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Russian Tax Relief to Bypass 1.5M Small Businesses on Patent Regime

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Tax relief measures announced by the Russian government for small businesses will exclude around 1.5 million entrepreneurs operating under Russia's patent-based tax system, leaving many of the country's smallest firms facing higher tax burdens under a broader fiscal overhaul.

The proposed amendments, reported by Forbes Russia, would freeze until 2029 the revenue threshold at which companies using Russia's simplified taxation system (USN) become liable to pay value-added tax (VAT). The threshold would remain at 20 million rubles ($278,000).

However, entrepreneurs using the patent taxation system (PSN) would not receive the same relief. Under current plans, the revenue threshold for VAT liability on the patent regime will fall to 15 million rubles ($208,500) in 2027 and to 10 million rubles ($139,000) in 2028.

Russia introduced major tax changes in 2026 that expanded VAT obligations for parts of the small-business sector as the government sought additional revenue amid rising budget pressures driven by military spending and a slowing economy.

The patent taxation system is typically used by microbusinesses and sole proprietors with relatively modest turnover.

Under the regime, entrepreneurs purchase a patent allowing them to conduct specific business activities and are exempt from property tax, personal income tax and VAT.

The tax rate is fixed at 6% and is calculated based on a government estimate of potential annual income for each type of activity.

Related article: Russia's Small Businesses Slide Into Losses After Tax Hikes, Surveys Show

The system is widely used by individual entrepreneurs in retail trade, consumer services and other small-scale businesses, making it particularly vulnerable to lower VAT thresholds, said Oksana Grikevich, managing partner at law firm Grikevich & Partners.

The number of businesses benefiting from the VAT threshold freeze will be significantly smaller than the number excluded from the measure.

Finance Minister Anton Siluanov said earlier this week that around 360,000 companies and entrepreneurs would benefit from the changes. By comparison, the patent system is used by roughly 1.5 million entrepreneurs.

Siluanov estimated that freezing the VAT threshold would reduce budget revenues by 51 billion rubles ($709 million) in 2027 and roughly twice that amount in each of the following two years.

Yelena Dybova, vice president of Russia's Chamber of Commerce and Industry, said the decision to delay the lower VAT thresholds was a positive signal that would give businesses temporary breathing room.

"However, this measure looks more like firefighting than a long-term solution," Dybova said.

Russia's government has been searching for additional sources of revenue as it seeks to finance record military expenditures and manage persistent budget deficits.

Business surveys suggest many entrepreneurs are struggling to adapt to the new tax environment.

According to a poll conducted by the Public Opinion Foundation (FOM) and the Higher School of Economics, one-third of small-business owners considered closing their businesses during the first quarter of 2026.

Short-term expectations also deteriorated sharply. Some 52% of respondents said they expected their business conditions to worsen during the first three months of the year, the highest level of pessimism since the survey began.

Bank executives have also warned that higher taxes may be encouraging companies to move activity into the shadow economy.

Taras Skvortsov, deputy chairman of state-controlled lender Sberbank, said in June that businesses were increasingly switching to cash payments and that the bank had detected signs of a growing share of wages being paid off the books.

"Unfortunately, we do not expect this to reverse tomorrow or even within a month," Skvortsov said.

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