

## Russia: Taxpayers to deduct VAT on export services as of 1 July 2019

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The Russian Government, on 15 April 2019, published a Federal Law<sup>1</sup> that allows taxpayers to deduct value-added tax (VAT) on goods (work, services) used in providing services outside Russia (i.e., when "exporting" services<sup>2</sup>).

VAT charged to or paid by a taxpayer when goods are imported into the Russian Federation and other territories under its jurisdiction, in cases where Russia is not regarded as the place of supply under Article 148 of the Russian Tax Code, is generally nondeductible and must be included in the cost of such goods (work, services).

An exception will now be made for VAT paid on goods (work, services) used in exporting services that are VAT-exempt under Article 149 of the Russian Tax Code. The changes will also affect separate accounting for VAT and the calculation of proportions for input VAT deductions, since taxpayers will have to treat export services as VAT-able transactions for these purposes.

### **Next steps**

Taxpayers providing export services should work with their local tax professionals to address:

- Analysis of company services that contain elements of the services listed in Article 149 of the Russian Tax Code and whose place of supply is regarded as the seller's place of business

- ▶ Recommendations on the new separate accounting procedure for VAT and a review of compliance with other criteria for the deduction of input VAT
- ▶ Preparation of amendments to the company's accounting policy for tax purposes to minimize associated VAT risks
- ▶ Review of the potential for restructuring intra-group relations if VAT cannot be deducted by a tax agent
- ▶ Analysis of profits tax consequences if legislative changes prevent the taxpayer from treating input VAT in connection with exported services as expenses
- ▶ Support in modifying the ERP system and adjusting tax registers so that transactions are recorded in compliance with the new requirements

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## Endnotes

1. Federal Law No. 63-FZ of 15 April 2019 "On Amendments to Part Two of the Tax Code of the Russian Federation and Article 9 of the Federal Law 'On Amendments to Parts One and Two of the Tax Code of the Russian Federation and to Certain Legislative Acts of the Russian Federation Concerning Taxes and Levies.'"
2. More detailed information is provided in EY Global Tax Alert, [Russian State Duma approves new right to recover input VAT on exported services](#), dated 11 April 2019.

For additional information with respect to this Alert, please contact the following:

**EY Moscow, Indirect Tax**

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|---------------------|--|
| ▶ Vadim Ilyin       | <a href="mailto:vadim.ilyin@ru.ey.com">vadim.ilyin@ru.ey.com</a>             |
| ▶ Olga Odintsova    | <a href="mailto:olga.odintsova@ru.ey.com">olga.odintsova@ru.ey.com</a>       |
| ▶ Yulia Antipova    | <a href="mailto:yulia.antipova@ru.ey.com">yulia.antipova@ru.ey.com</a>       |
| ▶ Yulia Kolesnikova | <a href="mailto:yulia.kolesnikova@ru.ey.com">yulia.kolesnikova@ru.ey.com</a> |

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