Doing business in Russia 2016

Tax & Legal
Introduction

In recent years, Russia has made a number of significant changes to its tax legislation, bringing the Russian tax system closer to global standards and making the country more aligned with OECD / G20 standards in tax legislation and administration and predictable place for doing business. Russia has significantly reworked its transfer pricing rules, introduced rules on controlled foreign companies, beneficial ownership concept and concept of tax residency based on management and control principle in line with OECD guidelines and BEPS initiative. The Government negotiated changes to a wide range of Double Tax Treaties (including ones with major European holding jurisdictions) in order to improve transparency and boost attractiveness of Russia as a jurisdiction for investments.

At 20%, Russia’s main profit tax rate remains one of the lowest among major economies, and the government has introduced a number of tax incentives that can reduce the rate even further. Special tax regimes have been established for specific regions and industries to encourage investment and innovation.

This guide provides an up-to-date overview of Russian tax policy and legislation relevant for companies considering doing business here.

Taxation

In 2015, adjustments to Russia’s tax legislation focused on fine-tuning earlier changes rather than introducing new concepts. In response to the current economic downturn, many amendments were made with an eye toward balancing the interests of the state with those of taxpayers. This year, the state has extended benefits for companies investing in Russia, and also expanded the range of information subject to disclosure to the tax authorities.

Some notable changes to tax policy this year include:

**The participation exemption rule:** As part of the overall trend to improve the investment climate, the participation exemption became affective and can be applied for the first time in 2016 (requires a five-year holding period). The government also extended participation exemption benefits for high-tech companies operating in Russia.

**New tax incentives:** The Russian Government continued introducing federal tax incentives aimed at attracting investments into Far East regions, green field projects. Moreover, regional authorities continue to compete with each other introducing new property tax and profits tax benefits, therefore, many of tax and non-tax incentives could be granted at regional level.

**Changes to thin capitalization rules:** The Russian thin capitalization rules were significantly revised and aligned with the OECD / G20 guidelines. It resulted in widening the range of lendings which will be regarded as controlled debt for thin capitalization purposes. Bona fide borrowings from independent banks and Russian affiliates were specifically removed from the list of controlled debt. Changes related to borrowings from independent banks were enacted starting from 2016, while other changes will come into effect only in 2017.

**New rules for applying VAT:** Changes to the law on VAT expand the range of taxpayers eligible to apply the declarative VAT refund procedures and introduce temporary reduced rates for certain services.
Introduction (continued)

Legal framework

Russia’s legal framework continues to develop, with the growth of legal precedent and an increase in measures to fight corruption.

Russia continues to pursue a series of reforms to modernize its civil and commercial law. The first reform of the Civil Code included changes to regulations for legal entities, which are now classified as either corporate entities, having members, or unitary entities, which do not. The second stage of this reform covered the law of obligations, (including performance, security and termination of obligations, as well as liability for breach of obligations) and general contractual provisions (including entering into, amending and terminating contracts).

In competition law so-called “fourth anti-monopoly package” was enacted that aims to remove a number of administrative formalities and fill in certain gaps in the current regulations. For example, it concerns with changes to the existing merger control rules, it provides for obligatory approval of certain joint activity agreements and details the rules against anti-competitive agreements, unfair competition and dominance.

Localization of personal data: A new law enacted in 2015 requires localization of personal data, which in practice means relocation of servers and other forms of data storage to the territory of the Russian Federation.

Limitation of secondment: With an eye on protecting employees’ rights, starting from 2016 opportunities for short-term transfers of personnel are limited to specific types of temporary agreements concluded with certain types of parties.

Despite some challenging political and economic conditions, Russia remains a country with enormous potential for foreign investors. Virtually every sector of the economy requires massive investment and provides numerous opportunities, whether through a partnership with a state company or private investment. This guide aims to give an overview of the Russian tax and legislative climate for those interested in taking advantage of what Russia has to offer. If you would like to pursue these opportunities further, Deloitte experts are ready to offer advice tailored to the needs of your company.

The following overview of taxes and related legislation is based on laws in effect as of 1 January 2016.
Types of business presence

Russian legislation provides different types of business presence for foreign companies operating 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 types.

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 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 legislation.

As of 1 January 2015, representative offices are 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 profit tax. The limited scope of activities that can be performed by representative offices would not normally expose them to profit 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 a branch is.

Registration process

Representative offices and branches are required by law to be accredited by the appropriate government organization. This organization is generally the Federal Tax Service, but it can differ depending on the nature of the activities carried out by the head office. 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/Branches that is maintained by the Federal Tax Service.

The registration process for both branches and representative offices involves the following stages:

- Approval of the number of foreign employees with the Chamber of Commerce
- Accreditation and incorporation into the State Register of Accredited Foreign Representative Offices/Branches and registration with the tax authorities
- Stamp creation
- Registration with the State Statistics Committee and registration with social insurance funds

The entire process typically takes approximately 2-3 months from the date that the documents are submitted to the state authorities.
Legal entities

On 1 September 2014, significant amendments to the regulation of business entities in the Russian Federation came into effect. In accordance with the amendments, all legal entities are divided into corporate (corporations) and unitary entities, depending on whether or not the founders have the right to participate in legal entities and are able to form an executive body.

The two most common types of legal entity under Russian corporate law are joint stock companies (JSCs) and limited liability companies (LLCs). Such entities are regulated by the Civil Code of the Russian Federation in conjunction with the law on joint stock companies (the JSC Law) and the law on limited liability companies (the LLC Law), respectively. Only JSCs are able to issue shares, which therefore renders them subject to Russian laws on securities.

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, for example, when a parent company that 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 knowing 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 current Russian legislation, joint stock companies are 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 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

(publicnoe aktsionernoye obschestvo)

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 that consists of at least 5 members
• The functions of the Registrar and the counting commission are performed by an independent organization that has the appropriate license
• The number of shares and votes that belong to one shareholder as well as the nominal value of shares cannot be restricted
• None of the shareholders shall have preemptive rights over any shares offered for sale by a withdrawing shareholder (except for additionally issued shares or other securities that can be converted into shares)
• The company charter cannot assign to the general meeting of shareholders functions that are not listed by the Civil Code and the JSC Law

Existing joint stock companies that meet the requirements of public companies are considered as such, regardless of whether or not their names contain reference to that status.
Types of business presence (continued)

**Non-public joint stock company**
*(nepublichnoe aktsionernoye 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 that belong to one shareholder as well as the nominal value of shares can be restricted
- The minimum charter capital is set at RUB 10,000
- The company charter can assign to the general meeting of shareholders functions that are not listed by the Civil Code and the JSC Law

**Limited liability company — LLC**
*(Obshchestvo s ogranichennoi otvetstvennostyu or OOO)*

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 an LLC is its Charter.

Any participant of a LLC can withdraw from it without the consent of the others:

- by submitting an application on withdrawal if such a 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 is made up of the following stages:

- State and tax registration
- Stamp creation
- Registration with the State Statistics Committee
- Registration with social insurance funds

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.

**Anti-monopoly 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. Getting a preliminary approval from this body normally takes about two months.

**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

Historically, Russia’s financial reporting framework has been determined and regulated by the state rather than by professional bodies. However, International Financial Reporting Standards (IFRS) are now becoming increasingly important, both in terms of influencing the development of 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 covers different options, they tend to be interpreted in such a way as to produce accounts that comply with the tax rules.

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

Accounting systems

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

In recent years, significant changes have been made in the area of electronic document flow.

With the enactment of a new law on accounting in 2013, Russian entities received the right to use an electronic form of primary accounting documents. Earlier, similar legislative changes related to VAT made it possible to use electronic invoices. Currently it is possible to submit electronic documents at the request of the tax authorities. These legislative changes made it possible to implement legally significant electronic document management (EDM) in Russia. Many major market players have either already taken advantage of this opportunity and implemented electronic document exchange with their key counterparties, or are in the middle of implementing this system.

The Russian government plans to finalize the implementation of electronic document flow throughout all state bodies by the end of 2017. This change is expected to have a major impact on further adjustments made to document flow within the public and corporate sectors of the Russian economy.

Federal Law No. 402-FZ “On accounting” came into effect on 1 January 2013. This law, in accordance with other legislative acts, gives an equal legal standing to hard copies and electronic copies of documents.

Due to the provisions of the legislation, it is now possible to conduct electronic document flow both between parties to a transaction and with state bodies in Russia. The legislation allows contracts to be concluded electronically and legitimizes the use of digital signatures, e-invoices (including electronic VAT invoices) and other electronic source documents for tax compliance purposes, such as acts of acceptance and consignment notes.
Accounting environment (continued)

Taxpayers are currently able to choose whether to file tax returns electronically or on paper. However, several categories of companies are required to file their tax returns electronically, including:

- companies with an average of more than 100 employees for the previous calendar year;
- newly established companies (including ones established through reorganization) with over 100 employees;
- taxpayers in the largest taxpayer category, regardless of the number of employees.

In addition, companies with an average of more than 25 employees over the previous calendar year are obliged to file reports to the state social security funds electronically.

Electronic reports can be exchanged via a specialized service provider acting as an electronic courier. Participation in electronic reporting and document flow sometimes requires the use of a personalized 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 payment reports, VAT invoices, various forms of declarations and notifications from taxpayers and other documents.

Tax authorities are able to send requests either as a hard copy to the entity’s registered address, or electronically via a telecommunications channel. Entities could face material risk if they have not opened communications channels with the tax authorities. It is inevitable that companies will face situations in which it is impossible to operate without an electronic documentation system due to legal requirements.

Since last year, companies that are obliged to submit reporting electronically are also obliged to ensure and confirm the receipt of electronic documents from tax authorities (tax requests, invitations, etc.). The taxpayers must send a confirmation of receipt within six working days upon receipt of a document from the tax authorities.

Organization of accounting

According to the federal law “On accounting,” which has been 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 49%; (b) ownership by other companies that are not themselves small or medium-sized enterprises may not exceed 49%.

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 entities whose financial statements are subject to compulsory audit are obligated to organize and exercise internal control over their accounts and to prepare financial statements. Despite that fact, in practice, companies have had many questions about how to organize and implement this control.

In response, the Ministry of Finance produced a Letter on implementing internal control, giving recommendations for each element of internal control, including 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, according to the Ministry of Finance, is designed not only to promote 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, statement of financial results, statement of changes in equity, statement of cash flows, statement on proper use of funds received (non-commercial entities only), notes to the balance sheet 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 tax accounting for income and expenses in accordance with Russian tax legislation.

Under the 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 3 months 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

An annual audit of RAS financial statements is mandatory for:
- Joint stock companies
- Companies with securities traded on stock exchanges
- Banks and other lending agencies, insurance companies, credit bureaus, 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

Starting with financial statements for 2016, microfinanciers should provide the Bank of Russia with audit reports of annual financial statements.

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.

