



Strategies and Implications for Russia to Cope with the New Round of Tax Sanctions from the United States and Europe

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Abstract. With the ongoing complexity of the international landscape, strategic competition among major powers has become increasingly intense. Against this backdrop, the United States and Europe have leveraged the Ukraine crisis to impose a series of tax-related sanctions on Russia, including tax investigations targeting Russian oligarchs, the imposition of higher tariff barriers, and the inclusion of Russia on tax avoidance blacklists. In response, Russia has adjusted its tax structure, introduced preferential tax policies, and implemented counter-sanctions backed by a relatively sound fiscal position. Based on an analysis of the tax sanctions and countermeasures between the United States, Europe, and Russia, and in light of China's current conditions, this paper proposes that China should reduce sovereign debt through fiscal and financial instruments, accurately monitor the policy orientations of U.S. and European tax sanctions, adopt a systematic approach to handling such challenges, and safeguard national economic interests.

Keywords: tax sanctions; tax-structure adjustment; U.S. and European sanctions; Russia–Ukraine conflict.

1 Introduction

Since the outbreak of the Ukraine crisis, Western developed countries such as the United States and members of the European Union have imposed a wide range of economic sanctions on Russia. In 2022, tax-related sanctions were further intensified in both scope and severity, with the essential goal of exerting pressure on Russia through taxation [1]. Amid global turbulence and the rising external implications of taxation, tax sanctions have become one of the tools used by the United States and Europe to impose political and economic constraints on other nations. In Russia's case, these sanctions have interfered with its economic stability, weakened its international competitiveness, and triggered risks for its export-oriented economy [2]. Based on this context, this paper reviews the current tax sanctions imposed on Russia by the United States and other countries, as well as Russia's countermeasures, from a taxation perspective, and explores the policy insights that can be drawn for China.

2 New Features of US and European Tax Sanctions on Russia

The current Tax Code of the Russian Federation establishes a three-tier tax system, comprising federal taxes, taxes imposed by federal subjects, and local taxes [3]. However, following the escalation of the Russia–Ukraine conflict, the United States, the European Union, and the United Kingdom implemented a series of sanctions that have severely disrupted Russia’s economic development. Reports indicate that Russia entered an economic recession in 2022 and has since become subject to comprehensive international sanctions [4]. This section analyzes the tax-related sanctions imposed by the U.S. and the EU on Russia.

2.1 Multi-party Blockades and Tax Investigations against Russian Oligarchs

The United States and Europe have intensified pressure on Russia’s political elite by targeting Russian oligarchs through asset restrictions and tax investigations. Following the onset of the Russia–Ukraine conflict, the United States, the European Union, and other Western allies froze Russia’s foreign exchange reserves and sanctioned major business figures, bankers, and state-owned enterprises. A multilateral task force was established to collect and share intelligence on the financial holdings of Russian oligarchs. These measures included freezing the assets of dozens of oligarchs who control extensive global business empires. Sanctions also targeted senior Russian officials and thousands of individuals and entities across various economic sectors. The U.S. Internal Revenue Service (IRS) focused on uncovering illegal tax activities by Russian elites. Once confirmed, assets were seized under the Civil Asset Forfeiture Reform Act, restricting capital flows and inflicting major losses on the Russian elite. Since February 2022, the UK’s Office for Financial Sanctions Implementation (OFSI) has expanded its sanctions list, adding five Russian banks and three influential oligarchs under the Sanctions and Anti-Money Laundering Act 2018.

These actions aim to reduce public support for military operations by limiting access to luxury Western goods for Russian elites and highlighting the domestic consequences of the conflict. For instance, *The Wall Street Journal* reported that Russian chemical oligarch Andrei Guriev, who controls PhosAgro—Europe’s largest phosphate fertilizer producer—relocated the holding company from Switzerland to Russia’s low-tax zone after sanctions were imposed. Given Russia’s political structure—often described as a constitutional democracy influenced by elite interests—Western countries seek to destabilize the domestic power base by targeting Russian-operated assets abroad, thereby using tax investigations as a strategic tool.

