The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Implications of Tax Residency Status

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December 10, 2012





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Often, the benefits of Russian tax residency status are overlooked. However, Russian tax residency status gives a number of advantages, especially for real estate owners and investors. A Russian tax resident (a person who spends at least 183 days in Russia per year) qualifies for tax exemption when owning any type of real estate for three or more years. One scenario to take advantage of the tax exemption is to buy a residence instead of renting an apartment in Moscow. While residential real estate doesn't show rapid appreciation, it produces moderate returns of about 5 percent per year. One undermining factor is that local financing is too expensive to stimulate real estate investment.

Another scenario is to consider non-residential real estate to generate some passive income. The tax exemption is applicable not only to residential, but also to commercial, retail, and any other income producing real estate. In Moscow, commercial and retail properties demonstrate higher returns than in many other markets: 8-15 percent, and especially retail segment demonstrates great stability. Financing remains expensive, but becomes more justified with higher returns.

It is important to note, however, that the tax residency status is valuable only at the point of sale. Once a real estate investor leaves Russia and loses tax residency status, the tax becomes a burden: non-residents are subject to 30 percent tax on (effectively) sale proceeds. This also means that an investor can spend considerable time abroad, as long as he or she has tax-resident status at the time of the sale.

One way to mitigate this is to use "family connections" for those who have such. When investor's spouse has Russian citizenship, they can put the property into the Russian's spouse name. Even when such family leaves Russia, if the seller has an internal Russian passport with local permanent registration (propiska), they most likely will be viewed as a resident seller by tax authorities. Russian marital code provides security to the other spouse: unless agreed upon in writing, a spouse who doesn't hold the asset in their name still owns 50 percent of the asset and has to approve a sale in writing.

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