Furthermore, the legislation stipulates an obligation for auditors to inform the owners and management of an audit client about any revealed instances of corruption and other legal offenses and potential indicators or risks of such offenses. If the representatives of the audit client do not take appropriate action within 90 days, the auditor is to inform the relevant state authorities.
Harmonization of RAS with IFRS and the adoption of IFRS in Russia

In 2004, the Russian Ministry of Finance issued its “Medium-term concept for the development of accounting and financial statements,” which set the target of harmonizing RAS with IFRS. In recent years, significant progress has been made towards this goal. Several new procedures for revising and adapting 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 of 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 objectives of financial reporting and the 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 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 law 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.
Accounting environment (continued)

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.

Currently, the accounting policies for commercial and non-commercial organizations (with the exception of public sector organizations) are governed by 24 Russian Accounting Standards (RAS), 40 International Financial Reporting Standards (IFRS) and 26 IFRS Interpretations.

Standard on Accounting for Employee Benefits by Credit Institutions

On 15 April 2015, the Bank of Russia approved the Industry Standard on Accounting for Employee Benefits No. 465-P.

The document establishes accounting for employee benefits in credit institutions, including all types of employee remuneration for performing their duties as well as other related payments to employees and third parties (e.g., family members). An employee’s benefits include four types of benefits (short-term benefits, long-term benefits paid upon termination of employment, other long-term benefits and severance pay).

The regulation is effective as of 1 January 2016.

Archiving requirements for documentation on tax settlements.

The Russian Ministry of Finance summarized the key archiving requirements for financial and tax documentation as currently stated in Russian legislation in its letter No. PZ-13/2015. According to the legislation, financial and accounting documentation (such as supporting documents, financial statements and auditor’s reports) should be retained in accordance with the relevant rules for no less than five years. Documentation that supports tax settlements (such as supporting documents for income and expenses recognition) should be kept for four years.

Archiving requirements for documents prepared and stored electronically are introduced by Regulation of the Russian Ministry of Culture No. 526 dated 31 March 2015.

Accounting standards for non-credit financial organizations

A new Unified Chart of Accounts (UCA) and new industry-specific accounting standards (IAS) based on IFRS for non-credit financial organizations have been developed, and their implementation schedules announced.

These changes are a result of policies the Bank of Russia is currently implementing within the financial industry to align accounting systems with RAS and IFRS standards following the adoption of Federal Law No. 251-FZ of 23 July 2013, which expanded the role of the Bank of Russia.

Accounting and disclosure requirements of the Industry Standards mostly follow those established under IFRS, but are not identical to IFRS, as they neither contain all the IFRS provisions, nor allow for IFRS priority on controversial matters. Consequently, potential differences may arise on the recognition, measurement and disclosure of financial statement elements under the Industry Standards and under IFRS.

Qualification requirements for internal auditors

In Order No. 398n dated 24 June 2015, the Russian Ministry of Labor issued a standard describing the role and qualifications of internal audit specialists. The document defines the principal professional responsibilities of internal auditors and sets requirements for their education and experience. The information is recommended for use by companies in developing their talent management policies, including the preparation of job descriptions.
Taxation of foreign presences

A foreign legal entity (FLE) that conducts business activities in Russia through a "separate division," a term that 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 requirement applies 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 in which it is present. 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 organization may be recognized as a Russian tax resident if its place of effective management is in Russia. The place of effective management of the foreign company is deemed to be in Russia if at least one of the following conditions is met:
- executive body activities are regularly exercised in Russia;
- top management functions are exercised by key organization officials from Russia;
- if the above criteria are not met, but the foreign company is engaged in the following activities in Russia, it may still be recognized as a Russian tax resident:
  - Bookkeeping or managerial accounting;
  - Work paper management;
  - Operational personnel management.

There are a number of cases in which the activity of a foreign company does not lead to the recognition of such company as a Russian tax resident, including 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 Board of Directors meetings 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 performed by a foreign company in a jurisdiction that 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 foreign company 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;
- the foreign company is an active foreign holding company or an active foreign subholding company, as defined by the Russian Tax Code;
- 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 in the business of leasing/subleasing searhiver crafts, aircrafts, vehicles and containers used in international transportation;
- the foreign company, which is a tax resident in a jurisdiction that has a signed double tax treaty with Russia, is the issuer of traded Eurobonds, and the share of income from such activities is not less than 90%.
Voluntary claim of Russian tax resident status

A foreign company 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 organization 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. 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 75-78.

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 profit 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 favor 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. 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.
Taxation of foreign presences (continued)

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. An 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 that is not a 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.

An 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 for 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 cadastral value of the property (as determined by the relevant state body) rather than the average annual value.
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 to withhold the tax lies with the tax agent (a Russian entity or FLE with a registered PE), which makes a payment to a 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 particular, 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 (a foreign entity without a legal personality) is considered the beneficial owner of income if it has the right to use and (or) dispose of this income, or for the benefit of which another person (foreign entity without a legal personality) 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 (foreign entity without a legal personality), 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 passive income (in particular, dividends, interest, 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 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 75-78.

<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>

* 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'.

**Russian-sourced income of foreign companies**

* (continued)

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**Doing business in Russia 2016**

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**Introduction**

**Types of business presence**

**Accounting environment**

**Taxation of foreign presences**

**Russian-sourced income of foreign companies**

**Controlled foreign companies**

**Profit tax**

**Tax incentives**

**Value added tax**

**Property tax**

**Other taxes**

**Customs duties**

**Taxation of individuals**

**Employment**

**Currency control**

**Other taxes**

**Transfer pricing**

**Tax administration**

**Oil and gas taxation**

**Mining taxation**

**Appendices**

**Subscribe to Deloitte periodicals**

**Contacts**

**Office locations**

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Controlled foreign companies

As of 1 January 2015, controlled foreign company (hereinafter - “CFC”) rules were included into Russian tax legislation.

Criteria for a CFC

A CFC is defined as a foreign organization or foreign entity without a legal personality that (i) is not a Russian tax resident and (ii) is controlled by a Russian tax resident (hereinafter – “controlling person”).

The controlling person of an organisation is defined as an individual or legal entity whose participation share in the company:

• exceeds 25%.
• exceeds 10% (including the spouse and minor children, in the case of individuals), provided that the overall amount of shareholding by Russian tax residents exceeds 50%.

A person (legal entity or individual) may also be considered a controlling person of a foreign company if this person does not meet the participation threshold but exercises control over this foreign entity for his own benefit (or for the benefit of a spouse and/or minor children, in the case of individuals), if it can be proven that this person has the authority or ability to influence the decisions of this foreign entity regarding the distribution of profits, regardless of the legal grounds for such control.

Special rules apply in determining the controlling persons of foreign entities without a legal personality and entities with no share capital, such as foundations.

Taxation of CFC income

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

The profit of the CFC that is taxable in Russia can be reduced by the amount of dividends or profit (in the case of entities without a legal personality) distributed by the CFC.

It should be noted that the CFC rules will apply only to CFC profits beginning 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 CFC’s financial year ends.

Calculation of CFC profits

If a CFC is a tax resident of a country that has a double tax treaty with Russia and exchanges financial information with Russia, or if the financial statements of the CFC are subject to audit, the profit of such a CFC should be calculated on the basis of its financial statements, with adjustments provided by Section 309.1 of the Russian Tax Code.

These adjustments include the following:

• Adjustments for the revaluation of participation interest in the share capital, units in certain investment funds, securities and derivatives held at fair value under applicable financial reporting standards;
• Adjustment for income (losses) of subsidiary (associated) organizations (excluding dividends) recognized in the CFC financial reports under the laws of the CFC’s jurisdiction (its accounting policy);
• Adjustments for expenses on reserves and income from restoring reserves.
Controlled foreign companies (continued)

In all other cases, the profit of a CFC is calculated according to the Russian rules stated in Chapter 25 “Corporate income tax” of the Russian Tax Code. A taxpayer also has the possibility to opt-in to this method of calculation for a period of at least 5 years.

Exemption of CFC income from taxation

The undistributed profits of a CFC can be exempted from taxation in Russia in a number of cases, including the following:
• the CFC is a non-profit organization which, according to its own governing rules and regulations, does not distribute profits among its participants;
• the CFC is registered in an Eurasian Economic Union member country;
• the CFC is a tax resident in a country that has a double tax treaty with Russia, with the exception of those countries that have a double tax treaty with Russia but do not exchange financial information with Russia, 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%);
• the CFC is an active foreign company or an active foreign holding/subholding company within the meaning of the Russian Tax Code;
• the CFC is a licenced financial institution (subject to certain exclusions) that is a tax resident of a jurisdiction that has a double tax treaty with Russia, provided that the country exchanges information with Russia;
• the CFC is an issuer of traded Eurobonds (subject to certain limitations).

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 to submit to the Tax Authorities a notification about the respective CFC by 20 March of the year following the year of inclusion of CFC income into the tax base. 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, among other things, the reporting period, the name and registration number of the CFC, the last date of the reporting period of the CFC, the date of the closure of financial statements and the auditor’s report on the CFC (if applicable), the taxpayer’s interest in the CFC, the basis for recognizing the taxpayer as a controlling party, as well as the grounds for exemption of taxation of CFC profits (if applicable).

CFC reporting

Along with the tax return, the taxpayer that is the controlling person 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 (if it has been audited);
• primary documents confirming the income of the CFC (in the absence of financial statements).

Documents originally prepared 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 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 unpaid tax amount, 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 period of 2015-2017, provided that any 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. As of 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 to the chapter entitled “Taxation of foreign organizations” for more details).

A Russian legal entity must be registered with the office of the tax inspectorate that corresponds 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 for profit tax at each of these locations. Please refer to the chapters entitled “Taxation of foreign organizations” 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%:
• 2% payable to the federal budget
• 18% payable to the regional budget

Regional governments have the right to reduce their portion of profit tax. 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 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. An exhaustive list of non-taxable income is provided by the legislation.

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 recognizing 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 select either the accrual or cash basis.
General criteria for deducting expenses

Expenses are considered deductible for profit tax purposes if they meet three general criteria: they must be incurred in the course of a taxpayer’s income-generating activity, be economically justifiable and be supported by relevant documentation (including both documents specified by legislation (agreements, acts, invoices and VAT invoices) and other supporting materials. They also must not be listed as one of the specifically non-deductible expenses listed in the law. Additional deductibility criteria applying to certain types of expenses are noted below.

Depreciation

Depreciable property is property, both tangible and intangible, that is used for income-generating activities and has:
• A useful life of at least 12 months
• A value of more than RUB 100,000

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 the 10 groups described in Table 2 on page 26, and the taxpayer should determine the useful life of its fixed assets based on these classifications. The useful life of an intangible asset is based on the utilization period stated in any agreement or the validity period, in the case of a patent. In any other case, the useful life is 10 years (excluding such intangible assets as exclusive rights for software, trademarks, know-how etc. which have 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. Taxpayers can change from the straight-line method to the reducing balance method from 1 January of the next tax year, but from the reducing balance method to the straight-line method only once every five years.

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

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

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 that 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 that 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 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 that have 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 recognized 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 recognizes 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, on 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 for by the tax legislation.

