

## Draft of the Tax Code 2018: A first assessment

Experts are currently discussing the draft for amendments of the Tax Code, which is to enter into force in 2018.

A closer look reveals, however, that the planned changes of the Tax Code will not lead to significant changes of the status quo.

**Taxation of small and medium enterprises (SME), which is designed rather generously already today, will be slightly improved. The draft foresees additional requirements but also some relief for accounting and reporting obligations for foreign business transactions, which in sum will increase state control and consequently the bureaucratic burden for enterprises. In general, no significant impact is to be expected.**

### Positive developments in the last years

In the past, the Belarusian tax system used to be among the last ranks in the World Bank's "Doing Business" ranking (in 2011: Rank 183 of 190)

Since 2011, however, the taxation system has been improved several times, which has already led to first positive results. Currently, Belarus is listed on rank 99 in the category "Paying Taxes" of the "Doing Business" report.

In August 2017, the Tax and Duties Ministry has published the draft law introducing amendments to the Tax Code in 2018. So far, the majority of such draft laws used to be adopted by parliament without major changes. This makes it worthwhile to take a closer look at the key provisions of the current draft.

### Taxation of SME: Slight improvements in 2018

In Belarus, two special taxation regimes are supposed to ease the tax burden and the associated administrative burden of taxation for small and medium enterprises (SME) and for small and medium individual entrepreneurs.

One of these taxation regimes is the single tax regime, which allows for (nearly) all major taxes (taxes on profit, turnover and environment, the tax on extraction of mineral resources and local taxes) to be paid in one single contribution. This contribution is very small and differs from city to city and also within cities (higher rates in trade centers). However, only natural persons can apply this tax regime for activities exempt from registration as well as individual entrepreneurs for a defined range of activities including e. g. the

renting of living space, taxi services or retail trade. Additionally, certain threshold values exist (the threshold value for car repair services in Minsk is equal to ca. EUR 50,000 per year).

The second special taxation regime is the so-called simplified tax, which allows individual entrepreneurs and SME to operate against the payment of a flat tax amounting to either 5% (in case of exemption from turnover tax) or 3% (in case of regular taxation) of turnover. This flat tax on turnover decreases accounting obligations. At the same time, no tax deductions can be applied.

The draft of the Tax Code also foresees to increase the benchmark values for turnover allowing for the application of the simplified taxation regime beginning from 2018. This increase however, allows only compensating for the depreciation of the Belarusian ruble against the Euro and the US dollar which has already occurred. For enterprises and individual entrepreneurs, which offer services for foreign enterprises and are paid in foreign currency, these changes do not bring about any advantages.

For comparison: Simplified taxation rules for small-scale entrepreneurs exist also in Germany. The benchmark value for application is EUR 17,500 per calendar year. The benchmark value in Belarus equals ca. EUR 70,000, for joint-stock companies it is even higher. Thus, Belarusian benchmark values are rather generous in international comparison – even if one considers that the German and Belarusian simplified systems for value-added tax (VAT) differ from each other. This, however, does not mean that in general the tax and administrative burden on small-scale entrepreneurs is smaller than in other countries.

Another slight improvement for individual entrepreneurs is planned in the field of tax inspections. Individual entrepreneurs will now be allowed to declare a status of economic inactivity for a period of up to two years without giving the reason. During this period, they will not become subject to any tax inspections. Currently, this had been possible for one year only.

Another positive change is foreseen for the exchange of documents for foreign transactions conducted via the internet: Acceptance protocols, which are the main accounting document for Belarusian residents, can now be provided one-sided. This leads to a reduction of documents to be exchanged in paper form. Consequently, administrative costs for enterprises decrease significantly.

Finally, tax reliefs are planned for enterprises in the free economic zones: Profits from the sale of self-produced goods and services are to be permanently exempted from profit tax, in case they have been provided in the context of an investment project.

#### Further relief for small-scale entrepreneurs

Parallel to the draft law, the Presidential Decree as of 19 September 2017 foresees to expand the list of activities, for which the registration as an individual entrepreneur is not necessary (among others these include repair of clothes and shoes, as well as hairdressing services). It can be expected that all additional activities not being subject to registration, which are listed in the presidential decree, will also become eligible to the application of the single tax regime according to the draft law, if that is not the case yet. From the point of view of SME support policy, this expansion of eligibility for the single tax is a positive step.

#### Control of cross-border payment flows

The National Bank and commercial banks will in future be obliged to report information about accounts of foreigners and foreign organisations at Belarusian banks and about payments made to or from these accounts to the Tax and Duties Ministry. Also, cross-border transactions conducted by organisations and individual entrepreneurs will be recorded.

Additionally, natural persons and individual entrepreneurs will have to report the opening of a foreign account within 30 calendar days, in case they are tax residents. Failure to do so will be considered a regulatory offence and can be fined.

These measures have, however, no relation to the international agreement on automatic information exchange (AIA), as Belarus is not part of the agreement.

#### Conclusions

The planned reliefs for accounting and taxation of SME are a positive change. The signal that this indirect form of SME support will be continued at least in the nearer future is of importance for the SME sector.

On the other hand, instruments for the monitoring and control of cross-border transactions will be strengthened. Thus, the Tax Code will underpin the state mechanism for monitoring the private sector's business activities.

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