2.2 Tariff Barriers and the Decline of Russia's International Competitiveness

In 2022, as part of intensified economic sanctions against Russia, the United States and its allied countries revoked Russia's Most Favored Nation (MFN) status. As a result, Russian imports were no longer eligible for the MFN tariff rates that apply to all WTO member countries. Following the U.S. termination of permanent normal trade relations with Russia, tariffs on Russian exports rose significantly—from an average of 3.3% to 32%—meaning that certain Russian products exported to the United States would face substantially higher tariff rates. These tariff sanctions, imposed by the United States and Europe, have directly contributed to a continued decline in the international competitiveness of Russian exports. Consequently, Russia's position in global trade has been weakened, accelerating its exclusion from international industrial and supply chains.

The revocation of MFN status means that a range of Russian exports to the United States are now subject to punitive tariffs. In addition, the United States has banned the import of several categories of Russian goods, including oil and energy products, fish, seafood, alcoholic beverages, and non-industrial diamonds. For example, the U.S. has suspended normal trade relations with Russia, imposed higher tariffs on steel and aluminum products, raised the tariff on Russian plywood from 0% to 30%, and increased the tariff on caviar from 15% to 30%. Imported vodka from Russia is now subject to a tariff of \$1.78 per liter. These policy changes reflect the broader sanctions framework imposed by the United States and have significantly affected both Russian and U.S. economic and trade interests [5].

2.3 Grey List Designation and Restrictions on International Capital Inflows

Since the escalation of the Russia–Ukraine conflict, the United States and European countries have continued to intensify sanctions and exert pressure on Russia. In 2022, the European Union placed Russia on its “grey list” of non-cooperative jurisdictions for tax purposes. In February 2023, the EU Council officially included Russia on its blacklist of non-cooperative tax jurisdictions, citing Russia's failure to fulfill its tax-related commitments. According to the Russian newspaper *Kommersant*, this designation has increased the tax burden on Russian enterprises and adversely affected the Russian economy. Although jurisdictions on the grey list are not subject to direct tax penalties, the erosion of tax sovereignty through heightened tax scrutiny can trigger internal economic tensions, reduce the inflow of international capital, and impede Russia's ability to attract and utilize foreign investment effectively. These outcomes, in turn, influence Russia's political and economic development and shape the trajectory of the ongoing conflict. The EU's inclusion of Russia on its tax avoidance grey list empowers member states to adopt administrative and legal measures against Russia. These actions are intended to weaken Russia's military and technological capabilities, isolate it from global markets, deprive the Kremlin of revenues needed to finance the war, and impose escalating economic costs.

Currently, the EU’s tax sanctions against Russia include increasing compliance obligations for taxpayers, strengthening oversight of cross-border transactions involving Russia, initiating anti-tax avoidance investigations and adjustments, and prohibiting investment and financing support to entities on the list. Building upon these measures, the EU also plans to impose further financial sanctions and restrictions on designated enterprises in the future.

3 Revising Strategies to Address Russia's Tax Challenges

3.1 Tax Plan Adjustment for National Economic Stabilization

Following the imposition of sanctions by the United States and European countries, Russia implemented a series of tax policy adjustments targeting both individuals and enterprises in an effort to mitigate economic impacts and stabilize key production factors such as capital and labor. These tax policy changes primarily involve international-level adjustments for international holding companies (IHCs) and domestic-level adjustments across various industries.

At the international level, Russia first established IHCs in 2018 through special economic zones to restrict offshore economic activities and effectively curb capital outflows. Since the adoption of the relevant legislation in 2022, the criteria for IHC recognition have been broadened: the investment period has been extended from 10 working days to 30 working days, and the period for deregistering foreign legal entities has been lengthened from six months after relocation registration to two years. Concurrently, Russia has expanded the scope of tax benefits granted to IHCs, aiming to shield its international capital from the effects of U.S. and European sanctions through targeted tax policy measures. Dividend income received by IHCs in Russia is subject to a 0% withholding tax, and the tax base is calculated at 5% for receipts and 10% for payments. The application period for international tax regulations has been extended to January 1, 2029. In addition, foreign individuals receiving dividend income from IHCs are taxed at a rate of 5%, while income earned from controlled foreign companies is exempt from taxation.

