed' tax on income of controlled foreign companies (CFCs)

(RUB)

Year	Fixed CFC profit	Personal income tax rate	Personal income tax amount
2020	38,460,000	13%	4,999,800
2021	34,000,000	15%*	5,100,000

* Based on the assumption that 15% is applicable.

If an individual chooses to apply the 'fixed' tax regime, he/she will have to pay personal income tax as a lump sum, no matter how many CFCs he/she owns and whether they are actually profit-making or loss-making.

To be eligible for that regime, individual should file a special application with the tax authorities

- until 1 February 2021 for the year 2020
- until 31 December of the year of the first application of the flat tax regime for all subsequent tax periods.

If selected, the flat tax regime should be applied for at least five years (or three years for 2020 and 2021). If the fixed profit amount changes, the application may be discontinued earlier.

Please note that there are risks of double taxation:

- personal income tax paid on the fixed profit of a CFC is not taken into account in case of the distribution of dividends from CFC actual profit. Dividends will be subject to personal income tax pursuant to the general rule in addition to the tax on the fixed profit
- the flat tax regime does not allow individuals to offset the tax paid on profit of a CFC in other jurisdictions.

Individuals who choose to apply the mentioned tax regime will not need to file financial statements of their CFCs and related auditor's reports with the Russian tax authorities any more. They will still need to file annual CFC notifications, but the deadline will be moved from 20 March to 30 April.

Although the deadline for filing notifications will be moved, the fine for the failure to file a notification will be increased from 100 to 500 thousand rubles. The fine will be imposed irrespective of the tax regime selected.

It will be possible to offset losses that a CFC incurs during the application of the new regime only after its application is discontinued.

Those who will choose to continue paying taxes on the actual profit of CFCs will face bigger fines of up to 1 million rubles in case of the failure to provide documents supporting profit/loss of their CFCs if that information is requested by the tax authorities. The failure to provide financial statements along with a CFC notification will be subject to a fine of 500 thousand rubles.

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