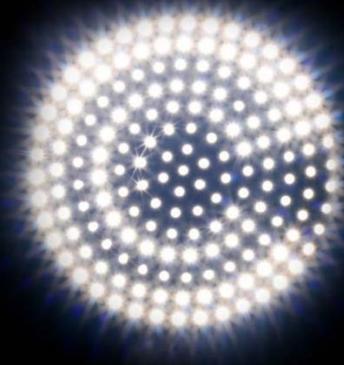


International Tax Russia Highlights 2018



Investment basics:

Currency – Russian Ruble (RUB)

Foreign exchange control – Some exchange control restrictions apply to Russian residents (including Russian citizens and legal entities) and to foreign currency transactions, but none apply to the distribution of profits to a nonresident entity. For these transactions, residents must provide the authorized bank with the documents confirming the decision to distribute the profits. Residents and nonresidents can hold bank accounts in any currency.

As from 1 January 2018, all Russian citizens and foreign holders of Russian residence permits are considered Russian “currency control residents” that are required to notify the tax authorities when a foreign bank account is opened, changed or closed and when there is a movement of funds in the foreign account. The legislation also restricts the use of foreign bank accounts by Russian currency control residents, and all transactions made via foreign bank accounts must be in line with the Russian law. Persons that have spent less than 183 days in Russia in a reporting period are exempt from the reporting requirement and restrictions on the use of foreign bank accounts.

Accounting principles/financial statements –

Russian accounting standards apply and financial statements generally must be prepared annually.

Companies with securities traded on a stock exchange, banks, insurance companies, non-state pension funds, management companies of investment funds, investment unit trusts, clearing companies, federal state-owned and joint stock companies the shares of which are federal property (as per the list approved by the Russian government) and any other companies that prepare consolidated financial statements as required by the law

or their registration documents are required to prepare consolidated financial statements under IFRS. This requirement is in addition to stand-alone statements prepared under Russian accounting standards. Annual consolidated IFRS financial statements must be audited, presented to shareholders and filed with the Central Bank.

As from 19 June 2017, the reporting year for purposes of the IFRS consolidated financial statements can be a year other than a calendar year. This decision must be specifically documented in the entity’s articles of association. Certain types of entities are not eligible, including banks, insurance and clearing companies, non-state pension and investment funds, certain state-owned companies and other companies that are required to include their IFRS consolidated financial statements in the annual report.

Principal business entities – These are the public and nonpublic joint stock company, limited liability company, partnership, sole proprietorship and branch of a foreign entity.

Corporate taxation:

Residence – An entity is a Russian resident if it is incorporated in Russia, if its actual place of management is in Russia or if it is deemed to be a Russian resident under an applicable tax treaty.

Basis – Russian tax residents are taxed on worldwide income; foreign entities are taxed on income from commercial activities undertaken in Russia and on passive income from Russian sources.

Taxable income – Profits tax is imposed on a company’s profits, which consist of business/trading income, passive income and capital gains. Normal business expenses may

be deducted in calculating profits, provided they are economically justified, incurred in the generation of income and supported by adequate documentation.

Taxation of dividends – Dividends received by a Russian entity from Russian and foreign entities generally are subject to tax at a rate of 13% (but see “Participation exemption,” below).

Capital gains – Capital gains are taxed as ordinary income at the normal corporate rate (but see “Participation exemption,” below).

Losses – Losses (except for losses derived from activities subject to a 0% profits tax rate) may be carried forward for an unlimited period but cannot exceed a cap (for 2017-2020, the cap is 50% of the tax base of the current period). The carryback of losses is not permitted.

Rate – 20%

Surtax – No

Alternative minimum tax – No

Foreign tax credit – Foreign tax paid may be credited against Russian tax on the same profits, but the credit is limited to the amount of Russian tax payable on the foreign income.

Participation exemption – To qualify for the participation exemption for dividends, a Russian company must hold a participation of at least 50% for at least 365 days. A foreign investee must not be a resident in a “black list” jurisdiction.

A participation exemption is available for capital gains on the sale of unlisted shares and participations in Russian companies and listed shares in high-technology Russian companies (and, until 2023, listed bonds of Russian companies and listed investment units that are considered high-technology) acquired after 1 January 2011 and held for more than five years.