At the domestic level, Russia has focused its tax adjustments on domestic enterprises by modifying multiple types of taxes, including property tax, value-added tax (VAT), income tax, and transportation tax. The details of these adjustments are outlined in Table 1.

Table 1. Adjustments to Russia’s Anti-Sanctions Tax Plan

Tax types	Taxation plan proposal
Property tax	Redefinition of the cadastral value used as the property tax base
Value-added tax	Adjustment of the accelerated VAT refund procedure for enterprises
Corporate income tax	Calculation of the tax base based on the proportion of debt repayment
Personal income tax	Exemption of interest on bank deposits and account balances to a certain extent
	Reform of the tax system for individual business operators
Transportation tax	Increase in the vehicle price threshold for applying the transportation tax multiplier

Data source: https://www.ey.com/en_ru/

Regarding property tax, the cadastral value used to calculate the tax base has been frozen at the level as of January 1, 2022. For VAT, an accelerated refund policy has been introduced for certain enterprises undergoing restructuring or liquidation. In terms of corporate income tax, foreign exchange rate differences incurred by Russian enterprises between 2002 and 2024 may be included in the corporate income tax base in proportion to debt repayment. With respect to personal income tax, interest earned on bank account balances and deposits during 2021–2022 is exempt. Individuals who register as self-employed for the first time may switch to the patent or simplified taxation system and are eligible for a two-year tax exemption starting from their registration date. For transportation tax, from 2022 onward, the vehicle price threshold for applying the tax multiplication coefficient has been raised to 10 million rubles.

In addition to general domestic tax adjustments, Russia has also implemented policies aimed at stabilizing its domestic market economy. Specifically, adjustments have been made for the IT industry, the hotel and catering sector, and the tourism industry based on industry classification. From 2022 to 2024, the corporate income tax rate for IT enterprises is set at zero. A five-year VAT exemption policy has been adopted for the hotel and catering industry. Besides, certain tourism enterprises are granted VAT exemptions for the period from 2022 to 2027.

3.2 Tax Structure Adjustment for Sanction Resistance

Russia's ability to effectively implement internal economic circulation to mitigate the impact of successive rounds of U.S. and European sanctions is closely tied to the resilience of its tax structure. As illustrated in Figure 1, a significant portion of Russia's tax revenue is derived from oil and mineral resources, which are difficult to replace in the short term on the international market. This robust tax base grants Russia considerable leverage to counter sanctions and manage external risks.

