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Tax changes for IT companies. What's new?

On 31 July 2020, the President signed the federal law No 265-FZ 'On Amendments to Part Two of the Tax Code of the Russian Federation'

One of the main changes introduced to the Tax Code by the federal law are amendments to the taxation of IT industries

The state has been supporting the IT industry over the past years. The adopted amendments make the Russian Federation as attractive as possible for the development of this industry and leave behind such recognised countries as India and Ireland which were considered the most loyal to the IT industry in the world's community.

In order to foster the IT industry for Russian entities that operate in the IT field, develop and deploy applications for computers developed by them, carry out activities for the design and development of electronic component base products and electronic (radio-electronic) products, it is planned as follows:

- to reduce from 2021 the current insurance premium rate from 14% to 7.6% for an indefinite period (mandatory pension insurance - 6.0%, mandatory social insurance in case of temporary disability and in connection with motherhood - 1.5% mandatory health insurance - 0.1%)

- to reduce the income tax rate from 20% to 3% (to the federal budget 3%, to the regional budget 0%)

- Revised is the VAT exemption procedure for operations to exercise exclusive rights to programmes included in the Unified Register of Programmes for Electronic Computers and Databases,

There are exceptions to this rule, according to the amendments made to sub-clause 26 of clause 2 of Article 149 of the Tax Code. The provisions of the sub-clause do not apply if the transferred rights consist in obtaining the opportunity to distribute advertising information in the information and telecommunication network Internet and (or) gain access to such information, post offers for the purchase (sale) of goods (works, services), property rights in the information and telecommunication network Internet, search for information about potential buyers (sellers) and (or) close transactions.

An entity applies the specified tax rates subject to simultaneously fulfilling the conditions as follows:

- the proportion of proceeds from the sale of services for the development and adaptation of computer programmes is at least 90% of the total income of the entity for the specified period.

Now, for the exemption purposes, the amount of income for determining the 90% threshold does not include income from the assignment of debt claims arising from the recognition of those incomes that are in the list of those considered for the purpose of applying the benefit.

This addition now allows IT companies to transfer the right of claim to a debtor, who has failed to pay for IT goods and services (works), without losing the right to apply the benefit.

- The average number of employees of the entity for the reporting period is at least 7 people.

In addition, in order to receive benefits, a company should obtain a document on state accreditation of entities operating in the IT field, in the manner established by the Russian Federation Government.

These changes in the Tax Code will significantly reduce the cost of insurance premiums, since the main share of costs in the cost price accounts for the payment of salaries to qualified employees and, consequently, contributions to Funds from the payroll fund.

According to the Federal Tax Service, a decrease in the rate of insurance premiums for IT companies will lead to budget losses to 23.1 billion roubles per year in 2021-2023. In 2024, lost income will increase by 67.2 billion roubles. It is assumed that by that time all IT companies will be able to pass accreditation and take advantage of the preferential tax treatment. The reduced income tax rate will increase budget losses to 15.8 billion annually.

Nevertheless, there is an opinion that the state will be able to compensate for its losses by abolishing the zero VAT rate on the sale of software. According to experts, the annual increase in VAT collection rate in the budget from the abolition of the zero rate will be about 42.5 billion.

In this case, IT companies will face the problem of the lack of the incoming VAT, since the lion's share of the costs in the industry falls on the payroll fund.

In this case, it is possible to predict an increase in the price of software, since IT companies are unlikely to dare to pay 20% VAT due to a reduction in their own profitability in the absence of incoming VAT.

Nevertheless, Prime Minister Mikhail Mishustin declares his intention to create favourable conditions for the export potential building for companies operating in the IT industry.

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