**R&D**

The Tax Code contains a complete list of R&D expenses that 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 expenditures, 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 related parties that are recognized as controlled under Russian transfer pricing rules, interest charged at the actual rate is deductible for profit tax purposes, taking into account specific limits (see table below):
## Loan currency

<table>
<thead>
<tr>
<th>Loan currency</th>
<th>Transactions with Russian related parties</th>
<th>Transactions with Foreign related parties</th>
</tr>
</thead>
<tbody>
<tr>
<td>RUB</td>
<td>From 0% to 180% of the Russian Central Bank key rate (from 1 January 2015 to 31 December 2015)</td>
<td>From 75% of the Russian Central Bank refinancing rate to 180% of the Russian Central Bank key rate (from 1 January 2015 to 31 December 2015)</td>
</tr>
<tr>
<td></td>
<td>From 75% to 125% of the Russian Central Bank key rate (starting from 1 January 2016)</td>
<td></td>
</tr>
<tr>
<td>EUR</td>
<td>From EURIBOR + 4% to EURIBOR + 7% (EURIBOR for EUR)</td>
<td></td>
</tr>
<tr>
<td>CNY</td>
<td>From SHIBOR + 4% to SHIBOR + 7% (SHIBOR for CNY)</td>
<td></td>
</tr>
<tr>
<td>GBP</td>
<td>From LIBOR + 4% to LIBOR + 7% (LIBOR for GBP)</td>
<td></td>
</tr>
<tr>
<td>CHF and JPY</td>
<td>From LIBOR + 2% to LIBOR + 5% (LIBOR for the respective currency)</td>
<td></td>
</tr>
<tr>
<td>Other currencies</td>
<td>From LIBOR + 4% to LIBOR + 7% (LIBOR for USD)</td>
<td></td>
</tr>
</tbody>
</table>

If the interest rate is higher or lower than the above limits, it should be substantiated by applying the transfer pricing rules.

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

### Thin capitalization

The thin capitalization 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 that owns, directly or indirectly, more than 20% of the Russian company’s share capital;
- From a Russian company that is an affiliate of a foreign entity to another Russian company in a situation 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.

However, there are some exceptions. Particularly, the debt is not recognized as controlled if it is a debt to a Russian or a foreign bank secured by a foreign shareholder, or a related party to the foreign shareholder, provided that the bank is not an affiliated party and from the day of the loan was transferred, the foreign shareholder and its related parties have not paid off the loan or interest to the Russian or foreign bank.

It should be noted that significant changes to the concept of controlled debt and the range of transactions controlled for the purposes of applying thin capitalization rules will come into force in 2017. In particular, the list of debt obligations that can be acknowledged as controlled by a direct provision of the Tax Code will be extended.

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 10 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 the future be offset only against profit from the same activity.

Taxation of dividends
Dividends are taxed as follows (unless the lower rate is stipulated by a double tax treaty):

• 13% — at the 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 the 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 this decision 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 taxpayers, 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 2

<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; fiber optic 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, construction and transmission devices, for which the straight-line depreciation method should be applied
Tax incentives

In recent years, the Russian government has been expanding the number of tax incentives it offers as a way to attract business.

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% owed to the federal government) 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 number of regions (e.g., land tax incentives and subsidies for interest on loans). Such exemptions are normally conditional on meeting specific investment criteria in the region. Movable property recorded in statutory books as fixed assets starting from 1 January 2013 is not subject to property tax (except for movable property acquired as result of the reorganization or liquidation of legal entities, or that has been transferred between affiliated parties). 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 city of St. Petersburg and the Leningrad and Moscow regions, among many others, offer incentives of this kind.

Special Economic Zones

The legal framework for Special Economic Zones (SEZs) provides for broad tax and other concessions. The 25 zones currently established have geographical boundaries and are one of four types: Manufacturing, Technology & Innovation, Tourism & Recreation, and Port & Logistic. All are created for a period of 49 years. Although SEZs were initially slow to take off, the infrastructure of many of the Manufacturing and Technology & Innovation SEZs is well advanced and more than 400 investors, including foreign ones, are now involved in them.

The potential benefits include a reduction of the maximum profit tax rate from 20% to 2% (for Manufacturing and Port SEZs) or to 0% (until 2018 for Technology & Innovation and Tourism & Recreation SEZs), a property tax exemption for 10 years, a customs-free zone, accelerated depreciation (for Manufacturing and Tourism SEZs only) and VAT exemptions (for Port & Logistic SEZs only).

The following reduced regressive social contribution rates are applied for Technology & Innovation SEZs (effective until 1 January 2018): 14% on annual remuneration up to RUB 718k (approx. USD 10k); 12% on annual remuneration between RUB 718k and RUB 796k (approx. USD 10.7k); 4% on annual remuneration exceeding RUB 796k. Organizations working in the financial, insurance, wholesale and retail industries are not eligible for these incentives.

The Kaliningrad and Magadan Regions have specific SEZ regimes under which different concessions apply.

Special tax regimes in the Far East and Siberia

There are 3 special tax regimes available for companies that choose to locate in the Far East and Siberia: regional investment projects, Territories of Advanced Social and Economic Growth (TASEG) and the Free Port of Vladivostok.

Regional investment projects

On 1 January 2014, a federal law came into effect that gives a number of Far Eastern and Siberian regions the right to establish regional profit tax rates for companies. For the first 5 years of income generation, the profit tax rate cannot exceed 10%, and for the following five years, the profit tax rate will be no less than 10%. 13 out of the 15 eligible regions have reduced their profit tax rates so far.
Territories of Advanced Social and Economic Growth (TASEG)

Introduced in 2015, TASEG is a new legal framework that aims to boost development in the territories of the Russian Far East and in struggling single-industry towns across the country. So far, 9 TASEGs have been established, and at least 5 more are expected by 2017. Each TASEG will retain this special status for 70 years. TASEG residents are eligible for the following benefits: (1) declarative procedure for VAT refunds; (2) reduced profit tax rate: 0-5% for the first five years, 12-20% for the next five years, depending on the region; (3) reduced mineral extraction tax rates for 10 years; (4) reduced regressive social insurance contributions of 7.6% rate for 10 years. Regions may additionally provide property tax exemptions. 7 regions have already adopted reduced profit tax and property tax rates for TASEG residents. Starting from 1 January 2018, TASEGs can be established in all regions across Russia.

The Free Port of Vladivostok

Introduced in 2015, the Free Port of Vladivostok provides a special customs, taxation and investment regime for the investors of the city of Vladivostok and 15 surrounding municipalities. Residents of the Free Port may receive such benefits as: (1) declarative procedure for VAT refund; (2) profit tax rate reduction from 20% to 0% (organizations working in the financial, insurance, wholesale and retail industries are not eligible for these incentives) for the first 5 years after the resident makes a profit, and to 12% for the following 5 years; (3) property tax exemption for the first 5 years and reduced tax rate of 0.5% over the next five years; (4) reduced regressive social insurance contributions rate (7.6%) for 10 years.

Research & Development tax incentives: 150% profit tax deduction

Companies conducting eligible R&D activities can apply for a 150% super-deduction of respective costs (including labor costs, contractor expenses, depreciation of equipment, and certain other expenses). Application of the R&D tax incentive may lead to a reduction of profit tax in the amount of 10% of qualifying costs. 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.

Skolkovo

Announced in 2010, the Skolkovo Innovation Center – dubbed “Russia’s Silicon Valley” – is located just outside the Moscow Ring Road. The Center aims to attract R&D activity in a number of specific technical fields and to increase Russia’s innovation potential. The following benefits are provided for residents: (1) profit tax exemption; (2) VAT exemption; (3) property tax exemption; (4) reduced social contribution rate of 14% on annual remuneration up to RUB 796k (approx. USD 10.7k) and exemption for remuneration exceeding that cap; (5) cash grants covering eligible research activity. In the majority of cases, the total tax burden will be limited to 14% social contributions on salaries paid. However, there are generous revenue and profit thresholds in place before tax exemptions are taken away.

Starting in 2019, companies having Skolkovo project participant status will be unable to have branches or representative offices outside of the Skolkovo area. Operating such an office would result in the company losing its status as a Skolkovo project participant, thus preventing it from applying the relevant tax and SIC incentives.

Reduced social insurance contribution rates

In addition to residents of Technology & Innovation SEZs, TASEGs, the Free Port of Vladivostok and Skolkovo, there are other opportunities for companies to apply reduced social insurance contribution rates.

Reduced social insurance contribution rates

In addition to residents of Technology & Innovation SEZs, TASEGs, the Free Port of Vladivostok and Skolkovo, there are other opportunities for companies to apply reduced social insurance contribution rates.
There are various opportunities that provide for the reduction of the social insurance contributions that generally apply to large manufacturing companies (especially in the mining and milling industries):

- **Reduction of the SIC rate for compulsory social insurance against industrial accidents and occupational illnesses.** Internal restructuring can bring about a decrease in SIC rates against industrial accidents and occupational illnesses by as much as 0.2% (the maximum overall rate is 8.5%) for individual business units within the company.

- **Reduction of additional SIC rates set for a limited list of professions.** These higher SIC rates can be reduced by holding a special assessment on a company’s working conditions. Depending on the assessment’s outcome, this option could eliminate the additional SIC rates.

- **Reduction of standard SIC rates for unexperienced employees.** In accordance with tax and labor legislation, companies that offer apprenticeships to unexperienced employees (e.g. students, entry-level job seekers) do not have to pay social insurance contributions during the employee’s training period. This could impact the payroll budget for such employees by 30%, providing that all legislation requirements are met and the process is properly documented.

0% profit tax rate

A 0% profit tax rate was introduced in 2011 to support companies engaged in high-priority medical and educational activities, as well as producers of agricultural goods. No preapproval is required.

Other tax incentives and grants

**Tax incentives**

**VAT exemption**

There is an import VAT exemption for technological equipment that has no equivalent produced in Russia, as determined by a government-approved list (an 18% import VAT normally applies). Applying this regime may improve working capital positions for a VAT-payer, or reduce equipment costs for VAT-non payers;

**Exemption from import customs**

Exemptions from import customs are provided for goods imported by a foreign investor as a capital contribution to its Russian subsidiary;

**Accelerated depreciation**

Accelerated depreciation can apply to fixed assets used in R&D activities. However, the definition of R&D for purposes of accelerated depreciation is not clear.

**Property tax exemption for energy-efficient assets**

A property tax exemption is available for energy-efficient assets (including buildings) for 3 years starting from the date of the asset’s entry into operation, with no preapproval from the tax or any other authorities. In practice, the application of this incentive thus far has been very limited.

**Grants and subsidies**

- **Direct grants** are provided by the federal government, ministries and other state bodies upon carrying out tenders for R&D in strategic areas, such as energy efficiency, IT, medicine, life sciences, etc.

- **Partnership with Russian state universities.** These grants are usually provided with respect to collaborative R&D in partnership with a Russian state university, provided that at a minimum, the company’s investment in the project matches the amount of funds granted. Project implementation timelines range from 3-13 years, with grant amounts ranging between USD 1 and 5 million.

- **Subsidies provided by Federal target programs** (size of subsidies and project timelines depend on the program):
  - “Pharmaceutical Industry 2020;”
  - “Research and Development in Strategic Areas of Science and Technology 2014 -2020” – covers a broad range of research. The structure of the program allows applicants some freedom to propose their own innovative topics within the priority areas defined by the government;
  - “Development of Industry and Increasing its Competitiveness.”

