Doing business in Russia 2015
This guide is designed as a basic reference guide to Russia’s tax and legal environment for businesses interested in doing business in Russia.

Law and practice continue to evolve in Russia, and whilst all reasonable care has been taken to ensure that this guide provides a practical explanation of the current rules, readers are urged to obtain up to date formal advice before undertaking any action.

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In the last couple of years, the Russian legislature has been prolific in developing changes to tax legislation. Many of these changes became effective from 1 January 2015. One of the key developments has focussed on the taxation of controlled foreign companies with the goal of creating an effective mechanism, which will prevent Russian business from misusing low tax jurisdictions and receiving unjustified tax benefits. Another innovation trying to bring the Russian tax system closer to the best global tax practices is the introduction of tax monitoring, which should allow a transition to a “preventive” mechanism of tax control.

The law on tax manoeuvring in the oil industry was introduced with an aim to decrease dependence on export duties by increasing the level of mineral extraction tax.
Following the trend of overall increase in fiscal pressure, a new tax — a trade duty — has been introduced at a local level. The regional authorities now can choose to introduce a new duty at the local level; e.g. the federal city of Moscow has already introduced it.

Changes related to VAT have introduced a new format for VAT returns starting from 1 January 2015 and a new obligation to file of VAT returns electronically, which has put additional administrative pressure on the taxpayer.

A number of changes to profits tax regulations have been introduced which aim at harmonising the tax accounting rules with the statutory accounting requirements.

This Guide covers the main features of, and latest changes, to Russian tax legislation.

We hope that you find it both educational and useful.

**Strategic industries**
As expected, the law which limits foreign investment in strategic industries has been relaxed, increasing the investment limit in companies with subsoil activity from 10% to 25%, removing restrictions where the investor is an international financial institution (such as the EBRD) and resolving a number of anomalies. A government commission charged with applying the law has approved around 95% of applications.

**Finance & investment**
Since 2013, some major changes were made to the banking system. The Russian Government through the Central Bank has started a general reform of the banking sector, corporate governance standards and corporate transparency continues to improve.

**Legal framework**
The legal framework continues to develop with the growth of legal precedent and thus legal certainty, along with measures to fight corruption and update company law. In practice though, the objectivity of the authorities and impartiality of the judiciary remains an open question.

**Company law**
In 2014, some major changes were made to company law relating to corporate governance, classification of legal entities and other changes.

**Taxation**
The main profit tax rate — 20% — is one of the lowest among major economies.

Tax and other incentives are becoming more common. Many incentives are aimed at promoting innovation and the modernisation of industries.
Summary
Even during challenging political and economic conditions, Russia remains a country with an enormous potential for foreign investors. Virtually every sector of the economy, whether state or privately controlled, requires massive investment. Businesses in the technology and innovation sphere are particularly welcome.

The following overview of taxes and related legislation is based on the law in effect as of 1 January 2015.

Further information about doing business in Russia can be found at www.deloitte.com/ru/insights/dbir.

Expatriate staff
The introduction of a simplified process for obtaining work permits for ‘highly qualified specialists’ — with qualification based on remuneration, not skills — has been a great success. The authorities preference for this route is clear. There is a requirement for employers to make pension and social insurance contributions for all those employees who do not secure a ‘highly qualified specialist’ visa.
Types of business presence

Russian legislation provides for foreign companies having different types of business presence in Russia. These are:
- Branches and Representative Offices
- Legal Entities
- Joint Activity Agreements, also known as Simple Partnerships

This chapter includes a brief description of each of these forms.

Branches and representative offices
According to the Russian Civil Code, both branches and representative offices are referred to as subdivisions of a foreign legal entity (FLE) that are located at a place other than that of the legal entity’s head office. Branches and representative offices may be allocated property by the legal entity that has created them and act on the basis of regulations approved by that legal entity.

The difference between a branch and a representative office lies in the nature of the activities they are entitled to perform. A representative office can only represent the interests of the legal entity and this normally limits its activities to those of a non-commercial nature, such as marketing or the gathering of information. A branch, in contrast, can perform all or part of the legal entity’s functions, including (but not limited to) representation. Nevertheless, some representative offices are known to engage in commercial activities and have never been challenged by the authorities, provided they have duly completed their accounting in relation to Russian tax.

In accordance with recent changes to legislation, representative offices are now entitled to hire highly qualified specialists. Previously, only a branch office was entitled to do this. Please refer to the chapter entitled “Employment” for further details.

Because of the wide scope of their powers, branches are considered to engage in commercial activities for taxation purposes and are thus subject to profits tax. The limited scope of activities that can be performed by representative offices would not normally expose them to profits tax, but some offices do in fact engage in commercial activities, including the negotiation and signing of contracts. In such cases, the office would become liable to profit taxation in the same way as a branch is.

Registration process
It is a legal requirement for representative offices and branches to be accredited by the appropriate government organisation. This organisation is generally the Federal Tax Service, but it can differ depending on the nature of the head office activities. For example, accreditation of representative offices of foreign banks is carried out by the Bank of Russia. Regardless of the state body involved, branches and representative offices must also be added to the State Register of Accredited Foreign Representative Offices held by the Federal Tax Service.
Neither the shareholders of JSCs nor the participants in LLCs are liable for the obligations of the company, and they bear the risk of losses only to the extent of the value of their contributions (i.e. a limited liability).

However, there are situations in which a parent company may be held liable for the obligations of its subsidiary: a parent company which has the right to give directions that are binding on its subsidiary is jointly liable with the subsidiary for transactions concluded by the latter when following such directions. This liability exists regardless of whether the form of the commercial legal entity is an LLC or a JSC. A similar concept applies in the event of the insolvency of a subsidiary, whether it is an LLC or a JSC. If the parent company determined the subsidiary’s actions in the knowledge that this would result in its subsequent insolvency, the parent company bears the liability for the subsidiary’s debts if the subsidiary’s property is insufficient to cover its liabilities.

A Russian company cannot be owned 100% by another corporate entity (wherever it is incorporated) where that owner is itself owned 100% by another shareholder. In other words, a 100% holding company of a Russian company must have more than one shareholder or participant.

**Joint stock company**

In accordance with the recent amendments joint stock companies are now subdivided into “public” and “non-public” companies (previously they were divided into open and closed joint stock companies). A public joint stock company is an entity with shares in the registered capital of which the public is entitled to participate. The public share of the registered capital is at least 25% (previously 10%).
and securities that are publicly-listed (i.e. placed through open subscription) or publicly circulated in accordance with legislation on securities. The rules regarding public entities also apply to joint stock companies that do not meet the requirements for a public entity, but whose charter and legal name indicate that the entity is public.

Public joint stock company
(publichnoe aktsyonernoye obshchestvo)
The main features of a public joint stock company are the following:
• The legal name of the company must indicate that the entity is public
• The company may conduct an open subscription of shares to an unlimited group of persons.
• No limits for the number of shareholders
• The minimum charter capital is set at RUB 100,000
• The company shall establish a board of directors which consists of 5 members (at least)
• The functions of the Registrar and the Counting commission are performed by an independent organization which has the appropriate license
• The number of shares and votes which belong to one shareholder as well as the nominal value of shares cannot be restricted
• None of the shareholders shall have the preemptive rights over any shares offered for sale by a withdrawing shareholder (except for additionally issued shares or other securities which can be converted into shares)
• The company charter cannot refer to the competence of the general meeting of shareholders the functions which are not listed by the RF Civil Code and the JSC Law

Existing joint stock companies that meet the requirements of public companies are considered as such, regardless of whether their names contain reference to that status.

Non-public joint stock company
(nepublichnoe aktsyonernoye obshchestvo)
The main features of a non-public joint stock company are the following:
• The shares and securities of a non-public joint stock company are not publicly-listed (no open subscription)
• The company has no obligation to establish a board of directors
• The number of shares and votes which belong to one shareholder as well as the nominal value of shares can be restricted
• The company charter can refer to the competence of the general meeting of shareholders the functions which are not listed by the RF Civil Code and the JSC Law
**Limited liability company — LLC**
(Obshchestvo s ogrаниченной ответственностью or ООО)
An LLC is the most flexible type of company with the least burdensome statutory obligations.

It tends to be the entity of choice for wholly-owned subsidiaries, including those owned by foreign investors.

The equity participation of the owners is determined by their capital contribution. An LLC's capital is divided into "units" (technically not shares, thus falling outside the scope of Russian law on securities).

The main features of an LLC are the following:
- An LLC does not issue shares
- An LLC's "participants" contribute to its charter capital, although financing is also possible in the form of contributions to the company's property
- The minimum charter capital of an LLC may not be less than RUB 10,000
- Participants enjoy pre-emptive rights over any participatory units offered for sale by a withdrawing participant
- The number of participants may not exceed 50

The sole founding document of LLC is its Charter.

Any participant of a LLC can withdraw from it without the consent of the others:
- By submitting the application on withdrawal if such possibility is provided for by the Charter
- By applying for the LLC to acquire the participant’s unit in cases stipulated by law

**Registration process**
The registration procedure for legal entities comprises the following stages:
- State and tax registration
- Stamp creation
- Registration with the State Statistics Committee
- Registration with social funds

Due to the bureaucratic nature of registration, the entire process typically takes three to four weeks from the date that the documents are submitted to the registration authorities.

In addition, joint stock companies are required to register their share issue with the Bank of Russia, which increases the time required for registration by one to two months.

**Antimonopoly approval**
In some cases, depending on the assets or sales revenue of the founder(s), the prior approval of the Federal Antimonopoly Service may be required before a Russian company can be established. A preliminary approval from this body normally takes about two months to be given.

**Simple partnership or joint activity agreement (JAA)**
Foreign companies are entitled to participate in a JAA with a local partner. A JAA is not a legal entity in itself but represents the pooling of assets for conducting a common business. One of the partners is usually appointed as the party responsible for bookkeeping and statutory reporting.
Accounting environment

Overview
For historical reasons, the Russian financial reporting framework is determined and regulated by the state, rather than by professional bodies. The International Financial Reporting Standards (IFRS) are now becoming increasingly important, in terms of both influencing the development of the Russian Accounting Standards (RAS) and forming the compulsory standards for certain categories of Russian entity. While much of the conceptual framework and many of the underlying principles of RAS are similar to IFRS, RAS is more like a summary of IFRS. Although RAS cover different options, they tend to be interpreted in such a way as to produce accounts that comply with the tax rules.

Indeed, the tax authorities and other state bodies, rather than management or third parties, are the primary users of Russian statutory financial statements prepared on the basis of RAS. Therefore, financial accounting is still largely driven by tax reporting requirements.

Several major changes have been made to RAS since 2013. Federal Law No. 402-FZ “On Accounting” came into effect on 1 January 2013, affecting most Russian businesses. This Law has fundamentally improved the organisational process of accounting in Russia. It applies not only to Russian legal entities, but also to foreign companies with a representative office or branch in Russia.

Accounting system
Most companies in Russia maintain their accounting records using IT systems tailored to the prescribed RAS chart of accounts and reporting formats. Russian subsidiaries or subdivisions of foreign companies may use a global ERP system as well as a local accounting database with a developed interface with a global ERP (if required).

If the company decides to use a global ERP system, special emphasis should be placed on the localization process.

Management reporting often also has its basis in RAS, with monthly, quarterly or annual transformation to IFRS. Only larger companies have the available resources to perform the transformation to IFRS, so other companies tend to outsource the process to consulting firms, or at least engage their assistance in doing so.

Electronic document flow enabled
Over two past years significant changes have been made in the area of electronic document flow.

The Russian government has stated its plan to finalise the implementation of electronic document flow throughout all state bodies by the end of 2017. This is bound to have a major effect on any further adjustments made to document flow within the public and corporate sectors of the Russian economy.
Electronic reporting can be exchanged via a specialised service provider acting as an electronic courier. Participation in electronic reporting and document flow requires the use of a personalised electronic signature depending on the level of required legal surety.

Documents submitted to the tax authorities via telecommunications channels must be signed using an enhanced qualified signature. This applies to documents such as tax returns, advance payments reports, VAT invoices, various forms of declarations and notifications from taxpayers and other documents.

Taxpayers are currently able to choose whether to file tax returns electronically or on paper. However, companies with an average number of employees over 100 for the previous calendar year, and the largest taxpayers, regardless of the number of employees, are obligated to file their tax returns electronically. In addition, companies with over 25 employees on average over the previous calendar year are obligated to file reports to state social security funds electronically. However, the largest change introduced by local legislation obliges all taxpayers to file electronic VAT returns. VAT returns submitted in hard copies are treated as non-submitted returns that can result in fines and the blocking of company bank accounts.

Tax authorities are able to send requests either as a hard copy to the entity’s registered address, or electronically via a telecommunications channel. Therefore, entities could face material risk if they have not opened communications channels with the tax authorities. Thus, it is inevitable that companies will be met with situations in which it is impossible to operate without an electronic documentation system due to legal requirements. Furthermore, the new Law “On accounting”, in accordance with other legislative acts, envisages that hard copies and electronic copies of documents hold equal legal standing.
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Organisation of accounting
According to the Federal Law “On accounting”, in effect since 2013, Russian companies are obligated to delegate responsibility for maintaining accounting records to a Chief Accountant or other responsible person, or to outsource the service to an external provider.

Small and medium-sized enterprises are exempt from this rule and may continue to delegate this role to another individual (e.g. the CEO). To qualify as a small or medium-sized enterprise, a company must meet a number of requirements, including the following: (a) foreign ownership may not exceed 25%; (b) ownership by other companies that are not themselves small or medium-sized enterprises may not exceed 25%.

The position of the Chief Accountant or other employee responsible for maintaining accounting records can be filled by a foreign national who temporarily or permanently resides in the Russian Federation and satisfies the requirements of the relevant Russian legislation.

The Federal Law on accounting prescribes that the entities whose financial statements are subject to compulsory audit are obligated to organise and exercise internal control over its accounts and to prepare financial statements. Despite that fact, in practice, companies had many questions about how to organize and implement it.

Furthermore, the companies which are obligated to submit the reporting electronically will be also obliged to ensure and confirm the receipt of electronic documents from tax authorities (tax requests, invitations, etc.) starting from 2015. The taxpayers must send a confirmation of receipt within six working days upon receipt of a document from the tax authorities.

**FTS introduces Universal Transfer Document**
The Federal Tax Service (FTS) recommends that taxpayers use a universal transfer document (UTD) form, developed on the basis of a VAT invoice form. The UTD is a universal document prepared during the transfer of goods/work/services/property rights, and is used to document financial transactions. For one party, the UTD confirms the transfer of goods/ work/services/ property rights, and for the other party it confirms their receipt. The document may be used to recognise transactions on an account for the purposes of accruing and recognising deductible VAT, as well as to confirm expenses for income tax purposes.

For correction purposes, the Federal Tax Service (FTS) also recommends the use of a universal corrective document (UCD), developed on the basis of a corrective VAT invoice form. A UCD can be used in case of any complaints about the quantity or quality of delivered goods.

The FTS is also working to develop formats for an electronic UTD.
To answer the questions the Ministry of Finance produced a Letter on implementing the internal control. The Ministry of Finance has given recommendations for each element of internal control, which include, in particular, the management culture and the proper ratio of staff to implement this type of control, risk assessment, authorization of transactions and operations, verification of data, information and quality control information, etc.

Internal control, as recalled by the Ministry of Finance, is designed to provide not only the goals of economic activity, but also to prevent deviation from the rules of accounting.

**Preparation of RAS financial statements**

Every legal entity registered in Russia must prepare standalone RAS financial statements for each financial reporting (calendar) year ending 31 December. The format and content of the financial statements are set by the Ministry of Finance, including the chart of accounts and recommended accounting entries for typical transactions. The financial statements must include a balance sheet, profit and loss account, statement of cash flows, summary of accounting policies, and other supplementary accounting data.

Branches and representative offices of foreign legal entities are not obligated to maintain accounting records providing that they properly perform the tax accounting for income and expenses in accordance with Russian tax legislation.

Under the new Law and corresponding amendments to the Russian Tax Code, only annual accounting statements are now required and must be sent to both the Federal Tax Service and the Federal Statistics Service. Annual RAS financial statements should be submitted to the tax authorities within 90 days after the end of the calendar year.

Certain entities, including open joint stock companies, banks and other lending agencies, insurance companies, stock exchanges, and investment funds, are required to publish their RAS financial statements. These companies may have additional reporting and disclosure requirements.
RAS audit requirements
The audit of annual RAS financial statements is mandatory for:
• Joint stock companies
• Companies with securities traded on stock exchanges
• Banks and other lending agencies, insurance companies, credit bureaux, pension and investment funds, securities market participants, and stock exchanges
• Companies whose annual revenue for the previous financial year exceeded RUB 400 million
• Companies whose total assets as of 31 December of the previous calendar year were valued above RUB 60 million

Publicly traded companies, banks, insurance companies, non-governmental pension funds and companies that are more than 25% state-owned must be audited by an audit firm, rather than by an individual auditor.

According to recent changes in the legislation, audits in Russia are to be performed in accordance with International Standards on Auditing as adopted by the International Federation of Accountants and officially adopted in Russia — thus they are compulsory for auditors in Russia.

Furthermore, the new Law stipulates an obligation for the auditors to inform the owners and the management of the audit client on any revealed instances of corruption and other legal offences, potential indicators or risks of such offences. If the representatives of the audit client do not take any appropriate actions within 90 days, the auditor is to inform the relevant state authorities.

Harmonisation of RAS with IFRS and adoption of IFRS in Russia
In 2004, the RF Ministry of Finance issued its "Medium term concept for the development of accounting and financial statements", which set the target of harmonising RAS with IFRS. In recent years, significant progress has been made towards this goal. Several new procedures for revising and adopting RAS, based on IFRS, came into effect in 2013. Furthermore, new standards have been established for accounting for construction contracts, correcting fundamental errors, provisions, contingent assets and liabilities, segment reporting, and cash flow statements.
In addition, in 2014, an Order of the Russian Ministry of Finance stipulated the adoption IFRS documents in Russia related to the accounting of acquisitions of interests in joint operations and methods of depreciation and amortization.

A new consolidation law was also adopted. Companies in the banking sector have already begun submitting financial statements in almost total compliance with IFRS to the Bank of Russia, as well as IFRS consolidated financial statements.

The Russian Ministry of Finance also published the Conceptual Framework for Financial Reporting under IFRS. The document describes the objective of financial reporting and qualitative characteristics of useful financial information, defines the elements of financial statements and describes the concepts of capital and capital maintenance.

Following the formal adoption of IFRS in Russia, public interest entities (PIEs) are now required to prepare consolidated financial statements under IFRS (whereas only Russian banks had previously been required to do so), in addition to standalone statements under RAS. PIEs include companies with securities traded on a stock exchange, banks, and insurance companies. Other entities that have issued securities by way of public offering, or by means of private placements to a wide group of shareholders, are also required to prepare consolidated financial statements under IFRS.

Annual consolidated IFRS financial statements must be audited, presented to the shareholders and filed with the Federal Committee on the Securities Markets (or, in the case of banks, the Bank of Russia) within 120 days after the end of the year. The financial statements must also be published, for example, on the Internet.

Currently, two Federal Laws, “On consolidated financial statements” and “On accounting”, stipulate the application of IFRS in Russia.

The first provides a legal basis for the direct application of IFRS by entities when preparing consolidated financial statements. It introduces the compulsory submission of consolidated financial statements to participants in entities, including shareholders, as well as their obligatory publication. Since 2012, IFRS have been the only standards applicable when preparing consolidated financial statements in the Russian Federation.

The Federal Law “On accounting” provides a legal basis for the application of IFRS by legal entities preparing their financial statements. This law stipulates that federal accounting standards be developed based on international standards.

In 2012, the procedure for translating IFRS into Russian was finalised, as was the procedure for the systematic support of up-to-date translation. By now 24 federal accounting standards (RAS) are in effect in relation to commercial and non-commercial organisations (with the exception of public sector organisations).
Taxation of foreign presences

A foreign legal entity (FLE) that conducts business activities in Russia through a "separate division", a term which includes representative offices, branches, construction sites and other places of business, for a period exceeding 30 days in a calendar year, is required to register with the Russian tax authorities within 30 days of the commencement of such activities. This is regardless of whether the activities are taxable or not. If the FLE operates in more than one location, it must register separately in each of the locations that it is present in. Each real estate project or construction site must also be registered separately.

Although the taxation of a separate division of an FLE is similar to the taxation of a Russian legal entity, there are a number of differences that can make this an attractive form of doing business in Russia.

In general, FLEs may be liable for taxation in Russia in the following cases:
• If they are recognized as Russian tax residents based on certain criteria
• If their business activities create a permanent establishment (PE) in Russia
• If they receive income from a source in Russia (not connected with the activities of a PE) that is subject to withholding tax as described in the chapter entitled "Russian-sourced income of foreign companies"

The recognition of foreign companies as Russian tax residents
Starting from 1 January 2015 a foreign organisation may be recognised as a Russian tax resident if, in particular, any of the following criteria are met:
• The majority of the Board of Directors meetings are held on the territory of Russia
• Executive body activities are regularly exercised in Russia;
• Top management functions are exercised by key organisation officials from Russia

If none of the 1-2 criteria above are met or only one of them is met, a foreign organisation may be recognised as a tax resident in Russia based on any of the facts below:
• Bookkeeping or managerial accounting of the organisation is carried out in Russia
• Work paper management is carried out in Russia
• Operational personnel management is conducted from Russia

There are a number of cases when the activity of a foreign company cannot lead to the recognition of such company as a Russian tax resident, which include the following:
• Preparation for and/or decision-making on matters relating to the competency of the general shareholders meeting is performed in Russia
• Preparation for the Board of Directors is performed in Russia
• Certain activities relating to planning and control are performed in Russia (strategic planning, budgeting, preparation and compilation of consolidated financial statements, audit and internal control, adoption of standards, methods and/policies which apply to all or to a substantial part of the subsidiaries of the foreign company)
• Commercial activities are performed by a foreign company in a jurisdiction which has a signed double tax treaty with Russia by means of its own qualified personnel and assets located in this country

**Exemptions**

Moreover, the Russian tax authorities shall not be entitled to consider a foreign company a Russian tax resident if:
• The company is a tax resident in a foreign country in accordance with a double tax treaty concluded between Russia and this country
• The CFC participates in profit-sharing agreements, concession agreements, licensing or service agreements similar to profit-sharing agreements, or other agreements with the government or other state authorities\state companies of the respective country,
• A Russian controlling person owns directly or indirectly 50% or more of the share capital in the foreign company for at least 1 year, and all the below conditions are met:
  – More than 50% of the foreign company's assets consist of investments in foreign subsidiaries which are tax residents in countries with which Russia has signed a double tax treaty and which exchange information with Russia, and the share of the active income of these subsidiaries is at least 80%
  – The foreign company owns no less than 50% of the share capital of its subsidiaries
  – The foreign company has no income or its income consists of more than 95% of dividends
• The foreign company acts as the operator of a new offshore oil field or is a shareholder of such an operator
• The foreign company is the issuer of traded Eurobonds, while the share of income from such activities is not less than 90%

Voluntary claim of Russian tax resident status
Unless otherwise stated in a respective double tax treaty, a foreign company which is a tax resident of a country which has a double tax treaty with Russia has the right to elect to become a Russian tax resident, provided it conducts activities through a PE in Russia.

Should this be the case, a notification should be filed with the Russian tax authorities following the procedure and format developed by the competent authorities.

Recognition of a foreign organisation as a Russian tax resident will result in taxation on the company's worldwide income in Russia and obligations to comply with other requirements and rules provided by the Russian tax legislation.

The recognition of PE of foreign companies in Russia
The Tax Code defines the term “permanent establishment” (PE) as a branch (“filial”), representative office, division, bureau, office, agency or any other separate fixed place of activity, through which a foreign company regularly engages in business activities in Russia. The term is used exclusively for tax purposes and does not affect the legal status of an entity. The following areas of activity are expressly listed as giving rise to the creation of a PE:

• Exploration for, or extraction of, natural resources
• Construction, installation, assembly, adjustment, maintenance and operation of machinery and equipment, including gambling equipment
• Sales from warehouses owned or rented by a foreign legal entity in Russia
• Provision of services or performance of any other activity, apart from “preparatory and auxiliary” activities or activities explicitly defined as not creating a PE
A foreign legal entity may also be considered as having a PE if it conducts the activities listed above through a dependent agent. A dependent agent represents an FLE in Russia under a contract, acts on its behalf, and has and regularly exercises the right to sign contracts on behalf of the FLE, or negotiates significant terms on its behalf.

Russian tax law specifically stipulates that the gathering and distribution of information, marketing, advertising, market research and the import and export of goods by a foreign company should not themselves lead to the creation of a PE.

Russia’s double tax treaties, which prevail over Russian domestic law, also include a definition of a PE. Thus, if an FLE qualifies as a resident of a country with which Russia has a tax treaty in force, then the definition of a PE in that treaty will prevail. A list of countries with which Russia has a double tax treaty is provided in the Appendix on pages 102-105.

PEs and Russian legal entities use similar rules for determining taxable profits and for calculating taxes due. The rules on filing tax returns and maintaining tax registers are also similar. The only major difference between a foreign entity with a PE and a Russian legal entity relates to the monthly advance payment of profits tax. PEs are exempt from this requirement and are thus not obliged to remit profit tax on a monthly basis.

Generally, PEs should calculate their profit tax using the direct method (i.e. gross income net of allowable deductions) to arrive at their taxable income. However, when a foreign entity has a PE because it conducts preparatory and auxiliary activities in Russia in favour of third parties on a free-of-charge basis, the PE will be deemed to have taxable income equal to 20% of the expenses of the PE.

In addition, Russian tax law allows an FLE to allocate income and expenses to its Russian PE. In particular, where all income from activities in Russia earned through a PE is received by the head office of the FLE, the income of the Russian PE is determined through reference to the FLE’s accounting policy. Moreover, in cases set out in double tax treaties, Russian tax law also allows a deduction by the PE of overhead expenses incurred by the head office but relating to the PE, e.g. management and administrative costs. The tax authorities may require documentary support and justification of any amounts allocated.

Nevertheless, the allocation of income and expenses between an FLE and its Russian PE should take into account the functions carried out in Russia, the assets used and the commercial risks borne.

Russia does not impose a “branch profits” tax on profits repatriated by a PE to its head office.
In addition, a FLE that carries out activities in Russia through a PE is liable to corporate property tax on movable property recorded as fixed assets before 1 January 2013, as well as on the immovable property of the PE in accordance with the corporate property tax rules applicable to Russian legal entities (refer to the chapter entitled “Property tax”). Movable property that is recorded as fixed assets after 1 January 2013 should not be subject to property tax.

**Russian-sourced income of FLEs**

An FLE — non-Russian tax resident receiving income from a source in Russia not connected with the activities of a PE is subject to withholding tax as described in the chapter entitled “Russian-sourced income of foreign companies”. “Passive” income, such as dividends, interest and royalties, are the most common types of Russian-sourced non-business income.

FLE whose activities do not constitute a PE pays property tax only on its immovable property located in Russia. Thus, an FLE owning movable property located in Russia that is not attributable to a PE of the FLE in Russia is not liable to corporate property tax on that movable property.

It should be noted that there are some differences in the taxation of immovable property depending on whether it is owned by a foreign legal entity or a Russian legal entity.

The immovable property tax base of an FLE without a PE in Russia, or which does not relate to the PE of an FLE in Russia, is determined based on the inventory value of the property (as determined by the relevant state body) rather than the average annual value. The tax base for the year is the inventory value as of 1 January, with quarterly advance tax payments based on one-quarter of the inventory value multiplied by the applicable tax rate.
Russian-sourced income of foreign companies

As with other jurisdictions, the Russian-sourced income of a foreign legal entity (FLE) that is not attributable to a permanent establishment (PE) may be subject to withholding tax at source. The responsibility for withholding the tax lies with the tax agent (a Russian entity or FLE with a registered PE), which makes a payment to an FLE that does not have a Russian PE, nor is recognized as a Russian tax resident (please refer to the to the chapter entitled "Taxation of foreign presences" for more details). Failure to withhold tax may lead to fines of up to 20% of the tax, while a delay in payment may lead to late payment interest charges.

