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Finance Ministry Unveils 2027 Budget Draft With Fresh Tax Hikes to Fund War Deficit

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The Russian Ministry of Finance. **The Moscow Times**

Russia's Finance Ministry submitted its draft budget proposal for 2027-29 on Thursday, introducing a fresh round of tax increases on passive income, e-commerce and corporate windfalls as Moscow struggles to fund the soaring costs of its war against Ukraine.

Each year, the Finance Ministry must submit its draft federal budget for the coming three fiscal years to the lower-house State Duma no later than Oct. 1.

The 2027-29 proposal outlines a new progressive tax scale of 13%-22% on passive personal income, including bank deposit interest, stock dividends, real estate sales and securities trading. Those income sources are currently taxed at a rate of 13-15%.

Policymakers estimate the increase would affect roughly 4 million high-income Russians. Military personnel would be exempt from the tax hike on passive income.

Government spending has surged since President Vladimir Putin ordered the full-scale invasion of Ukraine. Mounting military needs — including drone manufacturing, equipment purchases and lucrative payouts for contract soldiers as the Kremlin avoids another politically risky mass mobilization — are placing pressure on state coffers, especially as critical energy earnings decline.

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To extract additional revenue, the 2027-29 draft budget proposes a 35% tax on dividend payouts transferred to non-resident "Type C" bank accounts and subjects mutual investment funds to a 15% tax on passive earnings, eliminating their ability to defer profit taxes indefinitely.

The Finance Ministry has also proposed applying a 22% value-added tax (VAT) to cross-border online retail purchases, alongside a flat customs fee of 100 rubles ($1.18) on international packages valued under 200 euros ($227).

In addition, mining and metallurgical companies would face a 30% tax on excess earnings generated by recent spikes in global commodity prices.

Defending the proposed tax hikes, which the Kremlin recently denied were under discussion, the Finance Ministry noted that defense and security remain a priority for the government.

The budget proposal "addresses all social obligations, supports defense and security, helps participants of the special military operation and their families and advances technological leadership," the ministry said.

Russia's 2027-29 draft budget projects a deficit of around 2% of GDP for next year based on an assumed benchmark oil price of $50 per barrel.

Despite having already increased taxes earlier this year, Russia's government has so far failed to ease the fiscal strain on the federal budget, which is expected to reach 3% of GDP by the end of 2026, almost double the planned amount.

The Kremlin declined to comment on the budget proposal on Thursday.

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Russia has steadily raised taxes in recent years to fund its growing deficit. In 2025, the government introduced a progressive personal income tax system and hiked corporate tax rates, a reform Putin described as "fair," arguing that higher-earning individuals and corporations should contribute more.

The 2026 budget brought another major overhaul, raising VAT from 20% to 22% and sweeping more small businesses into the tax net by lowering the annual revenue threshold for VAT exemption under the simplified regime from 60 million rubles ($732,000) to 10 million rubles ($122,000).

However, the strain on small firms proved so great that authorities were forced to walk back some of the tax hikes. The government temporarily froze the lowered threshold through 2029, granting a reprieve under which businesses using the simplified tax system only pay national VAT if their annual revenue exceeds 20 million rubles ($260,000).

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