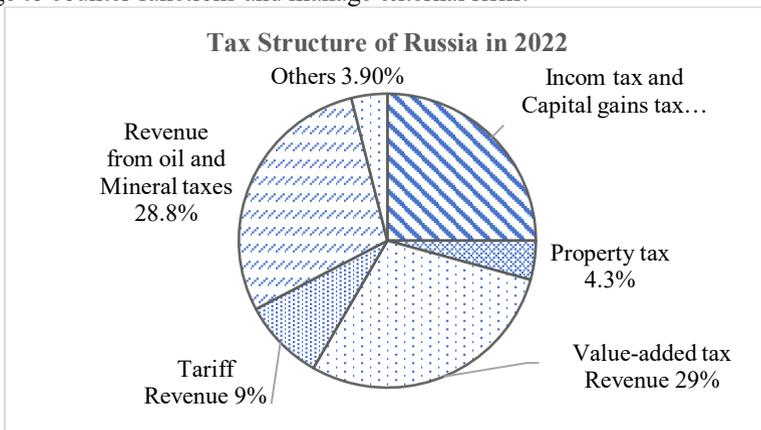


Fig. 1. Tax Structure of Russia in 2022

Data source: <https://minfin.gov.ru/ru/>

To counter the economic sanctions imposed by the United States and Europe, Russia first adjusted the calculation system for the mineral extraction tax (MET). In the first quarter of 2024, Russia’s oil and gas revenues increased by nearly 80% compared to the same period in 2023. A flexible calculation method was adopted: when the price gap between Urals crude and Brent crude was small, the tax continued to be calculated based on the Urals price; however, when the gap widened, the Russian Ministry of Finance set a maximum discount cap of \$20 per barrel for tax calculation purposes. This method significantly improved tax efficiency, raising the average taxable price from \$51 to nearly \$70 per barrel, thereby promoting a steady upward market trend. In addition, VAT generated 3.4 trillion rubles in revenue in the first quarter of 2024. In the short term, this increased demand is beneficial to fiscal revenue growth, enabling the Ministry of Finance to obtain additional funds for expenditures over a given period. As the Russia-Ukraine conflict continues, the federal government’s budget expenditures have exhibited significant seasonal increases due to the need for advance payments. In response, the Russian Ministry of Finance is also implementing one-time non-tax revenue measures, including property taxes, tariffs, and environmental taxes, to ensure that military expenditures, social welfare programs, and infrastructure projects are adequately funded.

3.3 Fiscal Balance and Government Debt Stabilization

Russia’s current fiscal balance remains relatively stable, as reflected in the consolidated fiscal balance and fiscal deficit ratio. A lower fiscal balance ratio indicates greater difficulty for general public budget revenue to meet expenditure needs, while a higher balance ratio suggests a stronger regional fiscal position and financial capacity. From the perspective of the consolidated fiscal balance of the Russian Federation, the figure for the first quarter of 2024 was -0.9% of GDP, an improvement over the -2.3% recorded in 2023 (CEIC Data World Trends Database). In addition, Russia’s fiscal deficit rate has been on a continuous downward trend. The fiscal deficit rate, defined as the ratio of the fiscal deficit to GDP for the same period, has declined from 3.9% in 2020 to 1.5% in 2023, as shown in Figure 2. This downward trend indirectly suggests that Russia’s fiscal risk remains relatively low.

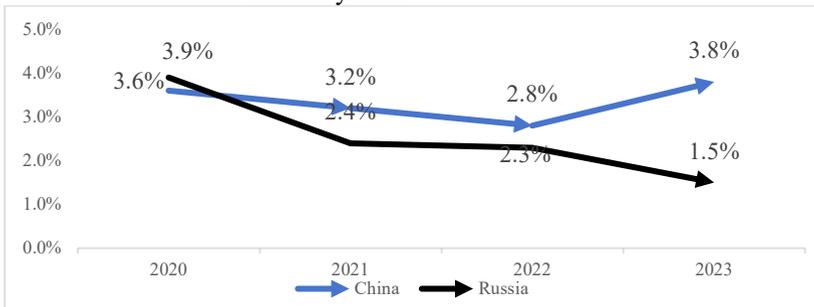


Fig. 2. Comparison of Fiscal Deficit Rates between China and Russia from 2020 to 2023

Data source: IMF World Economic Outlook Database

The ratio of national government debt to GDP is widely regarded as an indicator of a country's debt repayment capacity, which in turn affects its borrowing costs and government bond yields. According to data from the International Monetary Fund (IMF), as of 2023, the debt levels of developed economies had risen to 122% of global GDP, intensifying sovereign debt default risks in certain countries. However, as illustrated in Figure 3, despite sanctions imposed by the United States, Europe, and others, Russia's government debt has remained at a relatively low level. In 2022, Russia's total government debt stood at just 16.8% of GDP—significantly lower than that of major developed economies such as the United States, the United Kingdom, and Japan.