Withholding tax is applied to the following types of Russian-sourced income:

- Dividends
- Income relating to the distribution of profit or property, including distributions upon liquidation
- Interest on debt instruments, including profit-sharing debt and convertible bonds, although within Eurobond-like structures, and if certain conditions are met, Russian companies are exempt from the obligation to withhold income tax from the Russia-sourced income of foreign legal entities
- Royalties
- Income from the sale of shares (participatory rights) in companies if more than 50% of its assets directly or indirectly consist of immovable property located in Russia, or from the sale of financial instruments that are derived from such shares (excluding most sales on a foreign stock exchange)
- Income from the sale of immovable property located in Russia
- Income from the disposal (including redemption) of units in closed-end investment funds falling into the category of rental or real-estate funds
- Income from leases and sub-leases of property used in Russia (including ships and aircraft)
- Income from international freight, including demurrage and other payments relating to freight
- Fines and penalties due from Russian parties for breaking contractual obligations
- Other similar types of income

Income generated from the sale of goods, the performance of work and the provision of services in Russia is not subject to Russian withholding tax, provided that the activity does not lead to the creation of a Russian PE.

Withholding tax is applicable regardless of the form of payment and includes payments in kind or by means of a mutual offset of liabilities between the seller and the buyer. With respect to income from the disposal of shares, immovable property, or units in closed-end rental or real estate investment funds, related expenses may be deducted when determining the tax obligations of the FLE, provided that the tax agent receives documents supporting the expenses before payment is made.

The applicable withholding tax rate varies according to the type of income and information provided to the tax agent, as shown in Table 1.
Where no depositary is involved, in certain circumstances the duties of a tax agent with regard to the payment of interest and dividends to an FLE can be transferred to the issuer, broker, asset manager, nominal holder or other agent to the transaction.

The broker, asset manager, etc. may also be the responsible tax agent with respect to withholding tax on a capital gain derived by an FLE from the disposal of securities.

A tax agent is not obliged to withhold tax in the following circumstances:

- The tax agent has received a notification from the taxpayer that the income relates to a PE of the taxpayer in Russia, and the taxpayer has provided a notarised copy of its tax registration certificate, issued no earlier than the previous tax period
- The income is exempt from tax under a production sharing agreement
- The relevant double tax treaty provides for an exemption from withholding income tax

To claim the benefit of a double tax treaty when Russian-sourced income is being paid, the foreign legal entity must provide written confirmation to the payer of the facts that:

- It is a tax resident of that foreign country, and
- It is a beneficial owner of the said income.

The written confirmations must be provided prior to the payment date.

**Tax residency certificate**

Written confirmation of tax residency in a foreign country must be certified by an appropriately-qualified foreign body and apostilled. The Russian tax authorities may also require a legalised Russian translation of the confirmation.

If confirmation is not provided prior to payment and the foreign company is subject to a withholding rate greater than that provided for by the treaty, it is possible to claim a refund within three years of the end of the tax period in which the payment was made. Upon receipt of the proper documentation, the Russian tax authorities should refund any excess tax within one month of the date of the application. However, in practice this process is usually significantly delayed.

Special provisions allow banks to bypass the residence confirmation requirement for inter-bank transactions, provided that the residence of the foreign bank in a treaty jurisdiction can be confirmed using publically available data.

**Beneficial ownership of passive income**

Staring from 1 January 2015 the definition of the “beneficial owner” of income for the purposes of the application of double tax treaties was introduced to the Russian Tax Code.
According to the introduced definition, a person is considered a beneficial owner of income if he has the right to use and (or) dispose of this income, or for the benefit of which another person is entitled to use the income received. In this case, all the functions carried out by such persons as well as the risks should be taken into consideration. A person with limited powers of disposal of income, acting as an intermediary in favor of another person, not performing other functions and not taking any risks other than paying all income or part of it to another person, cannot be regarded as the beneficial owner of income.

Therefore, in order to benefit from the double tax treaties provisions a FLE - recipient of passive income from Russian sources should be able to provide the Russian tax agent with written confirmation of the fact that it is the beneficial owner of income prior to the payment date.

In addition, a “look-through” approach in determining the beneficial owner of income was introduced into the Russian tax legislation. According to this approach, if, at the moment of payment of dividends, interest, and royalties, the tax agent knows that the beneficial owner of income is not the direct recipient of income, the tax agent may apply the double tax treaty and the respective rates signed between Russia and the country of residence of the beneficial owner, provided the tax authorities are duly informed.

If a Russian tax resident is regarded as the beneficial owner of passive income other than dividends, the tax agent does not have an obligation to calculate and withhold the tax due, but would have to inform the tax authorities and the respective income would be included in the tax base of the Russian resident beneficial owner.

In case of dividends where the beneficial owner is a Russian tax resident, the tax agent would be obliged to withhold the respective tax due (0% or 13%) and such dividends would not be included in the tax base of the Russian resident beneficial owner.

It should be noted that in cases when a depositary is acting as a tax agent, it should calculate and pay tax based on the aggregate information* on persons exercising the rights to securities or in whose favour the rights to securities are being exercised. This duty arises for the depositary, in relation to income paid on the following types of securities, accounted for in the depositary account of the foreign nominee holder, foreign authorised holder or depositary programme:

• State and municipal securities, for which centralised storage is obligatory
• Securities with a state registration issue date or assigned identification number dated from 1 January 2012, which have been issued by Russian organisations and for which centralised storage is obligatory
• Other securities issued by Russian organisations, except for those securities with a state registration issue date or assigned identification number dated prior to 1 January 2012 and for which centralised storage is obligatory
* In general, aggregate information, includes data on the number of securities to which rights are exercised, specifying, for Personal Income Tax purposes, the jurisdictions of the tax residency of individuals exercising the rights to securities or for whom the rights to securities are being exercised, and for Corporate Income Tax purposes, the jurisdictions of tax residency of organisations that are ‘actual recipients of income’.

In addition, to benefit from any tax incentive prescribed by the Russian Tax Code or the double tax treaty, the abovementioned information should be provided to the tax agent, along with data confirming the right to apply that incentive.

**Withholding tax rates for treaty countries**
The main treaty tax rates for Russian-sourced income are shown in the Appendix on pages 102-105.

### Table 1

<table>
<thead>
<tr>
<th>%</th>
<th>Type of income</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>Income from international freight and the rental of property involved in international shipping, and income from leasing and sub-leasing ships and aircraft</td>
</tr>
<tr>
<td>15</td>
<td>Dividends received by foreign companies from Russian legal entities, as well as interest on state and municipal bonds</td>
</tr>
<tr>
<td>20</td>
<td>Royalties, interest (other than interest received from state and municipal bonds, and Eurobonds issued before 1 January 2014), income from leasing and sub-leasing property in Russia, distribution of profit or property to foreign companies, including proceeds from liquidation, and other similar income of an FLE without a PE in Russia</td>
</tr>
<tr>
<td>20</td>
<td>Profit from the sale of shares (or share derivatives) in Russian and foreign entities, where more than 50% of the company’s assets directly or indirectly consist of immovable property located in Russia, or from the sale of immovable property located in Russia, provided that the recipient of the income submits documents supporting the deductibility of the expenses to the tax agent prior to his or her payment of the proceeds. In the absence of suitable supporting documentation, a rate of 20% is applied to the total value of the sale</td>
</tr>
<tr>
<td>20</td>
<td>Profit from the disposal or redemption of units in closed-end investment funds in the rental or real-estate category, provided that the recipient of the income submits documents supporting the deductibility of the expenses to the tax agent prior to his or her payment of the proceeds. In the absence of suitable supporting documentation, a rate of 20% is applied to the total value of the sale</td>
</tr>
<tr>
<td>30</td>
<td>Income on (i) state and municipal securities for which centralised storage is obligatory, (ii) Securities with a state registration issue date or assigned identification number dated from 1 January 2012, which have been issued by Russian organisations and for which centralised storage is obligatory (iii) other securities issued by Russian organisations, except for those securities with a state registration issue date or assigned identification number dated prior to 1 January 2012 and for which centralised storage is obligatory, paid by a depositary in relation to securities accounted for in the depositary account of a foreign nominee holder, foreign authorised holder or depositary programme, if no aggregate information on persons exercising the rights to securities or in whose favour the rights to securities are being exercised is provided by those foreign holders to the depositary acting as a tax agent</td>
</tr>
</tbody>
</table>
The controlling person of an organisation is defined as an individual or legal entity whose participation share in the company:
- Exceeds 25%
- Exceeds 10% (together with the spouse and minor children in case of individuals), provided that overall shareholding by Russian tax residents exceeds 50%

During the so-called transition period — until 1 January 2016 — a person is recognised as a controlling and foreign entity only if his share (together with the spouse and minor children for individuals) exceeds 50%.

Criteria of CFC
A CFC is defined as a foreign organisation or foreign structure established in any form other than a legal entity which is (i) not a Russian tax resident and (ii) controlled by a Russian tax resident (hereinafter — “controlling person”).

Starting from 1 January 2015 controlled foreign company (hereinafter — “CFC”) rules were introduced into Russian tax legislation.
A party (legal entity or individual) may also be considered a controlling party of a foreign company if they do not meet the participation threshold but exercise control over this foreign entity (a structure established in any form other than a legal entity) for their own benefit (benefit of the spouse and/or minor children for individuals), if it can be proved that this party has the authority and ability to influence decisions on the distribution of profits of this foreign entity (a structure established in any form other than a legal entity), regardless of the legal grounds for such control.

**Taxation of CFC income**
The undistributed profit of the CFC should be included in the tax base of the controlling party in proportion to their share in the CFC and is subject to taxation in Russia at a rate of 13% (for individuals) or at a rate of 20% (for legal entities) if the CFC’s profit exceeds 10 million rubles (50 million rubles in 2015, 30 million rubles in 2016).

The profit of the CFC taxable in Russia can be reduced by the amount of dividends or profit (in the case of structures established in any form other than a legal entity, provided the respective profit has been subject to tax at the level of the recipient) distributed by this CFC.

It should be noted that the CFC rules will apply only to CFC profits determined from 2015. The date of actual receipt of income for the purposes of the CFC rules is deemed to be 31 December of the year following the year when the financial year of the CFC ends.

Thus, the taxpayers deemed controlling parties of a CFC will be required to include the undistributed profits of the CFCs in calculation of their tax base for 2016 or 2017, depending on the CFC’s financial year-end.

**Computation of CFC profits**
If the CFC is a tax resident in a country that has a respective double tax treaty signed with Russia, and if the financial statements of this CFC are subject to mandatory audit in accordance with its own law, the profit of this CFC should be calculated on the basis of its financial statements, with adjustments provided by the newly-enacted section 309.1 of the Russian Tax Code.

Among others, these adjustments include the following:
- Income and expenses resulting from the reevaluation of securities, derivatives and amounts of reserves (at the time of allocation and recovery) are not taken into account
- CFC tax losses can be carried forward without limitations and taken into account when determining the tax base
- Tax losses realized by a CFC before 1 January 2015 can be carried forward in an amount not exceeding the amount of losses relating to the three financial years prior to 1 January 2015 and taken into account when determining the tax base
• Income received by a CFC from the sale of securities and/or ownership rights in favor of its controlling person (or legal entity) or its Russian-related person, as well as the costs incurred by a CFC in order to derive such income, are taken into account when determining the tax base insofar as the value according to the CFC accounts is properly documented, provided the amounts do not exceed the fair market value of such securities and/or ownership rights (this rule applies if a decision to liquidate the CFC is made and the liquidation procedure is completed before 1 January 2017)

• The amount of tax due on the profits of a CFC is reduced by the amount of tax computed in respect of such profit in accordance with the legislation of the foreign country and/or Russia, as well as profit tax relating to the permanent establishment of this CFC in Russia

If a CFC is a tax resident in a country that does not have a double tax treaty signed with Russia or if the CFC, in accordance with its own law, is not required to prepare and/or audit its financial statements, then the profit of this CFC should be calculated according to the Russian rules stated in Chapter 25 "Corporate income tax" of the Russian Tax Code.

Exemption of CFC income from taxation

The undistributed profits of a CFC are exempted from taxation in Russia if at least one of the following conditions is met:

• The CFC is a non-profit organisation which, according to its own law, does not distribute profits among its participants

• The CFC is registered in the countries of the Eurasian Economic Union (Kazakhstan, Belarus, Armenia and potentially Kyrgyzstan from 2015)

• The CFC is a tax resident in a country that has concluded a double tax treaty with Russia on avoidance of double taxation, except those countries that do not exchange information with Russia (according to the "blacklist"; we believe that this list will be developed by the FTS of the Russian Federation in the near future) and
  – The effective tax rate of the CFC amounts to at least 75% of the weighted average tax rate that would apply in Russia (for example, in case of a CFC whose only income is dividends, the effective rate should be at least 9.75%); or
  – The proportion of active income in the CFC’s overall profit is at least 80% (dividends, interest, royalties, capital gains are not considered active income).
• The CFC is a structure established in any form other than a legal entity and the following applies:
  – The founders/settlors are not entitled to ownership of the assets of the structure after its establishment
  – The rights of the founders/settlors cannot be transferred to another person, except for transfer of rights by way of inheritance or universal legal succession
  – The founder/settlor does not have the right to receive any profit from this CFC either directly or indirectly (i.e. through related parties)
  – Due to personal law or the provisions of the foundation documents, the CFC does not have the possibility to distribute profit between its members (beneficiaries, shareholders, etc.)

• The CFC is a bank or an insurance company which operates under license and is a tax resident in a jurisdiction which has concluded a double tax treaty with Russia, provided that the country exchanges information with Russia
• The CFC is an issuer of traded Eurobonds, provided the share of income derived from such activity is not less than 90%
• The CFC acts as the operator of a new offshore oil field or is a shareholder of such operator
• The CFC is part of profit-sharing agreements, concession agreements, licensing or service agreements similar to profit-sharing agreements, provided the share of income derived from such activities is not less than 90%
• The CFC does not have the opportunity to distribute profit because of requirements to allocate the profit to the authorised capital pursuant to the personal law applicable to the CFC

Disclosure of information regarding CFCs
The Law introduces an obligation to provide the Tax Authorities with notifications regarding CFCs, as well as their financial statements (if available) or primary documents confirming the profits received (in the absence of financial statements).
CFC notification
Controlling persons are required, by 20 March of the year following the year of inclusion of CFC income into the tax base, to submit to the Tax Authorities a notification about the respective CFC. As the CFC’s 2015 income should be included in the tax base of the controlling person by 31 December 2016, the first notifications are to be submitted in 2017.

The CFC notification shall include the reporting period, the name and registration number of the CFC, the last date of the reporting period of the CFC, the date of closure of financial statements and the auditor’s report on the CFC (if applicable), the taxpayer’s interest in the CFC (with disclosure of indirect participation), the base for recognition of the taxpayer as a controlling party, as well as the grounds for exemption of taxation of CFC profits (if applicable).

CFC reporting
Along with their tax return, the taxpayer, being the controlling party of the CFC, must also submit the following documents:
• Financial statements of the CFC (if they are prepared)
• An audit report on the financial statements of the CFC, in cases where a mandatory audit of the financial statements is required by law
• Primary documents confirming the income of the CFC (in absence of financial statements)
• If provision of an audit report on financial statements along with the tax return is not possible, the audit report should be submitted not later than one month from the date the audit report was issued according to the CFC notification files

Documents in a foreign language must be translated into Russian.

Liability
The Law provides for the following liabilities in case of non-compliance with the CFC rules:
• Failure to file a CFC notification or provision of false information in the CFC notification will result in a fine of 100.000 Rubles per CFC
• Failure to provide financial documentation of a CFC will result in a fine of 100.000 Rubles
• Non-payment of tax due to non-inclusion of CFC income in the tax base will result in a fine of 20% of the amount tax unpaid, but not less than 100.000 Rubles (applicable from 2018)

In some cases, criminal liability may potentially be applied. Such liability will not be sought in the 2015-2017 period, provided the damage to the Russian budget is fully compensated.
Profit tax

Taxpayers
Profit tax applies to both Russian and foreign legal entities carrying out activities in Russia through a permanent establishment or receiving income from Russian sources. Starting from 1 January 2015, foreign legal entities may also become Russian tax residents if they are managed from Russia in accordance with criteria stated by the Russian Tax Code (please refer to the chapter entitled "Taxation of foreign organisations" for more details).

A Russian legal entity must be registered with the office of the tax inspectorate corresponding to the location of the company's registered address, as well as at the offices corresponding to any branch or subdivision of the entity. The company is liable to pay profit tax in respect of each of these locations. Please refer to the chapters entitled "Taxation of foreign organisations" and "Russian-sourced income of foreign companies" for details about the taxation of foreign legal entities (FLEs) and the chapter entitled "Tax Incentives" for information on profit tax reductions and exemptions.

Tax rate
The maximum profit tax rate is 20%, comprising:
• 2%, payable to the Federal budget
• 18%, payable to the Regional budget

Regional governments have the right to reduce their portion of profit tax by up to 4.5%. Please refer to the chapter entitled "Tax incentives" for further details.

Tax base
The tax base is defined as total income received by a taxpayer minus related expenses and allowable deductions.

Income includes sales income, i.e. the total proceeds from the sale of goods, work, services and property rights and non-sales income. Income received in a foreign currency must be converted into rubles using the official exchange rate set by the Central Bank of Russia (CBR) at the date of income recognition.

Non-sales income includes goods, work, services and property rights received free-of-charge, based on market value, except in the case of property received by a Russian company from its parent or subsidiary where the parent owns more than 50% of the subsidiary. This exemption is lost if the property (other than cash) is transferred to a third party within one year. Non-taxable income, of which the legislation provides an exhaustive list, also includes property and property rights received as a contribution to a company's charter capital, leasehold improvements made by a lessee to the lessor's property, and interest received on overpaid tax.

Deductible expenses are subdivided into sales expenses (related to the core business activity of a taxpayer) and non-sales expenses.
Income from the sale of unquoted shares and participation in Russian companies, and of quoted shares in high-technology Russian companies, acquired after 1 January 2011 and held for at least 5 years, are exempt from profit tax.

Assets and liabilities denominated in foreign currency must be converted into rubles. The revaluation profit or loss is included in non-sales income/expenses on the earliest of the last day of the reporting (tax) period or the date of disposal/settlement.

**Recognition of income and expenses**

There are two alternative methods for recognising income and expenses depending on the level of income. The accrual basis must be used by taxpayers with an average income exceeding RUB 1 million per quarter for the previous four quarters, while taxpayers falling short of this threshold may choose between the accrual or cash basis.
General criteria for deducting expenses
Expenses are considered deductible for profit tax purposes if they meet three general criteria: the expenses must be incurred in the course of a taxpayer’s income generating activity, be economically justifiable and supported by relevant documentation (including both documents specified by legislation (agreement, act, invoice and VAT invoice) and other supporting materials). They must not be listed as one of the specifically non-deductible expenses provided in the law. Additional deductibility criteria applying to certain types of expenses are noted below.

Depreciation
Depreciable property is property, both tangible and intangible, which is used for income-generating activities and has the following characteristics:
• A useful life of at least 12 months
• A value of no less than RUB 40,000

If the property does not meet those criteria, it is treated as an expense and should be included in the cost of sales, assuming that general deductibility criteria are met. Land cannot be depreciated.

All depreciable fixed assets fall within one of ten groups described in Table 2 on page 26 and the taxpayer should determine the useful life of its fixed assets based on this classification. The useful life of an intangible asset is based on the utilisation period stated in any agreement or the validity period in the case of a patent. In any other case, it is 10 years (excluding such intangible assets as exclusive rights for software, trademarks, know-how etc. with a minimum period of two years).

Leasehold improvements undertaken at the expense of a lessee, and with the lessor’s approval, can be depreciated by the lessee over the useful life of the relevant assets for the period of the lease agreement.

Two methods of calculating depreciation expenses are available — the straight-line method and the reducing balance method. The straight-line method must be used for buildings, other constructions and transmission devices that fall within depreciation groups 8-10, while either method may be used for other fixed assets. The method chosen should be stated in the taxpayer’s tax accounting policy and can be changed from the straight-line method to the reducing balance method from 1 January of the next tax year, and once every five years in the reverse case.

Under the straight-line method, the monthly depreciation is calculated as:

\[
\frac{1}{\text{useful life in months}} \times \text{historic cost of the asset}
\]

Under the reducing balance method, the monthly depreciation is calculated as:

\[
\text{Net book value of asset group} \times \text{depreciation rate} (\%)
\]
The net book value, on which the monthly depreciation is based, thus reduces every month. The depreciation rates shown in Table 2 on page 26 are, in certain cases, adjusted by coefficients, for example:

- For fixed assets which are used in a demanding environment, belong to residents in Special Economic Zones, or are designated as energy-efficient, up to twice the normal rate is applied
- For leased property and fixed assets which are used only for scientific and technical purposes, up to three times the normal rate is applied

Taxpayers are entitled to deduct a one-time depreciation allowance of 10% (30% for asset groups 3-7) of the historic cost of fixed assets purchased or capital improvements made. The regular depreciation expense is then computed on the reduced tax base.

If a fixed asset was sold to a related party in less than five years from the moment at which the allowance was deducted, this allowance should be restored via its inclusion into the non-sales income of the taxpayer.

A depreciation charge can be deducted when calculating the profit tax liability, starting from the first day of the month following the month when an asset is put into operation.

**Goodwill**

Goodwill arising on the acquisition of a "property complex" — essentially, a bundle of assets which has a collective purpose, such as a production plant — may be recorded as an asset and written off on a straight-line basis over the course of five years. The amount of goodwill recognised is the excess of the price paid over the net asset value of the company. If the price paid is lower than the net asset value, the buyer recognises the difference as income at the moment when the property rights are registered.

**Expenses subject to limitation**

The following types of expenses may be deducted for profit tax purposes within certain limits:

**Advertising**

Expenses on advertising, including in the press, on the radio, television and during cinema showings and video maintenance, outdoor advertising, printing brochures and catalogues and participating in exhibitions are not subject to any limitation. Other categories of advertising expenditure may be deducted for profit tax purposes up to an amount equivalent to 1% of a taxpayer’s sales revenue (net of VAT).
Entertainment
Expenses incurred on hosting clients during negotiations and those attending board meetings are deductible up to 4% of a taxpayer’s total payroll cost in the reporting period.

Insurance
Obligatory property insurance premiums are deductible within certain limits. Voluntary insurance premiums are only deductible if specifically provided by the tax legislation.

R&D
The Tax Code contains a complete list of R&D expenses which are deductible. Costs for certain types of R&D are fully deductible in the period when the R&D activity (or its separate stages) was completed and/or the act of acceptance signed, irrespective of the result. For some types of expenditure listed in a special Order of the Government, the deduction is 150% in the period when the cost is incurred.

Interest
The general rule is that interest charged at the actual rate is deductible for profit tax purposes. In respect of loans between affiliated parties which are recognized as controlled under Russian transfer pricing rules, interest charged at the actual rate is deductible for profit tax purposes, taking into account Russian transfer pricing rules.

Special rules for the limitation of interest expenses apply to banks.

Interest on foreign controlled debt is further restricted — see below.

Thin capitalisation
The thin capitalisation rules restrict the deductibility of interest charged on “foreign controlled debt”. The rules apply to loans (and other debts):

- To a Russian company from a foreign entity which owns, directly or indirectly, more than 20% of the Russian company’s share capital.
- From a Russian company which is an affiliate of a foreign entity to another Russian company where the foreign entity owns, directly or indirectly, more than 20% of the recipient’s share capital.
- Guaranteed or otherwise secured by a foreign entity that owns, directly or indirectly, more than 20% of the Russian company that received the loan, or by a Russian affiliate of the foreign entity.

The deductibility of interest is restricted to the extent that the controlled debt exceeds net assets by more than three times, or 12.5 times in the case of banks and leasing companies. Interest on excess debt is non-deductible and treated as a dividend subject to withholding tax. In the event that the taxpayer has negative net assets, the whole amount of interest accrued on the controlled debt will be non-deductible and treated as a dividend.

Reserves
A taxpayer may create certain types of reserves, including reserves for warranty repairs, repairs of fixed assets, R&D and for doubtful debts, subject to certain
rules. In principle, a taxpayer may transfer the following tax-deductible amounts to a doubtful debt reserve: 50% of the invoice value for debts outstanding for a period of 45-90 days and 100% of the invoice value when that period is exceeded.

The total reserve for doubtful debts as at the end of the reporting (tax) period may not exceed 10% of revenue for the period. Special rules apply to banks and licensed dealers in securities.

**Loss carry forward**
Losses incurred by a taxpayer may be carried forward for up to ten years following the period in which the loss was incurred. Losses on certain types of activity (e.g. securities, financial instruments) are determined and carried forward separately and may in future be offset only against profit from the same activity.

**Taxation of dividends**
Dividends are taxed as follows:
- 13% — at source — for dividends paid by one Russian company to another (unless the 0% rate below applies). In determining the tax base, the paying company should deduct the amount of dividends received in the same and preceding tax periods
- 15% — at source — for dividends paid by Russian companies to foreign companies
- 13% for dividends paid by foreign companies to Russian companies (unless the 0% rate below applies). Where a double tax treaty applies, a credit for any withholding tax suffered can be claimed against this liability
- 0% for dividends paid by either a Russian or foreign company to a Russian company, provided that the Russian company has owned no less than 50% of the company for at least 365 consecutive days. Dividends from foreign companies registered in certain "low tax" jurisdictions are excluded from this rule

**Tax administration**
The tax period for profit tax is the calendar year. The annual profit tax return is due by 28 March of the following year.

Taxpayers may choose to pay tax either on a monthly or a quarterly basis, provided it is applied consistently throughout the tax year. If the monthly basis applies, the tax return must be filed and the tax paid by the 28th day of the following month. If the quarterly basis applies, monthly payments are made based on one third of the previous quarter’s liability, while a tax return must be filed, and the balance of taxes should be paid by the 28th day of the calendar month following the reporting quarter. In each case, the cumulative profits and payments to date are taken into account when filing each monthly or quarterly return and making the appropriate tax payment.

Certain types of taxpayer, including foreign companies using the quarterly basis, are exempted from the obligation to make monthly payments.
Tax agents paying income, including dividends, to foreign companies must withhold tax each time income is paid. The tax must be remitted to the budget within one day of the payment date.

Interest applies to late paid tax.

