

VAT will be deducted from digital purchases: Russian IT-companies will be able to save on transactions with foreign companies

The working group of the ANO “Digital Economy” (ANO CE; unites business representatives to work on the tasks of the national project of the same name) approved on November 13 a bill (available to Kommersant) on the procedure for deducting VAT on electronic services purchased from foreign companies, said “Kommersant” Deputy General Director of ANO CE Dmitry Ter-Stepanov. The development of the project was carried out on the basis of the Skolkovo Foundation, it follows from the documents. The document proposes to assign to Russian companies that buy electronic services, such as cloud services or the right to use software, from foreign ones, the right to independently pay VAT on them and present it with a deduction provided for by the Tax Code.

Now, uncertainty remains in this area due to the fact that since 2019 foreign IT companies are required to register with the tax authorities themselves and pay VAT in Russia, follows from the explanatory note. We are talking about changes to the so-called Google tax, in force in Russia since 2017. Since January 1, 2019, its scope has expanded to B2B transactions. For example, at the end of last year, Microsoft notified its Russian partners that it would include VAT in bills for digital services, Kommersant reported on December 27, 2018.

But some foreign companies providing electronic services did not register as taxpayers in Russia: according to the project developers, only 1.8 thousand companies did this, although “there should be much more”. The authors also indicate that, according to the Ministry of Finance, the growth of budget revenues in 2017 due to the inclusion of foreign companies in the number of VAT payers was to amount to 52.6 billion rubles, but in reality reached only 9.34 billion rubles.

For Yandex, many other Russian IT companies and start-ups, the purchase of electronic services is one of the main expense items, the possibility of deducting VAT on them is extremely critical, says Igor Alekseev, member of the regulatory work group at the ANO.

As commented by special tax adviser of Pen & Paper Andrey Lokis, it is not possible to deduct the VAT paid to a foreign supplier who has not been registered and has not issued invoices for services. According to him, the amendments will cover not only the IT business, but also any companies that purchase electronic services from foreign suppliers. “This may be the right to use software, services for booking tickets or hotels, a software product for enterprise management, and so on”, he explains. The bill is also extremely important for IT distributors, adds Alexey Melnikov, CEO of Marvel Distribution.

Summary: Russian companies can make it easier to receive a VAT deduction on digital services that they purchase abroad. Now this procedure is complicated by the fact that foreign IT companies themselves must register in Russia for tax accounting and pay VAT, but often they do not register. In the event if amendments are adopted, Russian partners will be able to become tax agents of foreign companies, what will help foreign companies to save significantly, including large domestic IT companies like Yandex.