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ACEA TAX GUIDE 2016

Russia

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1 IMPORT DUTIES

Russia continues to fulfill its commitments to the World Trade Organization (WTO) by downsizing a number of import duties. The automotive industry is among the frontrunners in this duty-reduction drive. By 2019, the rates will be reduced to 15% for new passenger vehicles, to 10-15% for various SUVs and to 20% for used vehicles (up to seven years old).

In 2016, the following import duties on passenger vehicles are in place for legal entities:

Vehicle type	Tariff, ad valorem
New vehicles (less than three years old)	25%
New full-size SUVs (kerb weight less than 5,000kg, engine size more than 4,200cc)	22.9%
Used vehicles (less than seven years old)	25%

For vehicles older than seven years, customs duty is realised at a specific rate depending on the engine size:

Petrol engine, size (cc)	Tariff (€/cc)
≤ 1,000	1.40
1,001-1,500	1.50
1,501-1,800	1.60
1,801-3,000	2.20
> 3,000	3.20

Diesel engine, size (cc)	Tariff (€/cc)
≤ 1,500	1.50
1,501-2,500	2.20
> 2,500	3.20

The customs duties payable by individuals importing passenger vehicles differ from those payable by legal entities. The following rates are applied:

New passenger vehicles (less than three years old), 48% if the value of the imported vehicle is less than €8,500 or 54% of the value of the imported vehicle is more than €8,500; used passenger vehicles (three years or older), between €1.5/cc and €5.7/cc depending on the engine size.

2 EXCISE TAXES

Excise tax is imposed on passenger vehicles (and motorbikes with a capacity of more than 150hp). The tax is payable on imported vehicles and on sales of taxable vehicles manufactured in Russia. The rates are:

Engine (hp)	Rate (RUR/hp)		
	2015	2016	2017
≤ 90	0	0	0
91-150	37	41	43
> 150	365	402	420

3 VAT

Sales and imports of vehicles are subject to VAT. The current VAT rate is 18%.

The collection of VAT is invoice-based. Every vendor (except small businesses, under a special tax regime) that provides 'taxable' goods charges VAT on its output and issues to the buyer a special invoice that indicates the amount of VAT charged. Buyers who are subject to VAT on their own sales (output tax) can deduct the input tax from their own VAT liability. The difference between the output tax and input tax is paid to the government (or a refund is claimed in cases of negative liability).

Since 2008, a special rule for trade-in of vehicles has been available. VAT is levied on the difference between the sale price and the purchase price (if the transaction is at arm's length).

VAT is charged on imported vehicles based on the customs value plus customs duty and excise tax. The import VAT is payable to the customs authorities under the customs clearing procedure and is deductible.

4 TRANSPORT AND LUXURY TAX

The transport tax is imposed on all types of vehicles including passenger vehicles and SUVs. Owners of registered vehicles are required to pay this tax. Dealers do not (as a rule) have to register vehicles that form part of their trading stock. Therefore, they are not charged transport tax.

The transport tax is assessed and payable on an annual basis. Individuals have to pay this tax once a year against a tax notification. Legal entities are required to file a tax return and to pay the tax in advance quarterly.

The federal government sets forth basic rates. The rates depend on the engine power (in horsepower). The regions of Russia (including, for instance, Moscow and St Petersburg) are entitled to increase (or reduce) the basic rates up to 10 times. Vehicles with an engine up to 150hp can be taxed at a lower rate (or completely exempted). Each region can impose different rates depending on the age of the vehicle or its CO2 emissions. As a result, the tax can vary significantly from region to region.

The following transport tax rates are currently in place (without the luxury surcharge):

Power (hp)	Basic rates (RUR/hp)	Moscow region (*) (RUR/hp)	St Petersburg region (*) (RUR/hp)
≤ 100	2.5	12	24
101-125	3.5	25	35
126-150	3.5	35	35
151-175	5.0	45	50
176-200	5.0	50	50
201-225	7.5	65	75
226-250	7.5	75	75
> 250	15.0	150	150

* As an example

The government is currently considering the possibility of transforming the transport tax into an ecological tax in one to two years.

Since 2014, a special surcharge has been imposed on luxury vehicles. The surcharge is applicable to passenger vehicles with a value of more than RUR 3 million. The surcharge depends on a vehicle's average value. The average value is determined by the Ministry of Industry and Trade based on data obtained from car manufacturers and official importers; if information from manufacturers and official importers is not available for any reason, it can be obtained from other sources (eg catalogues). As a rule, recommended retail prices for new basic models of corresponding vehicles are considered for the purpose of determining the value of vehicles subject to the luxury surcharge. The surcharge is applicable until a vehicle reaches a certain age; this age differs for different price categories of luxury vehicles.