<table>
<thead>
<tr>
<th>Depreciation group</th>
<th>Useful life (years)</th>
<th>Types of fixed assets</th>
<th>Monthly depreciation rate for the reducing balance method (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1 — 2</td>
<td>Metalworking and woodworking tools/machinery; oil &amp; gas production equipment; construction hand tools; medical tools; etc.</td>
<td>14.3</td>
</tr>
<tr>
<td>2</td>
<td>2 — 3</td>
<td>Drilling machines; construction power tools; computers and peripheral equipment; etc.</td>
<td>8.8</td>
</tr>
<tr>
<td>3</td>
<td>3 — 5</td>
<td>Elevators; forestry tractors; automobiles etc.</td>
<td>5.6</td>
</tr>
<tr>
<td>4</td>
<td>5 — 7</td>
<td>Office furniture; television equipment; clocks; light trucks (0.5-5 ton capacity); gas pipelines; certain non-residential real estate; etc.</td>
<td>3.8</td>
</tr>
<tr>
<td>5</td>
<td>7 — 10</td>
<td>Oil/gas collecting systems; fibreoptic communication systems; musical instruments; heavy trucks; certain non-residential real estate; etc.</td>
<td>2.7</td>
</tr>
<tr>
<td>6</td>
<td>10 — 15</td>
<td>Railway transport structures; certain residential real estate; etc.</td>
<td>1.8</td>
</tr>
<tr>
<td>7</td>
<td>15 — 20</td>
<td>Bridges; ductworks; refrigerators; certain non-residential real estate; etc.</td>
<td>1.3</td>
</tr>
<tr>
<td>8</td>
<td>20 — 25</td>
<td>Blast furnaces; river and lake passenger vessels; certain non-residential real estate; etc.</td>
<td>1.0*</td>
</tr>
<tr>
<td>9</td>
<td>25 — 30</td>
<td>Runways; nuclear reactors; oil &amp; gas tanks; certain non-residential real estate; etc.</td>
<td>0.8*</td>
</tr>
<tr>
<td>10</td>
<td>&gt; 30</td>
<td>Escalators; forest shelter belts; subway cars; certain residential and non-residential real estate; etc.</td>
<td>0.7*</td>
</tr>
</tbody>
</table>

* Except for buildings, constructions and transmission devices for which the straight-line depreciation method should be applied.
Tax incentives

In recent years, few tax incentives have been available in Russia, but that is now changing, partly due to the Russian government’s current modernisation agenda.

**Regional incentives**
Regional authorities have the right to reduce their regional allocation of profit tax of 18% to 13.5% (a minimum overall tax rate of 15.5%, including the 2% federal portion) and provide a reduced rate or exemption from property tax chargeable at the maximum rate of 2.2% of the cadastral or residual value of fixed assets (depending on regional legislation). Other incentives and grants are also available in a variety of regions (e.g. land tax incentives and subsidies for interest on loans). Such exemptions are normally conditional on specific investment criteria in the region being met. Movable property recorded in statutory books as fixed assets starting from 1 January 2013 is not subject to property tax (except for the movable property that has been acquired as result of the reorganization or the liquidation of legal entities, as well as a result of the transfer thereof between affiliated parties). Therefore, regional incentives might bring benefits in the event of significant investments being made in immovable property or sufficient taxable profit during the period that the incentives are applied (usually the first three to eight years).

The St. Petersburg, Leningrad and Moscow regions, among many others, offer incentives of this kind, however the city of Moscow has not offered incentives that are as extensive as in other areas.
In certain regions of Far Eastern Russia and Siberia, profit tax rates (both federal and regional components) for the producers of goods investing are reduced. In particular, for the first five years of income-generating activity, the maximum profit tax rate applicable is 10% (and may be further reduced by certain regions to 0%), and for the following five years the maximum profit tax rate is 18% (and may be further reduced by certain regions to 10%). Each region can adopt changes to regional laws, decrease the regional part of the rate and introduce additional qualifying criteria.

In 2015, incentives for the Territories of Advanced Social and Economic Growth (TASEG) become effective. TASEG is a concept aimed at developing certain regions of the Russian Federation, such as Far East and others. The following tax preferences will be applied to TASEG (1) reduced profit tax rates (for the first five years of income-generating activity, the maximum profit tax rate applicable should be the 5% regional portion and the 0% federal portion; and for the following five years, the maximum profit tax rate should be no less than 10% and 2%, respectively); (2) a declarative process of VAT recovery for TASEG residents under the guarantee of the TASEG management company, without a bank guarantee; (3) application of the reduced mineral resources extraction tax rates. If resident status of TASEG is received within 3 years from its creation, the reduced rates of social security contributions of 7.6% will be applied for a period of 10 years.

**Special Economic Zones**

The legal framework for Special Economic Zones (SEZs) provides for broader tax and other concessions. The 29 zones currently established have geographical boundaries and are of four types: Manufacturing, Technology & Innovation, Tourism & Recreation, and Port & Logistic. All are created for a period of 49 years. Although they were slow to take off originally, the infrastructure of many of the Manufacturing and Technology & Innovation SEZs is well advanced and more than 350 investors, including foreign investors, are now involved.

The potential benefits include a customs-free zone, accelerated depreciation, reduced social contributions and a guarantee against unfavorable changes in tax law. Reduced rates of profit tax also apply, depending on the regional authority and type of zone, but before 2012 the overall rate could not be less than 15.5%. From 2012, the minimum rate is 2% (the federal portion of the tax), and 0% in the case of Technology & Innovation SEZs.

Kaliningrad and Magadan have separate SEZ regimes, under which different concessions apply.

**Skolkovo**

The Skolkovo Innovation Centre is a site close to Moscow which aims to attract R&D activity in a number of specific technical fields. All participants are exempt from profit tax, property tax and VAT, while social security contributions are reduced. In the majority of cases, therefore, the total tax burden
will be limited to 14% social contributions on salaries paid (only for the part of remuneration not exceeding a cap of RUB 711 thousand per person to the Pension Fund of Russia and RUB 670 thousand per person to the Social Insurance Fund). Exemptions expire 10 years after becoming a participant or once a revenue/profit threshold is reached.

**Social insurance concessions**
Reduced rates of social insurance contributions ranging from 14% to 20% (compared to the 30% standard rate) on annual earnings up to a cap of RUB 711 thousand per person to the Pension Fund of Russia and RUB 670 thousand per person to the Social Insurance Fund, and an exemption for earnings exceeding this cap, may apply to Russian companies/individual entrepreneurs (“IEs”) that meet one or more of the following criteria:

- They operate in software development (more than 7 employees)
- The taxpayer is a resident of a Technology & Innovation SEZ
- The taxpayer is in the production and social spheres applying the simplified taxation regime

**150%-profit tax deduction**
Companies conducting eligible R&D activities can apply for a 150% super-deduction of respective costs (including labour costs, contractor expenses, depreciation of equipment, and certain other expenses) to reduce their profit tax. Such a deduction can be made even if their R&D activities fail to produce a new product or new service, etc. The list of eligible R&D activities provides a wide range of opportunities for making a claim for a 150%-profit tax deduction in any industry, including high-tech, retail, banking, manufacturing and others.

**Other incentives**
- There is an import VAT exemption available for technological equipment with no equivalent produced in Russia, according to a government-approved list (18% import VAT normally applies). Application of the regime may improve the working capital position of a VAT-payer, or reduce equipment costs for VAT non-payers
- Exemption from import customs duties in respect of goods imported by a foreign investor as a capital contribution to its Russian subsidiary
- Accelerated depreciation is available for certain leased assets; assets used for research and development; assets used in multi-shift in challenging conditions (with respect to assets put into operation before 1 January 2014 only); or assets with a high energy-efficiency rating
- The profit tax rate for priority medical and educational activities meeting certain criteria is 0%. The same applies to certain agricultural producers
- Other forms of federal and regional support, including interest subsidies, investment tax credits and grants, may be available for certain investment projects
Property tax

Property tax is a regional tax, thus its application is governed by regional regulations, as well as the Tax Code.

**Taxpayers**
The following entities are subject to property tax:
- Russian entities
- Foreign entities that act through permanent establishments in Russia or own immovable property in Russia
- Separate subdivisions of Russian legal entities that have separate balance sheets

**Tax base**
Property tax is levied on both movable and immovable property. However, movable property brought into service after 1 January 2013 is excluded from the property tax base, except movable property brought into service in the case of reorganization, liquidation of the legal entity or transfer of property, including the purchasing of property by affiliated parties.

Property subject to tax comprises "Fixed Assets" and "Profitable Investments in Property" as classified under Russian Accounting Standards, and property provided for temporary use, in trust, contributed under a simple partnership (joint activity) agreement and received under a concession agreement. Land, water and other natural resources are not subject to property tax.

Starting from 2015, fixed assets included in the first and second amortization groups (i.e. fixed assets with a short useful life period) in accordance with the classification of fixed assets approved by the Government of the Russian Federation, are tax exempt.

The tax base, in most cases, is the average annual residual value of taxable property (i.e. cost less depreciation), calculated in accordance with Russian accounting principles. The average annual value is calculated by taking the sum of the residual values of the relevant property on the first day of each month of the tax period and the last day of the tax period divided by the number of months in the tax period plus one. For details on how property tax applies to FLEs, please refer to the chapter entitled "Taxation of foreign presences".

The cadastral value of real estate is the tax base for property tax for the following types of property:
- Administrative business centres, shopping centres and premises within these buildings
- Non-residential premises used as offices, shops, catering services, and to provide consumer services, or those intended for this usage
- Any property owned by foreign companies operating without a permanent establishment in Russia or not allocated by a foreign company to a permanent establishment

Tax is calculated by multiplying the tax rate by the cadastral value of the real estate as of 1 January of the tax period.
The property of religious organisations and various types of public organisations is tax exempt.

**Tax rates**
The maximum tax rate for property on which the tax base is calculated based on its residual value according to the Tax Code, is 2.2%, and this is the rate currently imposed in the majority of Russia’s regions, including Moscow and St. Petersburg. However, a reduction or exemption is offered by some regional authorities, often conditional on investment in the region.

The maximum tax rate for property on which the tax base is calculated based on its cadastral value is set at the following level:
- For Moscow: in 2015 — 1.7%; in 2016 and subsequent years — 2%
- For other regions of the Russian Federation: in 2015 — 1.5%; in 2016 and subsequent years — 2%

**Tax payments**
The tax period is a calendar year. Nevertheless, advance tax payments must be calculated and paid based on the results of each calendar quarter. Advance payments are computed by multiplying the average residual value of taxable property for the reporting period by one quarter of the applicable tax rate. The total amount of tax due for a tax period is determined by multiplying the tax base for the tax period by the tax rate for the entire period minus the advance payments remitted for each quarter to date.

Taxpayers must file quarterly tax returns no later than 30 days after the reporting period. Annual tax returns should be filed no later than 30 March following the reporting period. Regional authorities have the power to amend tax payment deadlines. Some authorities exempt certain categories of taxpayer from quarterly advance payments. Interest applies to the late payment of tax.

**Property located in other regions**
When an entity owns taxable, immovable property located in a region other than the region in which it is registered, for example in a subdivision with a separate balance sheet, it is required to pay tax to the budget at each property location. The tax rates and the filing and payment procedures are governed in accordance with the law of that particular region.
Value added tax

Taxpayers
VAT applies to companies (including representative offices and branches of foreign companies), entrepreneurs and any person importing goods into the Russian Federation. The rules applying to goods imported from other member states of the Customs Union are covered below.

Companies and entrepreneurs may apply for exemption from VAT if their aggregate revenues for three consecutive months, excluding VAT, are below RUB 2 million. In addition, businesses which apply certain special tax regimes, such as the simplified tax system (available only to relatively small businesses) and the unified agricultural tax regime are outside the scope of VAT unless they import goods into Russia.

Special rules apply to businesses established in the Innovation Centre “Skolkovo”, which have obtained the status of “participant” in the research and development project and in the commercialisation of the results of this work. The following organisations shall not be deemed to be taxpayers of VAT and are entitled to simplified tax registration with the Russian tax authorities by way of notification (subject to certain conditions):
• Foreign organisers of the XXII Winter Olympic Games and the XI Winter Paralympic Games in Sochi (“the Olympic Games”), foreign marketing partners of the International Olympic Committee (including official broadcasting companies), as well as their Russian branches and representative offices, and official broadcasters (together, “the Foreign games organisers and marketing partners”)
For these purposes, “Russia” includes offshore platforms and other installations on the Russian continental shelf and exclusive economic zone.

Work and services are generally deemed to be supplied at the supplier’s place of business unless another form of special treatment is applicable. In particular, special treatment applies to the following:

- Services relating to immovable property and movable property which are deemed to be supplied where the property is located
- Cultural, sports, arts, educational or tourism services which are deemed to be supplied at the location where the services are performed
- Transportation, freight and associated services which are deemed to be supplied in Russia if the point of departure or destination is located in Russia, and provided that these services are supplied by Russian entities or entrepreneurs
- Leases of movable property, except for motor vehicles; provision of personnel, provided that they work at the place of business of the service buyer; consulting, legal, accounting, audit, engineering, advertising, marketing, information-processing, research and development, and software development, modification and adaptation services and the transfer of intellectual property rights. These services are deemed to be supplied at the buyer’s place of business
- Certain work and services relating to the geological study, exploration and production of hydrocarbons on the Russian continental shelf and exclusive economic zone are deemed to be supplied in Russia

VAT registration

Russian legislation does not provide for separate VAT registration. Therefore, when foreign companies with a presence in Russia register with the Russian tax authorities, they register for all taxes, including VAT.

Taxable supplies

VAT is charged on the majority of sales of goods, work and services supplied in Russia, including those supplied free-of-charge. VAT is also imposed on most imports into Russia. The transfer of property rights and certain self-supplies, such as the internal consumption of goods and services produced by a taxpayer where the associated costs are not deductible for profit tax purposes, as well as construction for personal use, are also subject to VAT.

Place of supply rules

These rules are used to determine whether or not goods, work or services are supplied in Russia and are thus subject to Russian VAT.

Goods are treated as being sold in Russia if they are located in Russia and are not being transported, or are located in Russia at the moment of dispatch.

- FIFA (Federation Internationale de Football Association), subsidiaries of FIFA, confederations, national football associations, FIFA media information manufacturers and FIFA suppliers of goods (works, services)
The place of business is defined as the place where the company is registered. If the company is not registred at any location or, in relation to representative offices and branches of foreign companies, the place of business is the location of the company’s management and executive body, the place indicated in the company’s incorporation documents as its place of business, or the location of the company’s permanent establishment (if the services are connected with the activity of that establishment).

If goods, work or services are deemed to be supplied outside Russia in accordance with the above rules, they are outside the scope of Russian VAT.

**VAT rates**

There are three main rates of VAT depending on the nature of the supply.

The 0% rate applies, in particular, to the sale of goods exported outside the Russian Federation. The 0% rate also applies to a list of services which includes, in particular:

- Transportation of passengers and baggage where either the point of departure or destination is outside Russia
- International transportation of goods, where either the point of departure or destination is located outside Russia, including certain freight forwarding services
- Certain pipeline transportation services with respect to exported and/or imported goods, as well as certain services relating to the arrangement of pipeline transportation
- Certain cross border railway transportation services and services relating to such transportation, including some types of provision of railway rolling stock and/or containers
- Certain services rendered at sea and river ports relating to the transhipment and storage of goods moved across the Russian border as well as certain services rendered by inland waterway transportation companies with respect to exported goods
- Processing services rendered with respect to goods placed under the customs processing regime
- Transportation of exported or imported goods by sea vessels and mixed navigation vessels performed on the basis of time charter agreements

In order to confirm the 0% rate, a set of documents is prescribed for each type of service.
The 18% rate applies to all other taxable sales of goods, work and services.

There are also computed VAT rates (10/110 and 18/118) applied to certain transactions such as the receipt of advance payments and other payments connected with settlements for supplies, as well as to certain types of transfer of property rights.

VAT exemptions
Activities which are exempt from VAT include, in particular:

• Lease of office space and accommodation to accredited foreign representative offices and foreign individuals
• Medical services and the sale of certain medical equipment
• Banking and insurance services
• Sales of "FITTS" (financial instruments of term transaction — broadly, financial derivatives)
• Stock lending (including interest) and "repo" transactions
• Interest on monetary loans
• Warranty services, including the cost of spare parts
• Gambling
• Licensing or assignment of certain intellectual property rights
• Assignment of claims arising from loan agreements
• Sale of land and residential buildings and premises or any interest in such property
• Certain research and development activity
• Services rendered in the stock, commodity and currency markets by registrars, depositaries, dealers, brokers, etc.
The free-of-charge supply of goods for advertising purposes is exempt from VAT, provided that the total acquisition or production cost does not exceed RUB 100 per unit.

The import of certain types of equipment are exempt from VAT, in particular "technological equipment which has no equivalent produced in Russia" according to a government approved list, and certain medical equipment.

Revenue earned from the supply of international telecommunication services to foreign customers is not subject to VAT.

**Taxable base**

VAT liability generally arises on the earlier of the following two dates:

- The date of shipment or transfer of goods, work, services and property rights
- The date of payment or partial payment for a future shipment of goods, performance of work, provision of services or transfer of property rights

No VAT applies to advances or partial payments received for future supplies of most zero-rated goods, work and services; for future supplies of goods, work and services with a production cycle exceeding six months; or for future VAT-exempt supplies. Taxpayers receiving advances or partial payments for the future shipment of goods, supply of work or services, or transfer of property rights, should calculate their VAT base twice. The calculation must be first performed when the prepayments are received and again when the goods are dispatched, work or services performed or property rights transferred. Thus, VAT accounted for on prepayments may subsequently be offset against the full amount of VAT due after dispatch, etc. On the date of the shipment of goods, performance of work or services or transfer of property rights, VAT should be applied to the full transaction price (excluding VAT).

Manufacturing and trading companies calculate their taxable base as the sales price of goods sold, including excise tax (if applicable). For agents and entities selling on a commission basis, the taxable base is defined as the commission or fee income. For import purposes, the taxable base is determined as the customs value plus import duties and excise tax (if applicable). Construction work carried out using a company’s own workforce is also subject to tax based on the expenditure incurred.

In addition, various other payments are subject to VAT. These include funds received in addition to sales revenues and relating to VATable sales, as well as interest (or discounts) on promissory notes received as consideration for VATable supplies, and interest on trade loans with rates in excess of rates set by the RF Central Bank. Certain insurance premiums are also subject to VAT.
Moreover, payment (provision) of premiums (incentives), made by a seller of goods (work, services) to a buyer, in accordance with certain terms of a contract, does not decrease the value of the goods (work performed, services rendered) for the purposes of the tax base calculation for the VAT purposes of the seller and VAT recovery amounts of the buyer, except when the decrease in the value of goods (work performed, services rendered), due to the amount of premiums (incentives) paid (provided), is stipulated in the contract.

**Input tax and rules for offset**

The VAT payable to authorities is determined as the difference between the VAT accountable on transactions subject to VAT, including those subject to the 10% or 0% rates (“output VAT”), and the VAT incurred on purchases subject to VAT (“input VAT”).

A “credit”, “offset” or “recovery” is thus generally obtained for the input VAT incurred.

Taxpayers are entitled to claim an offset of VAT without having paid their suppliers. Confirmation of actual payment of VAT is required in order to claim an offset of VAT paid upon the import of goods into Russia, VAT accounted for by tax agents, as well as VAT on business trips and entertainment costs.

Taxpayers are entitled to claim an input credit for the amount of tax included in advance payments made to suppliers, provided that a VAT invoice is obtained from the supplier and the advance payment is provided for contractually. The input credit should be reversed by the customer when the right to VAT recovery on the purchases arises, or when the advance payment is returned.

VAT invoiced by contractors for capital construction and installation work may generally be offset when that work is booked in the accounts, rather than when the entire construction project has been completed.
VAT incurred on construction for personal use may be offset in the same tax period that it is charged.

Input VAT incurred on purchases of fixed assets can be offset when the assets are booked in the accounts. Input VAT incurred on non-production expenses cannot generally be offset. VAT incurred on business travel and entertainment can only be offset within set limits.

Input VAT cannot generally be offset when incurred on exempt activities, and should instead be capitalised, i.e. included as part of the cost of the goods, work, services and/or property rights purchased. VAT incurred on purchases made in connection with the sale of goods, work and services deemed to be made outside the Russian Federation cannot be offset and must also be capitalised.

VAT incurred on purchases and expenses which relate to both VATable and non-VATable activities must be apportioned. Only the part which is deemed to relate to VATable activities may be offset as input VAT. The part which is deemed to relate to non-VATable activities must be capitalised.

Taxpayers must maintain separate accounting records for VATable and non-VATable operations. Failure to do so may result in the disallowance of VAT, either as an offset or as a deduction for profit tax purposes. There is no requirement for separate accounting records for periods when the total expenditure on purchase, production and/or supply of non-VATable goods, work, services and property rights does not exceed 5% of the total expenditure. Subject to the above condition, taxpayers have the right to offset the full amount of input VAT invoiced by suppliers in the relevant tax periods.

Input VAT relating to zero-rated supplies should also be separately accounted for. Input VAT relating to a zero-rated supply can be claimed when the tax point for the supply occurs, i.e. generally on the last day of the tax period in which all documents required to support the zero VAT rate have been collected.

To substantiate the claim for the recovery of export-related input VAT, exporters are generally required to collect and submit the following documents to the tax authorities: contracts, customs declarations and shipment documentation confirming the export of goods outside Russia.

Foreign entities that are not registered in Russia for tax purposes have the right to offset input VAT paid to their suppliers in Russia only when they have
registered with the tax authorities. Tax registration usually gives rise to other tax implications, such as the risk of creating a permanent establishment for profit tax purposes.

In some cases, input VAT offset in previous periods should be reversed partially or in full. These cases include in-kind equity contributions to the charter capital of a legal entity, situations where a taxpayer starts using assets (the input VAT on which has been previously offset) for non-VATable transactions, situations where supplies are funded by advance payments, and situations where taxpayers receive federal subsidies to cover the VAT-inclusive cost of goods, work or services or to cover VAT due on the import of goods.

Any excess of input VAT over output VAT should be reimbursed to the taxpayer by the tax authorities or offset against the taxpayer’s future VAT or other federal tax liabilities. Generally, VAT reimbursement or offset should only be made after the tax authorities have undertaken a "desk audit" (please refer to the chapter entitled "Tax administration") and confirm the legitimacy of the input VAT claimed. If no violations are identified in the course of this tax audit, the excess of input VAT over output VAT should either be offset against the taxpayer’s current VAT and other federal tax liabilities or refunded in cash after the taxpayer has submitted a written application. If the VAT reimbursement is denied, there are special rules and procedures for taxpayers and the tax authorities to follow in order to resolve the dispute.

The following categories of taxpayers may apply for an accelerated VAT refund procedure:

- Corporate taxpayers whose aggregate liability for VAT, excise duties, profit tax and mineral extraction tax for the three calendar years prior to the year in which the refund application is made is not less than RUB 10 billion and the entity was incorporated at least three years prior to the date the refund application is made
- Taxpayers that submit a bank guarantee from a bank approved by the Ministry of Finance
- Residents of the territories of advanced social and economic development

The period for obtaining a VAT reimbursement under the new procedure has been reduced to 11 working days starting from the day the application is filed with the tax authorities. Desk audits may still be conducted.

**VAT invoices**

A VAT invoice serves as the basis for the offset of input tax invoiced by suppliers. The Tax Code requires that specific information is shown on a VAT invoice. In particular, VAT invoices must be issued in Russian and must bear the original signatures of both the head of the company and the company’s chief accountant or other specially authorized persons.
In addition, electronic VAT invoicing is permitted in Russia. Sales and purchase ledgers and journals of VAT invoices may also be maintained in electronic format. In practice, electronic VAT invoicing is currently very rarely applied.

Errors in VAT invoices which do not relate to the identification of the supplier, buyer, costs of goods, work, services or property rights supplied, as well as the VAT rate and amount, are not grounds for denying a VAT recovery, thus formalising the approach already applied by most arbitration courts.

From 1 October 2011, "amending VAT invoices" were introduced. These should be issued by a supplier to the buyer when there is a change in the value of goods, work or services supplied or property rights transferred, including a change in the price or adjustment to the quantity etc. supplied. Where the value of the supply increases, the supplier must account for the additional VAT, while the buyer is entitled to offset VAT based on the amending VAT invoice. If there is a decrease, the reverse applies.

**Reverse charge**

If foreign companies that are not tax registered in Russia supply goods, work or services in Russia and these supplies are deemed to be made in Russia according to the place of supply rules, the remittance of VAT is made through a withholding mechanism. The tax-registered buyer of these goods, work and services is required to act as a tax agent, i.e. to withhold VAT from the amount payable to the foreign supplier and remit that tax to the tax authorities.

The rate of withholding is 18/118 of the gross invoice, equal to 18% of the net payment. Having withheld and paid the VAT to the tax authorities, a Russian buyer can then offset this VAT against its output VAT under the general rules for offsetting input VAT. In practice, this mechanism operates in a similar way to the European "reverse charge", although in Russia withholding VAT is only recoverable to the extent that it has been actually paid by the tax agent to the tax authorities.

Commissioners and agents that are tax registered in Russia and supply goods, work, services or property rights in Russia on behalf of their unregistered foreign principals and participate in settlements, should account for Russian VAT as tax agents. Russian VAT should be added by commissioners to the net value of the goods at the appropriate VAT rate and remitted to the Russian tax authorities.

Commissioners do not have the right to claim the offset of VAT paid on behalf of foreign principals.
The Foreign games organisers and marketing partners are not recognised as tax agents when purchasing goods, work, services, and property rights in connection with the Olympic Games.

**Payments and filings**

The VAT reporting period is the calendar quarter.

A VAT return should be submitted and the tax should generally be paid in three equal installments by the 25th day of each of the three consecutive months following the reporting quarter.

VAT withheld from payments to foreign legal entities for work or services rendered in Russia should be remitted to the tax authorities at the same time as the payments are made.

**Customs Union**

There are special rules which apply to transactions involving taxpayers of the member states of the Customs Union (Russia, Belarus, Kazakhstan and Armenia).

Goods exported from one member state of the Customs Union that are destined for another are subject to the 0% rate, subject to confirmation by a specific list of documents.

The tax base for imported goods is determined and the import VAT rates must be the same as those applicable to domestic transactions within the importing member state. VAT must generally be payable by the 25th day of the month in which the imported goods are booked in the importer’s accounts.

The place of the supply of work and services is also subject to confirmation by a specific list of documents. Unlike the usual Russian place of supply rule noted earlier in this chapter, design services are deemed to be supplied at the place of activity of the recipient of the service.
Land tax
Land tax is a local tax, thus its application is governed by local regulations, as well as the Tax Code.

Taxpayers
Land tax applies to legal entities and individuals who own land or have a permanent right to its use. Legal entities and individuals who use land free of charge or under lease agreements are not subject to land tax.

Tax base
The tax base is the cadastral value of the land as determined on 1 January of the reporting year.

The cadastral value for a specific plot is determined in accordance with the Russian Land Code. In the case of joint ownership, the tax base is determined for each taxpayer’s share of the land. The tax base of land registered during a tax period is the cadastral value on the date of its cadastral registration.

Tax allowances
Religious, historical or cultural sites, land forming part of the forest estate or the water resource stock, and land used by the state are exempt from land tax.

Tax rates
Local authorities set the land tax rate. Under the Tax Code, these rates may not exceed the following limits:
• 0.3% of the cadastral value of land which is either (i) used for agricultural purposes, (ii) occupied by residential properties or utilities, or (iii) acquired for private farming
• 1.5% of the cadastral value of other land

Transport tax
Transport tax is a regional tax, thus its application is governed by regional regulations, as well as the Tax Code. A region may only impose this tax if its legislation contains transport tax provisions in line with the Tax Code.

Taxpayers
Entities and individuals who are registered owners of "transport vehicles" are subject to transport tax. Transport vehicles are not limited to cars, motorcycles, motor scooters or buses, but include other transport vehicles, such as aircraft, helicopters, yachts, snowmobiles, etc. However, aircraft, ships and river vessels owned by companies whose main activity is the transport of passengers or freight are exempt, as are vehicles used in agricultural production.
Tax base and rates
The tax base for transport vehicles subject to transport tax depends on the type of the vehicle. The tax rates are set out in the Tax Code, with those for motorised transport vehicles ranging from RUB 1 to 50 per unit of horsepower. Regional authorities have the authority to increase or reduce these rates by a multiple of no more than 10 for certain types of motorised transport vehicles. Special tax rates are established for luxury cars.