Holding company regime – No

Incentives – Various types of tax incentives are available. For example, a reduction in the profits tax rate to 15.5% (from the standard 20% tax rate), a property tax exemption and other benefits are available for investment projects in many regions. Deductions from income chargeable to profits tax may be available for companies incurring qualifying capital expenditure. Special tax regimes (e.g. regional investment projects, special investment contracts or “territories of advanced social and economic growth”) allow a 0% profits tax rate and other benefits. Companies that participate in the Skolkovo Innovation Center may benefit from a 10-year tax holiday. A 0% profits tax rate applies to a range of educational and medical services. A 150% deduction for profits tax purposes is available to all companies with

qualifying R&D expenditure. Technology and software companies may benefit from reduced social security rates.

Withholding tax:

Dividends – Dividends paid to a foreign entity or to a nonresident individual are subject to a 15% withholding tax, unless the rate is reduced under a tax treaty.

Interest – Interest paid to a nonresident is subject to a 20% withholding tax, unless the rate is reduced under a tax treaty. Russian companies are exempt from the withholding obligation on Russian-source income of foreign legal entities within Eurobond-like structures, under certain conditions.

Royalties – Royalties paid to a nonresident are subject to a 20% withholding tax, unless the rate is reduced under a tax treaty.

Technical service fees – No

Branch remittance tax – No

Other – Other Russian-source payments made to a foreign company may be subject to withholding tax at various rates.

Other taxes on corporations:

Capital duty – No

Payroll tax – Russian organizations, as well as branches and representative offices of foreign organizations established in accordance with the Russian law, are required to withhold personal income tax on the income paid to individuals.

Real property tax – See under “Other,” below.

Social security – The employer is required to make pay-related contributions for pension, social and medical insurance. The tax authorities administer most types of social security payments. The social security contribution rates for 2018 are as follows: for pension contributions, 22% of an employee’s remuneration up to RUB 1,021,000, plus 10% of any excess over this cap; for social insurance contributions, 2.9% of an employee’s remuneration up to RUB 815,000 (the rate is 1.8% of an employee’s remuneration in the case of foreign nationals in Russia on a temporary basis); and for medical insurance, 5.1% of the full remuneration.

Mandatory accident insurance contributions are paid separately from the above insurance contributions to the Social Insurance Fund, at rates ranging from 0.2% to 8.5% of the full amount of an individual’s employment income, depending on the degree of inherent risk in the employee’s occupation.

Income earned by foreign employees hired under the highly-qualified specialist regime is exempt from social security contributions (only accident insurance contributions are due).

Most foreign nationals, including citizens of the Eurasian Economic Union are subject to the same contributions as Russian nationals.

Employees are not obligated to pay social security contributions in Russia.

Stamp duty – Stamp duty may be levied on certain transactions and documents, but it usually is nominal.

Transfer tax – No

Other – Property tax is a regional tax, with rates established by the regional authorities (as well as tax exemptions not directly provided in the tax code). The tax base includes immovable fixed assets and certain movable fixed assets owned by the taxpayer, excluding land (which is subject to land tax). The tax base generally is calculated based on the depreciated book value of the assets as of the balance sheet date, and the tax rate for the property cannot exceed 2.2% (1.1% for movable property, unless exempt under the regional legislation). For certain types of administrative, business and trading premises, real estate owned by foreign companies and not allocated to a permanent establishment in Russia and certain other premises, the tax base is the cadastral value of the real estate and the tax rate for the property cannot exceed 2%.

Land tax is a municipal tax, and its application is governed by local regulations and the tax code. The local authorities set the land tax rate. Under the tax code, these rates may not exceed 0.3% of the cadastral value of land that is used for agricultural purposes and dwellings, and 1.5% of the cadastral value of other land. The tax base is the cadastral value of the land as determined under the land legislation.

Anti-avoidance rules:

Transfer pricing – Comprehensive transfer pricing rules, which are substantially in line with OECD principles, apply. Acceptable transfer pricing methods are the comparable uncontrolled price method, the resale price method, the cost plus method, the comparable profits method and the profit split method.

Transfer pricing documentation requirements apply (see also below under “Disclosure requirements”). It is possible to obtain advance pricing agreement.

