

Utilisation levy: general overview and practical approach of the Russian Federal Customs Service

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Abstract

Recycling of production and consumption wastes is one of the priorities of Russian state policy. To ensure ecological safety, including health and environmental protection measures against harmful effects of using vehicles, a utilisation levy applies to each car imported into, or manufactured in Russia. The utilisation levy is collected by the Federal Customs Service of the Russian Federation and represents a considerable proportion of its revenue. This article provides an overview of the utilisation levy and the way it is collected using as a case study the North-Western Excise Customs Post, which accounts for almost half of all duties collected in Russia.

Introduction

On 22 May 1998 the State Duma¹ adopted Federal Law No. 89-FZ on industrial and consumer waste (FZ No. 89). The Federal Law sets out legal requirements for recycling manufacturing and consumer wastes with the aim of preventing their harmful effects on public health and the environment. It also sets out ways of reusing these wastes as raw materials in other manufacturing processes. This legislation was amended on 28 July 2012 when the State Duma adopted Federal Law No. 128-FZ on modification of the Federal Law on industrial and consumer wastes and Article 51 of the Budget Code of the Russian Federation. It was then that the concept of a utilisation levy was introduced, which coincided with Russia's accession to the World Trade Organization (WTO). A prerequisite for Russia's accession to the WTO was a decrease in import duty rates and the utilisation levy was expected to offset the resulting decline in government revenue.

Under FZ No. 89, recycling is one of the priorities in dealing with wastes. Accordingly, a utilisation levy has the important status of a regulating instrument and is regarded as a 'compensation payment' for appropriate (that is, ecologically safe) recycling of vehicles that are out of operation but still remain in the territory of the Russian Federation. Thus, revenue collected as a result of this levy for purchasing domestically manufactured or imported vehicles is further directed to its utilisation in accordance with environmental standards of the Russian Federation.

Putting the utilisation levy into practice

Article 1(1) of FZ No. 89 provides that a utilisation levy be introduced to ensure ecological safety, including health and environmental protection measures against the harmful effects of using vehicles, taking into account their technical characteristics (such as release date and gross weight). This utilisation levy is actually paid in respect of each wheeled vehicle (chassis), each self-propelled car, and each trailer that is imported into, or produced in, the Russian Federation. Under Article 24(3) of FZ No. 89, it applies to the following taxpayers:

- persons importing vehicles (chassis) to the territory of the Russian Federation
- persons manufacturing and producing vehicles (chassis) in the territory of the Russian Federation
- persons acquiring vehicles (chassis) in the territory of the Russian Federation from persons who have not previously paid a utilisation levy.

Exceptions set out in Article 24(6) include vehicles that:

- are imported into the Russian Federation as personal property by individuals who participate in State voluntary resettlement programs for compatriots who live abroad, refugees or displaced persons
- are imported into the Russian Federation by, and belonging to, diplomatic missions or consular establishments, and international organisations that have privileges and immunities according to the conventional principles and norms of international law
- were manufactured more than 30 years ago, not used for commercial transportation of passengers or goods, and have their original engine and frame preserved or restored to the original condition.

Levy collection

There are two government agencies responsible for collecting the utilisation levy: the Federal Customs Service and Federal Taxation Service. This article discusses the approach taken by the former.

The Federal Customs Service collects a utilisation levy in accordance with the Resolution of the Government of the Russian Federation No. 1291 of 26 December 2013 and modification of some acts of the Government of the Russian Federation. This resolution has approved rules for calculating and paying the utilisation levy on wheeled vehicles and their chassis and defines ways of returning and offsetting overpaid levies.

Another important document is the Resolution of the Government of the Russian Federation No. 1350 of 11 December 2015 on changes in the resolution of the Government of the Russian Federation No. 1291 of 26 December 2013, which lists the vehicles to which the utilisation levy applies, and the amount of the levy. Table 1 shows the data on the levy collected by the Federal Customs Service from 2013 to 2015.

Table 1: Annual data: utilisation levy in the Russian Federation

Year	Amount of collected utilisation levy, billions of roubles
2013	39.25
2014	34.96
2015	23.04

Source: Federal Customs Service of the Russian Federation (2016).²

The data indicates that the value of the levy is falling annually. This is mainly due to a reduction in the number of vehicles imported to Russia and an increase in the number manufactured in Russia. It is also worth noting that car dealers do not import new cars until they have sold their existing stock of imported cars. Coupled with the economic crisis in Russia, these factors have had a negative impact on the amount of revenue collected.