State duty
The Tax Code provides an exhaustive list of state duties. The main items applicable to legal entities include:
- Initiation of court action
- State registration of a legal entity, and the accreditation of branches and representative offices of a foreign legal entity
- State registration of issues of shares, including certain securities placed through subscription
- State registration of a mutual investment fund
- Receipt of a license to conduct certain activities
- Provision of services by notaries
- Vehicle registration

Other
A 1% levy applies to computers, mobile phones and other recording equipment, along with recording media. The tax base is broadly equal to the customs value for imported equipment, or the manufacturer’s sale price.

Investors should note that additional taxes, levies and fees may exist depending on the region.

These include, for example, license fees for the use of sub-soil resources, pollution levies and timber duties.
Customs duties

World Trade Organization (WTO)
In August 2012, Russia became a full member of the World Trade Organisation (WTO). From that point onwards, Russia must follow WTO rules as well as the terms and conditions of accession as agreed during negotiations.

Russia’s undertakings as well as exemptions are contained in the Report of the Working Party on the Accession of Russia to the WTO and the Protocol to the WTO Establishment Agreement (Marrakesh Agreement).

Overall, Russia has committed to:
• Reforms in relation to goods, e.g. changes to customs duty rates
• Permitting access to the services market in Russia
• Reforms in the area of non-tariff regulations (e.g. the application of sanitary and phytosanitary norms in accordance with WTO agreements; and the abolishment or simplification of procedures for licensing imports)
• Reforms relating to the protection of IP rights

Overview
Since 2015, the Eurasian Economic Union (hereinafter — the EEU) operates between Russia, Belarus, Kazakhstan and Armenia. The EEU is formed on the basis of the Customs Union between Russia, Belarus and Kazakhstan established in 2010. The member states have adopted a common classification for goods — the Harmonised System of the EEU (based on the International Harmonised System) — and common import customs duty rates — the Unified Customs Tariff of the EEU — for goods imported from third countries.

Import customs duties are levied based on the classification code and the country of origin of the goods being imported. Import customs duty rates are normally expressed as a percentage of the value of the imported goods, known as “ad valorem” duties. However, they may also be expressed as a set monetary amount per unit or kilogramme — "specific" duties. Finally, they may be expressed as the greater or the sum of the two — "combined" duties. Several "ad valorem" rates of import customs duties are available in Russia — in the majority of cases, they are 5%, 10% and 15%. Certain goods are exempt from import customs duties. The rate of the import customs duty depends on the exact nature of the goods being imported. Goods are classified according to the Harmonised System of the EEU into ninety-seven groups.

After Russia’s accession to the WTO the import customs duty rates with respect to different types of goods were reduced or changed (for example, for seed oil, fats and oils; chemicals; motor cars; pharmaceutical products; and medical equipment). The average applied tariff is now 7.1%. The subsequent reduction of import customs duty rates is planned.
Basic import customs duty rates are not constant and may vary depending on the country of origin of the goods, the type of goods and occasionally on other factors. Countries are classified into five groups for the purposes of applying import duty rates, as shown in Table above.

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<th>Group</th>
<th>Import duty rate</th>
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<td>Developing countries</td>
<td>75% of basic rate applies</td>
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<tr>
<td>Less developed countries</td>
<td>Exempt from import duties</td>
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<tr>
<td>CIS countries</td>
<td>Exempt from import duties</td>
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Import VAT and excise tax (if applicable) are also levied on goods imported into Russia.

Exemptions
There is an import VAT exemption for "technological equipment that has no equivalent produced in Russia" according to a government-approved list. The listed equipment generally also qualifies for a 0% rate of customs import duty.

The general rule is for each shipment to be considered on a standalone basis and so, when technological equipment comprises more than one shipment, a special procedure may be applied to classify the equipment under the tariff code applicable to the assembled whole, with the import VAT and customs duty rates determined accordingly.

Export customs duties
Export customs duties are currently levied on some goods and on raw materials, e.g. oil, metals, and timber. After Russia’s accession to the WTO the export customs duty rates for many categories of goods were changed.

Special customs procedures
There are a number of customs procedures (regimes) that provide for either a full or partial exemption from import customs duties and VAT. For example, full relief may be granted on goods that are imported into Russia to be processed and that are subsequently exported (inward processing customs procedure).

Goods may also be imported using a temporary import procedure. As the name suggests, this procedure allows for either a full or partial exemption from import duties and VAT for certain goods that are temporarily imported into Russia. Once the specified time period (usually two years) has expired, the goods must either be exported from Russia or a different customs procedure must be applied.

The customs-free zone procedure may be applied within certain Special Economic Zones, resulting in an exemption from import customs duties and taxes on imported raw materials, components, etc. until the processed products are moved out of the zone. Moreover, goods produced from foreign goods in Special Economic Zones may be exempt from customs and import VAT, provided that a certain level of the criteria for product localisation is met. The required level of localisation varies according to the type of goods and type of operation.
Taxation of individuals

Personal income tax

Taxpayers
Both Russian tax resident and non-resident individuals are subject to Russian income tax. Neither the individual’s domicile status nor citizenship is relevant.

Russian tax residency is established if an individual is physically present in Russia for at least 183 calendar days during a 12-month rolling period. This 12-month period is not interrupted by brief trips outside Russia (i.e. lasting less than six months) for the purposes of medical treatment or study. A final determination of an individual’s tax residency status is made based on whether 183 or more days have been spent in Russia in the calendar year.

Individuals are taxed according to their status as follows: tax residents are taxed on their worldwide income, while tax non-residents are taxed only on their Russian-sourced income, irrespective of the nature of the income received.

Income tax rates
Different tax rates apply to residents and non-residents.

Residents
There are two different personal income tax rates that may apply to income earned by an individual who is a Russian tax resident.
• A 13% rate applies to most types of income, i.e. other than income subject to an alternative rate
• A 35% rate applies to certain prizes, interest that exceeds specific limits on bank deposits, and income deemed to be received from low-interest loans (except loans used to acquire real estate)

Non-residents
A 30% rate applies to non-residents on all types of Russian-sourced income. Passive income (e.g. investment income) is Russian-sourced if it is due/paid from a source located in Russia. Earned income (e.g. from employment) is Russian-sourced if the duties for which it is received are performed in Russia. Dividends paid by Russian organisations to non-residents are taxed at a 15% rate, which is withheld at the source.

Highly-qualified specialists
As described in the chapter entitled “Employment”, Russian immigration law stipulates a special beneficial regime that applies to “highly-qualified” foreign employees. An employee qualifies as a “Highly-Qualified Specialist” if he or she stays in Russia on the basis of a work visa and work permit, receives a salary/remuneration that is no less than RUB 2 million per annum or lower in certain cases, is employed under a Russian employment contract and if he or she has particular experience or skills.
Highly-qualified specialists are eligible for the standard personal income tax rate of 13% on remuneration from their employment even before they become Russian tax residents. Employers of highly-qualified specialists are obliged to register these individuals with the Russian tax authorities.

**Taxable income**

Taxable income is defined as gross income minus allowable deductions and exemptions. For personal income tax purposes, gross income is defined as any economic gain in cash or in-kind that is actually or constructively received by a taxpayer and that is subject to the taxpayer's discretionary disposal.

Taxable income includes, but is not limited to, the following:

- Compensation for employment and hired services, in cash or in-kind
- "Imputed income," such as any benefit from low-interest loans or discounted goods, labour or services and securities
- Payments made by an employer on behalf of an individual employee
- Payments made by an employer on behalf of an individual employee for: (i) utilities and communal services; (ii) periodicals and subscriptions; (iii) meals
- Housing costs paid by an employer for the benefit of an employee
- The value of property transferred by an employer to an employee, net of any price paid by the employee
- Payments over and above the statutory limits for various state benefits, work related damages, redundancy payments and reimbursable transportation and business trip expenses
- Voluntary pension premiums paid by an employer on behalf of its employees to foreign plans that are not licensed in Russia
- Certain voluntary medical insurance premiums paid by an employer on behalf of its employees to foreign plans may be treated as taxable
- Gifts made to an employee, in cash or in-kind, exceeding RUB 4,000 per year
- The proceeds, or in some cases the gain, from the sale of certain types of property
- The fair market value of property received upon the liquidation of an enterprise, minus the total amount of charter capital contributions made by the individual
- The fair market value of certain property distributed during the liquidation of an enterprise as a result of privatisation
Standard deductions
Parents and guardians receive a standard deduction of RUB 1,400 in respect of their first and second children and RUB 3,000 in respect of their third (or more) and disabled children) for each month that cumulative income during the calendar year to date does not exceed RUB 280,000.

Standard monthly deductions of RUB 500 or RUB 3,000 are also applied for certain categories of disabled and disadvantaged taxpayer.

Social deductions
A social deduction of up to RUB 120,000 may be claimed for:
• Payments for the education of the taxpayer at a licensed educational institution
• Payments for medical expenses made to a Russian medical institution for the benefit of a taxpayer and his or her immediate family, including premiums paid for the voluntary individual insurance of a taxpayer and his or her immediate family
• Contributions made to licensed Russian non-state pension funds for the benefit of the taxpayer or his or her spouse, parents and disabled children
• Contributions made under pension insurance contracts with licensed Russian insurance companies for the benefit of the taxpayer or his or her spouse, parents and disabled children
• Contributions made on the basis of voluntary life insurance agreement

Deductions and exemptions
The 13% tax rate applies to taxable income after the following five types of deduction:
• Standard tax deductions
• Social tax deductions
• Property tax deductions
• Professional tax deductions
• Investment tax deductions

These deductions are not available to non-residents.
For sales of property, the amount of the deduction available will depend on the type of property and the holding period. For property owned for three years (starting from 1 January 2016 — five years) or more, other than securities, the income is exempt (see below).

The following applies when the ownership period is less than three years (starting from 1 January 2016 — five years):

- The deduction from the proceeds made from the sale of residential real estate is the greater of: RUB 1 million or the documented cost of the property.
- The deduction from the proceeds made from the sale of other property, except securities, is the greater of: RUB 250,000 or the documented cost of the property.

Sales of securities, units in investment funds and FITTs are subject to special rules. Broadly speaking, the taxable income would be the proceeds from the sale(s) less the documented costs. Losses incurred on the sale of traded securities or FITTs may be offset against taxable income either in the period in which the loss is incurred or in subsequent tax year(s) until the loss is 10 years old.

In addition to the limitation of RUB 120,000, the following deductions are available:

- Payments for the education of the taxpayer’s children up to the age of 24 at licensed educational institutions, subject to an annual limitation of RUB 50,000 for each child.
- Charitable donations (in cash only) to charitable organisations; scientific, cultural, educational, health or social security organisations that are partially or wholly financed from federal, regional or local budgets; and to religious organisations, but limited to 25% of the taxpayer’s total income taxable at 13%.
- Costs of “expensive” medical treatment (as defined) for the benefit of a taxpayer and his or her family.

In practice, the time and effort required to assemble the necessary supporting documentation to substantiate any claim may outweigh the potential benefit. There are plans to increase the abovementioned limit to up to RUB 200,000.

**Property deductions**

There are three types of property-related tax deduction: on the sale of property (including residential real estate); on the purchase of residential property; and for losses on transactions involving marketable securities and “FITTS” (financial instruments of term transactions — broadly, financial derivatives).
When a taxpayer purchases, or participates in the construction of residential property (including the underlying plot of land), a multiple deduction of up to RUB 2 million in total is allowed. If property was purchased before 2014, a one-time deduction of up to RUB 2 million is allowed. Interest on a loan used to finance the expenditure, or to refinance a loan taken out for that purpose is also deductible in the amount up to RUB 3,000,000. If a mortgage contract was concluded before 2014, there is no limit for interest deduction.

Where the taxpayer is an employee of a Russian company, residential property deductions on purchases may be claimed through the payroll. In all other cases, including other property transactions, deductions must be claimed via an annual individual income tax return. Again, special rules apply to transactions with securities and FITTs.

**Professional deductions**
Professional deductions are generally granted to individuals who are engaged in commercial activities as individual entrepreneurs. Qualifying expenses are those which directly enable an individual to derive his or her income from those commercial activities. The deductibility of professional expenses is subject to various limitations similar to those provided for legal entities. The expenses claimed must either be fully supported by proper documentation or a deduction limited to 20% of the taxpayer’s commercial income can be claimed instead. There are also deductions that apply specifically to the income of a writer.

**Investment Deductions**
An individual is eligible to receive investment deductions if he or she receives income from the sale of securities, units in investment funds and FITTs. The following types of investment deductions are possible:
- The amount of proceeds from the sale of securities owed by an individual for more than three years
- Funds moved by an individual to his personal investment account
- The amount of proceeds from the sale of securities from an individual’s personal investment account

The caps for every type of investment deduction are different and should be determined separately in accordance with Russian tax legislation.

**Exemptions**
Income that is not taxable includes the following:
- The reimbursement of certain expenses incurred on business trips and supported by documentation
- Certain cash and in-kind distributions in accordance with legislation, e.g. per diems, special uniforms, footwear, etc.
- Gifts received from an employer with a total value of up to RUB 4,000 per year
- Employment severance payments (other than for unused vacation) up to a cap, for managers and chief accountants, of three times their average monthly salary for the preceding year (or six times in certain parts of Russia)
- Foreign currency compensation paid to certain state employees working abroad
• The value of additional shares or replacement shares issued as a result of the statutory revaluation of fixed assets and foreign currency items. This includes the value of shares issued as a result of a merger or reorganisation
• Interest and other receipts from Russian federal and regional bonds and other securities
• Income received from the sale of residential and other property (other than securities) owned for three years or more
• Bank interest within limits. For interest on RUB deposits, the rate should not exceed the refinancing rate of the Central Bank of Russia plus ten percentage points (applicable during the period from 15 December 2014 to 31 December 2015). For interest on foreign currency deposits, the rate should not exceed 9% per annum
• State allowances, including maternity leave and unemployment benefits
• State pensions and private pensions in certain cases
• Some types of state and private individual insurance payments
• Certain property received as a gift or through inheritance

Assessment and collection procedures

Tax returns
Individuals must calculate their income tax liability and file income tax returns in the prescribed format if:
• Income was received from an individual
• Income was received from sources outside Russia (in the case of a Russian tax resident)
• Income tax was not withheld at source
• Income was received from gambling
• Income was received from the sale of property, with certain exceptions

Individual entrepreneurs and private notaries must also file personal tax returns

Filing procedures
Where tax has been withheld in full at source by a tax agent, individual taxpayers do not need to file a tax return. However, a tax return will be required if the taxpayer is applying for a tax deduction or has other sources of income subject to a filing obligation.

An individual who is required to file an income tax return must do so no later than 30 April of the year following the tax year. The return should be filed with the tax inspectorate handling the individual’s place of registration. The return must include all income received by the taxpayer during the tax year, listed by item, source, monthly amount and date.

If a foreign national leaves Russia prior to the end of the calendar year, he must file a departure tax return covering the income received up until the date

Treaty relief
Russia has signed a number of bilateral double tax treaties which offer protection against individuals' income being taxed in two or more countries.

The provisions of these and other international treaties signed by Russia generally override Russian domestic law. In practice, however, the Russian tax authorities often deny the benefit of a treaty claim, despite the submission of extensive documentary proof of tax residency in the other treaty state.
of departure. The return must be filed no later than one month prior to departure.

Even when income is exempt under a double tax treaty, Russian legislation requires the relevant claim and supporting documents to be filed.

The total amount of tax due based on a tax return must be paid no later than 15 July of the following tax year. Or, in the case of departure/repatriation, within 15 days after the tax return is submitted. Interest is charged on tax paid after the due date.

Overpaid tax may either be reimbursed by the tax authorities (usually a difficult and time-consuming procedure) or by an individual’s tax agent. Tax overwithheld by an employer due to a change in an employee’s tax residency status from non-resident to resident should strictly be refunded by the tax authorities based on an annual tax return. However, if an employer is aware of a change in an employee’s tax residency status within a calendar year, it is permissible to credit the overwithheld tax amount against future tax withholdings during the current calendar year. At the year end, any excess overwithheld tax should be refunded by the tax authorities based on an annual tax return.

The penalty for the late filing of a tax return is 5% of the outstanding tax liability for each full or partial month, but no more than 30% of the outstanding tax liability and no less than RUB 1,000.

### Tax withholding

The most common type of income payment subject to withholding is salary/remuneration paid to the employees of tax agents. Income tax computed and withheld by an employer must be remitted to the budget according to one of the following schedules:

- No later than the day on which the payroll amounts are transferred to the employees’ bank accounts
- No later than the day of the actual receipt of the payroll amounts by the employer from a bank, where such a payment is made in cash
- The day following the day of the cash payment
- The day following the day of the tax withholding if the income was paid in-kind or is imputed income

Ultimately, it is the individual taxpayer who is solely responsible for meeting his or her income tax obligations. The law specifically prohibits an employee's income tax obligation to be met from funds belonging to another party. If an employer pays tax on behalf of its employee, this may not be treated as the fulfillment of the individual’s tax obligations.

### Social insurance contributions

#### Overview

Social contributions are payable in respect of individuals engaged under employment or civil contracts, to the following three funds:

- State Pension Fund
- Social Insurance Fund
- Federal Obligatory Medical Insurance Fund
The State Pension Fund and Social Insurance Fund are responsible for the administration of contributions.

The obligation to pay insurance contributions falls wholly on the employer, irrespective of an individual’s tax status. Although this obligation extends beyond Russian employers to include foreign companies, there is no mechanism for foreign companies to pay insurance contributions in the absence of a Russian representative office or branch. Failure to pay insurance contributions may result in penalties.

Pension contributions are due in respect of most foreign employees, other than those holding a Highly-Qualified Specialist work permit.

Rates
The base for calculating insurance contributions is calculated separately for each employee.

From 1 January 2012, earnings above an annually adjusted cap are subject to additional Pension Fund contributions of 10%. Earnings up to this cap are subject to an overall rate of 30%. The rates and caps for each employee are shown in Table 4 below.

Decreased contribution rates of 7.6-20% apply to certain limited categories of taxpayer (broadly, in the IT, social and agricultural spheres and companies registered in the Crimea and Sevastopol) with the same cap. The additional pension contribution of 10% does not apply to such categories of taxpayer.

From 1 January 2012, Russian employers (including foreign companies with a registered presence in Russia) are required to pay pension contributions, including the additional 10%, for remuneration paid to foreign employees who are temporarily staying in Russia and working under an employment contract.
Additionally, starting from 2015, Russian employers are also required to pay contributions to the Social Fund on top of the remuneration paid to foreign employees. Nevertheless, foreign employees are not eligible to claim any pension or other payment (for example, on leaving Russia) relating to contributions paid, except for residence permit holders.

Foreign employees working in Russia on the basis of a Highly-Qualified Specialist work permit are excluded from the requirement to make pension and social insurance contributions. The exception is foreign nationals holding a residence permit who are required to make employer’s pension and social security contributions.

From 1 January 2013, the earnings of separate categories of individuals, depending on the activities performed during their work (for instance, underground work, exploration activities, etc.), are subject to additional payments to the Pension Fund at special rates (up to 8% for 2015) without any cap.

Obligatory Accident Insurance contributions are calculated and payable separately from the above insurance contributions. The rates vary from 0.2% to 8.5% of an individual's gross income, depending on the degree of inherent risk in their occupation. Each industry falls under one of 22 categories of risk. Each company is assigned a rate based on the relevant industry.

The rate applicable to office personnel is typically 0.2-0.4%.

**Base for calculating insurance contributions**
The base for insurance contributions is calculated based on the remuneration received by individuals in cash or in-kind under employment or civil contracts.

The following are examples of payments which are not subject to insurance contributions:

- As mentioned above, payments to foreign nationals working in Russia on the basis of a Highly-Qualified Specialist work permit (Obligatory Accident Insurance is still payable, however)
- Payments connected to the transfer of property rights or any other proprietary rights apart from authors’ agreements
- Payments relating to the use of property such as residential real estate or car rental
- State allowances, including maternity leave, unemployment benefits and sick leave
- Redundancy payments within certain limits, excluding compensation for unused vacation time
- Business travel expenses within the statutory framework
- Professional training expenses
- Amounts provided by an employer to employees to cover their payment of interest on mortgage loans
- Material aid of up to RUB 4,000 provided during a calendar year by an employer to certain employees
- Certain insurance contributions
Table 4

<table>
<thead>
<tr>
<th>Fund</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Pension Fund</td>
<td>22% + 10% of remuneration exceeding cap</td>
<td>22% + 10% of remuneration exceeding cap</td>
</tr>
<tr>
<td>Social Insurance Fund</td>
<td>2.9% of remuneration up to cap</td>
<td>2.9% of remuneration up to cap</td>
</tr>
<tr>
<td>Federal Obligatory Medical Insurance Fund</td>
<td>5.1% of remuneration up to cap</td>
<td>5.1% of remuneration</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>30% remuneration up to cap + 10% of remuneration exceeding cap</strong></td>
<td><strong>24.9% remuneration up to cap + 10% of remuneration exceeding cap + 5.1% of remuneration</strong></td>
</tr>
<tr>
<td>Cap in RUB, 000s (State Pension Fund)</td>
<td>624</td>
<td>711</td>
</tr>
<tr>
<td>Cap in RUB, 000s (Social Insurance Fund)</td>
<td>624</td>
<td>670</td>
</tr>
<tr>
<td>Cap in RUB, 000s (Federal Obligatory Medical Insurance Fund)</td>
<td>624</td>
<td>—</td>
</tr>
<tr>
<td>Maximum liability per employee in RUB, 000s</td>
<td>187.2 + 10% of remuneration exceeding cap</td>
<td>175.8 + 10% of remuneration exceeding cap + 5.1% of remuneration</td>
</tr>
</tbody>
</table>

**Payments and reporting**

The calculation period for insurance contributions is the calendar year, and the reporting period is each calendar quarter. Reports should be submitted to the authorities by the following dates:

- By the 15th day of the second month following the reporting period — for reporting to the State Pension Fund and Federal Obligatory Medical Insurance Funds
- By the 15th day of the month following the reporting period — for reporting to the Social Insurance Fund
- Insurance contributions are payable on a monthly basis no later than the 15th day of the following month

Obligatory Accident Insurance contributions are also payable on a monthly basis. The due date usually corresponds to the date the bank receives the salary funds, but should not be later than the 15th day of the following month.
Employment

Overview
Russian employment law applies to all employment relationships in Russia, including those involving Russian nationals, foreign nationals, stateless persons, international organisations, and Russian and foreign legal entities.

An employment relationship is defined in the Russian Labour Code as the personal performance of an employment function by an individual in return for remuneration. Employment relationships are distinguished from civil law service agreements. If a civil law service agreement includes aspects that can be construed as an employment relationship, the mandatory provisions of Russian employment law will apply.

Currently, there is no legal concept of ‘secondment’ under Russian civil and labour legislation, and although not specifically restricted by law, the authorities may question the motives of the parties entering into secondment arrangements and request detailed information.

Employment contract
As a general rule, an employment relationship is based on a contract concluded between an employer and an employee. An employment contract must contain certain obligatory provisions set out in the Labour Code, which are essentially designed to protect the rights of employees.

The general power to sign an employment contract lies with the General Director of the employer. Employment contracts with the employees of branches and representative offices of foreign companies are usually signed by the head of that branch or representative office acting under a power of attorney granted by the foreign head office.

Duration of employment contracts
Employment contracts may be concluded for either an indefinite or fixed term, although fixed term agreements are only permitted in specific situations that are provided for in the Labour Code. An employment contract is deemed to be concluded for an indefinite term if no time period is indicated in the agreement. Employees are entitled to conclude employment contracts with several different employers.

Probation
The probationary period under a contract cannot exceed three months. For company heads and their deputies, chief accountants and their deputies, and heads of branches, representative offices and other subdivisions of legal entities, a longer probation period may be established but should not in any event exceed six months. Certain categories of employee, for example mothers with children under 18 months old, must not be subject to a probationary period.
Salary and bonus payments
The monthly salary of an employee may not be set below the minimum wage established by Federal law (currently RUB 5,965), although higher limits may apply at a Regional level. Salaries must be paid locally in monetary form, in rubles, and in no fewer than two monthly instalments on dates established by the employer’s internal polices and the employment contract.

Working hours and time off
Regular working hours may not exceed 40 hours per week. Overtime work should not exceed four hours in two consecutive days and is limited to 120 hours per year. Minimum annual paid vacation is 28 calendar days. An employee is entitled to receive pay during periods of sickness, and the employer is compensated for this with a reduction in its social insurance liability.

As a general rule, women are entitled to paid maternity leave of 70 calendar days both prior to, and after, giving birth.

In addition, women are entitled to leave until the child reaches the age of three years and during this period the employee is entitled to resume her job.
If an employee is unsuitable for his or her employment due to the employee's poor health, the employer should transfer that employee (subject to his or her consent) to another position within the company that is more suitable in terms of the employee's health requirements. If the employee rejects the transfer, or if there is no such position available, the employment agreement can be terminated.

During the probation period, employment can be terminated due to an employee's unsatisfactory performance. Three days' written notice, describing the nature of the unsatisfactory performance, must be given. The employee has the right to challenge this decision in court. The employee is also entitled to terminate the contract during the probationary period by providing written notice of three days.

Liability for violation of the Labour Code
Violations of the Labour Code and labour protection requirements are subject to the following:
• A RUB 30,000-200,000 fine for a legal entity
• A RUB 1,000-40,000 fine for the company's officials
• Suspension of the activities of the legal entity for a period of up to 90 days

Violations of employment legislation by a company official who has been previously penalised for similar offences may result in suspension for a period ranging from one to three years.
Work visas and work permits

Before a foreign national can work in Russia as an employee, both a work visa (except “visa-free” nationals) and a work permit must be obtained. A work visa differs from a business visa in that a work visa allows a foreign national to be employed in Russia for one year (or up to three in the case of Highly Qualified Specialists — see below), while a business visa merely confers the right to visit for business purposes. Work permits for foreign employees are issued through the employer by the Federal Migration Service (FMS).

In Moscow and some other regions, the procedure for obtaining a work visa may be different for a Russian company and for a branch or representative office of a foreign company. A Russian company must be registered with the FMS in order to invite foreign nationals. This option is also available for a branch or representative office of a foreign company. Another option for a branch or representative office is to obtain a work permit and work visa simultaneously, due to the fact that the latter is processed by the relevant accreditation authority.

Work permits — normal procedure

A Russian company, or the branch or representative office of a foreign company can employ a foreign national only if:

• The employer has obtained a permit to employ foreign nationals
• In the case of “visa nationals” (i.e. foreign nationals requiring a visa), the employer has obtained an individual work permit for the employee (“visa-free” nationals are covered below)

The requirement to obtain a work permit does not apply to certain categories of foreign employee, for example, employees of foreign equipment manufacturers who are performing installation services in Russia, journalists, etc. This requirement also does not apply to the employees from Kazakhstan and Belarus.

The work permit process for a visa national is often bureaucratic and time-consuming, including the following stages:

• A quota for employing foreign nationals (although some work positions, such as the head of a representative office, fall outside the quota requirement)
• Confirmation from a local Employment Centre
• Permission from the FMS
• Individual work permits for each foreign national
Visa-free nationals may obtain a special patent from the Russian migration authorities. Such a patent should be obtained within one month of arrival in Russia. Patenta are granted for a period from 1 month to 1 year. During this period an individual may legally stay and work in Russia and no additional documents need to be obtained.

A further bureaucratic requirement is that foreign nationals must be registered with the migration authorities within 7 working days of arrival in Russia (or arrival at a new location within Russia for a stay of more than 7 days). Employers risk heavy fines in the event of a default. Deregistration is done by the FMS when the foreign national crosses the Russian border, or registers in a new location in Russia.

**Work permits — highly-qualified specialists (HQS)**

There is a simplified system for HQS. HQS are defined as foreign nationals with experience, skills or achievements in a particular area who receive remuneration from their local employment of no less than RUB 2 million per annum, and half of that amount for certain scientists and teachers. No lower limit applies to foreign nationals working in the Skolkovo Innovation Centre.