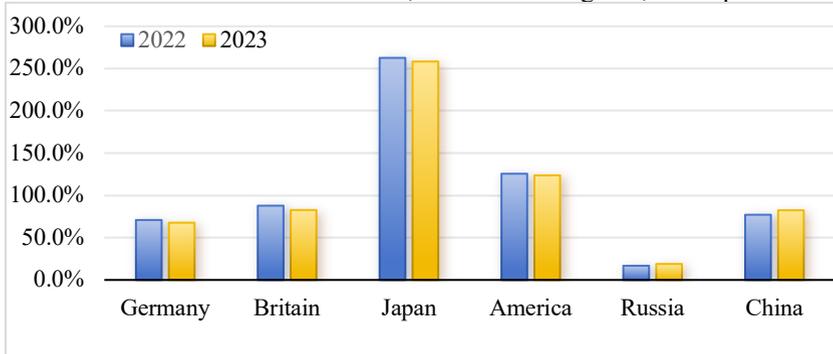


Fig. 3. Comparison of the Proportion of Government Debt to GDP in Major Countries from 2022 to 2023

Data source: IMF World Economic Outlook Database

3.4 Suspension of Tax Treaties for Economic Interest Protection

In response to sanctions imposed by unfriendly countries such as the United States and Europe, the Russian Ministry of Finance and the Ministry of Foreign Affairs proposed to President Putin the suspension of specific provisions in double taxation avoidance agreements (DTA) and double taxation avoidance and prevention of tax evasion agreements (DTAA) with these countries. While the agreements themselves will not be terminated, certain clauses that grant preferential tax treatment for interest, dividends, and royalties will be suspended. This measure imposes stricter tax requirements on unfriendly countries and their taxpayers, affecting areas such as real and personal property, interest and dividends, remuneration and employment income, service income, copyright income, and capital gains taxation. For individuals, the rules for avoiding double taxation, including the possibility of tax offsets, will remain in effect. However, for businesses, the provisions that reduce tax rates on interest, dividends, and royalties will be suspended. This approach is expected to raise the operating or investment costs for enterprises from sanctioned countries operating in Russia, thereby protecting Russia's economic interests and contributing to a more equitable international economic order.

The Tax Code of the Russian Federation clearly outlines the implementation of measures to avoid double taxation. To promote cross-border investment and trade, prevent the double taxation of investors, and enhance bilateral economic cooperation, tax agreements serve to reduce the tax burden on multinational enterprises, boost their international competitiveness and profitability, and assist governments in maintaining tax bases while preventing profit shifting and base erosion. The signing of Double Taxation Avoidance Agreements with multiple countries provides tax benefits for foreign companies and cross-border transactions, provided that such agreements remain in effect. If suspended, the corresponding tax advantages will no longer apply. According to Russian media reports, Russia had already suspended its double taxation agreements with the Netherlands, Ukraine, and Latvia as early as 2021, even prior to the issuance of the presidential decree.

4 The Impact and Implications of Tax Sanctions by the US and Europe on China

In the complex environment where Russia faces both the internal Russia-Ukraine conflict and external sanctions imposed by the US and Europe, it has vigorously promoted key fiscal and tax reforms, such as budget planning and tax system adjustments, through expansionary fiscal policies and tax measures to safeguard its interests. Against this backdrop, how can China draw lessons from Russia's fiscal and tax experience, improve its fiscal and tax system from a taxation perspective, and adopt multiple measures to strengthen the prevention of national fiscal and tax risks, thereby preparing well for international challenges?

4.1 The Impact of Current Tax Sanctions by the US and Europe on China

China and Russia have consistently maintained a strategic cooperative relationship. Over the past two decades, China has become Russia's third-largest investor. In the context of the Russia-Ukraine conflict, tax sanctions imposed by the US, Europe, and other Western countries on Russia expose Chinese enterprises operating in Russia to significant tax risks. Specifically, if Chinese enterprises in Russia reinvest in the US, they will face additional withholding taxes, increasing their tax burden and potentially triggering risks for export-oriented businesses. Moreover, economic interactions between China and Russia amid this conflict could prompt sanctions from the US, Europe, and other countries against China.