Case study: North-Western Excise Customs Post

The decrease in the value of the levy collected warrants further analysis. By order of the Federal Customs Service of Russia No. 205 of 9 February 2015 on the competence of customs authorities to carry out customs operations concerning excisable and other certain types of goods, only customs posts of the Central Excise Customs Department are regarded as competent to collect a utilisation levy in Russia,³ their competence being limited to excisable and certain other types of goods. Table 2 shows data on customs payments collected by the North-Western Excise Customs Post.⁴ This is a notable example because revenue collected by that post represents 48-50 per cent of all revenue collected by the Central Excise Customs Department of the Federal Customs Service of the Russian Federation.

Table 2: Revenue collection of the North-Western Excise Customs Post during 2014-2015

Month	Customs payments, million roubles	Utilisation levy, million roubles	Month	Customs payments, million roubles	Utilisation levy, million roubles
2014			2015		
January	12,812.93	1,175.39	January	11,087.79	685.72
February	18,146.99	1,586.79	February	14,940.49	929.04
March	24,777.88	2,428.41	March	22,631.75	1,365.59
April	25,129.79	2,298.24	April	16,752.28	977.58
May	22,010.41	2,118.97	May	12,184.58	670.51
June	18,217.59	1,596.59	June	7,235.96	389.62
July	19,116.52	1,699.52	July	12,489.73	641.48
August	16,734.92	1,294.94	August	12,262.09	639.63
September	17,470.85	1,463.13	September	9,095.92	494.78
October	21,722.45	1,731.71	October	18,090.36	1,050.27
November	20,105.76	1,493.55	November	17,446.22	1,173.53
December	21,639.91	2,007.86	December	23,570.16	1,301.99
TOTAL	237,886.00	20,895.10	TOTAL	177,787.33	10,319.74

Source: Federal Customs Service of the Russian Federation (2016).

As can be seen from the above data, in 2014 the utilisation levy averaged between 7.43 per cent and 9.8 per cent of total customs revenue collected. In 2015, the proportion of the levy averaged between 5.14 per cent and 6.71 per cent of all customs revenue collected.

Table 3 shows the proportion of customs payments collected for different types of imported goods in the North-Western Excise Customs Post in 2014 and 2015. It shows that some 84 per cent of customs payments were collected in 2014 from the importation of vehicles and 76 per cent in 2015.

Table 3: Nomenclature of the issued goods on the North-Western Excise Customs Post in 2014 and 2015

Type of importing product	Number in foreign trade goods nomenclature (group classification of Eurasian Economic Union)		Share of customs payments, %	
	2014	2015	2014	2015
Vehicles	87	87	84.0	76.0
Special equipment, drilling rigs, bulldozers	84	84	5.6	4.0
Tobacco and tobacco products	24	24	4.8	7.5
Alcoholic and alcohol-containing products	22	22	1.9	2.2
Lubricants	34	34	0.9	0.9
Other	None	None	2.8	8.4

Source: Federal Customs Service of the Russian Federation (2016).

It can be seen that transport vehicles represent the largest proportion in the structure of customs payments, but as mentioned earlier, the number of imported vehicles and, consequently, the amount collected through the utilisation levy, decreases from year to year. In this regard, dynamics in the period 2014 to 2015 show that the importation of vehicles to the EEU declined, and as a result, the share of the utilisation levy in customs payments also declined despite the fact that car dealers represent a major component in the structure of customs payments (see Table 4).

Table 4: Leading car dealers' share of customs payments in 2015

Company name	Share of customs payments, %
JSC Toyota Motor	23.61
JSC Nisan Manufacturing RUS	8.62
JSC Volkswagen group RUS	6.72
JSC MMS RUS	5.45
JSC Jaguar Land Rover	3.83
JSC Hyundai CIS Motor	3.86
JSC Volvo Cars RUS	3.04
JSC Honda Motor	2.47
JSC Subaru Motor	2.38
JSC Philip Morris Izhora	2.01
Other participants of foreign trade activity	38.02

Source: Federal Customs Service of the Russian Federation (2016).

The data in Table 3 show a decrease in the amount collected through the levy in 2015 compared to 2014. This trend can be attributed to the impact of the economic crisis in the Russian Federation with the weakening rate of the Russian rouble having negatively influenced the price of goods. While trade flows have significantly decreased, what is also important to note is that vehicles are more expensive in comparison with other goods and are less likely to be purchased as frequently by traditional buyers.

It should be noted that while the amount of monthly utilisation levy collected in 2015 has generally decreased, since October 2015 the amount collected has increased. This is due to the scheduled adoption of revised coefficients for calculating the amount of the levy at that time through an amendment to FZ No. 89. Thus, in anticipation of the increase in the applicable coefficients, many foreign traders tried to import as many vehicles as possible before the existing rates and coefficients expired at the end of 2015.