Eligible employers include Russian legal entities, registered branches and representative offices of foreign legal entities, health and educational institutions (except religious institutions) and other organisations dealing with innovations, R&D, high-tech, etc.

The benefits of the HQS procedure include:
- No quota restrictions
- 14 working days for the approval/rejection of an application
- Work permit validity of up to 3 years (and possible extension for a further 3 years)
- Work permit may be valid in more than one region of Russia
- Eligible dependents include children’s and parents’ spouses, grandparents and grandchildren
- Exemption from the registration requirement on arrival in Russia for a visit of up to 90 days (or up to 30 days at another location(s) within Russia)

The employer of the HQS has various obligations to notify the relevant migration authority concerning the employment and granting or annulment of the work permit and the individual’s quarterly remuneration.
Starting from 1 January 2015 most foreign employees (except for HQS and certain other categories of employees) will be obliged to confirm their knowledge of Russian language, history and law in order to obtain or renew a work permit. A foreign employee will have to submit to the migration authorities either a Russian school or high school diploma or a current special certificate confirming the required knowledge (these will be valid for five years). This must be done within 30 days of the work permit’s issuance, failing which, the permit will be cancelled.

**Liability for violating immigration legislation**

New significant sanctions for violations of immigration law came into effect on 9 August 2013. Where the employer lacks the necessary permission to employ foreign nationals and employs them without a work permit or fails to notify the FMS, tax authorities or Employment Centre of the employment, or violates the established procedure and/or form of notification, the employer risks fines of up to RUB 1,000,000 or the suspension of its activities for up to 90 days. The employer’s officials face fines of up to RUB 200,000.

The foreign national can also be fined up to RUB 5,000, depending on the type of offence, and will be deported. If the offence is committed in Moscow or Saint Petersburg, the fine will be up to RUB 7,000 and the offender will be deported.

Entry into the Russian Federation may not be allowed if the foreign national has committed administrative offences or evaded the payment of tax or administrative penalties (before settling the payments in full) twice or more in three years.

A work permit cannot be issued if the foreign national was subject to administrative expulsion from the Russian Federation during the five years prior to the submission of the application, or he/she was subject to administrative expulsion from the Russian Federation repeatedly (twice or more) within 10 years prior to the application.

The legislator has introduced increased liability for the same violations in Moscow, St. Petersburg, Moscow Oblast or Leningrad Oblast and set an administrative fine on legal entities of between RUB 400,000-1,000,000 or administrative suspension of activities for a period of up to 90 days.

Similar changes have been introduced to the liability for violations of HQS procedures, which can lead to fines of up to RUB 1,000,000.
Secondment

Work permits are not available for foreign nationals working under secondment arrangements. The FMS has stated that this is due to the absence of any reference to such arrangements in Russian legislation. For a work permit application to be processed, only employment contracts concluded directly between an employee and a local employer (Russian company, branch or representative office) are considered.

Currently the secondment of personnel is not prohibited under the Russian legislation and such form of agreement is used in practice especially by affiliated legal entities within the group companies. However, starting from 1 January 2016 some types of secondment arrangements will be prohibited. A new law on secondment, on one hand, may put additional restrictions on such arrangements, and, on the other hand, makes the application of secondments more practical in certain cases. In particular, the following requirements with regard to the provision of personnel (secondment arrangements) will be established:

• The provision of personnel will generally be prohibited, except the activity of accredited private employment agencies and companies sending their employees to work at affiliated companies within the Group
• Other requirements for the provision of personnel, e.g. the payment conditions of the secondee should not be worse than those of employees in the receiving company who perform the same work functions; conclusion of the relevant addendum to existing the employment agreement supporting secondment in compliance with Russian legislation, etc.
Currency control

Overview
The national currency of the Russian Federation (RF) is the ruble. Historically, strict currency control regulations had been used to protect the ruble against devaluation and discourage “capital flight”. Later, the Central Bank of Russia (CBR) and the federal government began a programme of currency liberalisation, with the most significant amendments introduced during 2007.

Legal definitions
Several key terms must be defined when describing the Russian currency environment.

Russian currency is defined as the CBR banknotes and coins in circulation, cash legal tender within Russia, including banknotes and coins withdrawn from circulation but still exchangeable, and ruble funds in Russian bank accounts. Foreign currency is defined as foreign banknotes, treasury notes and coins in circulation, and cash legally tendered within the territory of the issuing foreign country (or group of foreign countries), including banknotes and coins withdrawn from circulation but still exchangeable. Foreign currency also includes funds in bank accounts denominated in a foreign currency and international monetary or payment units.

Internal securities are defined as securities issued in Russia that either have a nominal value denominated in Russian rubles or that certify the right to receive Russian currency. External securities are securities that do not qualify as internal ones.

Residents are defined as: (i) individual citizens of the RF, except those who are considered to have been living permanently abroad for no less than one year, including those who live abroad on the basis of residency permits or who temporarily stay abroad for no less than one year on the basis of a work visa or student visa valid for at least one year, or by a set of such visas with an aggregate validity term of at least one year; (ii) foreigners and individuals without citizenship who live permanently in the RF on the basis of residency permits; (iii) legal entities duly registered under Russian law; (iv) branches and representative offices of Russian legal entities situated abroad; (v) diplomatic representatives, consular offices and other official representatives of the RF located outside the RF, as well as permanent representations of the RF under international or intergovernmental organisations; and (vi) the RF, and regions and municipal units of the RF.

Non-residents are defined as (i) individuals who are not defined as residents; (ii) legal entities and other organisations registered under the legislation of a foreign country and located outside the RF; (iii) organisations (that are not legal entities) registered under the legislation of a foreign country and located outside the RF; (iv) diplomatic representatives, consular offices and permanent representative offices of foreign countries under international and intergovernmental organisations accredited in the RF; (v) international and intergovernmental organisations, their branches and permanent representative offices in the RF; (vi) branches and representative offices, standalone or autonomous subdivisions of foreign legal entities or other foreign organisations located in the RF.
Authorised banks are RF-incorporated credit institutions that are licensed by the CBR to carry out foreign currency transactions.

Currency transactions include acquisitions, exchanges, payments and imports/exports that involve currency valuables, rubles or internal securities.

Regulations on currency operations

Between residents
With some exceptions, payments between residents can only be made in rubles. One important exception is that residents may borrow from, and repay, authorised banks in a foreign currency.

Between non-residents
Non-residents have the right to open and operate both foreign currency and ruble bank accounts in an authorised bank. Non-residents are permitted to make payments between themselves in a foreign currency without restriction, but ruble payments in Russia may only take place through bank accounts opened with authorised banks. Transactions involving internal securities between non-residents are permitted but subject to compliance with Russian anti-monopoly and financial market legislation.

Between a resident and a non-resident
The general rule is that there are no restrictions on currency operations between residents and non-residents.

Currency restrictions

Transaction passports
The CBR continues to monitor currency transactions involving loans, the import or export of goods and the provision of services and intellectual property between residents and non-residents through the obligatory use of transaction passports. This involves filing documentation relating to the transaction with the bank if the total price of the contract equals or exceeds USD 50,000.

Foreign bank accounts
Residents are required to notify the local tax authorities of the opening or closing of an account in a bank located outside the RF. Residents must also supply reports showing the movement of funds to and from their foreign bank accounts.

Importing and exporting foreign currency
Residents and non-residents may import foreign currency into Russia without restriction, although both resident and non-resident individuals must file a written customs declaration when importing foreign (or Russian) currency in cash, travellers’ cheques when the value exceeds USD 10,000.

Resident and non-resident individuals may export foreign currency up to USD 10,000 without submitting a customs declaration and above USD 10,000 with a declaration.
Repatriation of foreign currency
Residents engaged in international trade or commercial activities must repatriate all rubles and foreign currency received from such activities into their Russian bank accounts, subject to certain exceptions.

Liability for infringements
Administrative liability
The most severe administrative fines apply to breaches of repatriation requirements and to undertaking illegal currency operations, ranging from 75% to 100% of the amount of the relevant operation(s).

Recently-adopted changes to the RF Code of Administrative Offences specify what qualifies as an illegal currency operation. Currency operations that are not directly provided for by currency legislation are illegal and entail the aforementioned liability.

Criminal liability
Criminal liability may apply to residents failing to repatriate foreign currency exceeding RUB 6 million to the RF. This violation may result in the imprisonment of the head of the legal entity for up to three years (up to five years if the non-repatriated foreign currency exceeds RUB 30 million.)
Transfer pricing

Overview
Current Transfer Pricing rules were introduced starting from 1 January 2012. The key changes included the extension of the number of methods which may be used to support the prices in controlled transactions as well as the requirement to document the transactions. It should be noted that Russia is not an OECD member country and taxpayers may not explicitly rely on the OECD transfer pricing guidelines in developing their Russian transfer pricing policies and supporting documentation, which as a result, should be tailored for Russian purposes considering the provisions of the Russian Transfer Pricing rules. The transfer pricing audits have just started so there is no extensive interpretation of the rules by the authorities available at the moment nor any court practice covering the new rules. Below we summarize key provisions of Russian transfer pricing rules.

Related Parties
There are 11 categories of related party, with ownership of more than 25% being one of the main criteria for being recognised as such. A court can recognise parties as being related on grounds which are not specified in the law, while taxpayers likewise may claim to be affiliated on other grounds.

Transfer Pricing Methods
The permitted transfer pricing methods are based upon the following:
1) Comparable uncontrolled price
2) Resale-minus
3) Cost-plus
4) Comparable profitability
5) Profit-split

The law stipulates detailed guidelines on how to apply each method. Comparable uncontrolled price (CUP) remains the primary method and may be applied where information concerning at least one comparable transaction is available. In some cases, however, the resale-minus method is given priority over the CUP method, for example, where goods are acquired through a controlled transaction and are resold without being processed as a transaction with an unrelated party. The application of two or more methods combined is also permitted.

Controlled Transactions
Transfer pricing controls may be applied to a single transaction or to a group of similar transactions belonging to the following types:
**Cross-border transactions**
- With related parties, including supply arrangements with third-party intermediaries
- With goods traded on commodity markets, e.g. crude oil or metals (the list of such goods is published by the Ministry of Finance, and those with offshore residents of certain “low tax” jurisdictions, if the transaction amount exceeds RUB 60 million. The parties in this case do not need to be related

**Sources of information**
The information required to determine market price/profitability should be obtained from publicly available sources, for example, domestic and foreign stock and commodity exchanges, customs data relating to Russian overseas trade and other domestic or foreign sources of information.

The law specifically stipulates that, non-Russian comparables for instance, pan-European benchmarks, may be used only if Russian data is not available, which therefore means there is a need to run the local Russian benchmark first.

**Domestic related party transactions**
- If the transactions between two related parties in 2014 exceed RUB 1 billion
- If the transactions between two related parties in a calendar year exceed RUB 60 million and one of the following applies:
  - Mineral Extraction Tax is being paid at the ad valorem rate by one of the parties
  - One of the parties is exempt from, or pays profits tax at a rate of 0%
  - One of the parties is a resident of a special economic zone
- If transactions between two related parties in a calendar year exceed RUB 100 million in value and one of the parties pays unified tax on imputed income or unified agricultural tax

Transfer pricing rules do not apply to transactions between companies that are members of a consolidated group of taxpayers. Several groups of this type were created by some of the largest Russian companies in 2012.

**Corresponding adjustments**
Generally, corresponding adjustments are allowed in transactions between Russian legal entities, however as at the end of 31 December 2014 there is still no detail procedure of how to apply them.

**Advanced Pricing Agreements (APAs)**
Russian Transfer Pricing legislation contains the opportunity for the largest taxpayers to enter into an APA. Special procedures exist to apply for an APA. An APA may be signed for a period not exceeding 3 years and is, generally, effective starting from 1 January of the calendar year, following the year when it was signed.

**Transfer pricing audit and penalty**
Please refer to the chapter entitled “Tax Administration” for further details.
Transfer Pricing Documentation
Companies must file a notification with the tax authorities concerning their controlled transactions during a calendar year no later than 20 May of the following year. A notification is a required form, which discloses detailed information about the controlled transactions that took place during the reporting period (e.g. type of transaction, amount of transaction, contract details, contractor’s data etc.). Detailed instructions on filling in the notification form were specified by the Federal Tax Service in Order -7-13/524@ of 27.07.2012.

The tax authorities may request transfer pricing documentation relating to controlled transactions of the taxpayer during a calendar year no earlier than 1 June of the following year. Companies should provide specific transfer pricing documentation upon request within 30 days from receiving a request from the tax authorities. The Federal Tax Service in Letter -4-13 /14433 @ of 30.08.2012 explained the content of transfer pricing documentation and the structure generally follows the OECD type of documentation. Documentation should be prepared in Russian.
Overview
The key principles of the Russian tax system, including types of tax, the rights and obligations of the tax authorities and taxpayers, and the procedural aspects of tax administration, are set out in Part I of the Tax Code of the Russian Federation. Some of the most significant provisions of Part I include the following:

• All contradictions, ambiguities and questionable issues in tax legislation that cannot be resolved must be interpreted in favour of the taxpayer
• Tax legislation that increases tax rates or introduces new taxes or sanctions cannot be applied retroactively
• There is a presumption of innocence on the part of the taxpayer, placing the burden of proof on the tax authorities
• The tax authorities are required to maintain the confidentiality of information regarding taxpayers
• Tax legislation that mitigates a tax liability and (or) reduces a tax burden may come into legal effect through a simplified tax regime (where such a regime is specifically provided for by law)

Although Russian court decisions are not formally regarded as law, taxpayers are strongly recommended to take court precedent into account, since many of the basic Russian tax principles, terms and definitions have been developed by the courts (e.g. "substance over form", the limitation of the period during which a tax authority’s decision can be challenged in court, "mala fide" taxpayers). Furthermore, the legal position expressed in resolutions of Russia’s Supreme Court are binding on inferior courts and can be used as grounds for revising cases upon the discovery of new facts.

From 2012, the Tax Code has introduced the concept of a consolidated group of taxpayers, one member of which is responsible for calculating and paying profits tax on the basis of joint business activities. Special rules apply to the audit of such groups for profits tax purposes, as well as for the payment of tax and penalties, which are not covered in this chapter.

Administrative structure
The Russian tax system is administered by the Federal Tax Service. This broadly consists of inspectorates that carry out day-to-day operations such as tax registration, tax audits and tax collection, and tax directorates, which supervise the tax inspectorates and perform various other functions. The jurisdictions of both these bodies are based on geographical limits (e.g. cities or districts). The registration of a Russian legal entity includes de facto registration with the tax inspectorate office covering the company’s registered address. In addition, a company must also initiate its tax registration at the location of its actual branch, subdivision or property (real estate and transport vehicles). After tax registration, the tax authorities will issue the taxpayer with a certificate of registration and a tax identification number (TIN), which must be put on official documents (tax returns, invoices, payment orders and reports).

Tax audits
The tax audit is the main method applied by the tax authorities to control the accuracy of reporting, calculating and paying tax. Tax audits have been criticised for the serious impact they can have on the conduct of a taxpayer’s business, for example,
due to the imposition of multiple audits, repeat requests for documentation and the technical weaknesses of some tax claims.

According to the Tax Code, the tax authorities are authorised to conduct the following types of tax audit with regard to taxpayers (individual and corporate) and tax agents: desk and field tax audits, and transfer pricing audits.

**Desk tax audits**
A desk tax audit is conducted at the tax authorities’ own premises on the basis of tax returns filed by taxpayers.

It must be conducted within three months of the date on which the tax return is filed. The filing of an amended tax return during a desk tax audit should lead to the termination of the initial tax audit and the initiation of a new one with respect to the amended tax return (within three months of the amended tax return’s submission). During the three-month period, the tax authorities may request the following from the taxpayer:
- Documents that should be submitted together with the tax return
- Documents supporting the taxpayer’s right to a tax exemption
- Documents supporting the right of the taxpayer to recover input VAT
- Documents supporting the calculation and payment of tax relating to the utilisation of natural resources

Where errors or contradictions in data are detected in documents, the tax authorities are obliged to inform the taxpayer accordingly, note the correctness or otherwise of the tax return, and request explanations and documents from the taxpayer or make the due corrections. A taxpayer is entitled to present documentation to the tax authorities in support of his or her explanation regarding the accuracy of the tax return. If, after reviewing the explanations, the tax authority finds that the taxpayer committed a tax offence or any other violation of tax legislation, it must issue a tax audit report.

The subsequent procedures are similar to those for field tax audits, and are described below.

**Field tax audits**
Field tax audits (sometimes referred to as documentary audits) are conducted at the taxpayer’s premises and are initiated by decision of the head (or deputy head) of the tax office at which the taxpayer is registered. If the taxpayer is unable to provide accommodation for the tax officers, the field audit is carried out at the tax office.
The Tax Code allows the tax authorities to take the following action during a field audit:

- Access the taxpayer’s premises upon the presentation of identification and the document authorising the field audit
- Examine the premises and property of the taxpayer in the presence of witnesses
- Request explanations and supporting documents from the taxpayer
- Examine witnesses
- Seize documents and other evidence, subject to the issue of an order initiated by the tax official conducting the audit and certified by the head (or deputy head) of the tax authority in the presence of the taxpayer and witnesses

**Duration and suspension**
The duration of a field tax audit cannot exceed two months, although it can be extended for up to six months in "exceptional cases". The audit period starts from the day the decision initiating the field tax audit is issued and ends on the day a memorandum on the completion of the audit is issued.

In practice, field tax audits are very rarely completed within two months, since the tax authorities often suspend the audit process. This can occur for an aggregate period of up to six months (with the two month period extended), but only on the basis of a decision by the head (or deputy head) of the relevant tax office. During the suspension, the tax authorities may:

- Request information and documents regarding the activities of the audited entity from its contractors or from others
- Obtain information from foreign state authorities based on Russia’s international treaties
- Examine experts
- Translate foreign language documents submitted by the audited entity

**Tax audit report**
A tax audit is completed with the issue of a memorandum. No later than two months after the issue of this document, the tax authorities must issue a tax audit report which should reach the taxpayer within five business days. The report must contain the audit findings, specifying the provisions of the Tax Code that have been violated — or the absence of a violation. Documents evidencing the tax offence must be attached to the report. If the taxpayer disagrees with the facts, conclusions or suggestions set out in the tax audit report, he or she may file a written objection together with supporting documents within one month from the date the tax audit report was received. After the expiration of this one-month period, the head (or deputy head) of the tax office has 10 business days to review the audit report and the taxpayer’s
objection. While the taxpayer must be notified of the place and time of this review, the absence of the taxpayer or his/her representative does not invalidate the review. Based on this review, the tax authority issues a decision — either to hold the taxpayer liable for the tax violation (or not), or to order additional tax control measures within one month. The latter decision is issued if it is necessary to obtain additional evidence of the tax violation. After additional tax control measures are conducted, the taxpayer has the right to meet with the tax authority to discuss the additional findings.

Where the tax audit relates to the recovery of VAT, the tax authorities should also issue a decision to reimburse VAT (or not), which may be challenged by the taxpayer in the same way as the main decision.

**Decision enforcement**

Depending on the nature of the decision, the tax authority will then issue a request to pay the tax, interest and penalty fine(s), stating the payment deadline.

Such a request cannot be issued by the tax authority earlier than one month after the taxpayer receives notification of the decision (which will be presumed to have been received on the sixth business day after it was sent by registered mail), and the payment deadline cannot be less than eight calendar days from the date the taxpayer actually receives the request.

If the taxpayer fails to make the payment by the given deadline, the tax authority has two months to issue a decision to collect the outstanding liability from the taxpayer's bank account(s). In practice, the tax authority normally issues a decision to freeze the taxpayer's bank accounts at the same time, followed by a collection order to the bank either on paper or electronically. The bank should then freeze any payment transactions up to the amount indicated in the decision sent to the bank. From 2014, if a taxpayer's bank account(s) at one bank are frozen, that taxpayer is forbidden from opening new accounts at other banks.

If the tax authority fails to issue a decision to collect taxes, interest and penalties within the required two-month period, it can still file a claim with the court within six months of the payment deadline.
In principle, a taxpayer can only be held liable for a tax violation, including tax underpayments, for tax returns relating to the three-year period up to the date of the decision. However, the period may be extended if the taxpayer "deliberately hindered" the conduct of the tax audit.

The tax authorities cannot conduct more than two field audits within each calendar year with respect to a particular taxpayer, except by a decision of the head of the Federal Tax Service.

Furthermore, the tax authorities cannot conduct more than one field tax audit with respect to the same taxes and the same tax period, with the following exceptions: where the taxpayer files an amended tax return reducing the amount of tax due; where a higher level tax authority reviews the audit of a lower level tax authority; and where a company has been reorganised or liquidated. If a taxpayer succeeds in challenging audit findings in court, the higher level tax authority has no right to repeat the audit.

Transfer pricing audits
From 2012, controlled transactions (please refer to Chapter “Transfer Pricing” for detail definition of controlled transactions) are subject to a transfer pricing audit carried out at the premises of the tax authorities.
The grounds for undertaking an audit are the following:
• Statement of controlled transactions filed by a taxpayer
• A tax authority notification stating that unreported controlled transactions have been identified during a desk or field audit
• Identification of unreported controlled transactions during a repeat field tax audit conducted by the Russian Federal Tax Service

The audit must be scheduled no later than two years after the statement or notification is received and, as a general rule, the duration of an audit should not exceed six months. The audited period may not exceed the three-calendar-year period preceding the year of the audit. The fact that an audit is in process does not prevent the tax authorities from conducting desk or field tax audits for the same period in relation to other tax matters.

Any deviations from market price that lead to an underpayment of taxes are stated in the tax report issued by the tax authorities. The taxpayer can file objections to the report within 20 business days following the day of its receipt. Consideration of the tax report/decision is subject to the same rules as for desk and field tax audits.

Underpayments of tax detected during a transfer pricing audit may only be collected by means of a court judgment.

Sanctions provided by the Tax Code
The Tax Code sets out sanctions that may be imposed on taxpayers for tax violations. Generally, fines may be collected by the tax authorities without recourse to the courts. The tax authorities have the right to reduce or increase the amount of a fine if any mitigating or aggravating circumstances exist. The courts also have this right. The Tax Code establishes the following penalty rates for the most common tax violations:

Failure to register with the tax authorities
Conducting business activities without registration is subject to a penalty fine of 10% of the revenue arising during the period that the entity was not registered, but not less than RUB 40,000.

Full or partial non-payment of tax
Full or partial non-payment as a result of decreasing the tax base or incorrect calculation is subject to a penalty of 20% of the unpaid tax amount. If the mistake was made deliberately, the penalty fare is 40% of the unpaid tax amount.

Underpayment of tax as a result of applying non-arm’s length prices is subject to a 40% penalty fare or RUB 30,000 whichever is the larger amount. For the period 2014-2016, the 20% penalty fare is applied.
Penalty for non-submission/incorrect completion of the notification on controlled transactions is set at RUB 5,000 per notification.

**Failure to file tax returns**
The late filing of a tax return is subject to a fine of 5% of the unpaid tax due according to the return for each full or partial month from the official date that it should have been filed, subject to a minimum penalty fine of RUB 1,000.

**Gross violation of accounting regulations**
Such violations may result in the following penalties: (i) RUB 10,000 if the violation is limited to one tax period; (ii) RUB 30,000 if the violation occurred in more than one tax period; or (iii) 20% of the outstanding tax amount, but no less than RUB 40,000, if the violation results in an understatement of the tax base.

**Failure by a tax agent to withhold or remit tax**
Such a failure may result in a fine equal to 20% of the tax to be remitted.

**Failure to provide documents**
Failure to provide documents or other information required by law to the tax authorities within 10 business days following a request being received may result in a fine of RUB 200 for each document not provided.

From 2014, an obligatory pre-trial procedure applies to any appeal against any non-normative act of the tax authorities, actions or inaction of their officials.

Exceptions to the rule are:
- Non-normative acts adopted following the results of consideration of complaints, including appeal petitions. These can be appealed in both a superior agency and a court
- Non-normative acts of the Federal Tax Service of Russia and actions/inaction of its officials may only be appealed in court
Criminal sanctions
The Criminal Code provides for five types of tax crime which are described below. In each case, only the relevant individuals/officers are subject to criminal liability, and not the legal entity itself. Criminal intent, according to the definition stipulated in the law, must be proven.

The limitation period for tax crimes committed by individuals is either two or six years depending on the gravity of the crime. For tax crimes committed by legal entities, the period is either six or ten years, also depending on the gravity of the crime.

Since 1 January 2010, pre-trial detention for an alleged tax crime has been expressly forbidden. However, imprisonment may still arise in practice since other crimes, to which this restriction does not apply (e.g. fraud, illegal business activities, etc.), may be prosecuted at the same time.

Tax evasion committed by legal entities
The Criminal Code provides for criminal sanctions where a "large-scale" or "very large-scale" amount of tax is involved. "Large-scale" is defined as tax of RUB 2 million over three financial years (assuming this exceeds 10% of the total taxes due), or more than RUB 6 million. "Very large scale" is RUB 10 million over three financial years (assuming this exceeds 20% of the total taxes due) or more than RUB 30 million. Liability can arise for deliberately including false information in tax returns or documents required by law, resulting in an underpayment of tax or levies, as well as for failure to file tax returns or to submit the required documents. The penalties range from fines of RUB 100,000 to 500,000, or imprisonment of the company's CEO, Chief Accountant (or employees fulfilling these roles),
or any other official of the legal entity, or its external advisor, who has falsified documents or concealed property on which tax payments should be made, for a period of up to six years. A ban from holding certain posts or performing certain activities for a period of up to three years may also be imposed.

A legal entity’s officials are exempt from criminal liability for tax evasion if it is a first-time offence and the full amount of tax arrears, interest and fines is voluntarily paid.

**Evasion of tax payments by individuals**
The same crime committed by individual taxpayers may also be subject to criminal sanctions. In this case, "large-scale" is defined as RUB 600,000 over three financial years (assuming this exceeds 10% of the total taxes due), or more than RUB 1,800,000, and "very large-scale" is RUB 3 million over three financial years (assuming this exceeds 20% of the total taxes due) or more than RUB 9 million.

Fines range from RUB 100,000 to 500,000 or imprisonment for a period of up to three years.

An individual is exempt from criminal liability for tax evasion if it is a first-time offence and the full amount of tax arrears, interest and fines is paid voluntarily.

**Failure to fulfill tax agent obligations**
A tax agent's failure to calculate, withhold and remit taxes and fees to the relevant budget can result in criminal liability if committed on a "large scale" or "very large scale". The sanctions applied to tax agents are similar to those stipulated for legal entities.

**Concealment of money or property by legal entities or individual entrepreneurs**
The concealment by a legal entity or individual entrepreneur of money or other property required for tax collection is a crime. In such an event, the officials of the legal entity or the individual entrepreneurs accused of the concealment are held liable for a criminal violation, with fines ranging from RUB 200,000 to 500,000 or imprisonment for up to five years. A ban from holding certain posts or performing certain activities for a period of up to three years may also be imposed.

**Evasion of customs payments**
Evasion by a legal entity or individual entrepreneur involving duties of RUB 1,000,000 (large-scale) or RUB 3,000,000 (very large-scale) may result in fines ranging from RUB 100,000 to 500,000, mandatory work for a period of up to 480 hours, or imprisonment for a period of up to five years. A prohibition from holding certain posts or performing certain activities for a period of up to three years may also be imposed.
Overview
Russia accounts for an estimated 5-6% of the world’s proven oil reserves and around 24% of global natural gas reserves. Russia has the world’s biggest oil and gas condensate production. Since energy and mining have been the main drivers of Russia’s overall economic recovery in recent years, tax revenue derived from activities in the natural resource industries deserves special attention.