Thin capitalization – The thin capitalization rules restrict the deductibility of interest on loans granted by certain foreign and Russian affiliated parties or guaranteed by such parties (loans guaranteed by

affiliated parties but granted by non-affiliated banks generally can be excluded from the scope of the thin capitalization rules). The maximum debt-to-equity ratio is 3:1 for related legal entities in general, and 12.5:1 for banks and leasing companies. Excess interest is nondeductible by the borrower for Russian profits tax purposes and is recharacterized as a dividend distribution subject to dividend withholding tax.

Controlled foreign companies – A Russian (corporation or individual) is taxed on the undistributed profits of a CFC at a rate of 20% or 13%, respectively. The CFC provisions are applicable where an entity or an individual that is considered a Russian tax resident has an interest of more than 25% (10%, if more than 50% is owned, directly or indirectly, by Russian tax residents) in a nonresident entity.

A threshold exemption for inclusion of a CFC's undistributed profits in the tax base of a Russian entity or individual is set at RUB 10 million.

Where the CFC rules apply, the relevant profits of the CFC are computed based on its stand-alone financial statements if at least one of the following conditions is satisfied:

- The auditor's opinion with respect to the CFC's financial statements is presented and the opinion is not negative, and the auditor does not refuse to express this opinion; and/or
- The CFC is a tax resident in a country that has concluded a tax treaty with Russia, and the country exchanges information with Russia.

If the conditions for computing a CFC's profits based on its financial statements are not satisfied, the CFC's profits must be computed in accordance with the general Russian tax rules. In addition, the general rules can be used at the taxpayer's discretion (this approach, if chosen, must be used for five consecutive tax periods).

Disclosure requirements – Certain information must be disclosed to the tax agent on persons exercising rights to certain securities issued by Russian entities and accounted for in the depositary account of a foreign nominee holder (including certain types of shares and bonds), foreign authorized holder or depositary program. This information may be made available to the tax authorities in some cases. Where the information is not disclosed, a 30% withholding tax may be applied to the income derived from such securities (except dividends).

Russian tax residents are required to notify the Russian tax authorities of the following:

- A direct and/or indirect participation in a foreign company if the participation exceeds 10%;
- The establishment of a foreign structure that is not a legal entity; and

- Any interest in a CFC in which Russian tax residents exercise control.

In addition, foreign entities owning immovable property in Russia that is subject to property tax are required to disclose information regarding their direct and indirect shareholders to the Russian tax authorities.

Legal entities must determine and maintain information on their ultimate beneficial owners and update the data annually under Russian anti-money laundering legislation.

Russia has committed to the automatic exchange of information under the common reporting standard starting from 2018, with 2017 as the first reporting period.

Non-Russian financial institutions are required to report certain information to the tax authorities on Russian account holders on an annual basis (i.e. "Russian FATCA").

Russia has adopted the three-tiered approach to transfer pricing documentation (i.e. the local file, master file and CbC report) for large multinational groups. The first reporting period for which large MNEs must file the CbC report is fiscal year (FY) 2017 (voluntary filing also is available for FY 2016).

Compliance for corporations:

Tax year – Calendar year.

Consolidated returns – Russian companies forming a group with 90% (or more) direct or indirect ownership may file a consolidated corporate income tax return for the preceding calendar year if total tax payments exceeded RUB 10 billion and revenue and assets exceeded RUB 100 billion and RUB 300 billion, respectively, calculated according to Russian accounting standards.

Taxpayers electing to file a consolidated group return must continue to file as a consolidated group for at least five years.

Filing requirements – The annual profits tax return must be filed by 28 March after the close of the previous tax year.

Penalties – Penalties generally are 20% of the relevant tax (or 40% if the default is intentional), plus late payment interest and fixed penalties. Criminal penalties also may apply.

Rulings – Opinions of the tax authority may be granted to large taxpayers within the horizontal tax monitoring procedure.

An advance pricing agreement may be obtained by the largest taxpayers under the transfer pricing rules.

Personal taxation:

Basis – Russian residents are taxed on their worldwide income. Nonresidents are taxed only on Russian-source income.

Residence – An individual is resident if he/she spends 183 days or more in Russia during a calendar year.

Filing status – Each individual must file a tax return; joint filing or assessment for spouses is not permitted.

Taxable income – Taxable income consists of any receipt (in cash or in kind) by an individual, or that is subject to an individual's discretionary disposal, subject to certain exceptions. Profits earned from self-employment activities generally are calculated under the same rules as profits derived by companies.