Surcharge (coefficient to the transport tax)	Vehicle's value (million RUR)	Vehicle's age = taxation period (years)
1.1	3-5	2-3
1.3	3-5	1-2
1.5	3-5	< 1
2	5-10	< 5
3	10-15	< 10
3	> 15	< 20

5 DISPOSAL FEE

On 1 September 2012, the Government of the Russian Federation introduced a disposal (scrappage) fee on vehicles imported into Russia by adopting Resolution no. 870, dated 30 August 2012. Local manufacturers and importers of vehicles from the other countries of the Customs Union were exempted from that fee if particular conditions were met. After numerous discussions with the WTO and the EU, the approach was changed and a new resolution, Resolution no. 1291, dated 26 December 2013, was adopted. According to the new resolution, from 8 January 2014 the disposal fee is payable by all importers and local manufacturers without any exemptions.

The disposal fee is paid to the budget and should be used to stimulate the creation and development of an end-of-life vehicles (ELV) system in Russia (state support for dismantlers and recyclers). Payers of the fee are not responsible for the subsequent recycling of vehicles. The rates of the disposal fee for passenger vehicles differ depending on the vehicle’s engine displacement. The rates for used vehicles are significantly higher, in order to discourage imports of such vehicles.

Engine (cc)	Coefficient New vehicles	Coefficient Used vehicles (older than three years)
Electric engine	1.42	5.3
< 1,000	1.42	5.3
1,000-2,000	2.21	8.26
2,000-3,000	4.22	16.12
3,000-3,500	5.73	28.5
> 3,500	9.08	35.01

The above coefficients are applicable to the base tariff of RUR 20,000 for passenger vehicles.

The coefficients for calculation of the disposal fee for passenger vehicles imported by individuals for personal purposes are significantly lower than those for legal entities: 0.17 for new vehicles and 0.26 for used vehicles. These rates do not depend on the vehicle's engine displacement.

6 ASSEMBLY LEGISLATION

On 29 March 2005, the Russian Government adopted Resolution no. 166 introducing the notion of 'industrial assembly' and setting out conditions under which local automobile manufacturers could qualify for reduced import duties on imports of components for local assembly of certain vehicles, including passenger vehicles. At that time, the adoption of the resolution was an essential part of the government's strategy to rejuvenate the automotive industry through increased investments in local production.

Under the industrial assembly regime, local production included body welding, painting and assembling, the installation of passenger/cabin compartment equipment, the installation of the power unit, steering, suspension, exhaust system, electrical equipment and exterior components, and final control testing. In addition, the investor was required to have entered into a special agreement with the Russian Ministry of Economic Development.

Local manufacturers that participated in the industrial assembly regime were exempted from import duty for a large number of major components needed for the assembly of vehicles. For most other components, the rate of import duty was reduced to 3-5%.

At the beginning of February 2011, the Russian Government adopted new conditions for local manufacturers, introducing more rigid rules. Under the new conditions, foreign manufacturers can import parts and components under special conditions (zero or minimal import duties) until the end of 2020. The main requirements are as follows:

- production of 300,000 vehicles a year in completely new production facilities or 350,000 vehicles a year in existing facilities, which must be upgraded;
- not less than 30% of vehicles produced must have locally produced engines or gear boxes;
- the level of localisation must reach 60% during the first six years;
- SKD can be used as bonus for 5% of vehicles produced during the first three years of an agreement;
- manufacturers must create research and development centres.

7 INVESTMENT INCENTIVES

Various tax incentives are provided under federal and regional programmes.

Special economic zones have been created in some regions of Russia for industrial manufacturing (Lipetsk; Togliatti, Samara Region; Pskov; Elabuga, Republic of Tatarstan; Kaluga; Sverdlovsk Region) and for research and development (Zelenograd, Moscow; Tomsk; St Petersburg; Dubna, Moscow Region; Tatarstan). Furthermore, a special economic zone has been established in Kaliningrad on the basis of a special federal law.

To attract domestic and international businesses, many regions make tax incentives available in special areas according to the so-called cluster principle. The incentives provided by the regional legislation are similar to the tax regime in the special economic zones.

Although the tax regulations may differ in their details from region to region, the main attractions are a reduced profit tax rate and a reduced or zero rate for tax on property and/or land. For example, car manufacturers located in Moscow are entitled a lower, 13.5%, rate of corporate profit tax, payable to the budget of Moscow, and to a zero rate of corporate property tax.

In addition, a favourable depreciation regime is available to residents of the special economic zones. Federal law also provides for protection from changes in federal tax legislation.

Moreover, residents of special economic zones enjoy customs incentives. Specifically, in the territory of a special economic zone a free customs zone procedure applies, ie foreign goods may be imported to the special economic zone and used there without payment of customs duties and taxes, and without any non-tariff limitations.

Furthermore, in October 2015 a new investment opportunity arose in Russia: free port Vladivostok. This special cluster is situated in the Primorskiy region and is largely aimed at boosting the local economy. Residents of the free port are entitled to tax incentives, such as a reduced profit tax rate and reduced social security contributions rates. As in the special economic zones discussed above, a free customs zone operates in the territory of the free port.

OEMs' investments are located mainly in industrial clusters (eg Kaluga, St Petersburg):