- **Subsidies covering interest expenses for manufacturing companies**
Value added tax

Taxpayers

VAT applies to companies (including representative offices and branches of foreign companies), entrepreneurs and any person importing goods into the customs territory of the Eurasian Economic Union (of which Russian Federation is a member state). 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 that 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 Skolkovo Innovation Center that have obtained the status of “participant” in a research and development project and in the commercialization of the results of this work. The following organizations 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 organizers 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 organizers and marketing partners”)
- FIFA (Federation Internationale de Football Association), subsidiaries of FIFA, confederations, national football associations, FIFA media information manufacturers and FIFA suppliers of goods (work, services)

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 supplies to oneself, 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.

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 that are deemed to be supplied where the property is located
- Cultural, sports, arts, educational or tourism services that are deemed to be supplied at the location where the services are performed
- Transportation, freight and associated services that 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.
Value added tax (continued)

- 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.

The place of business is defined as the place where the company is registered. If the company is not registered at any location or, in relation to representative offices and branches of foreign companies, the place of business can be the location of the company’s management and executive bodies, 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 that 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 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

The 0% VAT rate additionally applies to supplies of goods (work, services) and property rights to the following organizations:
- FIFA and subsidiaries of FIFA, as well as supplies of goods (work, services) and property rights in connection with the organization of events to confederations, the Organizing Committee for the 2018 FIFA World Cup Russia, subsidiaries of the Organizing Committee for the 2018 FIFA World Cup Russia, national football associations, the Russian football union, producers of FIFA media information, FIFA suppliers of goods (work, services) mentioned in the Federal Law “On the preparation and holding of the 2018 FIFA World Cup Russia (hereinafter “the FIFA World Cup”) and the introduction of amendments to certain legislative acts of the Russian Federation”;
- The Foreign 2014 Olympic and 2014 Para-Olympic Games organizers, marketing partners of the International Olympic Committee and some other organizations mentioned in the relevant federal laws.

Particular rules on the application of the 0% VAT rate to the above suppliers in connection with the FIFA World Cup and the Olympic Games have been established by the Russian Government.
The 10% rate applies to certain foods, children’s goods, medical and pharmaceutical products, pedigree livestock and certain books and periodicals.

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 that 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 that 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 VAT-able sales, as well as interest (or discounts) on promissory notes received as consideration for VAT-able supplies, and interest on trade loans with rates in excess of rates set by the Central Bank of Russia. 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 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.

VAT incurred on purchases and expenses that relate to both VAT-able and non-VAT-able activities must be apportioned. Only the part that is deemed to relate to VAT-able activities may be offset as input VAT. The part that is deemed to relate to non-VAT-able activities must be capitalized.
Taxpayers must maintain separate accounting records for VAT-able and non-VAT-able 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-VAT-able goods, work, services and property rights does not exceed 5% of the total expenditure. Subject to the above conditions, 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 accounted for separately. 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 of 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 for non-VAT-able transactions in cases where the input VAT has been previously offset, 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 be made only 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 7 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 territories of advanced social and economic development.

The period for obtaining a VAT reimbursement under the accelerated procedure is approximately 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 specific information to be 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 applied very rarely.

Errors in VAT invoices that 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 formalizing the approach already applied by most arbitration courts.

Amended VAT invoices 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 registered for tax purposes 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 withheld 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.

Foreign games organizers and marketing partners are not recognized 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.
Value added tax (continued)

Eurasian Economic Union

There are special rules that apply to transactions involving taxpayers of the member states of the Eurasian Economic Union (Russia, Belarus, Kazakhstan, Armenia and Kyrgyzstan).

Goods exported from one member state 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 20th 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.
Property tax

Property tax is a regional tax and therefore 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 their own 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 with the exception of 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, as well as 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 centers, shopping centers 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;
- Residential premises not accounted for as fixed assets.

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 organizations and various types of public organizations is tax exempt.
Property tax (continued)

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.
Other taxes

Land tax

Land tax is a local tax, therefore its application is governed by local regulations as well as the Tax Code.

Taxpayers

The 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 that is either (i) used for agricultural purposes, (ii) occupied by residential properties or utilities, (iii) acquired for private farming or (iv) used for special purposes, e.g. military or customs needs.
- 1.5% of the cadastral value of other land

Transport tax

Transport tax is a regional tax, therefore its application is governed by regional regulations as well as the Tax Code. A region may impose this tax only if its legislation contains transport tax provisions that are 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, motorscooters 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 vehicle. The tax rates are set out in the Tax Code, with those for motorized 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 motorized transport vehicles.

Special tax rates are established for luxury cars.
Other taxes (continued)

Trade duty

Starting from 1 July 2015, a trade duty may be levied on legal entities and individual entrepreneurs performing trade activities using movable or immovable property.

The trade duty should be introduced separately at a local level (municipal district or a federal city, i.e. Moscow, St. Petersburg or Sevastopol).

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 Organization (WTO), which requires Russia to 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, Armenia and Kyrgyzstan. 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 Harmonized System of the EEU (based on the International Harmonized 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 kilogram — “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 Harmonized System of the EEU into 97 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 in 2016 is 6.62%. A further 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 three groups for the purposes of applying import duty rates, as shown in the table below.

<table>
<thead>
<tr>
<th>Developing countries</th>
<th>75% of basic rate applies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less developed countries</td>
<td>Exempt from import duties</td>
</tr>
<tr>
<td>CIS countries</td>
<td>Exempt from import duties (standard import duty rates are applied with regard to goods originating from Ukraine)</td>
</tr>
</tbody>
</table>

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 is made up of 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 a certain level of the criteria for product localization is met. The required level of localization 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 167,000 per month 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, labor 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 privatization
- Pension income payable to individuals from private retirement pension funds in certain circumstances
- Certain gifts received from individuals

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.

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 RUB 12,000 for children with disabilities for each month that cumulative income during the calendar year to date does not exceed RUB 350,000

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
Taxation of individuals (continued)

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 organizations; scientific, cultural, educational, health or social security organizations that are partially or wholly financed from federal, regional or local budgets; and to religious organizations, 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.

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).

For the sale 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 (less than five years, as of 1 January 2016):
• 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.

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. 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 that 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 reorganization
• 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 five percentage points. 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

Treaty relief
Russia has signed a number of bilateral double tax treaties that offer protection against the taxation of individuals’ income in two or more countries. The provisions of these and other international treaties signed by Russia generally override Russian domestic law.

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 the 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 the 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 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 or by an individual’s tax agent. Tax overwithheld due to a change in an employer’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. An employer cannot pay tax on behalf of its employee.

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. 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 the table 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 Crimea and Sevastopol) with the same cap. The additional pension contribution of 10% does not apply to such categories of taxpayer. 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, Russian employers are also required to pay contributions to the Social Fund on top of the remuneration paid to foreign employees. Foreign employees are not eligible to claim any pension or other payment (for example, on leaving Russia) relating to contributions paid, unless they are 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 security contributions.

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 9% for 2016) 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 that are not subject to insurance contributions:

- 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 the 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 health/life/medical insurance contributions made by an employer for the benefit of an employee

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.
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 be no later than the 15th day of the following month.

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</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</td>
<td>5.1% of remuneration</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>24.9% remuneration up to cap + 10% of remuneration exceeding cap + 5.1% of remuneration</td>
<td>24.9% remuneration up to cap + 10% of remuneration exceeding cap + 5.1% of remuneration</td>
</tr>
<tr>
<td>Cap in RUBk (State Pension Fund)</td>
<td>711</td>
<td>796</td>
</tr>
<tr>
<td>Cap in RUBk (Social Insurance Fund)</td>
<td>670</td>
<td>718</td>
</tr>
<tr>
<td>Cap in RUBk (Federal Obligatory Medical Insurance Fund)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Maximum liability per employee in RUBk</strong></td>
<td>175.8 + 10% of remuneration exceeding cap + 5.1% of remuneration</td>
<td>195.9 + 10% of remuneration exceeding cap + 5.1% of remuneration</td>
</tr>
</tbody>
</table>
Employment

Overview

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

An employment relationship is defined in the Russian Labor 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.

Starting from 1 January 2016, provision of personnel (i.e. ‘secondment’) is prohibited under Russian legislation with the exception of cases specifically established by the Russian Labor Code, which include temporary ‘secondment’ agreements concluded with private employment agencies or affiliated companies or parties to a shareholders’ agreement. For details please refer to the paragraph entitled “Secondment” below.

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 Labor 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 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 provided for in the Labor 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 6,204), 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 installments on dates established by the employer’s internal policies 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.
Employment (continued)

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 from employment until the child reaches the age of three years, and during this period, the employee is entitled to resume her job.

Payment during periods of sickness and maternity leave is calculated on the basis of the employee’s average salary.

Procedure for terminating employment contracts

An employment contract can be terminated at any time by the mutual agreement of the parties, and with written notice of two weeks by the employee alone. The specific grounds for termination by an employer are listed in the Labor Code, and some of these are described below.

In the event that an employment is terminated due to staff redundancy or the liquidation of the employing company, the employee must be personally notified in writing at least two months in advance.

In the event of staff redundancy, the employer must offer the employee another position that corresponds with that employee’s qualifications, assuming a vacancy exists.

If employment is terminated due to the employee’s unsuitability for the job, this must be confirmed by an internal review committee formed specifically for this purpose. However, this option should be approached with caution since it is often successfully contested in court.

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 three day’s written notice.

Liability for violating the Labor Code

Violations of the Labor Code and labor protection requirements are subject to the following:

- A RUB 30,000-150,000 fine for a legal entity
- A warning or a RUB 1,000-30,000 fine for the company’s officials

Violations of employment legislation by a legal entity or a company official who has previously been penalized for similar offenses may result in:

- A RUB 10,000 – 40,000 fine or suspension for a period ranging from one to three years for the company’s officials
- A RUB 50,000 – 200,000 fine or suspension of the activities for a period of up to 90 days for a legal entity

If the company’s official is a foreign national who is brought to administrative liability for an administrative offense committed in Russia more than once within a three-year period or has evaded the payment of tax or administrative penalties (before settling the payments in full), Russian authorities may prohibit his/her entry into Russia. The prohibition may last up to three years from the date of the last decision to impose administrative sanctions.
Employment (continued)

If the foreign national is located in Russia when this decision is made, his/her work permit will be annulled and he/she will have to leave Russia. If he/she fails to do so, he/she will be subject to deportation.

If the foreign national is located outside of Russia when this decision is made, his/her entry visa to Russia will not be issued or extended by the relevant foreign consular office; or, should the visa already have been issued, his/her crossing the Russian border will not be allowed. The foreign citizen will not be able to cross the Russian border even if he/she has the right to cross the Russian border without a visa.

Work visas and work permits

Before a foreign national can work in Russia as an employee, both a work visa and a work permit must be obtained (except for foreign nationals from countries that have a “visa-free” regime with Russia). 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 — usual 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 employees, for example, employees of foreign equipment manufacturers who are performing installation services in Russia, journalists, etc.

