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Non-resident error or high taxes

Tax non-residents pay increased Personal Income Tax in Russia - but is it always possible to reduce the tax?

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Becoming a tax non-resident is relatively simple. However, once this status is acquired, the taxpayer must consider how to pay Personal Income Tax (PIT): which rates apply to which types of income, whether deductions can be applied to reduce taxable income, and how taxes should be paid if the non-resident is a sole proprietor. These questions are often overlooked. Yet, a non-resident may be not only unpleasantly surprised by the amount of PIT withheld from their income but may even find themselves in a situation where the tax payable exceeds the income on which the tax is assessed.

Taxation of non-residents

To understand taxes for non-resident businessmen, you should first understand how to apply them in the following cases: In Russia, the income of all individuals without tax residency is subject to taxation.

The annual tax filing season has just ended. For Russian citizens, this is not merely a period of compiling tedious reports for the tax authorities—it often brings unpleasant surprises. In recent years, many individuals, even those of modest means, have come to see themselves as “citizens of the world”: the possibility of working remotely, combined with a passion for travel, often leads to an unnoticed accumulation of more than 183 days spent outside of Russia.

You probably remember that non-residents have an increased tax rate of 30% (paragraph 1 of paragraph 3 of Article 224 of the Tax Code of the Russian Federation). But does it apply to all types of income? And what other differences, apart from the rate, exist between the tax calculation rules for residents and non-residents?

The first thing to recall is that the 30% tax rate does not apply to certain types of income received by non-residents:

1. If you are a business owner and received dividends from Russian limited liability companies (LLCs) or joint-stock companies (JSCs) last year, Personal Income Tax (PIT) is applied at the rate of 15% (paragraph 2 of paragraph 3 of Article 224 of the Tax Code of the Russian Federation).
2. If you lived outside Russia but worked remotely for a Russian employer, then the income paid to you by the employer was taxed at the "standard" rate, as for tax residents (this same rule will continue to apply in 2025) (paragraph 10 of paragraph 3 of Article 224 of the Tax Code of the Russian Federation).
3. If last year you received interest on bank deposits, then such interest income is also taxed at the "resident" rate (paragraph 9 of paragraph 3 of Article 224 of the Tax Code of the Russian Federation).

However, there are types of income that can unexpectedly result in substantial tax liabilities for non-residents.

Sale or Purchase of LLC Interests and Shares

Personal Income Tax (PIT) for the year 2024 is still calculated under the "old" rules that were in effect prior to 2025. Therefore, if you are a non-resident and, in 2024, sold (and received payment for) interests in a limited liability company (LLC) or shares in a joint-stock company (JSC), you are entitled to the same five-year exemption as residents. That is, no PIT is due on the sale of interests or shares held for more than five years.

However, let me give advance warning to non-residents who have already sold or plan to sell their interests or shares, or intend to exit an LLC and receive the actual value of their interest in 2025. Starting from 2025, the "five-year exemption" will no longer apply to non-residents in such transactions (paragraph 17.2 of Article 217 of the Tax Code of the Russian Federation). Divesting from Russian business will now become costly for non-residents: any income from the disposal of LLC interests or JSC shares will be subject to a 30% tax, without the possibility to deduct acquisition costs.

Also, do not forget about tax liabilities arising from acquiring shares (and starting from 2025, also LLC interests) at a price below market value.

The Russian Tax Code establishes a rule whereby, if an individual acquires shares at a price below market value (as determined by a certified appraiser's report), such individual is deemed to have received taxable "material benefit". The amount of this benefit is calculated as the difference between the market value and the actual purchase price specified in the contract. This rule does not apply to shares acquired through an initial public offering (IPO).

If in 2024 you acquired interests in an LLC at a price below market value, no tax liability arises. However, the rules have changed starting in 2025.

If you acquire LLC interests in 2025, you must compare the contractual purchase price with the net asset value of the LLC in which the interest is being acquired. If the amount you pay is less than the portion of net assets corresponding to the acquired interest, you will be obligated to pay Personal Income Tax (PIT) on the material benefit (paragraph 4 of Article 212 of the Tax Code of the Russian Federation). And, of course, if by the end of 2025 you are considered a non-resident, you will be subject to PIT at the rate of 30%.

Sole Proprietors Who Are Non-Residents

Some sole proprietors (SPs) manage their Russian business operations while residing abroad for most of the year. This concerns situations where the SP earns income in Russia, as opposed to, for example, providing services abroad.

An SP who applies the simplified taxation system (STS, or *"Simplified Tax System"*) and is a non-resident, still pays taxes at the STS rates. Although there have been legislative proposals aimed at prohibiting non-resident SPs from using the STS regime, no changes to the rules have been enacted as of now.

If an SP no longer meets the STS eligibility criteria (for example, if their revenue exceeded RUB 265.8 million in 2024 — paragraph 4 of Article 346.13 of the Tax Code of the Russian Federation, which was in force as amended until January 1, 2025), then they are required to switch to the general taxation system (GTS). For SPs, this means becoming liable for VAT and Personal Income Tax (PIT), the latter being charged at a rate of 30% for non-residents.

Note that non-resident SPs are not entitled to apply professional tax deductions (paragraphs 2.3, 3, 4 of Article 210 of the Tax Code of the Russian Federation). This means that under the GTS, the PIT for a non-resident SP will be calculated on the gross turnover, without accounting for expenses. As a result, the total tax burden for such SPs may exceed 50% (20% VAT and 30% PIT, in addition to insurance contributions for themselves and their employees). It is worth noting, however, that a non-resident SP may deduct input VAT, if such VAT was included in payments made by the entrepreneur to contractors or suppliers.

Therefore, non-resident SPs must exercise extreme caution: exceeding the STS revenue threshold (which, incidentally, has been raised to RUB 450 million in 2025) will likely make it impossible for them to continue business operations, as their total tax obligations could exceed their net profit.

For their part, Sole Proprietors already applying the General Taxation System should carefully monitor the duration of their time spent abroad. An extended vacation or business trip may prove fatal to the continuity of their business operations.

How to avoid tax expenditures

It is possible to avoid paying increased tax rates. To do so, consider the following:

1. Monitor the length of your stay abroad.
2. Do not forget about the possibility of applying certain exemptions from the period of stay outside Russia (for example, during medical treatment at a foreign clinic or while studying at a foreign university).
3. Structure your business properly. For instance, using a legal entity instead of operating as a sole proprietor is a legitimate and lawful alternative. This approach not only reduces the tax burden for a non-resident owner but also mitigates the risk of losing the business in force majeure situations (such as illness or death of the owner).

By following these simple rules, you may avoid learning the hard way just how costly it can be to be treated as a tax non-resident of Russia.