

# Newsletter

## *New VAT obligations for the non-Russian providers of B2B electronic (online) services*

November 16, 2018

Dear Ladies and Gentlemen,

We would like to inform you about the new VAT obligations for the non-Russian providers of B2B electronic (online) services that will come into force on January 1, 2019.

- **Background**

Starting January 1, 2017, non-Russian companies providing electronic (online) services (e.g. provision of rights to use software, streaming music, films, gaming services, hosting, website and webpage support, etc.) to Russian individuals (B2C) and non-Russian intermediaries involved in settlements with such individuals are obliged to register with the Russian tax authorities for the purpose of paying VAT<sup>1</sup>.

Based on the official information provided by the Federal Tax Service of the Russian Federation, more than 160 providers of electronic services and electronic platforms / intermediaries have already registered with the tax authorities and pay VAT in Russia at the rate of 15.25% on the gross value of services provided (starting January 1, 2019, the tax rate will be increased to 16.67%).

- **New rules**

In accordance with the changes coming into force from January 1, 2019, the above mentioned obligations will be extended to non-Russian companies and intermediaries providing electronic services to Russian B2B market (legal entities and individual entrepreneurs), while the current existing reverse charge mechanism for B2B electronic services will be terminated.

As Russia is not a member of OECD, these obligations were adopted despite OECD's recommendations not to extend them to B2B market. Also, they were set without any thresholds on the value of electronic services. Thus, starting 2019, non-Russian providers will be obliged to register with the Russian tax authorities, even if the value of electronic services is insignificant. Registration will also be obligatory even if the electronic services are VAT-exempt in Russia (e.g., provision of rights to use software and databases under the license agreements).

The deadline for such registration is February 15, 2019 and applies to non-Russian providers / intermediaries that are not currently registered with the Russian tax authorities.

Although the registration procedure via personal account using the online VAT Office is quite simple, non-Russian providers will be obliged to prepare VAT declarations on a quarterly basis, calculate and pay VAT. Further, the Russian tax authorities will be able to perform tax audits in respect to submitted tax declarations and request additional information/documents they may find necessary for the case.

If non-Russian providers/ intermediaries fail to register with the tax authorities, they could be subject to various tax penalties and certain negative consequences may arise for the Russian purchasers of electronic services (e.g. non-deductibility of VAT paid).

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<sup>1</sup> Except for the cases when such services are provided through the Russian branch office / through a permanent establishment.

- **Recommendations**

We recommend checking current business models connected with provision of electronic services in Russia and analyzing roles of Russian and non-Russian intermediaries (if any) in order to be compliant with the upcoming regulations.

ALRUD law firm has extensive experience in provision of tax advises and comprehensive support to clients in tax issues. ALRUD lawyers will be glad to answer any additional questions about innovations in corporate taxation and other tax spheres.

We hope that information provided herein is useful for you. If any of your colleagues would also like to receive our newsletters, please let us know by sending us his/her email address in response to this message. If you would like to learn more about our **Tax Practice**, please let us know in reply to this email. We will be glad to provide you with our materials.

*Note: Please be aware that all information provided in this letter was taken from open sources. The author of this letter and ALRUD Law Firm bear no liability for consequences of any decisions made in reliance upon this information.*

If you have any questions, please, do not hesitate to contact a Senior Partner of ALRUD Law Firm



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