This requirement also does not apply to employees from Kazakhstan and Belarus.

The work permit process for a visa national is often bureaucratic and time-consuming, and includes 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 center
- 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. Patents are granted for a period from 1 month to 1 year. During this period, an individual may legally stay and work in Russia (only in the area (region) named in the patent) 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 167,000 per month, and half of that amount for certain scientists and teachers (or fewer in some exceptional cases). No minimum salary requirement applies to foreign nationals working in the Skolkovo Innovation Center.

Eligible employers include Russian legal entities, registered branches and representative offices of foreign legal entities, health and educational institutions (except religious institutions) and other organizations dealing with innovation, 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 for notifying the relevant migration authority concerning the employment and granting or annulment of the work permit and the individual’s quarterly remuneration.

Most foreign employees (except for HQS and certain other categories of employees) are obliged to confirm their knowledge of Russian language, history and law in order to obtain or renew a work permit. A foreign employee has 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 after the work permit is issued, or the permit will be cancelled.

**Liability for violating immigration legislation**

Violations of immigration law may result in significant liabilities. When 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 center 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 offense, and will be deported. If the offense is committed in Moscow or St. Petersburg, the fine will be up to RUB 7,000 and the offender will be deported.

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 the 10 years prior to the application.

The legislation introduces increased liability for the same violations in Moscow, St. Petersburg, Moscow Region or Leningrad Region and sets 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.

The violations of HQS procedures can also 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.

Starting from 1 January 2016, secondment arrangements are generally prohibited under the Russian legislation, except in cases specifically provided for by the law. The new law on secondment, on one hand, may put additional restrictions on such arrangements, and, on the other, may make the application of secondments more practical in certain cases.

In particular, the provision of personnel ('secondment') is allowed by:

- Duly accredited private employment agencies (special requirements for agencies and the accreditation procedure for them are set by law)
- Other companies in cases stipulated by law, including affiliated companies within the Group or companies that are a party to a shareholders’ agreement (special requirements are set by law, although this law still is not passed).

The provision of personnel shall meet a set of requirements established by law:

- A secondee (employee) can be sent to another employer only upon his/her consent
- Conclusion of the relevant addendum to existing the employment agreement supporting secondment in compliance with Russian legislation
- Work under secondment arrangements shall be performed in the interest and under the control of a person that is not the employer of the secondee
- The agreements on provision of personnel shall be concluded on a temporary basis (to replace a temporarily absent employee, in connection with the expansion of production, etc.)
- The secondee shall be engaged according to his/her qualifications and job description
- The payment conditions of the secondee shall not be worse than those of the employees in the receiving company that perform the same work functions
- The employer (receiving party) shall be obliged to ensure labor protection requirements in accordance with Russian legislation in respect of the secondee.

Non-compliance with the requirements and restrictions set for agreements on provision of the personnel could lead to liability of the legal entity or the company’s officials (please refer to the paragraph “Liabilities for violating immigration legislation” above).
Currency control

Overview

The national currency of the Russian Federation is the ruble. Historically, strict currency control regulations were used to protect the ruble against devaluation and discourage capital flight. Later, the Central Bank of Russia (CBR) and the federal government began a program of currency liberalization, 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 Russian Federation, 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 Russian Federation 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 Russian Federation located outside of the country, as well as permanent representations of the Russian Federation under international or intergovernmental organizations; and (vi) the Russian Federation itself and its regions and municipal units.

Non-residents are defined as (i) individuals who are not defined as residents; (ii) legal entities and other organizations registered under the legislation of a foreign country and located outside the Russian Federation; (iii) organizations (that are not legal entities) registered under the legislation of a foreign country and located outside the Russian Federation; (iv) diplomatic representatives, consular offices and permanent representative offices of foreign countries under international and intergovernmental organizations accredited in the Russian Federation; (v) international and intergovernmental organizations, their branches and permanent representative offices in the Russian Federation; (vi) branches and representative offices, standalone or autonomous subdivisions of foreign legal entities or other foreign organizations located in the Russian Federation. Authorized banks are credit institutions incorporated in Russia 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.
Currency control (continued)

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, authorized banks in a foreign currency.

Between non-residents
Non-residents have the right to open and operate both foreign currency and rouble bank accounts in an authorized bank. Non-residents are permitted to make payments between themselves in a foreign currency without restrictions, but rouble payments in Russia may only take place through bank accounts opened with authorized 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 of Russia. 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 and 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).

The Russian Code of Administrative Offences specifies what is meant by “illegal currency operation.” Currency operations that are not directly provided for by currency legislation are illegal and entail the aforementioned liabilities.

Criminal liability
Criminal liability may apply to residents failing to repatriate foreign currency exceeding RUB 6 million to the Russian Federation. 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 that 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. Currently, there are some limited interpretations represented by the Russian Federal Tax Service and Russian courts concerning the application of transfer pricing rules. Below we summarize the key provisions of Russian transfer pricing rules.

Related parties

There are 11 categories of related party. Ownership of more than 25% is one of the main criteria for being recognized as a related party, although a court can recognize parties as being related on grounds that are not specified in the law, while taxpayers likewise may claim to be affiliated on other grounds.

Transfer pricing methods

There are five permitted transfer pricing methods:
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)
• with offshore residents of certain “low tax” jurisdictions, if the transaction amount exceeds RUB 60 million (the list of such jurisdictions is published by the Ministry of Finance) The parties in this case do not need to be related.

Domestic related party transactions
• if the transactions between two related parties in 2014 exceeded RUB 1 billion
• if the transactions between two related parties in a calendar year exceed RUB 60 million and one of the following applies:
  – the 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 profit 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.

**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.

**Corresponding adjustments**

Self-initiated corresponding adjustments are allowed starting in 2015.

**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 in which 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 that 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.
Tax administration

Overview

The key principles of the Russian tax system, including types of taxes, 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 favor 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 precedents 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.

As of 2012, the Tax Code has introduced the concept of a consolidated group of taxpayers, one member of which is responsible for calculating and paying profit tax on the basis of joint business activities. Special rules apply to the audit of such groups for profit 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 inspectors and perform various other functions. The jurisdictions of 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 criticized 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 authorized 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 utilization 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 offense 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 at the 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 actions during a field audit:

• Access the taxpayer’s premises upon the presentation of identification and the document authorizing the field audit
• Examine the premises and property of the taxpayer in the presence of witnesses
• Request explanations and supporting documents from the taxpayer
• Interview 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
- Interview experts
- Translate documents in a foreign language submitted by the audited entity

Tax audit report

A tax audit is completed with the issuance of a memorandum. No later than two months after this document is issued, 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 offense 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. As of 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.

If a taxpayer’s cash funds are insufficient to cover the demands, the tax authorities can collect the shortfall from the taxpayer’s other property, including through the seizure of property, subject to the relevant laws on enforcing court judgments. A decision to take such an action must be issued within one year of the payment deadline.
In addition to the above powers, tax authorities also have the right to issue an order prohibiting the taxpayer from disposing its property, up to the amount of the outstanding liability. The order is valid until the liability is paid (either voluntarily or compulsorily) or cancelled by a higher level tax authority or by a court decision.

Regardless of the above, a taxpayer has the right to challenge any decision of the tax authority before a higher level tax authority or in court and take measures to protect its assets from confiscation. The decision of the tax authority may be challenged in court only after it has been challenged before a higher level tax authority.

**Limitations on tax audits**

The Tax Code includes a number of provisions limiting the powers of the tax authorities with respect to tax audits. Field tax audits may be initiated only with respect to the three-year period immediately preceding the year in which the audit is to take place. However, if a taxpayer files an amended tax return for a period that does not fall within those three years, that return period may also be audited.

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 reorganized 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**

Controlled transactions (please refer to the chapter entitled “Transfer pricing” for a detailed 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. However, special transitional rules were introduced with respect to the 2012 and 2013 FYS, and these years are now closed for transfer pricing audits. 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 larger. 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 the receipt of a request may result in a fine of RUB 200 for each document not provided.

As of 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 10 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.

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 2,000,000. “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 offense 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 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.
Oil and gas taxation

Overview

Russia accounts for an estimated 5-6% of the world’s proven oil reserves and around 24% of its natural gas reserves. Russia is also the world’s biggest producer of oil and gas condensate. 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 amortized 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 amortized over a period of two years at the taxpayer’s request. If no license is obtained, the expenses are amortized 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 the preparation of land plots for the extraction of natural resources and restitution work for cleaning up environmental damage caused during the construction and operation of extraction plants are deductible evenly over the two-year period following the completion of the work (although the expenses may no longer be deductible if the plant is decommissioned during that period);
- 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 5

<table>
<thead>
<tr>
<th>Depreciation group</th>
<th>Useful life (years)*</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></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>Straight-line method</td>
</tr>
<tr>
<td>5</td>
<td>7 – 10</td>
<td>Oil/gas collection systems, gas pipelines, fiberoptic 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>

* 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.

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

---

**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.

The following formula is used to calculate the MET rate on oil:
MET = (Base rate * Cp) - Em

where:
- **Base rate** is equal RUB 857 per ton in 2016 and RUB 919 per ton for 2017
- **Cp** represents the dynamic of world oil prices
- **Em** represents oil extraction factors. Em is calculated based on the following formula:
  \[ Em = C_{met} \times C_{p} \times (1 - C_{d} \times C_{r} \times C_{de} \times C_{rd} \times C_{can}) \]
  where
- **C_{met}** is a new coefficient, it is equal to 559 from 2016
- **C_{d}** represents the level of depletion of a given site’s reserves
- **C_{r}** represents the quantity of a given site’s reserves
- **C_{de}** represents the difficulty involved in extracting oil
- **C_{rd}** represents the level of depletion of a particular hydrocarbon deposit separately
- **C_{can}** is a new coefficient. It reflects quality of oil and the region of extraction. It equals 0 for oil produced on sites that 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 Yamal-Nenets Autonomous District

For regions that apply Ccan equal 0, the following formula is applicable:
MET = Cp*(Base rate – Cmet)

A 0% MET rate applies to:
- Oil extracted from a specific hydrocarbon deposit that is part of the Bazhenov, Abalak, Khadam or Domanik formations subject to compliance with legislative requirements, and;
- Superviscous oil extracted from sites containing oil of a viscosity of 10,000 mPas or more.

The tax rate for natural gas should be determined as:
MET rate = 35 * Usf * Cdf + Ctr

35 – RUB 35 per 1,000 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.

The calculation of the MET rate for gas condensate is based on the following formula:
MET = 42 * Usf * Cdf * Ccm

42 - RUB 42 per ton for gas condensate
Usf is the base value of a unit of standard fuel
Cdf is the complexity factor
Ccm is the adjusting coefficient, which is equal to 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.

