

Russia – Tax Changes for IT Sector

PETERKA & PARTNERS Russia is closely monitoring the new regulations and policies set by the Russian government that may have an impact on normal business activities, and providing analysis of the latest tax law developments in order to inform our clients and business partners.

Below you will find information on recent tax developments for IT Sector in Russia.

A considerable decrease in the tax burden for certain IT companies in Russia has recently been introduced; the new tax benefits will take effect on January 1, 2021. The new measure is focused on the creation of attractive tax conditions for IT start-ups and the relocation of existing IT companies in Russia. The following tax burden decrease will be introduced:

- profit tax rate: 3% instead of 20%;
- social contribution rate: 7.6% instead of 14% (temporary rate, till the year 2023).

Tax relief is provided for the following types of Russian IT companies: first, for IT companies developing and selling computer software, databases, or their adoption and modification, installation, testing and maintenance (software developers), and second, for those companies engaged in engineering and developing electronic products (electronics developers).

Tax relief may only be applied by IT companies if the following conditions are observed simultaneously:

- state accreditation of the company performing the activity in the sphere of information technology must be obtained for the developers/or the company must be included in the register of companies performing engineering and developing of electronic products (for electronic developers),
- the revenue from certain IT transactions must comprise not less than 90% of the total income of the IT company. Such IT transactions are the provision of self-designed software and additional software functionality (including those provided via remote access). Revenue from the provision of the software used for advertising, searching for clients and contract conclusion is not included in IT transactions for the purpose of calculation of the 90% threshold;
- the average number of employees should be at least 7.

Currently, VAT exemption relevant to the provision of program software based on a licence agreement is in force. As of 2021, VAT exemption is to be relevant only to the provision of software included in the Unified Register of Russian Software, save for the software used for advertising, searching for clients and contract conclusion. This measure restricts the application of the currently effective VAT exemption by foreign software developers.

Please note the above changes when considering any IT transactions, in particular if you are currently applying VAT exemption.