Tax Flash Report
PwC experts

On tax manoeuvre and other issues

September 2014 / Issue No. 25

Summary

The Russian Federation government has posted a bill to amend the Russian Tax Code (RTC) [1]. For our clients, the most relevant RTC amendments contained in the bill are as follows:

- Export customs duties and excises imposed on oil and oil products would be cut while the Mineral Resources Extraction Tax (MRET) would be increased. The cap on export customs duties on crude oil would be cut from 59% to 30% by 2017. Customs duties on exports of commercial petrol would be slashed from 90% down to 30%, whereas the rate for distilled petrol would fall from 90% to 55% of duty on oil. Fuel excise taxes would be reduced (with a sharp twofold decrease in the rates on petrol and diesel fuel, aside from those in classes 3, 4 and 5[1]). In contrast, there would be a twofold increase in the base MRET rate on oil (rising to RUB 918 per tonne). As a result of these proposed tax manoeuvres, over a three-year span the burden on fuel exporters would be eased and shifted onto producers.

- The tax on dividend income would increase from 9% to 13% for both individuals and legal entities. As this legislative initiative has not yet been subject to extensive public discussion, though, it's still too soon to assess its prospects.

- The proposed amendments would make changes to VAT and excise taxes as well and introduce new rates on excisable goods for 2015-2017.

The bill has not yet been formally submitted to the Russian State Duma.

[1] The class of petrol would be determined in accordance with Russian Government Resolution No. 118 of 27 February 2008.

Details

Latest tax manoeuvres in the oil and gas industry

Export customs duties on crude oil and oil products would be scaled down significantly while export customs duties on fuel oil would rise (up to 100% of the duty on crude oil over three years).

The resulting shortfall in tax receipts would be compensated for by the increased MRET rate on oil.

The particulars of the proposed amendments are as follows:

Export customs duties on crude oil

The current rate for crude oil at the established price of more than USD 182.50 per tonne is calculated using the following formula:

$Rate_{oil} = 59\% \times (Price_{oil} - 182.50) + 29.2$, where

$Price_{oil}$ is the price of oil in the European market.

The bill calls for significantly decreasing the cap rate.

Current legislation (2014)	Draft legislation		
	2015	2016	2017
59%	42%	36%	30%

Export customs duties on oil products

Currently, setting the formulas for calculating the rates of duties on oil products is entirely the prerogative of the Russian government. According to the method approved by the Russian government, the rate of the duty on certain categories of petroleum-based products is determined in accordance with the duty on oil using the following formula:

$Rate_{oil\ product} = Ratio \times Price_{oil}$, where

$Price_{oil}$ – export duty on oil,
Ratio – the calculation ratio currently set by the Russian government.

The bill would cap the rates of duties on certain categories of petroleum-based products. To that end, the calculation ratio would be capped as follows.

The ratio for light and middle distillates:

Current legislation (2014)	Draft legislation		
	2015	2016	2017
66%	48%	40%	30%

The ratio for commercial petrol:

Current legislation (2014)	Draft legislation		
	2015	2016	2017
90%	78%	61%	30%

The ratio for distilled petrol:

Current legislation (2014)	Draft legislation		
	2015	2016	2017
90%	85%	71%	55%

The ratio for fuel oil:

Current legislation (2014)	Draft legislation		
	2015	2016	2017
66%	76%	82%	100%

MRET rate on oil

The base MRET rate on oil (RUB per tonne) would see a nearly twofold increase:

Current legislation (2014)	Draft legislation		
	2015	2016	2017
493	775	856	918

Moreover, the tax assessment formula would be changed. The base rate would be multiplied by the ratio for global oil price dynamics and further decreased by the indicator for the specifics of oil production (calculated also by the formula under new Article 342.5).

Fuel excise taxes

Increased costs for producing oil products brought about by the higher MRET are expected to be partially compensated for by a decrease in fuel excise taxes.

Excise rates on petrol fuel (RUB per tonne):

Class	Current legislation (2014)	Draft legislation		
		2015	2016 year	2017 year
Not belonging to classes 3, 4 or 5	11,110	7,300	6,200	5,100
Class 3	10,725			
Class 4	9,916			
Class 5	6,450	4,200		

Excise rates for diesel fuel (RUB per tonne):

Class	Current legislation (2014)	Draft legislation		
		2015	2016	2017
Not belonging to classes 3, 4 or 5	6,446	3,000	3,000	3,500
Class 3				
Class 4	5,427			
Class 5	4,767	2,300		

Excise rates for motor oil (RUB per tonne):

Current legislation (2014)	Draft legislation		
	2015	2016	2017
8,260	6,500	6,000	6,000