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.
Oil and gas taxation (continued)

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 and 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 that 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>2016 (January, 1 – March, 31)</th>
<th>2016 (April, 1 – December, 31)</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gasoline:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>class 5</td>
<td>7 530</td>
<td>10 130</td>
<td>7 430</td>
</tr>
<tr>
<td>other classes</td>
<td>10 500</td>
<td>13 100</td>
<td>12 300</td>
</tr>
<tr>
<td>Diesel fuel</td>
<td>4 150</td>
<td>5 293</td>
<td>5 093</td>
</tr>
<tr>
<td>Motor oils</td>
<td>6 000</td>
<td>6 000</td>
<td>5 400</td>
</tr>
<tr>
<td>Straight-run gasoline</td>
<td>10 500</td>
<td>13 100</td>
<td>12 300</td>
</tr>
<tr>
<td>Benzol, paraxylene, orthoxylene and jet kerosene</td>
<td>3 000</td>
<td>3 000</td>
<td>2 800</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 that 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.

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>Type of excisable goods</th>
<th>2016 Starting 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Straight-run gasoline</td>
<td>1.60 1.94</td>
</tr>
<tr>
<td>Benzol, paraxylene and orthoxylene</td>
<td>2.84 3.40</td>
</tr>
<tr>
<td>Jet kerosene</td>
<td>1.84 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 2016</td>
</tr>
<tr>
<td></td>
<td>29.20+30%*(P-182.50) as for 2017</td>
</tr>
</tbody>
</table>

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

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

Export duty set at 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 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.

The rate of export duty on ethane, butane and isobutane should be calculated on the basis of the following special formula:

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

\( R \) is the rate of export duty for liquefied petroleum gases under following tariff code under Foreign Economic Activity Commodity Nomenclature of the Eurasian Economic Union: 2901 10 000 1.

\( K \) is a coefficient dependant on the year (0.2 in 2016 and 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 the following special formula:

\[
\text{Ret} = 10\% (29.2 + 55\% (P – 182.5)) 
\]

Ret is the export duty rate

\( P \) is the average Urals price (Rotterdam and Mediterranean) for the monitoring period.

- crude oil with specific physical-chemical characteristics produced from deposits located partly or fully in the Republic of Sakha (Yakutia), Irkutsk and Krasnoyarsk regions, Yamal-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:

\[
\text{Ret} = (P-182.5) \times C-56.57 – P \times 0.14
\]

where

\( C \) is a coefficient, which equals 36% for 2016 and 30% for 2017.

\( P \) is the average Urals price (Rotterdam and Mediterranean) for the monitoring period.
Oil and gas taxation (continued)

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.

Continental shelf

To stimulate investments in the development of the continental shelf, a Federal Law was introduced to provide specific tax and customs 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 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;
• 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 of the area under exploration. Rates of RUB 4,000/sq km to RUB 16,000/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 particular legal regime. The Russian government grants 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 cases 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.

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.

PSA tax regime

The PSA tax legislation provides 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

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Mining taxation

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 a 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 profit tax purposes.

<table>
<thead>
<tr>
<th>Type of mineral resource</th>
<th>Tax rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal</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%</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 This rate is multiplied by the coefficient for the extraction of ore to provide a reduced rate for the mining of underground fields.

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 sale price 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.

Participants of the exclusive economic zone of the Magadan region may apply a coefficient of 0.6 for the calculation of MET with respect to mineral resources, with the exception of widespread mineral resources.

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 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.

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
Mining taxation (continued)

- Sales of precious metals and precious stones by the CBR and authorized 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.

### 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>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>2.5% or 10%</td>
</tr>
<tr>
<td>Copper waste and scrap</td>
<td>7404</td>
<td>EUR 20, but no less than EUR 168 for 1000 kg</td>
</tr>
<tr>
<td>Nickel waste and scrap</td>
<td>7503</td>
<td>EUR 10, but no less than EUR 240 for 1000 kg</td>
</tr>
<tr>
<td>Aluminum alloys</td>
<td>7601</td>
<td>1.25%</td>
</tr>
<tr>
<td>Aluminum waste and scrap</td>
<td>7602</td>
<td>EUR 20, but no less than EUR 152 for 1000 kg</td>
</tr>
<tr>
<td>Lead waste and scrap</td>
<td>7802</td>
<td>EUR 18, but no less than EUR 63 for 1000 kg</td>
</tr>
<tr>
<td>Zinc waste and scrap</td>
<td>7902</td>
<td>EUR 18, but no less than EUR 108 for 1000 kg</td>
</tr>
</tbody>
</table>
Appendices

Withholding tax rates (%) under Russia’s double taxation treaties
Brief summary of statutory financial, taxation, statistical and ecological reporting for Russian legal entities in 2016
Brief summary of taxation, statistical and ecological reporting for representative offices and branches of foreign legal entities for 2016
## 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>Major shareholding 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 (5*)</td>
<td>10</td>
<td>N/A (25% &amp; EUR 80,000*)</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>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>
</tbody>
</table>
### Appendix 1 (continued)

<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>Major shareholding criteria</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>Hong Kong</td>
<td>N/A (5*)</td>
<td>N/A (10*)</td>
<td>N/A (15%*)</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>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>Malta</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>
</tbody>
</table>
### Appendix 1 (continued)

<table>
<thead>
<tr>
<th>Country of recipient</th>
<th>Dividends Major shareholding</th>
<th>Minor shareholding</th>
<th>Major shareholding criteria</th>
<th>Interest</th>
<th>Royalties</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moldova</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>Mongolia</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
<td>10</td>
<td>No reduction</td>
</tr>
<tr>
<td>Montenegro, Serbia (former Yugoslavia DTT)</td>
<td>5</td>
<td>15</td>
<td>25% &amp; USD 100,000</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Morocco</td>
<td>5</td>
<td>10</td>
<td>USD 500,000</td>
<td>0/10</td>
<td>10</td>
</tr>
<tr>
<td>Namibia</td>
<td>5</td>
<td>10</td>
<td>25% &amp; USD 100,000</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>Netherlands</td>
<td>5</td>
<td>15</td>
<td>25% &amp; EUR 75,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>New Zealand</td>
<td>15</td>
<td>15</td>
<td>N/A</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Norway</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
<td>0/10</td>
<td>0</td>
</tr>
<tr>
<td>Philippines</td>
<td>15</td>
<td>15</td>
<td>N/A</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Poland</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Portugal</td>
<td>10</td>
<td>15</td>
<td>25% &amp; 2 years</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Qatar</td>
<td>5</td>
<td>5</td>
<td>N/A</td>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td>Romania</td>
<td>15</td>
<td>15</td>
<td>N/A</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>0</td>
<td>5</td>
<td>Direct state ownership¹</td>
<td>0/5</td>
<td>10</td>
</tr>
<tr>
<td>Singapore</td>
<td>5</td>
<td>10</td>
<td>15% &amp; USD 100,000 (15*)</td>
<td>7.5 (0*)</td>
<td>7.5 (5*)</td>
</tr>
<tr>
<td>Slovak Republic</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>Slovenia</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>South Africa</td>
<td>10</td>
<td>15</td>
<td>30% &amp; USD 100,000</td>
<td>10</td>
<td>0</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>
<td>0/5</td>
<td>5</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>10</td>
<td>15</td>
<td>25%</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Sweden</td>
<td>5</td>
<td>15</td>
<td>100% (30% in JV) &amp; USD 100,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Switzerland</td>
<td>0/5²</td>
<td>15</td>
<td>20% &amp; CHF 200,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Syria</td>
<td>15</td>
<td>15</td>
<td>N/A</td>
<td>10</td>
<td>4.5/13.5/18</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>5</td>
<td>10</td>
<td>25%</td>
<td>10</td>
<td>0</td>
</tr>
</tbody>
</table>
### Appendix 1 (continued)

<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>Major shareholding criteria</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>

1. If BO of dividends is the Government of the other State, any political subdivision or local authority, or the Central Bank.
2. 0% effective for a pension fund, the Government of the other State, any political subdivision or local authority, or the Central Bank.

During 2015 the Russian Government has negotiated a number of new Double Tax Treaties and amendments to existing ones. These documents have not been enacted yet. In brackets we indicated the new withholding tax rates and conditions for its application which will be in use after inaction of these Double Tax Treaties.
Appendix 2

Brief summary of statutory financial, taxation, statistical and ecological reporting for Russian legal entities in 2016

Financial reporting

<table>
<thead>
<tr>
<th>Reports</th>
<th>Filing obligations</th>
<th>Deadline for filing reports</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>No later than 3 calendar months after the end of reporting year.</td>
</tr>
<tr>
<td></td>
<td>• Supplements to the Balance Sheet and Statement of Financial Performance.</td>
<td>No later than 3 calendar months after the end of reporting year.</td>
</tr>
<tr>
<td></td>
<td>Financial reports are filed with the tax authorities on an annual basis.</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>
<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></td>
</tr>
</tbody>
</table>

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).
### Tax reporting

<table>
<thead>
<tr>
<th>Tax</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><strong>Profit tax</strong></td>
<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. Filing on a monthly basis: • Tax payments no later than the 28th of the month following the reporting month • Final tax payment for the year no later than 28th March of the year, following the reporting year</td>
<td>The taxpayer is free to choose filing on a monthly or quarterly basis. For monthly filing, interim monthly tax returns and a final annual tax return are necessary. 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. 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.</td>
</tr>
</tbody>
</table>

1. The regional budget tax rate can be reduced by regional authorities (but by no more than 4.5%).
2. 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.
### Appendix 2 (continued)

<table>
<thead>
<tr>
<th>Tax</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><strong>Withholding tax on income payable to an FLE from sources in the RF</strong></td>
<td>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.</td>
<td>20% — general rate 15% — on dividends 10% — on income paid from rent, leasing, freight of ships, aircraft, trailers, and other transportation equipment, used in international shipments.</td>
<td>Tax should be withheld and paid within 1 day following the income payment to the FLE. For dividends, tax payment must be effected within 1 day.</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>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.</td>
</tr>
</tbody>
</table>

1. To be withheld by a tax agent from an amount of income paid to an FLE.
2. Please note that these rates can be reduced based on Double Tax Treaty provisions.
### Appendix 2 (continued)

<table>
<thead>
<tr>
<th>Tax</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>VAT</td>
<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. VAT 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. For imported goods, the taxable base is determined as their customs value, plus import duties and excises, where applicable.</td>
<td>18% — standard rate. 10% — rate for certain foodstuffs, goods for children, medicines, books and periodical literature. 0% — export, international passenger transportation and some other operations. Some types of activities are VAT exempt (such as services in areas of medicine, education and culture).</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>
</tbody>
</table>

**Withholding VAT tax on income payable to an FLE**

Income paid to an FLE, not registered as a taxpayer in Russia, for services provided on Russian territory.

<table>
<thead>
<tr>
<th>Withholding VAT on income payable to an FLE</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 withheld is due to the budget at the day of income payment to FLE.</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>Quarterly — no later than the 25th of the month following the reporting quarter.</td>
</tr>
</tbody>
</table>

---

1. 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.

2. 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.

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

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

Rates are established by regional authorities.

<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>Property tax</td>
<td>The average annual net book value of fixed assets which are subject to property tax.</td>
<td>Rates are established by regional authorities. Moscow — 2.2%</td>
<td>Deadlines for payments are established by regional authorities. Moscow: Quarterly — no later than 30th of the month following the reporting quarter. Annually — no later than 30th March of the year following the reporting year.</td>
<td>The annual tax return. Quarterly reports are to be established by regional authorities. Moscow: Interim quarterly and final annual tax returns.</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. From 1 January 2016 the advance tax payments with regard to real estate which tax base is determined as the cadastral value, is calculated for each quarter separately.