Profit tax
The following rules apply to companies engaged in the exploration and production of natural resources:
• Expenses associated with obtaining a license for subsurface use, including expenses for the appraisal of natural resource deposits, feasibility studies, obtaining geological information etc. should be included in the cost of the relevant license, treated as an intangible asset and amortised on a straight-line basis over its useful life. Expenses relating to participation in a license tender may, alternatively, be treated as a production and sale expense and amortised over a period of two years at the taxpayer’s request. If no license is obtained, the expenses are amortised over a period of two years following the month of the relevant tender
• Expenses relating to the exploration and appraisal of natural resource deposits (successful or otherwise) should be deducted on a straight-line basis over the 12-month period following the completion of the work. Separate tax accounting is required for each exploration project
• Expenses relating to dry wells should be deducted evenly over a 12-month period starting from the first day of the month following the well’s abandonment. No provisions for future abandonment costs are allowed, and thus these costs are deductible only when incurred. Examples of the useful lives of fixed assets typically used in the oil and gas industry are shown in Table 5.

<table>
<thead>
<tr>
<th>Depreciation group</th>
<th>Useful life (years)¹</th>
<th>Examples of types of fixed assets</th>
<th>Depreciation method</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1 — 2</td>
<td>Metalworking and woodworking tools/machinery, oil and gas production equipment, construction hand tools</td>
<td>Straight-line or declining balance methods*</td>
</tr>
<tr>
<td>2</td>
<td>2 — 3</td>
<td>Drilling machinery, construction power tools, equipment for underground tunnelling work and sampling</td>
<td>*Only the straight-line method is applicable in relation to fixed assets used by the taxpayer who carries out activities associated exclusively with extraction of hydrocarbons on new offshore fields regardless of depreciation group.</td>
</tr>
<tr>
<td>3</td>
<td>3 — 5</td>
<td>Elevators, forestry tractors, automobiles, tank trucks, computers and peripheral equipment, office machinery</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>5 — 7</td>
<td>Office furniture, television equipment, clocks, light trucks (less than 0.5 ton capacity)</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>7 — 10</td>
<td>Oil/gas collection systems, gas pipelines, fibreoptic communication systems, heavy trucks (5 — 15 ton capacity)</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>10 — 15</td>
<td>Oil wells, railway transport infrastructure, heavy trucks (over 15 ton capacity)</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>15 — 20</td>
<td>Bridges, ductwork, refrigerators, drilling ships</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>20 — 25</td>
<td>Blast furnaces, wharves, river and lake passenger vessels</td>
<td>Straight-line method</td>
</tr>
<tr>
<td>9</td>
<td>25 — 30</td>
<td>Runways, nuclear reactors, oil/gas tanks</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>&gt; 30</td>
<td>Escalators, forest shelter belts</td>
<td></td>
</tr>
</tbody>
</table>

¹ The exact useful life of fixed assets is determined based on their classification as prescribed by the Russian Classification for Fixed Assets.
VAT

Export sales of oil, gas condensate and natural gas are subject to VAT at a 0% rate provided compliance requirements are met. Domestic sales of oil, gas condensate and natural gas are subject to the 18% VAT rate. Please refer to the chapter entitled “Value Added Tax” in relation to VAT on pipeline transportation services.

The RF Tax Code provides for a closed list of works and services relating to the geological study, exploration and production of hydrocarbons on the Russian continental shelf and exclusive economic zone that are subject to Russian VAT, allowing for the recovery of corresponding input VAT.

Mineral extraction tax

Mineral extraction tax (MET) is imposed on legal entities and private entrepreneurs for the extraction of minerals, including oil and gas, from the subsurface and from production waste. In order to be permitted to extract minerals commercially, an appropriate license should be obtained.

MET is determined on the basis of either the physical quantity of mineral resources extracted or their physical quantity and value. Value is determined based on the quantity of minerals extracted and their selling price, the net of VAT, customs duties and levies, and less transportation expenses. If no sales of a particular mineral resource are made during a tax period, taxpayers should calculate the value of the extracted minerals based on their production cost. The value must be calculated based on the tax accounting records maintained for profits tax purposes and the procedures provided by tax legislation.

For oil, natural and associated gas and gas condensate, MET is based on the volume of minerals extracted.

From 1 January 2015 the following formula is used to calculate the MET rate on oil:

\[ \text{MET} = (\text{Base rate} \times \text{Cp}) - \text{Em} \]

where:

<table>
<thead>
<tr>
<th>Base rate</th>
<th>is equal to RUB 766 per ton in 2015, RUB 857 per ton per ton in 2016, RUB 919 per ton for 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cp</td>
<td>represents the dynamic of world oil prices</td>
</tr>
<tr>
<td>Em</td>
<td>represents oil extraction factors. Em is calculated based on the following formula: Em = Cmet<em>Cp</em>(1—Cd<em>Cr</em>Cde<em>Crd</em>Ccan), where</td>
</tr>
<tr>
<td>Cmet</td>
<td>is a new coefficient, it is equal to 530 in 2015, and 559 from 2016</td>
</tr>
<tr>
<td>Cd</td>
<td>represents the level of depletion of a given site’s reserves</td>
</tr>
<tr>
<td>Cr</td>
<td>represents the quantity of a given site’s reserves</td>
</tr>
</tbody>
</table>
The tax rate for natural gas should be determined as:

\[ \text{MET rate} = 35 \times \text{Usf} \times \text{cdf} + \text{Ctr} \]

- 35 — RUB 35 per 1 thousand cubic meters of extracted gas
- Usf is the unit of equivalent fuel
- Cdf is the coefficient for the extent of gas production difficulty
- Ctr is the indicator for transportation expenses

The unit of equivalent fuel should be treated as the most significant indicator for MET calculation purposes.

It should be calculated taking into account the price of natural gas, the average price of gas condensate for the past tax period and the coefficient for the share of natural gas (excluding associated gas) in the total volume of hydrocarbons in the deposit that was extracted for the past tax period.

From 1 January 2015, a new procedure for the calculation of the MET rate for gas condensate is applicable. The new calculation is based on the following formula:

\[ \text{MET} = 42 \times \text{Ust} \times \text{Cdf} \times \text{Ccm} \]

- 42 — RUB 42 per ton for gas condensate
- Ust is the base value of a unit of standard fuel
- Cdf is the complexity factor
- Ccm is the adjusting Coefficient, which is equal to 4.4 in 2015, 5.5 in 2016 and 6.5 in 2017

For 2012 — 2018, special rules for calculating MET apply to oil producers operating in the Republics of Tatarstan and Bashkortostan.

---

<table>
<thead>
<tr>
<th>Cde</th>
<th>represents the difficulty involved in extracting oil</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Crd</th>
<th>represents the level of depletion of a particular hydrocarbon deposit separately</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Ccan</th>
<th>is a new coefficient, it reflects quality of oil and the region of extraction. It equals 0 for oil produced on sites which are located wholly or partially within the borders of Republic of Sakha (Yakutia), the Irkutsk Region, the Krasnoyarsk Territory, the north of the Arctic Circle, in the Sea of Azov, the Sea of Okhotsk, the Black Sea or the Caspian Sea, in the Nenets Autonomous District or on the Yamal Peninsula in the Yamalo-Nenets Autonomous District</th>
</tr>
</thead>
</table>
MET is assessed monthly, with payment due within 25 days following the reporting month. Tax returns should be submitted before the end of the month following the reporting month.

**Excise tax on oil products and gas**

Excise tax is applicable to certain transactions with oil products. Currently only natural gas, gasoline, motor oil diesel straight-run gasoline, heating oil produced from diesel fractions, benzol, paraxylene, orthoxylene, jet kerosene are subject to excise tax. Oil and gas condensate lie outside of the scope of excise tax. Excise tax is imposed on the following transactions with oil products produced in Russia:

- Sales of self-produced excisable oil products
- Transfers of excisable oil products which are produced at a processing facility under a tolling agreement to the owner
- Inter-divisional transfers of self-produced excisable oil products within a company for the purpose of producing non-excisable products
- Transfers of self-produced excisable oil products for processing on a tolling basis
- Import of excisable oil products

The excise tax rates applicable to oil products are shown in Table 6.

<table>
<thead>
<tr>
<th>Type of excisable goods</th>
<th>Rate (RUB per ton)¹</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2015</td>
</tr>
<tr>
<td><strong>Gasoline:</strong></td>
<td></td>
</tr>
<tr>
<td>class 5</td>
<td>5 530</td>
</tr>
<tr>
<td>other classes</td>
<td>7 300</td>
</tr>
<tr>
<td>Diesel fuel</td>
<td>3 450</td>
</tr>
<tr>
<td>Motor oils</td>
<td>6 500</td>
</tr>
<tr>
<td>Straight-run gasoline</td>
<td>11 300</td>
</tr>
<tr>
<td>Benzol, paraxylene, orthoxylene and jet kerosene</td>
<td>2 300</td>
</tr>
</tbody>
</table>

¹ Progressive rates applied to gasoline and diesel fuel depending on their ecological standard.
The taxpayer may offset excise tax paid in respect of excisable oil products if those oil products are used as raw materials for the production of other excisable oil products. Offsets can be made on the condition that the taxpayer submits certain documents to the tax authorities following prescribed procedures.

Goods derived from blending other excisable goods are not subject to additional duty, provided that the excise tax which would otherwise have been applicable is less than or equal to the excise duty applicable to the goods/materials used for blending.

Special rules apply to straight-run gasoline. If a producer and processor hold special certificates for the production and processing of straight-run gasoline, the producer assesses excise tax, but does not charge it to the processor. The producer is entitled to offset the excise tax assessed, provided the required filings are made with the tax authorities. These certificates are issued by the tax authorities if the taxpayers have the appropriate straight-run gasoline production and processing capacities and if a processing agreement is in place. Different tax payment and tax return submission deadlines apply.

Taxpayers included in the List of operators of Russian civil aviation and who have a special operator’s certificate have the right to recover excise tax related to activities with jet kerosene. The amount of excise tax recovery is calculated as the amount of excise tax charged to a taxpayer multiplied by a certain coefficient (which varies from 1.84 to 2.08).

In addition, taxpayers carrying out activities involving benzol, paraxylene and orthoxylene should have a special certificate to recover excise tax. Please see table 7 below.

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>Starting 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Straight-run gasoline</td>
<td>1.37</td>
<td>1.60</td>
<td>1.94</td>
</tr>
<tr>
<td>Benzol, paraxylene and orthoxylene</td>
<td>2.88</td>
<td>2.84</td>
<td>3.40</td>
</tr>
<tr>
<td>Jet kerosine</td>
<td>2.00</td>
<td>1.84</td>
<td>2.08</td>
</tr>
</tbody>
</table>
Export customs duties
Export customs duties are levied on exports of oil, natural and petroleum gas and oil products. The duties on crude oil and oil products are adjusted by the Russian government on a monthly basis to reflect price movements in the European oil market. The flat rate on crude oil cannot exceed the maximum rate shown in Table 8.

<table>
<thead>
<tr>
<th>Urals prices (P) (USD per ton)</th>
<th>Maximum export duty rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 109.50</td>
<td>0%</td>
</tr>
<tr>
<td>109.50 — 146.00</td>
<td>35% * (P — 109.50)</td>
</tr>
<tr>
<td>146.00 — 182.50</td>
<td>12.78 + 45% * (P — 146.00)</td>
</tr>
<tr>
<td>&gt; 182.50</td>
<td>29.20 + 42% * (P — 182.50) for 2015</td>
</tr>
<tr>
<td></td>
<td>29.20 + 36% * (P — 182.50) for 2016</td>
</tr>
<tr>
<td></td>
<td>29.20 + 30% * (P — 182.50) as for 2017</td>
</tr>
</tbody>
</table>

Export duty set at 48% in 2015 (40% in 2016 and 30% starting 2017) of the duty on crude oil applies to light petroleum products (with the exception of gasoline).

Export duty set at 76% in 2015 (82% in 2016 and 100% from 2017) of the duty on crude oil applies to dark petroleum products.

Export duty set at 78% beginning in 2015 (61% in 2016 and 30% from 2017) of the duty on crude oil applies to gasoline (excluding straight-run gasoline). The rate for straight-run gasoline has been lowered to 85% beginning in 2015, 71% in 2016 and 55 from 2017.

The rate of export duty on natural gas is currently approximately 30% of the customs value. 0% duty applies to the export of liquefied natural gas and gas condensate.

From 1 January 2015 the rate of export duty on ethane, butane and isobutane should be calculated on the basis of special formula:

\[ \text{The rate} = R \times K \]

where

R is the rate of export duty for liquefied petroleum gases under following tariff code under Foreign Economic Activity Commodity Nomenclature of the Customs Union: 2901 10 000 1.
K is a coefficient dependant on the year (0.1 in 2015, 0.2 in 2016, 0.3 in 2017 etc.).

The Russian Government was granted the right to establish special formulas for the purpose of determining export duties with respect to:

- High-viscosity oil for a period of 10 years starting from the moment at which the reduced export duty rate is applied, but no later than 1 January 2023. The rate of export duty on high-viscosity oil should be calculated on the basis of special formula:

\[
Ret = 10\% \times (\frac{29.2 + 57\%}{P - 182.5} - 56.57 - P \times 0.14)
\]

where

- \(Ret\) is the export duty rate
- \(C\) is a coefficient, which equals 42% for 2015, 36% for 2016 and 30% for 2017.
- \(P\) is the average Urals price (Rotterdam and Mediterranean) for the monitoring period.

The above rates are applicable to fields where Tyumen formation constitutes 80% of the oil reserves.

A new procedure for publishing the export customs duty rates was introduced recently. This should be carried out using official sources of information rather than Regulations.

- Crude oil with specific physical-chemical characteristics produced from deposits located partly or fully in the Yakutia, Irkutsk and Krasnoyarsk regions, Yamalo-Nenets Autonomous District, the Russian sector of the Caspian Sea region, on the sea-bed of the inland or territorial sea waters of the Russian Federation, or on the Russian continental shelf. The minimum level of reserves should be equal to 10 million tons (if an application for the allowance was submitted in 2013) or 5 million tons (if the application has been submitted from 2014), and the accumulated volume of oil extraction should be less than 5%. The rate on this crude oil should not exceed the rate calculated in accordance with the following formula:

\[
Ret = (P - 182.5) \times C - 56.57 - P \times 0.14
\]

Continental shelf

To stimulate investments in the development of the continental shelf, a Federal Law was introduced to provide specific tax and custom regulation of hydrocarbon extraction on the continental shelf of the Russian Federation:

- The creation of new terms and definitions applicable to the taxation of hydrocarbon extraction on the continental shelf and the introduction of a new type of taxpayer: operators of new hydrocarbon fields
• Specifications of VAT, profits tax and MET assessment of activity related to hydrocarbon extraction on the continental shelf, including specifics of tax accounting, the procedure for determining the tax base (more advantageous rules for tax deduction) and conditions for the application of reduced and 0% tax rates
• Property tax incentives and the elimination of stationary and floating platforms in the sea, mobile drilling rigs and drilling vessels from the list of objects subject to transport tax
• The exemption of oil and gas that is exported from Russia and produced during the development of new hydrocarbon fields in the sea from customs duties

Although the Law included some regulation of operations on the continental shelf, a few issues remain unclear and solutions are yet to be formed through implementing this Federal Law and further legislative developments.

Payments for subsurface use
Companies holding licenses for exploration and production are subject to the payments described below.
• Regular payments for the right to prospect and appraise oil and gas deposits. The rate of these payments is set by the administration of the State Fund of Subsurface Resources within the range of RUB 120/sq km to RUB 540/sq km (approximately USD 2.1 - 9.6 sq km) of the area being prospected and appraised. For the continental shelf and exclusive economic zone, the rates vary from RUB 50/sq km to RUB 225/sq km (approximately USD 0.9-4/sq km)
• Regular payments for the right to explore deposits (i.e. the stage following prospecting and appraisal). The payment rate is also set by the administration of the State Fund of Subsurface Resources, within a range of RUB 5,000/sq km to RUB 20,000/sq km (approximately USD 89-355/sq km) of the area under exploration. Rates of RUB 4,000/sq km to RUB 16,000/sq km (approximately USD 71-284/sq km) of the area under exploration are prescribed for the continental shelf and Russia’s exclusive economic zone
• One-time payments for the use of subsurface resources. The terms of these payments are established by the relevant licenses, but should not be lower than 10% of the estimated annual amount of MET. This may potentially be one of the most significant costs related to obtaining and developing a license area
• Fees for participation in a competitive tender/auction. The fee is determined based on the costs of preparing for, holding and evaluating the tender/auction, plus fees paid to experts

Production sharing regime
Legislative framework
Production Sharing Agreements (PSAs) are governed under a legal regime which sees the Russian government grant an investor the exclusive right to prospect, develop and produce mineral resources from a subsurface area for a certain period of time. The investor guarantees the development of these mineral deposits at his or her own risk and expense.
By committing to share the production of mineral resources with the state under the terms of a PSA, the investor becomes entitled to a share of the minerals extracted. Currently, a PSA may only be created if certain terms are met, in particular where a tender was previously held and later declared invalid due to a lack of investors interested in the opportunity under the general tax regime. This PSA legislation has proved to be a significant obstacle to the establishment of new agreements.

**PSA tax regime**

The PSA tax legislation provides for two methods of determining tax liabilities on production sharing; the standard method and the direct method. Under the standard method, the investor is subject to MET on minerals extracted under the PSA. Once the value of the minerals produced, the net of MET, has been reduced by the “compensatory production” and the costs of exploration, production and other reimbursable expenses, the remaining profit (profit production) is shared between the state and the investor in accordance with the terms of the PSA. The investor is subject to profit tax in respect of its share of the profits. The share of compensatory production should not be more than 75% (90% in the case of extraction on the continental shelf) of the total volume of production.

Under the direct method, there is no division of minerals produced into compensatory production and profit production. The investor is eligible for a share of up to 68% of the total quantity of minerals produced under the PSA. The investor is exempt from profit tax, MET, water tax and land tax. Under both methods, the investor is exempt from customs duties in respect of goods imported or exported under the PSA, as well as from property and transport taxes in respect of fixed assets used under the PSA. PSA investors are also required to account for VAT.

**“Grandfathered” PSAs**

All of the PSAs currently in effect ("Kharyaga", "Sakhalin-1", and "Sakhalin-2") were concluded before the PSA regime described above came into effect. For these PSAs, a special "grandfathering" approach is included in the legislation, which generally provides that the PSA provisions apply even though the legislation covering those aspects has changed. For example, the profit tax rate established for investors under "Sakhalin 2" is higher (at 32%) than under the general tax regime. In addition, VAT and customs duty exemptions may apply to investors.
Overview
This chapter relates to taxpayers engaged in the extraction of minerals other than oil and gas.

Mineral extraction tax
Corporate entities and individual entrepreneurs engaged in mining are subject to mineral extraction tax (MET). The tax base is the value of the mineral resources extracted, based on their quantity, and either the sales price net of VAT, customs duties, and customs clearance fees (reduced by freight costs and refining costs) or the cost of production, as per the tax accounting records maintained for profits tax purposes. Generally, the cost of production measure is only applied if there are no sales.

The value of precious metals recovered from natural deposits or spoil should be determined on the basis of the taxpayer’s sales prices for chemically pure metals during the current month (or the preceding month in the absence of sales during the current month).

If no sales of a particular mineral resource are made during a tax period, taxpayers should calculate the value of the extracted minerals based on their production costs. Certain rates of MET are shown in Table 9.

Export customs duties
The rates of export duty for some types of mineral resources are provided in Table 10.

VAT exemption
Sales of precious metals by mining companies or companies producing such metals from scrap and waste to the State Funds for Precious Metals and Stones, the Central Bank of Russia (CBR) and authorized banks are subject to VAT at a rate of 0%. Input VAT relating to production is generally recoverable, assuming the conditions provided in the Tax Code for VAT recovery are satisfied. The recovery is usually accomplished by offsetting the input VAT against other taxes payable to the Federal budget.

### Table 9

<table>
<thead>
<tr>
<th>Type of mineral resource</th>
<th>Tax rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal(^1):</td>
<td></td>
</tr>
<tr>
<td>Lignite</td>
<td>RUB 11</td>
</tr>
<tr>
<td>Anthracite</td>
<td>RUB 47</td>
</tr>
<tr>
<td>Coke</td>
<td>RUB 57</td>
</tr>
<tr>
<td>Others</td>
<td>RUB 24</td>
</tr>
<tr>
<td>Standard ores of ferrous metals</td>
<td>4.8(^2)</td>
</tr>
<tr>
<td>Concentrates and other intermediate products containing gold</td>
<td>6%</td>
</tr>
<tr>
<td>Concentrates and other intermediate products containing precious metals (other than gold)</td>
<td>6.5%</td>
</tr>
<tr>
<td>Standard ores of non-ferrous metals (other than nephelines and bauxites)</td>
<td>8%</td>
</tr>
<tr>
<td>Diamonds and other precious and semi-precious stones</td>
<td>8%</td>
</tr>
</tbody>
</table>

\(^1\) Per ton. Coefficients are applied to the tax rate.

\(^2\) As of 1 January 2014, this rate is multiplied by the coefficient for the extraction of ore to provide a reduced rate for the mining of underground fields.
### Table 10

<table>
<thead>
<tr>
<th>Type of mineral resource</th>
<th>Tariff code under the Foreign Economic Activity Commodity Nomenclature of the Customs Union</th>
<th>Export customs duty rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coke and semi-coke manufactured from coal, lignite or peat</td>
<td>2704</td>
<td>6.5%</td>
</tr>
<tr>
<td>Diamonds</td>
<td>7102</td>
<td>0% or 6.5%</td>
</tr>
<tr>
<td>Precious and semi-precious stones (excluding diamonds)</td>
<td>7103</td>
<td>6.5%</td>
</tr>
<tr>
<td>Copper, various types</td>
<td>7401-7403; 7405</td>
<td>5% or 10%</td>
</tr>
<tr>
<td>Copper waste and scrap</td>
<td>7404</td>
<td>EUR 30, but no less than EUR 252 for 1000 kg</td>
</tr>
<tr>
<td>Unrefined nickel</td>
<td>7502</td>
<td>0%</td>
</tr>
<tr>
<td>Nickel waste and scrap</td>
<td>7503</td>
<td>EUR 16,66, but no less than EUR 400 for 1000 kg</td>
</tr>
<tr>
<td>Aluminum alloys</td>
<td>7601</td>
<td>2.5%</td>
</tr>
<tr>
<td>Aluminum waste and scrap</td>
<td>7602</td>
<td>EUR 30, but no less than EUR 228 for 1000 kg</td>
</tr>
<tr>
<td>Lead waste and scrap</td>
<td>7802</td>
<td>EUR 22, but no less than EUR 77 for 1000 kg</td>
</tr>
<tr>
<td>Zinc waste and scrap</td>
<td>7902</td>
<td>EUR 22, but no less than EUR 132 for 1000 kg</td>
</tr>
</tbody>
</table>

The tax legislation provides VAT exemption for the following transactions:

- Sales of scrap and waste of ferrous and non-ferrous metals
- Sales of ore, concentrates, other industrial products, and scrap and waste containing precious metals for the production of other precious metals
- Sales of precious metals and precious stones by companies other than mining companies or companies that produce metals or stones to the State Funds of Precious Metals and Stones
- Sales of precious metals and precious stones by the CBR and authorised banks
- Sales of raw precious stones, excluding unprocessed diamonds, for processing and subsequent export sale
- Sales of unprocessed diamonds to processing companies

If a VAT exemption applies, the input VAT relating to the production cannot be recovered but is deductible as an expense.
## Appendix 1

### Withholding tax rates (%) under Russia's double taxation treaties

<table>
<thead>
<tr>
<th>Country of recipient</th>
<th>Dividends</th>
<th>Interest</th>
<th>Royalties</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Major shareholding</td>
<td>Minor shareholding</td>
<td>&quot;Major shareholding&quot; criteria</td>
</tr>
<tr>
<td>Albania</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>Algeria</td>
<td>5</td>
<td>15</td>
<td>25%</td>
</tr>
<tr>
<td>Argentina</td>
<td>10</td>
<td>15</td>
<td>25%</td>
</tr>
<tr>
<td>Armenia</td>
<td>5</td>
<td>10</td>
<td>25%</td>
</tr>
<tr>
<td>Australia</td>
<td>5</td>
<td>15</td>
<td>10% &amp; AUD 700,000</td>
</tr>
<tr>
<td>Austria</td>
<td>5</td>
<td>15</td>
<td>10% &amp; USD 100,000</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>Belarus</td>
<td>15</td>
<td>15</td>
<td>N/A</td>
</tr>
<tr>
<td>Belgium</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>Botswana</td>
<td>5</td>
<td>10</td>
<td>25%</td>
</tr>
<tr>
<td>Brazil</td>
<td>10</td>
<td>15</td>
<td>20%</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>15</td>
<td>15</td>
<td>N/A</td>
</tr>
<tr>
<td>Canada</td>
<td>10</td>
<td>15</td>
<td>10%</td>
</tr>
<tr>
<td>Chile</td>
<td>5</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>China</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>Croatia</td>
<td>5</td>
<td>10</td>
<td>25% &amp; USD 100,000</td>
</tr>
<tr>
<td>Cuba</td>
<td>5</td>
<td>15</td>
<td>25%</td>
</tr>
<tr>
<td>Cyprus</td>
<td>5</td>
<td>10</td>
<td>EUR 100,000</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>Country of recipient</td>
<td>Dividends</td>
<td>Interest</td>
<td>Royalties</td>
</tr>
<tr>
<td>----------------------</td>
<td>-----------</td>
<td>----------</td>
<td>-----------</td>
</tr>
<tr>
<td></td>
<td>Major shareholding</td>
<td>Minor shareholding</td>
<td>&quot;Major shareholding&quot; criteria</td>
</tr>
<tr>
<td>Denmark</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>Egypt</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>Finland</td>
<td>5</td>
<td>12</td>
<td>30% &amp; USD 100,000</td>
</tr>
<tr>
<td>France</td>
<td>5/10</td>
<td>15</td>
<td>5% if FRF 500,000 &amp; dividend exemption; 10% if only one condition is met</td>
</tr>
<tr>
<td>Germany</td>
<td>5</td>
<td>15</td>
<td>10% &amp; EUR 80,000</td>
</tr>
<tr>
<td>Greece</td>
<td>5</td>
<td>10</td>
<td>25%</td>
</tr>
<tr>
<td>Hungary</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>Iceland</td>
<td>5</td>
<td>15</td>
<td>25% &amp; USD 100,000</td>
</tr>
<tr>
<td>India</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>Indonesia</td>
<td>15</td>
<td>15</td>
<td>N/A</td>
</tr>
<tr>
<td>Iran</td>
<td>5</td>
<td>10</td>
<td>25%</td>
</tr>
<tr>
<td>Ireland</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>Israel</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>Italy</td>
<td>5</td>
<td>10</td>
<td>10% &amp; USD 100,000</td>
</tr>
<tr>
<td>Japan</td>
<td>15</td>
<td>15</td>
<td>N/A</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>Korea (Dem. Rep.)</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>Korea (Rep.)</td>
<td>5</td>
<td>10</td>
<td>30% &amp; USD 100,000</td>
</tr>
<tr>
<td>Kuwait</td>
<td>0</td>
<td>5</td>
<td>25 % state ownership (direct or indirect)</td>
</tr>
<tr>
<td>Country of recipient</td>
<td>Dividends</td>
<td>Interest</td>
<td>Royalties</td>
</tr>
<tr>
<td>----------------------</td>
<td>-----------</td>
<td>----------</td>
<td>-----------</td>
</tr>
<tr>
<td></td>
<td>Major shareholding</td>
<td>Minor shareholding</td>
<td>&quot;Major shareholding&quot; criteria</td>
</tr>
<tr>
<td>Kyrgyzstan</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>Latvia</td>
<td>5</td>
<td>10</td>
<td>25% &amp; USD 75,000</td>
</tr>
<tr>
<td>Lebanon</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>Lithuania</td>
<td>5</td>
<td>10</td>
<td>25% &amp; USD 100,000</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>5</td>
<td>15</td>
<td>10% &amp; EUR 80,000</td>
</tr>
<tr>
<td>Macedonia</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>Malaysia</td>
<td>15</td>
<td>15</td>
<td>N/A</td>
</tr>
<tr>
<td>Mali</td>
<td>10</td>
<td>15</td>
<td>FRF 1,000,000</td>
</tr>
<tr>
<td>Malta¹</td>
<td>5</td>
<td>10</td>
<td>25% &amp; EUR 100,000</td>
</tr>
<tr>
<td>Mexico</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>Moldova</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>Mongolia</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>Montenegro, Serbia (former Yugoslavia DTT)</td>
<td>5</td>
<td>15</td>
<td>25% &amp; USD 100,000</td>
</tr>
<tr>
<td>Morocco</td>
<td>5</td>
<td>10</td>
<td>USD 500,000</td>
</tr>
<tr>
<td>Namibia</td>
<td>5</td>
<td>10</td>
<td>25% &amp; USD 100,000</td>
</tr>
<tr>
<td>Netherlands</td>
<td>5</td>
<td>15</td>
<td>25% &amp; EUR 75,000</td>
</tr>
<tr>
<td>New Zealand</td>
<td>15</td>
<td>15</td>
<td>N/A</td>
</tr>
<tr>
<td>Norway</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>Philippines</td>
<td>15</td>
<td>15</td>
<td>N/A</td>
</tr>
<tr>
<td>Poland</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>Portugal</td>
<td>10</td>
<td>15</td>
<td>25% &amp; 2 years</td>
</tr>
</tbody>
</table>

