

# Bellerage Alinga

Quarterly 4/2020

Dear Clients and Partners,

2020, an exceptional year for all of us, is coming to its end. Surely, some will look back on it as a bad year, others value their new experiences. Some companies found new ways to optimize their business processes, others newly appreciate to work with people face-to-face. Many companies spontaneously and successfully realized remote work for all of their employees.

Bellerage Alinga has been in and out of lockdown, providing our services without even a single day missed out, with Bellerage Online, Electronic Document Interchange and our very own business-process automation as key helpers. Our company is continuing to grow and was recently awarded “SME of the Year” by the American Chamber of Commerce.

So whatever the new year has coming for us, we will be here to support our clients in difficult times as well as in times of growth. With the latter being the obviously preferable option, we wish you all a Healthy, Happy and Successful 2021 – and a Merry Christmas!

Jaclyn Shvets

Client & Partners Relations



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## Branches of foreign companies will be able to obtain licenses in Russia

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According to a considered bill, foreign companies will no longer need to register a separate entity (LLC or JSC) in Russia in order to obtain a license there. Presumably, branches of foreign organizations will be admitted to licensing in the same way as Russian companies. 52 types of activities fall under this project, the most popular are: education, medicine, passenger transport and pharmaceuticals.

The main goal of the bill is the influx of foreign businesses into the Russian Federation. Moreover, foreign companies already operating in Russia will be able to engage in previously inaccessible areas of business. This will lead to the creation of new work places.

Currently, it is impossible to obtain a license in the Russian Federation without creating an independent legal entity which is included into the Unified State Register of Legal Entities (ЕГРЮЛ).

It should be noted, that opening a branch can be more profitable for a foreign business than creating a separate organization. For example, for branches a simpler procedure for obtaining financing from the parent company is available.

*Our consultants will be happy to consider the advantages and disadvantages of different forms of presence in Russia for your business*

**Author: Vyacheslav Yakovlev**



# Important changes in taxation of dividends and share sales

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On November 23, amendments were adopted to certain articles of the Tax Code of the Russian Federation.

Here, we take note of the main changes of corporate income tax discount rates.

## Company shares / corporate equity sales allowances

As a rule, share sale income held for more than 5 years is not subject to tax.

**Allowances are cancelled** in those instances where more than 50% company's assets is composed of real property assets located on the territory of the Russian Federation.

## Zero dividend discount rate

The preferential zero discount rate on dividends payment for foreign companies, which "voluntarily" avowed themselves as tax residents of the Russian Federation, **is cancelled**. Previously, the this applied only to companies that were forcibly assigned this status.

However, from 01.01.2021 to 31.12.2023 a transitional period was introduced, during which the right to the benefit are saved, pending the following conditions:

- the foreign organization continuously holds at least 50% of the shares over the course of one year;
- the source and recipient companies of dividends **are not registere in a state blacklisted** by the Ministry of Finance (otherwise the benefit will be lost from 2021);
- dividends (received from Russian companies) are credited to **accounts of Russian banks**.



Author: Evgenia Soldatkina

## Fixed CFC tax for individuals

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On November 3, the Federation Council approved a bill which allows owners of controlled foreign companies (CFCs) to pay tax in the amount of 5 million RUB on the fixed CFC profit and to not report actual profit of a foreign company.

The innovation is beneficial to those, who own one or more CFCs with a total profit for 2020 of at least 38.5 million RUB, and for 2021 - 34 million RUB, as in 2021 the tax rate will increase from 13% to 15%.

In order to start using the new mechanism from 2020 on, an individual has to submit an application to the tax authority at the place of residence by February 1, 2021. In the future, the application shall be submitted before the end of the year in which the transition is planned.

When switching to the new mechanism in 2020 or 2021, the company is obliged to apply it for at least 3 years, and when switching from 2022 - for at least 5 years.

The payment of 5 million RUB tax does not exempt dividends distributed in favor of an individual from taxation; however, it mitigates the risk of a fine for non-filing the reports which ranges from 0.5 to 1 million RUB for each violation.

**Author: Anna Avanesova**



## New Mechanism for Protecting Large Investments Launched in Russia

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The government of the Russian Federation has signed decrees which allow practical application of the "Law on Protection and Encouragement of Investment in the Russian Federation" that had been adopted in April 2020.

Companies investing in strategically important areas of the economy now can conclude an agreement with the Ministry of Economic Development, which guarantees that tax conditions (on income tax, property tax, transport tax, land tax and VAT) will not impair for up to 20 years. In addition, if the amount of capital investments exceeds 10 billion rubles, the amount of non-tax payments (import duties, forest fees, etc.) can also be fixed for a period of up to 3 years. The terms of use of the agreement depends on the volume of investments, and for some industries there is a minimum investment limit.

The "pilot mode" of the project will operate until April 2021, with signing agreements on paper. Further, it is planned to launch a special platform "Investments", which shall become an investment navigator for businesses.

The law does not apply to the gambling industry, production of tobacco and alcoholic beverages, liquid fuel, oil and gas production, as well as projects with foreign jurisdiction.



**Author: Olga Treschilova**

## Changes to international tax agreements

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In September and October 2020 Russia signed protocols to amend the double tax treaties (hereinafter– “DTT”) with Cyprus, Malta and Luxembourg

Thus, starting from January 1, 2021, payment of dividends and interest to residents of those countries (companies or private individuals) will be subject to a Russian withholding tax of 15% in most cases.

The reduced tax rate 5% will be applicable only in exceptions:

- the beneficiary is a bank, insurance company, retirement fund or listed company (under certain conditions)
- interest charges on bonds traded on registered stock exchanges.

The amendments do not affect royalties.

It should be noted, that currently Russia plans to denounce the DTT with the Netherlands, as this country has not agreed to introduce amendments (increase of the tax rates) proposed by Russia.

**Author: Timur Nurmukhametdinov**



## Uncertainty about Payment of Interim Dividends Resolved

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Previously, legislation did not determine what companies should do, if paid interim dividends turned out to be more than net profit at the end of the year.

In this regard, IFNS had the right to recognize unduly paid dividends as other income for their recipient, which led to tax consequences for both the organization and its owners.

On October 15th the Ministry of Finance published a letter that resolves this uncertainty. Now, if dividends paid during the year turned out to be more than net profit, they are not reclassified as other income. The document has already been sent to all tax authorities.



**Author: Marina Kukshinova**





## Key focuses of the tax policy for 2021-2023

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On October 10, 2020 the Russian Ministry of Finance published information about the key agenda of the fiscal policy for the next 3 years.

Among other things, this document describes the tax areas which require amendment and therefore should be subject to the special attention of the state authorities during the next years.

The list of issues to be reviewed includes:

- Expansion of the list of insurance expenses which can be deducted for corporate income tax purposes;
- Extension of the limitation of the maximum amount of previous years losses, which can reduce the tax base for the current period;
- Unification of the approach how the supplier's services location is determined for VAT purposes (in all cases at the location of the customer);
- Voluntary tax registration of any foreign company via the online portal "VAT office". Previously, this option was available only to the suppliers of e-services;
- Cancellation of property tax exemption for movable property and simultaneous reduction of the property tax rate;
- Adjustment of the legal and tax parameters for companies working in special administrative regions ("SAR").

**Author: Timur Nurmukhamedov**