Excise rates on distilled petrol (RUB per tonne):

Current legislation (2014)	Draft legislation		
	2015	2016	2017
11,252	11,300	10,500	9,700

Excise rates on household fuel oil (RUB per tonne)

Current legislation (2014)	Draft legislation		
	2015	2016	2017
6,446	3,000	3,000	3,500

Other MRET changes:

- Certain clauses of RTC Article 342 concerning the zero MRET rate on oil produced in specific fields (including fields in the Republic of Sakha (Yakutiya), the Irkutsk Region, and the Krasnoyarsk Territory) would be rescinded. A new clause with a list of feeder fields that are eligible for the zero tax rate under certain conditions would be introduced.
- The MRET rate calculation for gas would be adjusted under a new version of RTC Article 342.4 on the procedure for calculating the base amount of hard coal equivalent($E_{ут}$), the rate reflecting the complexity of producing gas and/or gas condensate in a raw hydrocarbon deposit ($K_{с}$), and the indicator of expenses for transporting gas ($T_{г}$). Additionally, specific concepts regarding the calculation of these ratios are specified.
- The MRET rate calculation for gas condensate would be changed to include the new adjustment ratio ($K_{КМ}$).

Other proposed excise tax changes

The bill proposes making major amendments to RTC Chapter 22 “Excises”. These amendments are largely due to the introduction of new types of excisable goods.

New excisable goods

The following new types of excisable goods would be introduced: benzene, paraxylene, orthoxylene and jet fuel.

The proposed amendments set relevant rates, the specifics of calculating excise tax on transactions with such goods, and the procedure for determining the tax base. The tax base is set as the volume of goods received in kind.

Furthermore, the amendments would introduce the concept of accelerated excise deduction using a multiplying ratio for certain types of excisable goods and the deduction procedure.

Natural gas is also treated as an excisable good if it is taxable under an international treaty that Russia is a signatory to. The bill sets out the procedure for levying excise taxes on natural gas.

Excise tax rates up to 2017

The proposed amendments set the new tax rates for excisable goods for 2015, 2016 and 2017. Note the following changes as compared to the excise rates now in effect:

- Lower growth dynamic for excise rates on alcoholic beverages;
- Increased excise rates on cigarettes and smokables. Introduction of different rates on smokables and cigarettes in consumer packages (either ad valorem or fixed) and without such consumer packages (fixed).

The tax rate for natural gas would be fixed at 30% of the cost of natural gas sold, unless otherwise determined by international treaty.

Taxation of dividends

The tax rate for dividend income is slated to increase from 9% up to 13% for both individuals and legal entities. The current rate of 9% would no longer apply.

Other tax rates for dividends (0% on dividends earned by Russian legal entities under certain strategic participation terms, 15% on dividends earned by non-resident individuals from Russian legal entities, 15% on dividends earned by foreign legal entities from Russian legal entities) would remain unchanged.

VAT

The bill would supplement RTC Article 170 with a new clause stipulating that taxpayers cannot deduct (should include in the cost) input VAT for capital construction, construction and installation work, and purchases of real estate (fixed assets) using federal budget funds, including such funds received as charter capital contributions.

RTC Article 170.3.6 would also be amended to expand the grounds for its application. Under these amendments, input VAT amounts that were previously deductible would be restored if funds were allocated from the federal budget, including as charter capital contributions. Under the current version, this rule is applied only when subsidies are received from the federal budget.

Water tax

Taxpayers will be only the companies that use water facilities subject to licensing. Meanwhile, the rates of this tax would go up. The rate increase would be gradual, lasting up until 2020, when an annual deflator ratio would be applied to the previous year's ratio.

What does this mean for you?

The government's bill is still at the discussion stage and, thus, its current text may be subject to significant changes.

But, from the current version of the bill, we can assume that the changes proposed for the oil industry would require a new procedure for calculating taxes, and may trigger a future need to reconsider management and investment decisions regarding specific projects as the economics of the industry change.

The proposal to increase the tax rate on dividends from 9% to 13% is quite unexpected for taxpayers. This measure was not featured in the *Main Tax Policy Trends up to 2017*, a policy document recently approved by the Russian government. The new dividend rate would inevitably result in an increased tax burden on Russian investors and could somewhat hamper their investment activities.

At this stage, we recommend that businesses play an active role in the public discussion of the new bill's proposed tax law amendments so that these latest manoeuvres don't end up becoming a dangerous stunt, and the proposed tax initiatives are consistent and well thought-out.

[1] http://regulation.gov.ru/project/16205.html?point=view_project&stage=2&stage_id=12025

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We would be happy to answer your questions.

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