For fixed assets based on cadastral value: Moscow and other regions — 2%

### Transportation tax

Engine horsepower of vehicle.

Rates are established by regional authorities.

<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>Transportation tax</td>
<td>Engine horsepower of vehicle.</td>
<td>Rates vary from RUB 7 to 2,000, depending on the type of vehicle and its engine power.</td>
<td>Deadlines for payments are established by regional authorities. Moscow: The tax is paid once a year, no later than 5th February of the year following the reporting year.</td>
<td>The annual tax return. Moscow: The annual tax return.</td>
</tr>
</tbody>
</table>

### Land tax

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).

Rates are established by local authorities (regional laws for the cities of Moscow and St. Petersburg). Moscow: Rates vary from 0.025% to 1.5%, depending on the category of the plot of land.

<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>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). Moscow: Rates vary from 0.025% to 1.5%, depending on the category of the plot of land.</td>
<td>Deadlines for payments are established by local authorities. Moscow: Quarterly — no later than the last day of the month following the reporting quarter. Annually — no later than 1st February of the year following the reporting year.</td>
<td>The annual tax return. Moscow: The annual tax return.</td>
</tr>
</tbody>
</table>

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9 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.

10 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.

11 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.
### Appendix 2 (continued)

<table>
<thead>
<tr>
<th>Tax</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>United (Simplified) Return</td>
<td>Submitted if a taxpayer has a &quot;zero&quot; tax base for Profit Tax, VAT and Property tax and didn’t make transfers on the bank accounts.</td>
<td></td>
<td></td>
<td>Quarterly tax returns.</td>
<td>Quarterly — no later than the 20th of the month following the reporting quarter.</td>
</tr>
</tbody>
</table>

### Duty

<table>
<thead>
<tr>
<th>Duty</th>
<th>Duty object</th>
<th>Rate</th>
<th>Deadline for duty payment</th>
<th>Filing obligations</th>
<th>Deadline for filing notifications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales duty (effective in Moscow from 1 July 2015)</td>
<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). 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.</td>
<td>Not later than the 25th of the month following the period of taxation (a quarter).</td>
<td>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.</td>
<td>Within 5 business days starting from the date when duty object arises.</td>
</tr>
</tbody>
</table>
## Payroll-related taxes and contributions

<table>
<thead>
<tr>
<th>Tax / Contribution</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>Contributions to the Pension Fund (accumulated and insurance part)</td>
<td>Payroll (salary, bonuses and other employee benefits). Contributions to the Pension Fund are calculated for insured persons registered with the Pension Fund. The tax base is capped at RUB 796 000 accumulated from the beginning of 2016.</td>
<td>22% from the tax base, which is capped at RUB 796 000 and 10% from the amount, greater than the tax base.</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 20th (for electronic reports) of the second month following the reporting quarter.</td>
</tr>
<tr>
<td>Contributions to the Federal Medical Insurance Fund</td>
<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 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>Contributions to the Social Security Fund in case of temporary disability and due to maternity</td>
<td>The tax base is capped at RUB 718 000 accumulated from the beginning of the 2016 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 20th (for reports in hard copy) and 25th (for electronic reports) of the month following the reporting quarter.</td>
</tr>
<tr>
<td>Accident insurance contributions to the Social Security Fund</td>
<td>Payroll and other payments to employees with certain exceptions (statutory welfare benefits, business-related expenses, etc).</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>
</tbody>
</table>

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12 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).

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

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

15 Companies should confirm the rate with the Social Security Fund for each year no later than 15th April of the current year.
### Appendix 2 (continued)

<table>
<thead>
<tr>
<th>Tax / Contribution</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><strong>Confirmation of the main type of company’s activity</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
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<td></td>
</tr>
<tr>
<td><strong>Personal income tax (PIT)</strong>&lt;sup&gt;16&lt;/sup&gt;</td>
<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>13% — for tax residents&lt;sup&gt;17&lt;/sup&gt; and highly qualified specialists&lt;sup&gt;18&lt;/sup&gt;. 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>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)&lt;sup&gt;19&lt;/sup&gt;. Quarterly report with calculation of PIT (6-NDFL)</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. Quarterly (1,2,3) — no later than the 30&lt;sup&gt;th&lt;/sup&gt; of the month following the reporting quarter. Annually (for 4&lt;sup&gt;th&lt;/sup&gt; quarter) — no later than 1&lt;sup&gt;st&lt;/sup&gt; April of the year following the reporting year.</td>
</tr>
<tr>
<td><strong>Personal information about Employees (FIO, INN, SNILS)</strong></td>
<td>Monthly report to the Pension fund (from 1&lt;sup&gt;st&lt;/sup&gt; April 2016)</td>
<td></td>
<td></td>
<td>Monthly report — no later than 10 of the month following the reporting month</td>
<td></td>
</tr>
<tr>
<td><strong>Information about Average Number of Employees</strong></td>
<td>An annual report to the tax authorities.</td>
<td></td>
<td></td>
<td>Annual report — no later than 20 January of the year following the reporting year.</td>
<td></td>
</tr>
</tbody>
</table>

<sup>16</sup> 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.

<sup>17</sup> 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).

<sup>18</sup> 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.

<sup>19</sup> 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.
### 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>
<tbody>
<tr>
<td>Notification on controlled transactions</td>
<td>Transactions between interdependent entities that are residents of the Russian Federation:</td>
<td>No later than the 20th of May, following the calendar year when controlled transactions were accomplished.</td>
</tr>
<tr>
<td></td>
<td>• The volume of a transaction (including those performed through the chain of intermediaries) exceeded RUB 1 billion.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• The volume of the transaction exceeded RUB 60 million in a calendar year and:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• 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</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• One of the parties does not pay profits tax or pays it at a 0% rate (Skolkovo resident), or</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• 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</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• 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</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• 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:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• 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.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Transactions with the foreign organizations:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Transactions with interdependent entities (including through a chain of intermediaries).</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• 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.</td>
<td></td>
</tr>
</tbody>
</table>

**Please find detailed information for notifications on controlled transactions in the art. 105.16 of the Tax Code**
### Non-tax reporting

<table>
<thead>
<tr>
<th>Report</th>
<th>Filing obligations</th>
<th>Deadline for filing reports</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ecological levy</strong>21</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>Annually — both reporting and payment no later than 1 March, following the reporting year21.</td>
</tr>
<tr>
<td><strong>Environmental duty</strong>22</td>
<td>Special reporting forms with regard to the list of goods, including packaging, subject to the new law and waste disposal ratio. The duty has graduated rates (depending on the type of goods or their packaging)22.</td>
<td>Annually — both reporting and payment no later than 15 April, following the reporting year22.</td>
</tr>
<tr>
<td><strong>Statistical reporting</strong>25</td>
<td>Form P-1 for entities with more than 15 employees</td>
<td>Monthly — no later than the 4th of the month, following the reporting month.</td>
</tr>
<tr>
<td></td>
<td>Form P-2</td>
<td>Quarterly — no later than 20th 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 2nd of the month, following the reporting month.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Quarterly — no later than 30th of the month, following the reporting quarter.</td>
</tr>
<tr>
<td><strong>The structure of reporting package depends on the type of activity and size of a company</strong>26</td>
<td>Form P-4:</td>
<td>Monthly — no later than the 15th of the month, following the reporting month.</td>
</tr>
<tr>
<td></td>
<td>Monthly — for entities with more than 15 employees</td>
<td>Quarterly — no later than 15th of the month, following the reporting quarter.</td>
</tr>
<tr>
<td></td>
<td>Quarterly — for entities with less than 15 employees</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Form 1-Enterprise: 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></td>
<td>Form P-5 for entities with less than 15 employees</td>
<td>Quarterly — no later than 30th of the month, following the reporting quarter.</td>
</tr>
<tr>
<td></td>
<td>Form P-6 for entities receiving or making foreign investments</td>
<td>Quarterly — no later than 20th of the month, following the reporting quarter.</td>
</tr>
<tr>
<td></td>
<td>Form 1-T</td>
<td>Annually — no later than 20 January, following the reporting year.</td>
</tr>
<tr>
<td></td>
<td>Form 1-YES for an entity with a share of foreign capital</td>
<td>Annually — no later than 24 March, following the reporting year.</td>
</tr>
<tr>
<td></td>
<td>Form 1-DA for for an entity working in the service sector</td>
<td>Quarterly — by the 15th 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.

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21 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.

22 If specific violations the deadline for 4Q 2015 is the 20th of January. Payments for specific instances for 4Q 2015 are to be no later than 1 March 2016.

23 If the goods or their packaging are no longer usable, they must be recycled, or the manufacturer or importer must pay an environmental duty. Goods produced for export or that are not intended to be used domestically in Russia are not subject to environmental duty.

24 The first reporting period is 2016 year.

25 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.

26 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 2016\(^1\)

<table>
<thead>
<tr>
<th>Tax</th>
<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>Annual activity report, explanatory note for profit tax declaration(^3)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit tax</td>
<td>Actual profit for the quarter on an accumulated basis. Income in the form of dividends received by foreign legal entities from Russian legal entities.</td>
<td>20% including: 2% — federal budget; 18% — regional budget.</td>
<td>Payments on a quarterly basis: no later than the 28th of the month following the reporting quarter. Final tax payment for the year: no later than March 28 of the year following the reporting year.</td>
<td>Annually</td>
<td>No later than March 28(^6) of the year following the reporting year.</td>
</tr>
<tr>
<td><strong>Withholding tax on income payable to a FLE from sources in the RF(^6)</strong></td>
<td>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.</td>
<td>20% — general rate 15% — on dividends 10% — on income paid from rent, leasing, freight of ships, aircraft, trailers, and other transportation equipment, used in international shipments.</td>
<td>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.</td>
<td>Quarterly reports</td>
<td>Quarterly — no later than the 28th of the month, following the reporting quarter. Report for the 4th quarter — no later than 28 March of the year, following the reporting year.</td>
</tr>
</tbody>
</table>

---

1. Please note that we summarized most common statutory, taxation, statistical and ecological reporting for FLE 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.
Appendix 3 (continued)

<table>
<thead>
<tr>
<th>Tax</th>
<th>Tax Base</th>
<th>Rate</th>
<th>Deadline1 for tax payment</th>
<th>Filing obligations</th>
<th>Deadline for filing reports</th>
</tr>
</thead>
<tbody>
<tr>
<td>VAT</td>
<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. VAT, 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. For imported goods, the taxable base is determined as their customs value, plus import duties and excises, where applicable.</td>
<td>18% — standard rate 10% — rate for certain food-stuffs, goods for children, medicines, books and periodical literature. 0% — export, international passenger transportation and some other operations. Some types of activities are VAT exempt (such as services in areas of medicine, education and culture). 10% — rate for certain food-stuffs, goods for children, medicines, books and periodical literature. 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. 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>Quarterly tax returns VAT returns must be submitted to tax authorities through electronic communication channels. 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>