Capital gains – Income derived from the sale of shares of a Russian company, unlisted stock in a Russian company or listed stock in a high-technology Russian company where the shares are acquired after 1 January 2011 and held for more than five years, is exempt. Gains from the sale of other types of property, except for immovable property, by Russian residents are exempt after a three-year holding period. A five-year holding period applies to immovable property that is acquired as from 1 January 2016.

Special rules apply for income derived from transactions with securities issued by Russian entities and delivered by depositaries to foreign entities acting on behalf of an individual.

Deductions and allowances – Subject to certain restrictions, resident taxpayers may be able to claim tax deductions related to property and investments (in securities and in personal investment accounts), charitable contributions, voluntary pensions, life insurance and medical and education expenses. A standard deduction applies to individuals with very low income.

A deduction up to RUB 2 million is granted on the acquisition of real estate; the deduction is up to RUB 3 million for mortgage interest. Taxable income from the sale of property (except for immovable property) that was owned for less than three years may be decreased by expenses incurred, or by a minimum deduction of RUB 1 million (for immovable property) and RUB 250,000 (for other property, except securities).

The minimum deduction applicable to the sale of nonresidential property is RUB 250,000.

Rates – A flat rate of 13% applies to Russian residents on most types of income, and a 30% rate applies to

Russian-source income of nonresidents, unless the rate is reduced under a tax treaty.

Dividends are taxed at a rate of 13% for residents and 15% for nonresidents, unless the rate is reduced under a tax treaty.

A 30% withholding tax may apply to certain income from securities if the relevant information is not disclosed to the tax agent (see "Disclosure requirements" under "Anti-avoidance rules," above).

The employment income of highly qualified foreign professionals is taxable at a rate of 13% (even during periods of nonresidence for tax purposes), rather than the 30% rate that otherwise would apply.

As from 2018, deemed income of Russian tax residents from beneficial loans (i.e. where the interest rate on loans made in foreign currency is lower than 9%) received from affiliated parties is taxed at a 35% rate. (Prior to 2018 the 35% rate applied to deemed income from all beneficial loans.)

Other taxes on individuals:

Capital duty – No

Stamp duty – Stamp duty is levied, but it is usually nominal.

Capital acquisitions tax – No

Real property tax – Tax is imposed annually at rates ranging from 0.1% to 2% of the cadastral value or the total inventory value, adjusted by a "deflator" coefficient.

Inheritance/estate tax – No

Net wealth/net worth tax – No

Social security – Only a self-employed individual must contribute to social security since contributions are borne by the employer.

Compliance for individuals:

Tax year – Calendar year

Filing and payment – Tax on employment income is withheld by the employer and remitted to the tax authorities. In certain cases, individuals must report their income by filing a tax return no later than 30 April following the year of assessment, with any tax outstanding due by 15 July.

Foreign nationals leaving Russia must submit an exit tax return no later than one month before departure and pay any tax due within 15 days of the filing date.

Penalties – Penalties apply for noncompliance. No extensions are available.

Value added tax:

Taxable transactions – VAT is levied on the sale of goods, the provision of services deemed to be supplied in the Russian territory, the transfer of property rights and the import of goods.

Rates – The standard VAT rate is 18%; reduced rates of 10% and 0% may apply in certain circumstances (e.g. the export of goods).

Registration – A foreign entity cannot register for VAT purposes only; general tax registration is applicable for all taxes. As from 1 January 2017, foreign entities providing e-services that are deemed to be supplied in Russia to private customers, as well as related foreign intermediaries, must register for tax purposes and account for and pay any relevant VAT. The same rules will apply as from 1 January 2019 with respect to supplies of e-services by foreign entities and foreign intermediaries to businesses.

Filing and payment – The general VAT return is filed on a quarterly basis. Payments are made in three equal monthly installments and are due no later than the 25th calendar day of each of the three consecutive months following the reporting quarter (with certain exceptions, e.g. reverse charge VAT and VAT payable by foreign suppliers of e-services).

Source of tax law: Tax Code of the Russian Federation

Tax treaties: Russia has concluded 82 income tax treaties. Russia signed the OECD MLI on 7 June 2017.

Tax authorities: Federal Tax Authority

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