¹ Convention between Malta and the Russian Federation has been signed but not yet ratified
<table>
<thead>
<tr>
<th>Country of recipient</th>
<th>Dividends</th>
<th>Interest</th>
<th>Royalties</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Major shareholding</td>
<td>Minor shareholding</td>
<td>&quot;Major shareholding&quot; criteria</td>
</tr>
<tr>
<td>Qatar</td>
<td>5</td>
<td>5</td>
<td>N/A</td>
</tr>
<tr>
<td>Romania</td>
<td>15</td>
<td>15</td>
<td>N/A</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>0</td>
<td>5</td>
<td>Direct state ownership&lt;sup&gt;2&lt;/sup&gt;</td>
</tr>
<tr>
<td>Singapore</td>
<td>5</td>
<td>10</td>
<td>15% &amp; USD 100,000</td>
</tr>
<tr>
<td>Slovak Republic</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>Slovenia</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>South Africa</td>
<td>10</td>
<td>15</td>
<td>30% &amp; USD 100,000</td>
</tr>
<tr>
<td>Spain</td>
<td>5/10</td>
<td>15</td>
<td>5% if EUR 100,000 &amp; dividend exemption; 10% if only one condition is met</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>10</td>
<td>15</td>
<td>25%</td>
</tr>
<tr>
<td>Sweden</td>
<td>5</td>
<td>15</td>
<td>100% (30% in JV) &amp; USD 100,000</td>
</tr>
<tr>
<td>Switzerland</td>
<td>0/5&lt;sup&gt;3&lt;/sup&gt;</td>
<td>15</td>
<td>20% &amp; CHF 200,000</td>
</tr>
<tr>
<td>Syria</td>
<td>15</td>
<td>15</td>
<td>N/A</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>5</td>
<td>10</td>
<td>25%</td>
</tr>
<tr>
<td>Thailand</td>
<td>15</td>
<td>15</td>
<td>N/A</td>
</tr>
<tr>
<td>Turkey</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>Turkmenistan</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>Ukraine</td>
<td>5</td>
<td>15</td>
<td>USD 50,000</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>10</td>
<td>10</td>
<td>If dividends are subject to tax</td>
</tr>
<tr>
<td>United States</td>
<td>5</td>
<td>10</td>
<td>10%</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>Venezuela</td>
<td>10</td>
<td>15</td>
<td>10% &amp; USD 100,000</td>
</tr>
<tr>
<td>Vietnam</td>
<td>10</td>
<td>15</td>
<td>USD 10,000,000</td>
</tr>
</tbody>
</table>

<sup>3</sup> 0% effective for a pension fund, the Government of the other State, any political subdivision or local authority, or the Central Bank
---

**Appendix 2**

**Brief summary of statutory financial, taxation, statistical and ecological reporting for Russian legal entities in 2015**

**Financial reporting**

<table>
<thead>
<tr>
<th>Reports</th>
<th>Filing obligations</th>
<th>Deadline for filing report</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statutory financial statements</td>
<td>Annual reporting package:</td>
<td>No later than 3 calendar months after the end of reporting year</td>
</tr>
<tr>
<td></td>
<td>• Balance Sheet</td>
<td>No later than 3 calendar months after the end of reporting year</td>
</tr>
<tr>
<td></td>
<td>• Statement of Financial Performance</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Supplements to the Balance Sheet and Statement of Financial Performance</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Financial reports are filed with the tax authorities on an annual basis</td>
<td></td>
</tr>
<tr>
<td></td>
<td>The annual reporting package is submitted also to the statistic authorities</td>
<td></td>
</tr>
<tr>
<td></td>
<td>If the RLE is subject to an obligatory audit, the auditor’s report is submitted to both the tax and statistic authorities</td>
<td>The auditor’s report is submitted together with the annual statutory financial statements or not later than 10 working days from the day following the date of the auditor’s report (but not later than December 31 of the year following the reporting year)</td>
</tr>
</tbody>
</table>
## Tax reporting

<table>
<thead>
<tr>
<th>Tax base</th>
<th>Rate</th>
<th>Deadline for tax payment</th>
<th>Filing obligations</th>
<th>Deadline for filing reports</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Profit tax</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The actual profit on an accumulated basis starting at the beginning of the year. The taxpayer has the right to choose between monthly and quarterly reporting</td>
<td>20% including:  • 2% to the federal budget   • 18%² to the regional budget</td>
<td>Payment procedures depend on the filing basis &lt;br&gt; Filing on a monthly basis:  • Tax payments no later than the 28th of the month following the reporting month.  &lt;br&gt; Filing on the quarterly basis:  • Monthly advance payments, payable during the reporting period, not later than the 28th day of each month of the reporting quarter  • Tax payments no later than the 28th of the month following the reporting quarter.</td>
<td>The taxpayer is free to choose filing on a monthly or quarterly basis &lt;br&gt; For monthly filing, interim monthly tax returns and a final annual tax return are necessary  &lt;br&gt; For quarterly filing, interim quarterly tax returns and a final annual tax return are necessary</td>
<td>The deadline for filing reports depends on the choice of the filing basis &lt;br&gt; On a monthly basis, monthly returns — no later than the 28th of the month, following the reporting month; annual return — no later than 28th March of the year, following the reporting year  &lt;br&gt; On a quarterly basis, quarterly returns — no later than the 28th of the month, following the reporting quarter; annual return — no later than 28th March of the year, following the reporting year</td>
</tr>
<tr>
<td>Income in the form of dividends received by the RLE from Russian and foreign legal entities</td>
<td>13% — to be paid to the federal budget in full amount 0% if the RLE receives dividends from a company where it permanently owns no less than 50% of the share capital over 365 days</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax base</td>
<td>Rate</td>
<td>Deadline for tax payment</td>
<td>Filing obligations</td>
<td>Deadline for filing reports</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------</td>
<td>-------------------------------------------</td>
<td>------------------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------</td>
<td>-----------------------------</td>
</tr>
<tr>
<td>Income received in the form of interest on some municipal and state bonds</td>
<td>15% — to be paid to the federal budget in full</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Withholding tax on income payable to an FLE from sources in the RF³

<table>
<thead>
<tr>
<th>Income that is not related to the permanent establishment of this FLE on Russian territory, including (but not limited to):</th>
<th>Rate</th>
<th>Deadline for tax payment</th>
<th>Filing obligations</th>
<th>Deadline for filing reports</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Dividends</td>
<td>20%  — general rate</td>
<td>Tax should be withheld and paid within 1 day following the income payment to the FLE</td>
<td>The reporting process for withholding tax is in line with reporting for profit tax. The tax agent submits reports on a monthly or quarterly basis and a final annual report</td>
<td></td>
</tr>
<tr>
<td>• Interest on loans</td>
<td>15%  — on dividends</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Royalties</td>
<td>10%⁵ — on income paid from rent, leasing, freight of ships, aircraft, trailers, and other transportation equipment, used in international shipments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Income from rent</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Leasing and freight operations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Income from international shipments</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The reporting process for withholding tax is in line with reporting for profit tax. The tax agent submits reports on a monthly or quarterly basis and a final annual report.

The deadline for filing reports depends on the choice of the filing basis:

- On a monthly basis, **monthly returns** — no later than the 28th of the month, following the reporting month;
- **annual return** — no later than 28th March of the year, following the reporting year;

- On a quarterly basis, **quarterly returns** — no later than the 28th of the month, following the reporting quarter; **annual return** — no later than 28th March of the year, following the reporting year.
<table>
<thead>
<tr>
<th>Tax base</th>
<th>Rate</th>
<th>Deadline for tax payment</th>
<th>Filing obligations</th>
<th>Deadline for filing reports</th>
</tr>
</thead>
<tbody>
<tr>
<td>VAT&lt;sup&gt;6&lt;/sup&gt;</td>
<td>18% — standard rate</td>
<td>1/3 of the tax amount payable is due no later than the 25th of each month of the quarter, following the reporting quarter</td>
<td>Quarterly tax returns VAT returns must be submitted to tax authorities through electronic communication channels</td>
<td>Quarterly — no later than the 25th of the month following the reporting quarter</td>
</tr>
<tr>
<td>Value of goods (works, services) sold on Russian territory, transfer of goods (works, services) for own needs, installation and construction work for own use</td>
<td>10% — rate for certain foodstuffs, goods for children, medicines, books and periodical literature. 0% — export, international passenger transportation and some other operations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>VAT&lt;sup&gt;7&lt;/sup&gt; payable to the authorities, is determined as the difference between VAT charged to customers (output VAT) and VAT paid to suppliers of goods (works or services) and customs (input VAT), provided that certain criteria are met</td>
<td>18% — standard rate</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>For imported goods, the taxable base is determined as their customs value, plus import duties and excises, where applicable</td>
<td>10% — rate for certain foodstuffs, goods for children, medicines, books and periodical literature</td>
<td>VAT for import operations is paid to customs authorities, during the clearance process. Later this input VAT is off-set against output VAT</td>
<td>No special obligation</td>
<td></td>
</tr>
</tbody>
</table>
### Withholding VAT tax on revenue payable to an FLE

<table>
<thead>
<tr>
<th>Tax base</th>
<th>Rate</th>
<th>Deadline for tax payment</th>
<th>Filing obligations</th>
<th>Deadline for filing reports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income paid to an FLE, not registered as a taxpayer in Russia, for services provided on Russian territory</td>
<td>18% — standard rate 10%</td>
<td>VAT withheld is due to the budget at the day of income payment to FLE</td>
<td>Withheld VAT is disclosed in a separate section of the ordinary VAT return</td>
<td><strong>Quarterly</strong> — no later than the 25th of the month following the reporting quarter</td>
</tr>
</tbody>
</table>

### Property tax

The average annual net book value of fixed assets which are subject to property tax.

<table>
<thead>
<tr>
<th></th>
<th>Rate</th>
<th>Deadline for payment</th>
<th>Filing obligations</th>
<th>Deadline for filing reports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rates are established by regional authorities</td>
<td></td>
<td>Deadlines for payments are established by regional authorities</td>
<td></td>
<td><strong>Quarterly</strong> — no later than the 30th of the month following the reporting quarter</td>
</tr>
</tbody>
</table>

For particular objects of real estate, the tax base is determined as the cadastral value as of 1st January for the tax period.

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Moscow — 2.2%</td>
<td>Deadlines for payments are established by regional authorities</td>
<td>The annual tax return. Quarterly reports are to be established by regional authorities.</td>
<td><strong>Annually</strong> — no later than 30th March of the year following the reporting year</td>
</tr>
<tr>
<td>For fixed assets based on cadastral value:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015 — 1,7% (Moscow), 1,5% (other regions)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016 and further — 2%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Transportation tax

Engine horsepower of vehicle

<table>
<thead>
<tr>
<th>Rate</th>
<th>Deadline for tax payment</th>
<th>Filing obligations</th>
<th>Deadline for filing reports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rates are established by regional authorities</td>
<td>Deadlines for payments are established by regional authorities</td>
<td>The annual tax return</td>
<td><strong>Annually</strong> — no later than 1st February of the year following the reporting year</td>
</tr>
<tr>
<td>Moscow:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rates vary from RUB 7 to 2,000, depending on the type of vehicle and its engine power</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Moscow:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The tax is paid once a year, no later than 5th February of the year, following the reporting year</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Moscow:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The annual tax return</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax base</td>
<td>Rate</td>
<td>Deadline for tax payment</td>
<td>Filing obligations</td>
</tr>
<tr>
<td>-----------</td>
<td>----------------------------------------------------------------------</td>
<td>-------------------------------------</td>
<td>--------------------</td>
</tr>
<tr>
<td>Land tax</td>
<td>The cadastral value of a plot of land determined in compliance with the land legislation of the RF, as of 1 January for the tax period (year)</td>
<td>Rates are established by local authorities (regional laws for the cities of Moscow and St. Petersburg)</td>
<td>Deadlines for payments are established by local authorities</td>
</tr>
<tr>
<td></td>
<td>Moscow: Rates vary from 0.025% to 1.5%, depending on the category of the plot of land</td>
<td>Moscow: Quarterly — no later than the last day of the month following the reporting quarter</td>
<td>Moscow</td>
</tr>
<tr>
<td></td>
<td>Anually — no later than 1st February of the year following the reporting year</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>United (Simplified) Declaration</th>
<th>Quarterly tax returns</th>
<th>Quarterly — no later than the 20th of the month following the reporting quarter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Submitted if a taxpayer has a “zero” tax base for Profit Tax, VAT and Property tax and didn’t make transfers on the bank accounts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Duty object</td>
<td>Rate</td>
<td>Deadline for duty payment</td>
</tr>
<tr>
<td>-------------</td>
<td>------</td>
<td>--------------------------</td>
</tr>
<tr>
<td>Sales duty (effective in Moscow from 1 July 2015)</td>
<td></td>
<td>Not later than the 25th of the month following the period of taxation (a quarter)</td>
</tr>
<tr>
<td>Number of sales objects or size of sales area</td>
<td>Rates are established by local authorities (regional laws for the cities of Moscow and St. Petersburg)</td>
<td></td>
</tr>
<tr>
<td>Moscow:</td>
<td>Rates vary from RUB 21000 to RUB 81000 per a quarter for an object when the tax base is set as a number of objects and from RUB 50 to RUB 1200 per quarter per square meter when the tax base is set as the size of the sales area</td>
<td></td>
</tr>
</tbody>
</table>
### Tax / Contribution

<table>
<thead>
<tr>
<th>Tax Base</th>
<th>Rate</th>
<th>Deadline for tax payment</th>
<th>Filing obligations</th>
<th>Deadline for filing reports</th>
</tr>
</thead>
<tbody>
<tr>
<td>**Contributions to the Pension Fund (accumulated and insurance part)**¹²</td>
<td>Payroll (salary, bonuses and other employee benefits)</td>
<td>Compulsory monthly payments must be paid no later than the 15th of the month, following the month when contributions are accrued by the employer</td>
<td>Quarterly reports on Contributions to the Pension Fund and on Contributions to the Federal Medical Insurance Fund must be submitted to the Pension Fund</td>
<td>Quarterly — by the 15th day (for reports in hard copy) and and 20th (for electronic reports) of the second month following the reporting quarter</td>
</tr>
<tr>
<td></td>
<td>22% from the tax base, which is capped at RUB 711 000 and 10% from the amount, greater than the tax base</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>The tax base is capped at RUB 711 000¹³ accumulated from the beginning of 2015</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Contributions to the Federal Medical Insurance Funds¹²</strong></td>
<td>The same as for Contributions to the Pension Fund</td>
<td>The same as for Contributions to the Pension Fund</td>
<td>Quarterly reports on Contributions to the Pension Fund and on Contributions to the Federal Medical Insurance Fund must be submitted to the Pension Fund</td>
<td>Quarterly — by the 15th day (for reports in hard copy) and and 20th (for electronic reports) of the second month following the reporting quarter</td>
</tr>
<tr>
<td></td>
<td>Federal Medical Insurance Fund: 5,1%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Contributions to the Social Security Fund in case of temporary disability and due to maternity¹²</strong></td>
<td>The tax base is capped at RUB 670 000¹⁴ accumulated from the beginning of the 2015 year</td>
<td>The same as for Contributions to the Pension Fund</td>
<td>Quarterly reports to the Social Security Fund</td>
<td>Quarterly — no later than the 20th (for reports in hard copy) and 25th (for electronic reports) of the month following the reporting quarter</td>
</tr>
<tr>
<td></td>
<td>2.9%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax Base</td>
<td>Rate</td>
<td>Deadline for tax payment</td>
<td>Filing obligations</td>
<td>Deadline for filing reports</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------</td>
<td>---------------------------------------------------</td>
<td>------------------------------------------------------------------------------------------</td>
<td>-------------------------------------------</td>
<td>-----------------------------</td>
</tr>
<tr>
<td>Accident insurance contributions to the Social Security Fund¹⁵</td>
<td>Rates vary from 0.2% to 8.5% and are assigned on an annual basis by SSF depending on the type of RLE activity in Russia</td>
<td>A monthly basis, due date corresponds to the date of salary payment, but should not be later than the 15th day of the following month</td>
<td>Quarterly reports to the Social Security Fund</td>
<td>Quarterly — no later than the 20th (for reports in hard copy) and 25th (for electronic reports) of the month following the reporting quarter</td>
</tr>
<tr>
<td>Payroll and other payments to employees with certain exceptions (statutory welfare benefits, business-related expenses, etc)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal income tax (PIT)¹⁶</td>
<td>13% — for tax residents¹⁷ and highly qualified specialists¹⁸</td>
<td>On a monthly basis no later than the date of salary (or other income) payment PIT on advance salary payments may not be withheld</td>
<td>An annual report with information of income and PIT of employees in a special individual form (2-NDFL)¹⁹</td>
<td>2-NDFL forms with a special format file must be filed no later than 1 April of the year following the reporting year</td>
</tr>
<tr>
<td>RLEs acting as tax agents are obliged to withhold and pay the budget tax, based on salaries and benefits-in-kind, paid or provided to employees and other individuals</td>
<td>35% — for some benefits-in-kind 13% — for dividends, received by tax residents from Russian corporations 30% — for non-residents 15% — for dividends, received by non-residents from Russian corporations</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Tax Base | Rate | Deadline for tax payment | Filing obligations | Deadline for filing reports
--- | --- | --- | --- | ---
**Information about Average Number of Employees**

An annual report to the tax authorities

**Annual report** — no later than 20 January of the year following the reporting year

---

**Transfer pricing regulations**

<table>
<thead>
<tr>
<th>Documentation to Tax authorities</th>
<th>Criteria for controlled transactions</th>
<th>Deadline for submitting notification</th>
</tr>
</thead>
</table>
| Notification on controlled transactions²⁰ | 1. Transactions between interdependent entities that are residents of the Russian Federation:  
   a. The volume of a transaction (including those performed through the chain of intermediaries) exceeded RUB 1 billion  
   b. The volume of the transaction exceeded RUB 60 million in a calendar year and:  
      i. It involves operations with mineral resources subject to ad valorem rate of mineral extraction tax (MET), and one of the parties is a MET tax payer at ad valorem rate, or  
      ii. One of the parties does not pay profits tax or pays it at a 0% rate (Skolkovo resident), or  
      iii. One of the parties is a member of a regional investment project which pays corporate income tax to Federal budget at a 0% rate and (or) at a reduced tax rate to the Regional budget, or  
      iv. One of the parties is a member of a regional investment project or a participant of the free economic zone, therefore receiving special benefits to the corporate income tax, while other party(ies) of the transaction is not a resident of this special economic zone / participant of a free economic zone (Crimean economic zone project), or  
      v. One of the parties is a license holder or an operator on a new offshore hydrocarbon deposit, accounting income (expenses) on such transaction for corporate income tax purposes on a special way, set up in the law, while the other party is not a license holder or an operator on a new offshore hydrocarbon deposit or it is a license holder or an operator on a new offshore hydrocarbon deposit, does not accounting income (expenses) on such transaction for corporate income tax purposes on a special way, set up in the law  
   c. The volume of the transaction exceeded RUB 100 million in a calendar year and one of the parties pays unified tax on imputed income or unified agricultural tax  
2. Transactions with the foreign organizations:  
   a. Transactions with interdependent entities (including through a chain of intermediaries)  
   b. Transactions with a counterparty whose place of registration or place of living or place of tax residence is an offshore zone if the transaction amount exceeds RUB 60 million  
Transactions in the foreign trade of the following commodities: oil and oil products, ferrous and non-ferrous metals, mineral fertilizers, precious metals and jewelry) if the transaction amount exceeds RUB 60 million |

No later than the 20ᵗʰ of May, following the calendar year when controlled transactions were accomplished
### Non-tax reporting

<table>
<thead>
<tr>
<th>Reports</th>
<th>Filing obligations</th>
<th>Deadline for filing report</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ecological levy(^{21})</td>
<td>Special reporting forms for different pollution types: atmospheric pollution, water pollution, waste disposal, noise and others</td>
<td>Payments for specific instances are to be no later than the 20(^{th}) day of the month following the reporting quarter for quarterly reporting. For specific violations the deadline is the 20(^{th}) of the month following the reporting quarter.</td>
</tr>
<tr>
<td></td>
<td>The levy has graduated rates (depending on the type of pollution)</td>
<td></td>
</tr>
<tr>
<td>Statistical reporting(^{22})</td>
<td>Form P-1 for entities with more than 15 employees</td>
<td>Monthly — no later than the 4(^{th}) of the month, following the reporting month</td>
</tr>
<tr>
<td></td>
<td>Form P-2</td>
<td>Quarterly — no later than 20(^{th}) of the month, following the reporting quarter</td>
</tr>
<tr>
<td></td>
<td>Form P-3: monthly and quarterly — for entities with more than 15 employees</td>
<td>Monthly — no later than 28(^{th}) of the month, following the reporting month</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Quarterly — no later than 30(^{th}) of the month, following the reporting quarter</td>
</tr>
</tbody>
</table>
The structure of reporting package depends on the type of activity and size of a company. The reporting package includes several forms with different filing obligations and deadlines.

<table>
<thead>
<tr>
<th>Reports</th>
<th>Filing obligations</th>
<th>Deadline for filing report</th>
</tr>
</thead>
<tbody>
<tr>
<td>Form P-4:</td>
<td><strong>Monthly</strong> — for entities with more than 15 employees <strong>Quarterly</strong> — for entities with less than 15 employees</td>
<td><strong>Monthly</strong> — no later than the 15th of the month, following the reporting month <strong>Quarterly</strong> — no later than 15th of the month, following the reporting quarter</td>
</tr>
<tr>
<td>Form 1-Enterprise:</td>
<td>Annually for all entities (except small-scale businesses, banks, insurance and financial organizations)</td>
<td>Annually — no later than April 1 after the reporting year</td>
</tr>
<tr>
<td>Form P-5 for entities with less than 15 employees</td>
<td><strong>Quarterly</strong> — no later than 30th of the month, following the reporting quarter</td>
<td></td>
</tr>
<tr>
<td>Form P-6 for entities receiving or making foreign investments</td>
<td><strong>Quarterly</strong> — no later than 20th of the month, following the reporting quarter</td>
<td></td>
</tr>
<tr>
<td>Form 1-T</td>
<td><strong>Annually</strong> — no later than 20 January, following the reporting year</td>
<td></td>
</tr>
<tr>
<td>Form 1-VES for an entity with a share of foreign capital</td>
<td><strong>Annually</strong> — no later than 24 March, following the reporting year</td>
<td></td>
</tr>
<tr>
<td>Form 1-DA for an entity working in the service sector</td>
<td><strong>Quarterly</strong> — by the 15th day of the second month following the reporting quarter</td>
<td></td>
</tr>
</tbody>
</table>

If you have any questions, please contact Deloitte professionals in the Outsourcing and Tax compliance group at our Moscow office on +7 (495) 787 06 00.
Please note that we summarized most common statutory, taxation, statistical and ecological reporting for RLE not taking into account special taxation regimes and special types of activities (financial institutions, insurance companies, organizations engaged in mining, agriculture etc).

The regional budget tax rate can be reduced by regional authorities (but by no more than 4.5%).

Payments on a quarterly basis without advance monthly payments are possible if certain criteria are met. In this case the payment deadline is the 28th of the month following the reporting quarter.

To be withheld by a tax agent from an amount of income paid to an FLE.

Please note that these rates can be reduced based on Double Tax Treaty provisions.

Companies have the right to exemption from VAT if the amount of net sales revenue for the three previous successive months was no more than RUB 2 million. Obtaining VAT exemption requires the submission of confirmation documents to the tax authorities, no later than the 20th of the month when the exemption starts to be applied. The exemption will be valid for the next 12 months.

In respect, the taxpayer shall be obliged to maintain separate records of the amounts of tax for acquired goods (work and services), including fixed assets and intangible assets, and property rights which are used in carrying out both taxable and non-taxable (tax-exempt) operations. Failure to do so may mean that any input VAT will not be allowed for offset.

To be withheld by a tax agent from an amount of income paid to an FLE.

Property tax is to be paid based on the net book value of fixed assets which are put into operation. The real estate value will also be included in calculations if it matches the criteria of Accounting Regulation 6/01.

The tax rate cannot exceed 2.2%. Regional authorities can also establish varied tax rates in accordance with the types of taxpayer and (or) property.

The tax rate cannot exceed 0.3-1.5% depending on the category of a plot of land. Local authorities, as well as Moscow and St. Petersburg legislation, can also establish varied tax rates.

Insurance contributions are not payable in respect of foreign nationals temporarily staying in Russia if they hold the status of a highly qualified employee or if the annual period of the labor contract does not exceed 6 month during one calendar year (except for accident insurance contributions to the Social Insurance Fund that are accrued for all employees).

The cap is adjusted by the Government on an annual basis.

Companies should confirm the rate with the Social Security Fund for each year no later than 15th April of the current year.

Please note that for the purpose of this calendar, we do not provide information on the legislative requirements for individuals submitting personal PIT reports (3-NDFL) and paying the tax.

Individuals (Russian and foreign) who spend more than 183 days in Russia during a 12 month period (without taking into account breaks for study leave, medical care and fulfillment of responsibilities on offshore hydrocarbon deposits outside of Russia that do not exceed 6 months).

Highly qualified specialists are eligible for 13% personal income tax rate (i.e. a rate applicable for tax residents) on income received from Russian employment even before qualifying as a Russian tax resident. Please note that according to official clarifications, the Ministry of Finance qualifies the concept of income from the employment duties of a highly qualified specialist, covering only the salary, bonuses, and business trip payments.

If the employer provides any benefits-in-kind to the employees and cannot withhold and pay the applicable amount of tax, the information regarding benefits-in-kind received by the employees should be provided to the tax authorities no later than one month from the end of tax period (calendar year). Therefore in such cases the taxpayer files reports twice: no later than 1 February and no later than 1 April of the year following the reporting year.

Please find detailed information for notifications on controlled transactions in the art. 105.16 of the Tax Code.

The Ecological levy is not considered to be a tax payment and is regulated by the State Body Rostekhnadzor. The appropriateness and procedures for reporting and payment should be negotiated with this body.