Withholding VAT tax on revenue payable to a FLE10

| Income paid to an FLE, not registered as a taxpayer in Russia, for services provided on Russian territory. | 18% — standard rate 10% | VAT withheld is due to the budget at the day of income payment to FLE. Withheld VAT is disclosed in a separate section of the ordinary VAT return. | Quarterly — no later than the 25th of the month following the reporting quarter. |

1 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.
2 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.
3 To be withheld by a tax agent from an amount of income due to an FLE.
### Appendix 3 (continued)

<table>
<thead>
<tr>
<th>Tax</th>
<th>Tax Base</th>
<th>Rates</th>
<th>Deadline* for tax payment</th>
<th>Filing obligations</th>
<th>Deadline for filing reports</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Property tax</strong></td>
<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; for other entities — the value of immovable property determined by special state authorities For particular objects of real estate, the tax base is determined as the cadastral value as of 1st January for the tax period. From 1 January 2016 the advance tax payments with regard to real estate which tax base is determined as the cadastral value, is calculated for each quarter separately</td>
<td>Rates are established by regional authorities. Moscow: 2.2% For fixed assets based on cadastral value, Moscow: 2%</td>
<td>Deadlines for payments are established by regional authorities. Moscow: Quarterly — no later than 30th of the month following the reporting quarter Annually — no later than 30th March of the year following the reporting year</td>
<td>The annual tax return. Quarterly reports are to be established by regional authorities. Moscow: Interim quarterly and final annual tax returns</td>
<td>Quarterly — no later than the 30th of the month following the reporting quarter. Annually — no later than 30th March of the year following the reporting year.</td>
</tr>
<tr>
<td><strong>Transportation tax</strong></td>
<td>Engine horsepower of vehicle</td>
<td>Rates are established by regional authorities. Moscow: Rates vary from RUB 7 to 2,000, depending on the type of vehicle and its engine power.</td>
<td>Deadlines for payments are established by regional authorities. Moscow: The tax is paid once a year, no later than 5th February of the year, following the reporting year.</td>
<td>The annual tax return. Moscow: The annual tax return.</td>
<td>Annually — no later than 1st February of the year following the reporting year.</td>
</tr>
</tbody>
</table>

*1 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.

*2 Tax rate cannot exceed 2.2%. Regional authorities can also establish varied tax rates in accordance with the categories of taxpayers and property.
## Appendix 3 (continued)

<table>
<thead>
<tr>
<th>Tax</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><strong>Land tax</strong></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)(^{13}).</td>
<td>Deadlines for payments are established by local authorities.</td>
<td>The annual tax return.</td>
<td>Annually — no later than 1 February of the year following the reporting year.</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: Annually — no later than 1(^{st}) February of the year following the reporting year.</td>
<td>Moscow: The annual tax return.</td>
<td></td>
</tr>
</tbody>
</table>

| **Sales duty (effective in Moscow from 1 July 2015)** | 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 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 25\(^{th}\) 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. |

\(^{13}\) 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.
Appendix 3 (continued)

<table>
<thead>
<tr>
<th>Tax</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>Personal income tax (PIT)(^1)(^4)</td>
<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)(^5) and highly qualified specialists(^1)(^6) 35% — for prizes, insurance, receipts and interest with certain conditions 13% — for dividends, received by tax residents from Russian or foreign corporations 30% — for non-residents 15% — for dividends, received by non-residents from Russian corporations</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)(^7) Quarterly report with calculation of PIT (6-NDFL)</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. Quarterly (1,2,3) – no later than the 30th of the month following the reporting quarter Annually (for 4th quarter) — no later than 1st April of the year following the reporting year.</td>
</tr>
</tbody>
</table>

| Personal information about Employees (FIO, INN, SNILS) | | | Monthly report to the Pension fund (from 1\(^\text{st}\) April 2016) | Monthly report – no later than 10 of the month following the reporting month |
| 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 |

\(^{1}\) Please note that for the purpose of this calendar, we do not provide information on legislative requirements for individuals submitting personal PIT declarations (2-NDFL) and paying the tax individually.

\(^{2}\) 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).

\(^{3}\) 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.

\(^{4}\) 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.
Appendix 3 (continued)

<table>
<thead>
<tr>
<th>Tax</th>
<th>Tax Base</th>
<th>Rate</th>
<th>Deadline¹ 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)²⁰</td>
<td>Payroll (salary, bonuses and other employee benefits). Contributions to the Pension Fund are calculated for insured persons registered with the Pension Fund. The tax base is capped at RUB 796 000²¹ accumulated from the beginning of 2016.</td>
<td>22% from the tax base, which is capped at RUB 796 000 and 10% from the amount, greater than the tax base.</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>Contributions to the Federal Medical Insurance Fund²⁰</td>
<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 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>Contributions to the Social Security Fund in case of temporary disability and due to maternity²⁰</td>
<td>The tax base is capped at RUB 718 000²² accumulated from the beginning of the 2016 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 20th (for reports in hard copy) and and 25th (for electronic reports) of the month following the reporting quarter.</td>
</tr>
</tbody>
</table>

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) ... 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 The cap is adjusted by the Government on an annual basis. 
²² The cap is adjusted by the Government on an annual basis. 
²³ The cap is adjusted by the Government on an annual basis.
<table>
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<th>Filing obligations</th>
<th>Deadline for filing reports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accident insurance contributions to the Social Security Fund&lt;sup&gt;21&lt;/sup&gt;</td>
<td>Payroll and other payments to employees with certain exceptions (statutory welfare benefits, business-related expenses, etc.).</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 15&lt;sup&gt;th&lt;/sup&gt; day of the following month.</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>
</tr>
</tbody>
</table>

Confirmation of the main type of company’s activity

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Annually report to the Social Security Fund.</td>
<td>Annually — no later than 15&lt;sup&gt;th&lt;/sup&gt; pf April of the year, following the reporting year.</td>
</tr>
</tbody>
</table>

<sup>21</sup> Companies should confirm the rate with the Social Security Fund for each year no later than 15th April of the current year.
Appendix 3 (continued)

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>
<tbody>
<tr>
<td>Notification on controlled transactions(^{22})</td>
<td>Transactions between interdependent entities that are residents of the Russian Federation:</td>
<td>No later than the 20(^{th}) of May, following the calendar year when controlled transactions were accomplished.</td>
</tr>
<tr>
<td>• The volume of a transaction (including those performed through the chain of intermediaries) exceeded RUB 1 billion.</td>
<td>• The volume of the transaction exceeded RUB 60 million in a calendar year and:</td>
<td></td>
</tr>
<tr>
<td>• The volume of the transaction exceeded RUB 60 million in a calendar year and:</td>
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<td></td>
</tr>
<tr>
<td>• 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</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• One of the parties does not pay profits tax or pays it at a 0% rate (Skolkovo resident), or</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• 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</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• 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</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• 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; 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;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• 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.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transactions with the foreign organizations:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Transactions with interdependent entities (including through a chain of intermediaries).</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• 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.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• 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.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(^{22}\) Please find detailed information for notifications on controlled transactions in the art. 105.16 of the Tax Code
Appendix 3 (continued)

Non-tax reporting

<table>
<thead>
<tr>
<th>Report</th>
<th>Filing obligations</th>
<th>Deadline for filing reports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ecological levy</td>
<td>Special reporting forms for different pollution types: atmospheric pollution, water pollution, waste disposal, noise and others.</td>
<td>Annually — both reporting and payment no later than 1 March, following the reporting year.</td>
</tr>
<tr>
<td>Environmental duty</td>
<td>Special reporting forms with regard to the list of goods, including packaging, subject to the new law and waste disposal ratio.</td>
<td>Annually — both reporting and payment no later than 15 April, following the reporting year.</td>
</tr>
<tr>
<td>Statistical reporting</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The structure of reporting package</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 15th of the month, following the reporting month Quarterly — no later than 15th of the month, following the reporting quarter</td>
</tr>
<tr>
<td></td>
<td>Form 1-Enterprise: 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></td>
<td>Form 1-VE for an entity with a share of foreign capital</td>
<td>Annually — no later than 24 March, following the reporting year</td>
</tr>
<tr>
<td></td>
<td>Form P-6 for entities receiving or making foreign investments</td>
<td>Quarterly — no later than 20th of the month, following the reporting quarter</td>
</tr>
<tr>
<td></td>
<td>Form 1-DA for for an entity working in the service sector</td>
<td>Quarterly — by the 15th 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.

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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 For specific violations the deadline for 4Q 2015 is the 20th of January. Payments for specific instances for 4Q 2015 are to be no later than 1 March 2016.

25 If the goods or their packaging are no longer usable, they must be recycled, or the manufacturer or importer must pay an environmental duty. Goods produced for export or that are not intended to be used domestically in Russia are not subject to environmental duty.

26 The first reporting period is 2016 year.

27 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.

28 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.
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<table>
<thead>
<tr>
<th>Country</th>
<th>City</th>
<th>Address</th>
<th>Phone Numbers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Russia</strong></td>
<td>Moscow</td>
<td>5 Lesnaya St. Moscow, 120047</td>
<td>Tel.: +7 (495) 787 06 00 Fax: +7 (495) 787 06 01</td>
</tr>
<tr>
<td></td>
<td>Moscow</td>
<td>5 Lesnaya St. Moscow, 120047</td>
<td>Tel.: +7 (495) 787 06 00 Fax: +7 (495) 787 06 01</td>
</tr>
<tr>
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<td></td>
</tr>
<tr>
<td>Tajikistan</td>
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<td></td>
</tr>
<tr>
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<td></td>
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<tr>
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<td></td>
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<tr>
<td></td>
<td>Azerbaijan</td>
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<tr>
<td></td>
<td>Georgia</td>
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<tr>
<td></td>
<td>Kyrgyzstan</td>
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<td></td>
</tr>
<tr>
<td></td>
<td>Turkmenistan</td>
<td>Ashgabat 54, Turkmenbashi Ave. Ashgabat, 744017 Tel.: +993 (12) 45 83 19</td>
<td></td>
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<tr>
<td></td>
<td>Ukraine</td>
<td>Kyiv 48, 50a, Zhilyanska St. Kyiv, 01033 Tel.: +38 (044) 490 90 00 Fax: +38 (044) 490 90 01</td>
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<tr>
<td></td>
<td>Uzbekistan</td>
<td>Tashkent Business Center “Inkonel” 75, Mustakillik Ave. Tashkent, 100000 Tel.: +998 (71) 120 44 45 Fax: +998 (71) 120 44 47</td>
<td></td>
</tr>
</tbody>
</table>

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Doing business in Russia 2016

101

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Contents

- Introduction
- Types of business presence
- Accounting environment
- Taxation of foreign presences
- Russian-sourced income of foreign companies
- Controlled foreign companies
- Profit tax
- Tax incentives
- Value added tax
- Property tax
- Other taxes
- Customs duties
- Taxation of individuals
- Employment
- Currency control
- Transfer pricing
- Tax administration
- Oil and gas taxation
- Mining taxation
- Appendices
- Subscribe to Deloitte periodicals
- Contacts
- Office locations