

Taxation of foreign private individuals in Russia:

Income tax - issues to consider

When engaging in a working activity in the Russian Federation one of the key aspects for the taxation regime in Russia is the tax residency of an individual.

An individual who is a Russian tax resident is taxed on his worldwide income, whereas non-residents are taxed on the income derived from a Russian source (such as dividends and interest payments, insurance payments, income from the use of IP-rights, remuneration for the works carried out or services provided, etc.).

To be considered a Russian tax resident an individual has to factually spend in Russia at least 183 days during 12 consequent months of the calendar year (including the day of departure and, as recently introduced, the day of arrival), whereby this period shall not be interrupted if the individual leaves Russia for a short-term period (less than 6 months) for medical treatment or education.

Furthermore the recent legislation developments prescribe, as of July 1st, 2010, that highly-qualified foreign employees and workers hired as private individuals on the grounds of a patent are entitled to obtain certain privileges in the sphere of tax payments regardless of their residency. In order to qualify for a highly-qualified employee a foreign citizen is supposed to possess work experience, skills or achievements in a particular sphere provided that the yearly salary shall be not less than 2 million Rubles (approximately 3.900,00 Euro per Month).

The income tax in Russia covers following types of income: salary (including bonuses and allowances), self-employment income, dividends, interests and capital gains.

Tax residents and highly-qualified employees are paying the personal income tax at the flat rate of 13% as opposed to non-residents, whose income is subject to the rate of 30%. The income in form of dividends is taxed differently: residents pay 9%, and non-residents 15%.

Tax residents are also entitled to various tax deductions: standard (for different categories of residents – whose income does not exceed 40.000,00 Rubles per Month, disabled people and former military servants in particular situations, etc.) social (in certain cases for residents engaged in charity, acquiring education, medical assistance etc.), property (in case of sale,

new construction or purchase of real estate, etc.), and professional (individual entrepreneurs, authors, etc.).

The “tax agents” (i.e. the employers: Russian organizations, individual entrepreneurs, representative offices of international organizations, notary’s or attorney’s offices) withhold the amount of income tax automatically each month from the salary of their employees and transfer these sums to the budget.

Tax declarations for the income tax of private individuals (3 NDFL) are to be submitted to the tax authority no later than April 30th of the year following the tax period, whereas the individuals registered as individual entrepreneurs, notaries and attorneys must fill in and submit to the tax authority the preliminary tax declaration of the pre-estimated income for the upcoming tax period. Thereby if a foreign individual during the calendar year ceases his activity in Russia and leaves the Russian Federation, he must submit the tax declaration 3 NDFL reflecting the factual income received in Russia no later than one month before leaving the Russian Federation. The deadlines for payments of preliminary taxes are July 15th (for January – June), October 15th (for July – September), January 15th (for October – December of the previous year), and for the final tax July 15th (for the previous year).

Currently there are 77 Treaties on Avoidance of Double Taxation in force between Russia and other states (a list of countries you can find here: http://www.consultant.ru/document/cons_doc_LAW_63276/). Having submitted a proof of residency in a country with which Russia has signed a Double taxation relief treaty together with a proof of payment of a foreign tax a foreign private individual can apply (depending on the provisions of a treaty at stake) either for a tax exemption or a tax credit (thereby the credit cannot be higher than the amount of tax to be paid in Russia on this income).

Conclusion: Proper and correct taxation of your income in Russia requires in the first place consideration of the following issues: the status of an individual, applicable tax rate depending on the type of income, possible applicable tax deductions, necessity and deadlines for submitting declarations and deadlines for payment of tax, as well as the provisions of the eventual Treaty on Avoidance of Double Taxation.

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