Please note that these reports do not provide for any taxes and levies to be paid, but only disclose overall accounting figures with regards to the various activities of an entity. The full list of reports should be clarified with local statistical office.

The current list includes only the main statistical forms that should be filed. In addition to these, there are other forms specifically assigned to each type of activity or property of an RLE.
# Appendix 3

Brief summary of taxation, statistical and ecological reporting for representative offices and branches of foreign legal entities for 2015

<table>
<thead>
<tr>
<th>Tax base</th>
<th>Rate</th>
<th>Deadline(^3) for tax payment</th>
<th>Filing obligations</th>
<th>Deadline for filing reports</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annual activity report, explanatory note for profit tax declaration(^3)</strong></td>
<td></td>
<td></td>
<td>Annually</td>
<td>No later than March 28(^{th}) of the year following the reporting year</td>
</tr>
<tr>
<td><strong>Profit tax</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actual profit for the quarter on an accumulated basis</td>
<td>20% including:</td>
<td>Payments on a quarterly basis:</td>
<td>Interim quarterly tax declarations</td>
<td>Quarterly declarations — no later than the 28(^{th}) of the month, following the reporting quarter</td>
</tr>
<tr>
<td></td>
<td>• 2% — federal budget</td>
<td>no later than the 28(^{th}) of the month following the reporting quarter</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• 18(^{\circ}) — regional budget</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income in the form of dividends received by foreign legal entities from Russian legal entities</td>
<td>15(^{\circ})</td>
<td>Final tax payment for the year: no later than March 28(^{th}) of the year following the reporting year</td>
<td>Annual tax declaration</td>
<td>Annual declaration — no later than 28 March of the year, following the reporting year</td>
</tr>
<tr>
<td>Tax base</td>
<td>Rate</td>
<td>Deadline(^2) for tax payment</td>
<td>Filing obligations</td>
<td>Deadline for filing reports</td>
</tr>
<tr>
<td>----------</td>
<td>------</td>
<td>--------------------------------</td>
<td>-------------------</td>
<td>---------------------------</td>
</tr>
</tbody>
</table>
| Withholding tax on income payable to a FLE from sources in the RF\(^6\) | Income that is not related to the permanent establishment of this FLE on Russian territory, including (but not limited to):  
  • Dividends  
  • Interest on loans  
  • Royalties  
  • Income from rent  
  • Leasing and freight operations  
  • Income from international shipments | 20% — general rate  
  15% — on dividends  
  10\(^%\)^7 — on income paid from rent, leasing, freight of ships, aircraft, trailers, and other transportation equipment, used in international shipments | Tax should be withheld and paid within 1 days following the income payment to the FLE.  
  For dividends, tax payment must be effected within 1 days | Quarterly reports  
  The reporting process for withholding tax is in line with reporting for profit tax | Quarterly — no later than the 28th of the month, following the reporting quarter  
  Report for the 4th quarter — no later than 28th March of the year, following the reporting year |
<table>
<thead>
<tr>
<th>Tax base</th>
<th>Rate</th>
<th>Deadline(^2) for tax payment</th>
<th>Filing obligations</th>
<th>Deadline for filing reports</th>
</tr>
</thead>
<tbody>
<tr>
<td>VAT(^a)</td>
<td>18% — standard rate</td>
<td>1/3 of the tax amount payable is due no later than the 25th of each month of the quarter, following the reporting quarter</td>
<td>Quarterly tax returns</td>
<td>Quarterly — no later than the 25th of the month following the reporting quarter</td>
</tr>
<tr>
<td>Value of goods (works, services) sold on Russian territory, transfer of goods (works, services) for own needs, installation and construction work for own use</td>
<td>10% — rate for certain foodstuffs, goods for children, medicines, books and periodical literature</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>VAT(^b), payable to the authorities, is determined as the difference between VAT charged to customers (output VAT) and VAT paid to suppliers of goods (works or services) and customs (input VAT), provided that certain criteria are met</td>
<td>0% — export, international passenger transportation and some other operations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Some types of activities are VAT exempt (such as services in areas of medicine, education and culture)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>For imported goods, the taxable base is determined as their customs value, plus import duties and excises, where applicable</td>
<td>10% — rate for certain foodstuffs, goods for children, medicines, books and periodical literature</td>
<td>VAT for import operations is paid to customs authorities, during the clearance process. Later this input VAT is off-set against output VAT</td>
<td>No special obligation</td>
<td></td>
</tr>
</tbody>
</table>
### Withholding VAT tax on revenue payable to a FLE\(^{10}\)

<table>
<thead>
<tr>
<th>Tax base</th>
<th>Rate</th>
<th>Deadline(^2) for tax payment</th>
<th>Filing obligations</th>
<th>Deadline for filing reports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income paid to an FLE, not registered as a taxpayer in Russia, for services provided on Russian territory</td>
<td>18% — standard rate</td>
<td>VAT withheld is due to the budget at the day of income payment to FLE</td>
<td>Withheld VAT is disclosed in a separate section of the ordinary VAT return</td>
<td>Quarterly — no later than the 25th of the month following the reporting quarter</td>
</tr>
</tbody>
</table>

### Property tax

<table>
<thead>
<tr>
<th>Rate</th>
<th>Deadline(^2) for tax payment</th>
<th>Filing obligations</th>
<th>Deadline for filing reports</th>
</tr>
</thead>
<tbody>
<tr>
<td>For foreign entities performing their activities in Russia through a permanent establishment — the average annual net book value of fixed assets which are subject to property tax(^{11})</td>
<td>Rates are established by regional authorities(^{12})</td>
<td>Deadlines for payments are established by regional authorities</td>
<td>The annual tax return Quarterly reports are to be established by regional authorities</td>
</tr>
<tr>
<td>For other entities — the value of immovable property determined by special state authorities</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Property tax (cont.)

<p>| For particular objects of real estate, the tax base is determined as the cadastral value as of 1(^{st}) January for the tax period | Moscow — 2.2% | Moscow: (\text{Quarterly}) — no later than 30(^{th}) of the month following the reporting quarter (\text{Annually}) — no later than 30(^{th}) March of the year following the reporting year | Moscow: Interim quarterly and final annual tax returns |
| | For fixed assets based on cadastral value: 2015 — 1.7% (Moscow), 1.5% (other regions) 2016 and further — 2% | | |</p>
<table>
<thead>
<tr>
<th>Tax base</th>
<th>Rate</th>
<th>Deadline\textsuperscript{2} for tax payment</th>
<th>Filing obligations</th>
<th>Deadline for filing reports</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Transportation tax</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Engine horsepower of</td>
<td>Rates are established by regional authorities</td>
<td>Deadlines for payments are established by regional authorities</td>
<td>The annual tax return</td>
<td>Annually — no later than 1\textsuperscript{st} February of the year following the reporting year</td>
</tr>
<tr>
<td>vehicle</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Moscow:</td>
<td>Moscow:</td>
<td>Moscow:</td>
<td>Moscow:</td>
<td></td>
</tr>
<tr>
<td>Rates vary from RUB 7</td>
<td>The tax is paid once a year, no later than 5\textsuperscript{th} February of the year, following the reporting year</td>
<td>The annual tax return</td>
<td></td>
<td></td>
</tr>
<tr>
<td>to 2,000, depending on</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>the type of vehicle and</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>its engine power</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Land tax</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The cadastral value of</td>
<td>Rates are established by local authorities (regional laws for the</td>
<td>Deadlines for payments are established by local authorities</td>
<td>The annual tax return</td>
<td>Annually — no later than 1\textsuperscript{st} February of the year following the reporting year</td>
</tr>
<tr>
<td>a plot of land determined in compliance with the land legislation of the RF, as of 1 January for the tax period (year)</td>
<td>(regional laws for the cities of Moscow and St. Petersburg)\textsuperscript{3}</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Moscow:</td>
<td>Moscow:</td>
<td>Moscow:</td>
<td>Moscow:</td>
<td></td>
</tr>
<tr>
<td>Rates vary from 0.025%</td>
<td>Quarterly — no later than the last day of the month following the reporting quarter</td>
<td>The annual tax return</td>
<td></td>
<td></td>
</tr>
<tr>
<td>to 1.5%, depending on the category of the plot of land</td>
<td><strong>Annually</strong> — no later than 1\textsuperscript{st} February of the year following the reporting year</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Sales duty (effective in Moscow from 1 July 2015)

<table>
<thead>
<tr>
<th>Tax base</th>
<th>Rate</th>
<th>Deadline² for tax payment</th>
<th>Filing obligations</th>
<th>Deadline for filing reports</th>
</tr>
</thead>
</table>
| Number of sales objects or size of sales area | Rates are established by local authorities (regional laws for the cities of Moscow and St. Petersburg)  
Moscow: Rates vary from RUB 21000 to RUB 81000 per a quarter for an object when the tax base is set as a number of objects and from RUB 50 to RUB 1200 per quarter per square meter when the tax base is set as the size of the sales area | Not later than the 25th of the month following the period of taxation (a quarter) | Registration and de-registration of sales tax payers is done based on a notification provided by an entity or a sole proprietor  
Sales tax payers have to notify authorities about any change in a trading object which will result in change of tax amount | Within 5 business days starting from the date when duty object arises.  
Within 5 business days starting from the date of respective change |
<table>
<thead>
<tr>
<th>Tax base</th>
<th>Rate</th>
<th>Deadline(^2) for tax payment</th>
<th>Filing obligations</th>
<th>Deadline for filing reports</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Personal income tax (PIT)</strong>(^1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FLEs acting as tax agents are obliged to withhold and transmit the budget PIT, based on salaries and benefits-in-kind, paid or provided to employees and other individuals</td>
<td>13% — for tax residents(^1) and highly qualified specialists(^1)</td>
<td>On a monthly basis, no later than the date of salary (or other income) payment</td>
<td>Annual report with information of income and PIT of individuals received income from FLE (2-NDFL form)(^1)</td>
<td>2-NDFL forms with an electronic format file must be filed no later than 1 April of the year, following the reporting year</td>
</tr>
<tr>
<td></td>
<td>35% — for prizes, insurance, receipts and interest with certain conditions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>9% — for dividends, received by tax residents from Russian or foreign corporations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>30% — for non-residents</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>15% — for dividends, received by non-residents from Russian corporations</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Information about Average Number of Employees**

<p>| Information about Average Number of Employees | Annual report to the tax authorities | Annual report — no later than 20 January of the year, following the reporting year |</p>
<table>
<thead>
<tr>
<th>Contributions to the Pension Fund (accumulated and insurance part)</th>
<th>Tax base</th>
<th>Rate</th>
<th>Deadline for tax payment</th>
<th>Filing obligations</th>
<th>Deadline for filing reports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll (salary, bonuses and other employee benefits)</td>
<td>22% from the tax base, which is capped at RUB 711 000 and 10% from the amount, greater than the tax base</td>
<td>Compulsory monthly payments must be paid no later than the 15&lt;sup&gt;th&lt;/sup&gt; of the month, following the month when contributions are accrued by the employer</td>
<td>Quarterly reports on Contributions to the Pension Fund and on Contributions to the Federal Medical Insurance Fund must be submitted to the Pension Fund</td>
<td>Quarterly — by the 15&lt;sup&gt;th&lt;/sup&gt; day (for reports in hard copy) and 20&lt;sup&gt;th&lt;/sup&gt; (for electronic reports) of the second month following the reporting quarter</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Contributions to the Federal Medical Insurance Funds</th>
<th>Tax base</th>
<th>Rate</th>
<th>Deadline for tax payment</th>
<th>Filing obligations</th>
<th>Deadline for filing reports</th>
</tr>
</thead>
<tbody>
<tr>
<td>The same as for Contributions to the Pension Fund</td>
<td>Federal Medical Insurance Fund: 5.1%</td>
<td>The same as for Contributions to the Pension Fund</td>
<td>Quarterly reports on Contributions to the Pension Fund and on Contributions to the Federal Medical Insurance Fund must be submitted to the Pension Fund</td>
<td>Quarterly — by the 15&lt;sup&gt;th&lt;/sup&gt; day (for reports in hard copy) and 20&lt;sup&gt;th&lt;/sup&gt; (for electronic reports) of the second month following the reporting quarter</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Contributions to the Social Security Fund in case of temporary disability and due to maternity</th>
<th>Tax base</th>
<th>Rate</th>
<th>Deadline for tax payment</th>
<th>Filing obligations</th>
<th>Deadline for filing reports</th>
</tr>
</thead>
<tbody>
<tr>
<td>The tax base is capped at RUB 670 000 accumulated from the beginning of the 2015 year</td>
<td>2.9%</td>
<td>The same as for Contributions to the Pension Fund</td>
<td>Quarterly reports to the Social Security Fund</td>
<td>Quarterly — no later than the 20&lt;sup&gt;th&lt;/sup&gt; (for reports in hard copy) and 25&lt;sup&gt;th&lt;/sup&gt; (for electronic reports) of the month following the reporting quarter</td>
<td></td>
</tr>
<tr>
<td>Tax base</td>
<td>Rate</td>
<td>Deadline² for tax payment</td>
<td>Filing obligations</td>
<td>Deadline for filing reports</td>
<td></td>
</tr>
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</tr>
<tr>
<td>Accident insurance contributions to the Social Security Fund²¹</td>
<td>Rates vary from 0.2% to 8.5% and are assigned on an annual basis by SSF depending on the type of RLE activity in Russia</td>
<td>A monthly basis, due date corresponds to the date of salary payment, but should not be later than the 15th day of the following month</td>
<td>Quarterly reports to the Social Security Fund</td>
<td>Quarterly — no later than the 20th (for reports in hard copy) and 25th (for electronic reports) of the month following the reporting quarter</td>
<td></td>
</tr>
</tbody>
</table>
### Transfer pricing regulations

<table>
<thead>
<tr>
<th>Documentation to Tax authorities</th>
<th>Criteria for controlled transactions</th>
<th>Deadline for submitting documentation</th>
</tr>
</thead>
</table>
| Notification on controlled transactions\(^{22}\) | 1. Transactions between interdependent entities that are residents of the Russian Federation:  
   a. The volume of a transaction (including those performed through the chain of intermediaries) exceeded RUB 1 billion  
   b. The volume of the transaction exceeded RUB 60 million in a calendar year and:  
      i. It involves operations with mineral resources subject to ad valorem rate of mineral extraction tax (MET), and one of the parties is a MET tax payer at ad valorem rate, or  
      ii. One of the parties does not pay profits tax or pays it at a 0% rate (Skolkovo resident), or  
      iii. One of the parties is a member of a regional investment project which pays corporate income tax to Federal budget at a 0% rate and (or) at a reduced tax rate to the Regional budget, or  
      iv. One of the parties is a member of a regional investment project or a participant of the free economic zone, therefore receiving special benefits to the corporate income tax, while other party(ies) of the transaction is not a resident of this special economic zone / participant of a free economic zone (Crimean economic zone project), or  
      v. One of the parties is a license holder or an operator on a new offshore hydrocarbon deposit, accounting income (expenses) on such transaction for corporate income tax purposes on a special way, set up in the law, while the other party is not a license holder or an operator on a new offshore hydrocarbon deposit or it is a license holder or an operator on a new offshore hydrocarbon deposit, does not accounting income (expenses) on such transaction for corporate income tax purposes on a special way, set up in the law  
   c. The volume of the transaction exceeded RUB 100 million in a calendar year and one of the parties pays unified tax on imputed income or unified agricultural tax  |
|                                  | 2. Transactions with the foreign organizations:  
   a. Transactions with interdependent entities (including through a chain of intermediaries).  
   b. Transactions with a counterparty whose place of registration or place of living or place of tax residence is an offshore zone if the transaction amount exceeds RUB 60 million  
   c. Transactions in the foreign trade of the following commodities: oil and oil products, ferrous and non-ferrous metals, mineral fertilizers, precious metals and jewelry) if the transaction amount exceeds RUB 60 million | No later than the 20\(^{th}\) of May, following the calendar year when controlled transactions were accomplished |
Non-tax reporting

<table>
<thead>
<tr>
<th>Reports</th>
<th>Filing obligations</th>
<th>Deadline for filing report</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ecological levy(^{23})</td>
<td>Special reporting forms for different pollution types: atmospheric pollution, water pollution, waste disposal, noise and others. The levy has graduated rates (depending on the type of pollution).</td>
<td>Payments for specific instances are to be no later than the 20(^{th}) day of the month following the reporting quarter for quarterly reporting. For specific violations the deadline is the 20(^{th}) of the month following the reporting quarter.</td>
</tr>
<tr>
<td>Statistical Reporting(^{24})</td>
<td>Form P-4: Monthly — for entities with more than 15 employees. Quarterly — for entities with less than 15 employees.</td>
<td>Monthly — no later than the 15(^{th}) of the month, following the reporting month. Quarterly — no later than 15(^{th}) of the month, following the reporting quarter.</td>
</tr>
<tr>
<td>The structure of reporting package depends on the type of activity and size of a company(^{25})</td>
<td>Form 1-Enterprise: Annually for all entities (except small-scale businesses, banks, insurance and financial organizations). Form 1-VES for an entity with a share of foreign capital. Form P-6 for entities receiving or making foreign investments. Form 1-DA for an entity working in the service sector.</td>
<td>Quarterly — no later than April 1 after the reporting year. Annually — no later than 24 March, following the reporting year. Quarterly — no later than 20(^{th}) of the month, following the reporting quarter. Quarterly — by the 15(^{th}) day of the second month following the reporting quarter.</td>
</tr>
</tbody>
</table>

If you have any questions, please contact Deloitte professionals in the Outsourcing and Tax compliance group at our Moscow office on +7 (495) 787 06 00.
1. Please note that we summarized most common statutory, taxation, statistical and ecological reporting for RLE not taking into account special taxation regimes and special types of activities (financial institutions, insurance companies, organizations engaged in mining, agriculture etc).

2. When statutory deadline for tax payment or report filing falls for week end or official holiday, the deadline is prolonged to the first working day after the due date.

3. An explanatory note is recommended by the Moscow tax authorities, it should contain detailed information on an FLE’s activity in Russia. The tax authorities of other regions might also have similar requirements. This issue is to be clarified with the regional tax authorities.

4. Regional rates can be reduced according to the decision of the regional authorities, but not by more than 4.5%.

5. Please note that these rates can be reduced based on Double Tax Treaty provisions.

6. To be withheld by the tax agent from the amount of income due to an FLE. Please note, that the reports should be submitted to the tax authorities even if the income paid out is not subject to the taxation.

7. Please note that these rates can be reduced, based on Double Tax Treaty provisions.

8. Companies have the right to exemption from VAT if the amount of net sales revenue for three successive months was no more than RUB 2,000,000. The procedure for obtaining VAT exemption requires presenting confirmation documents to the tax authorities no later than the 20th of the month, when the exemption is applied for 12 months consecutively.

9. Taxpayers must maintain separate accounting records for expenses, and consequently for input VAT, related to activities taxable by VAT and VAT exempted. Failure to do so may mean that any input VAT will not be allowed for offset.

10. To be withheld by a tax agent from an amount of income due to an FLE.

11. According to the amendments put recently into the Russian Tax Code the movable property put on the books since 2013 will not be subject to property tax.

12. Tax rate cannot exceed 2.2%. Regional authorities can also establish varied tax rates in accordance with the categories of taxpayers and property.

13. Tax rate cannot exceed 0.3 - 1.5% depending on the category of a land plot. Local authorities and Moscow and St. Petersburg laws can also establish varied tax rates.

14. Please note that for the purpose of this calendar, we do not provide information on legislative requirements for individuals submitting personal PIT declarations (3-NDFL) and paying the tax individually.

15. Individuals (Russian and foreign), who spend more than 183 days in Russia during a 12 month rolling period (without taking into account breaks for study leave or medical care outside of Russia that do not exceed 6 months).

16. Highly qualified specialists are eligible for 13% personal income tax rate (i.e. a rate applicable for tax residents) on income received from Russian employment even before qualifying as a Russian tax resident. Please note that according to the official clarifications, the Ministry of Finance qualifies the concept of income from the employment duties of a highly qualified specialist, covering only the salary, bonuses, and business trip payments.

17. If the employer provides any benefits-in-kind to the employees and cannot withhold and pay the applicable amount of tax, the information regarding benefits-in-kind received by the employees should be provided to the tax authorities no later than one month from the end of the tax period.

18. Insurance contributions are not payable in respect of foreign nationals temporarily staying in Russia if they hold the status of a highly qualified employee or if the annual period of the labor contract does not exceed 6 month during one calendar year (except for accident insurance contributions to the Social Insurance Fund that are accrued for all employees).

19. The cap is adjusted by the Government on an annual basis.

20. The cap is adjusted by the Government on an annual basis.

21. Companies should confirm the rate with the Social Security Fund for each year no later than 15th April of the current year.

22. Please find detailed information for notifications on controlled transactions in the art. 105.16 of the Tax Code

23. The Ecological levy is not considered to be a tax payment and is regulated by the State Body Rostekhnadzor. The appropriateness and procedures for reporting and payment should be negotiated with this body.

24. Please note that these reports do not provide for any taxes and levies to be paid, but only disclose overall accounting figures with regards to the various activities of an entity. The full list of reports should be clarified with local statistical office.

25. The current list includes only the main statistical forms that should be filed. In addition to these, there are other forms specifically assigned to each type of activity or property of an RLE.
Tax & Legal contacts — Russia and the CIS

Russia, Moscow
Grigory Pavlotsky
CIS Managing Partner
gpavlotsky@deloitte.ru

Government relations
Gennady Kamysninkov
Partner
gkamysninkov@deloitte.ru

Industry leaders:
Aviation & Transportation
Artem Vasyutin
Partner
avasyutin@deloitte.ru

Automotive
Tatiana Kofanov
Director
tkofanova@deloitte.ru

Banking & Securities, Insurance
Alexander Sinitsyn
Director
asinitsyn@deloitte.ru

Technology, Media & Telecommunications
Maxim Chaplygin
Partner
mchaplygin@deloitte.ru

Government & Infrastructure
Dmitry Logunov
Partner
dlogunov@deloitte.ru

Industrial Products, Metals and processing
Yulia Orlova
Director
yorlova@deloitte.ru

Food, Beverages & Agriculture
Angelos Benos
Partner
abenos@deloitte.ru

Real Estate
Yulia Krylova
Director
ykrylova@deloitte.ru

Oil & Gas, Mining, Power
Dmitry Logunov
Partner
dlogunov@deloitte.ru

Retail, wholesale & distribution
Svetlana Fedorova
Partner
sfedorova@deloitte.ru

Travel, Hospitality & Leisure
Artem Vasyutin
Partner
avasyutin@deloitte.ru

Health Care & Life Sciences
Oleg Berezin
Partner
oberezin@deloitte.ru

Other contacts:
Tax Dispute Resolution
Sergei Voropaev
Partner
svoropaev@deloitte.ru

Business Process Solutions
Pavel Balashov
Partner
pbalashov@deloitte.ru

Mergers & Acquisitions
Grigory Pavlotsky
Partner
gpavlotsky@deloitte.ru

Legal Services
Raisa Alexakhina
Partner
ralexakhina@deloitte.ru

Global Employer Services
Tatiana Kiseliou
Partner
tkiseliou@deloitte.ru

Transfer Pricing
Dmitry Kulakov
Partner
dkulakov@deloitte.ru

Private Client Services
Svetlana Meyer
Partner
smeyer@deloitte.ru

Indirect Tax
Andrey Silantiev
Partner
asilantiev@deloitte.ru

Energy & Resources
Andrey Panin
Partner
apanin@deloitte.ru

International Tax
Elena Solovyyova
Partner
esolovyyova@deloitte.ru

Transfer Pricing
Vladimir Elizarov
Partner
velizarov@deloitte.ru

R&D and GI
Vasily Markov
Director
vmarkov@deloitte.ru
Russia, St. Petersburg
Artem Vasyutin
Partner
avasyutin@deloitte.ru

Russia, Yuzhno-Sakhalinsk
Ruslan Varygin
Director
rvarygin@deloitte.ru

Azerbaijan, Baku
Nuran Kerimov
Partner
nkerimov@deloitte.az

Belarus, Minsk
Svetlana Gritsouk
Senior Manager
sgritsouk@deloitte.by

Georgia, Tbilisi
Giorgi Tavartkiladze
Senior Manager
gtavartkiladze@deloitte.ge

Kazakhstan, Almaty, Atyrau, Astana, Aktau
Vladimir Kononenko
Partner
Tax & Legal Leader, Caspian
vkononenko@deloitte.kz

Kyrgyzstan, Bishkek, Tajikistan, Dushanbe
Gaukhar Iskakbayeva
Director
giskakbayeva@deloitte.kz

Ukraine, Kyiv
Viktoria Chornovol
Partner
Tax & Legal Leader, West
vchornovol@deloitte.ua

Uzbekistan, Tashkent
Vladimir Kononenko
Partner
Tax & Legal Leader, Caspian
vkononenko@deloitte.kz
Office locations

Russia
Moscow
5 Lesnaya St.
Moscow, 125047
Tel.: +7 (495) 787 06 00
Fax: +7 (495) 787 06 01

St. Petersburg
“Gustaf” Business Center
38 Sredniy prospect,
Bldg. 1, Lit. K,
St. Petersburg, 199004
Tel.: +7 (812) 703 71 06
Fax: +7 (812) 703 71 07

Ufa
Business Center
“Aleksandrovsksiy passage”
20 Karla Marksa St.
Ufa, 450077
Tel.: +7 (347) 226 72 92
Fax: +7 (347) 226 72 93

Yekaterinburg
1A Borisa Eltsina St.
Ekaterinburg, 620014
Tel.: +7 (343) 311 12 48
Fax: +7 (343) 311 12 49

Yuzhno-Sakhalinsk
Business Center “Sfera”
78 Chekhova St.
Yuzhno-Sakhalinsk,
693000
Tel.: +7 (4242) 46 30 55
Fax: +7 (4242) 46 30 56

Georgia
Tbilisi
36A Lado Asatiani St.
Tbilisi, 0105
Tel.: +995 (32) 24 45 66
Fax: +995 (32) 24 45 69

Kazakhstan
Aktau
Renaissance Aktau Hotel
9 microdistrict, 1st floor
Aktau, 130000
Tel.: +7 (7292) 30 06 84/88
Fax: +7 (7292) 30 06 82

Almaty
36 Al Farabi Ave.,
Almaty, 050059
Tel.: +7 (727) 258 13 40
Fax: +7 (727) 258 13 41

Astana
Business Center “ABS Center”
Offices 8-11, 11th floor
12, Samal Microdistrict
Astana, 010000
Tel.: +7 (717) 258 03 90/ 258 04 81/80
Fax: +7 (717) 259 14 09

Armenia
Yerevan
Business Center “Griar”
4/6, Amiryan St., 3rd floor
Yerevan, 0010
Tel: +374 10 52 65 20
Fax: +374 10 52 75 20

Azerbaijan
Baku
Business Center “Landmark”
96 Nizami St.
Baku, AZ1010
Tel.: +994 (12) 404 12 10
Fax: +994 (12) 404 12 11

Belarus
Minsk
Business Center “RAM”
51A K. Tsetkin St., 13th floor
Minsk, 220004
Tel.: +375 (17) 309 99 00
Fax +375 (17) 309 99 01

Turkmenistan
Ashgabat
54, Turkmenbashyi Ave.
Ashgabat, 744017
Tel.: +993 (12) 45 83 19

Ukraine
Kyiv
48, 50A, Zhylyanska St.
Kyiv, 01033
Tel.: +38 (044) 490 90 00
Fax: +38 (044) 490 90

Uzbekistan
Tashkent
Business Center “Inkonel”
75, Mustakillik Avenue
Tashkent, 100000
Tel.: +998 (71) 120 44 45
Fax: +998 (71) 120 44 47