What actually happened was the adoption by the State Duma of Federal Law No. 392-FZ on modification of Article 24.1 of the Federal law on production and consumption waste. This Federal law came into force on 1 January 2016 and amended the list of goods to which the utilisation levy applies, including self-propelled vehicles and trailers. Considering the share of these goods in the nomenclature of the North-Western Excise Customs Post, it can be assumed that such measures will contribute to a significant increase in the amount of utilisation levy in the structure of all customs payments. As noted, the coefficients used for calculating the utilisation levy (Table 5) have also increased.

Table 5: Changes of utilisation levy coefficients in the Russian Federation

Vehicle weight	Utilisation levy coefficient			
	New vehicles		3-year-old vehicles	
	2015	2016	2015	2016
1. Not over 2.5 tonnes	0.50	0.83	0.88	0.88
2. Exceeding 2.5 tonnes, but not over 3.5 tonnes	0.80	1.32	1.25	2.06
3. Exceeding 3.5 tonnes, but not over 5 tonnes	1.00	1.65	1.60	2.64
4. Exceeding 5 tonnes, but not over 8 tonnes	1.10	1.82	4.56	4.56
5. Exceeding 8 tonnes, but not over 12 tonnes	1.34	2.21	6.91	6.91
6. Exceeding 12 tonnes, but not over 20 tonnes	1.47	2.43	10.06	10.06
7. Trucks and dump trucks, exceeding when fully loaded 12 tonnes, but not over 20 tonnes	1.47	2.43	10.06	10.06
8. Exceeding 20 tonnes, but not over 50 tonnes	2.90	4.79	11.8	11.8
9. Trucks and dump trucks, exceeding when fully loaded 20 tonnes, but not over 50 tonnes	2.90	4.79	11.8	11.8

Source: Federal Customs Service of the Russian Federation (2016).

Coefficients of the utilisation levy for vehicles older than three years have not changed that much because they were already relatively high and exceed coefficients on new vehicles by an average factor of 2.7. Analysing the above data, based on comparing changes by such criteria such as the weight of the new vehicles (of course, other criteria exist), shows that the utilisation levy has increased by 65 per cent when compared with 2015. What does that mean for participants of foreign trade activity?

It is worth examining how the utilisation levy is reflected in the final cost of a vehicle. Supposing that in 2015 a car dealer imports a new vehicle (for example, a new van with a diesel engine, 205 h.p./150kvt, EURONCAP 5, 5200 kg weight, manufactured in 2015). In this example, the vehicle must pass through the customs procedure of release for internal consumption, so import duty and value added tax (VAT) have to be paid on it. The vehicle would fall into the category of new motor vehicles used for transportation of goods, and with a gross weight of more than 5 tonnes, the rate of customs duty would be 15 per cent. The customs value of this vehicle is 1,653,719 roubles. Having a rate of customs duty of 15 per cent (1,653,719 x 15%) and 18 per cent VAT (1,901,776.85 x 18%), the total customs revenue collected on this vehicle would be 590,377.68 roubles. The utilisation levy in this case would be 165,000 roubles. In the Russian Federation, such a vehicle costs between 2.3 and 2.7 million roubles

(or approximately USD36,000), so the proportion of the utilisation levy in the sale price is about 7-8 per cent. An increase of the coefficient for calculating the utilisation levy by 65 per cent means that the utilisation levy will be more than 270,000 roubles, which will make that vehicle significantly more expensive in the Russian Federation.

Conclusions

The utilisation levy is an important mechanism that can be effectively used by the Federal Customs Service for environmental protection and regulation of tax policy in the Russian Federation, but its increasing rate is having a negative impact on the import of vehicles into the Russian Federation.

Notes

- 1 Lower chamber of the Russian Parliament.
- 2 All tables in the article are based on data reported to the annual meeting that took place on 26 January 2016 in Moscow and which was attended by the First Deputy Head of the Federal Customs Service of the Russian Federation Vladimir Malinin, the Chief of the Central Excise Customs Department Vyacheslav Kozinitsky, senior officers of the Central office of Federal Customs Service of the Russian Federation and representatives of other state authorities.
- 3 Central Excise Customs Department is a specialised customs agency within the unified federal centralised system of the Federal Customs Service of the Russian Federation. The Central Excise Customs Department is under the authority of the Federal Customs Service of the Russian Federation and specialises in customs operations with excise and other particular types of goods, the list of which is determined by the Federal Customs Service. There are several functional departments and 17 customs posts in the structure of Central Excise Customs Department.
- 4 North-Western Excise Customs Post is the largest unit in the structure of the Central Excise Customs Department. There are seven departments of customs clearance and customs control located in Saint Petersburg on the perimeter of the North-Western Excise Customs Post, as well as 11 temporary stocks and one customs stock. Competence of the North-Western Excise Customs Post covers foreign trade activity in 10 provinces of the Russian Federation.

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