Tax sanctions will directly affect the tax competitiveness of certain Chinese regions and significantly impact the special tax systems of the Hainan Free Trade Zone and Hong Kong [1]. Hong Kong implements a territorial tax system and does not tax income earned outside its territory; however, the European Union placed Hong Kong on its "grey list" for tax purposes in 2022. The EU judged that Hong Kong's passive approach to not taxing foreign income could lead to double non-taxation, constituting harmful tax practices [2]. If Hong Kong were to include income earned by enterprises outside

its jurisdiction in its tax base, this would increase operational risks for businesses investing there and reduce the competitiveness of its tax regime. The Hainan Free Trade Port, as China's largest free trade zone, adopts an exemption system that waives income tax on overseas investments in specific industries. Consequently, the EU may consider this exemption system as failing to meet tax fairness standards, potentially resulting in its inclusion on the grey list. If the Hainan Free Trade Port complies with EU standards by abolishing the exemption system, its international competitiveness and reputation would be undermined.

4.2 Implications of Russia's Counter-Sanctions Measures for China

Firstly, by building on China's achievements in financial and economic diplomacy, tax cooperation should be strengthened through existing tax administration cooperation mechanisms. This approach will optimize the business environment, promote trade liberalization and investment facilitation, diversify sources and methods of tax intelligence, and proactively address potential tax challenges. Drawing on Russia's experience with tax treaties and adjustments, China should enhance its countermeasures against economic sanctions by adopting a comprehensive strategy that includes export controls and mandatory foreign exchange settlement. Lessons from Russia's tax adjustment plan for IHCs should be applied to raise tax risk management awareness among multinational companies operating in the Macao Special Administrative Region, Hainan Free Trade Port, and Hong Kong. It is essential to reduce communication costs between multinational enterprises and tax authorities, improve tax counter-sanction policies, accurately evaluate the effectiveness of tax incentives, and systematically refine the implementation framework for China's tax counter-sanctions.

Secondly, Russia effectively resisted US and European tax sanctions by leveraging its flexible tax system and sound government debt management. Drawing from this experience, local governments in China should prioritize managing fiscal deficits, appropriately increase local government debt, mitigate debt risks, prevent and resolve hidden debt issues, and strengthen their capacity to respond to external shocks. Although there are differences between Russia's tax structure and China's—for example, Russia exhibits strong tax rigidity on primary products—China should adjust the balance between direct and indirect taxes according to its national conditions. Increasing the revenue share from property taxes at the holding stage, improving the local main tax system, enhancing the domestic tax system's resilience and risk resistance, and refining fiscal and tax policies to better integrate into the global industrial chain and avoid disruptions are crucial measures.

Finally, countries such as the US and Europe have increasingly relied on tariff barriers and tax investigations as key tools in their tax sanction strategies. During the Russia-Ukraine conflict, these countries exploited information asymmetries to pressure Russia's tax system, undermining its tax sovereignty and suppressing its elite class, which contributed to economic recession and domestic instability, affecting the conflict's trajectory. Therefore, China should deepen its understanding of the tax strategies used by the US and Europe to exert pressure on other nations. Based on the "Anti-

Foreign Sanctions Law of the People's Republic of China," China should clearly identify the triggers for tax countermeasures, clarify responsible institutions, improve administrative efficiency in implementing tax counter-sanctions, develop and enforce effective countermeasures, and strengthen domestic tax regulations—such as the controlled foreign company system—to better manage tax-related conflicts.

5 Conclusion

Based on the context of Russia's tax sanctions, through an in-depth analysis of Russia's counter-sanction tax measures, tax incentive policies, and fiscal conditions, it can be concluded that when addressing international tax sanctions, our country may effectively respond to risks and challenges by implementing export controls, mandatory foreign exchange settlement, enhancing fiscal and tax resilience against sanctions, and adopting targeted tax strategies.

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