Doing business in Russia 2017
Tax & Legal
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Introduction
Doing business in Russia 2017

Introduction

The past few years have seriously changed the business environment in Russia, especially in terms of taxation. Tax governance is becoming increasingly consistent with international approaches, integrating the country’s fiscal system into the global tax framework.

The legislative and regulatory efforts are meant to improve stability and predictability, making the investment climate milder and the business environment more attractive for all players.

Following the international BEPS prevention activities and in a bid to ensure the fair distribution of VAT between jurisdictions, Russian legislators introduced VAT for e-services rendered by foreign providers to Russian consumers.

Thin capitalisation and transfer pricing rules have been reexamined and redefined, eliminating some tax loopholes while easing up the excessive, economically unjustified regulatory restrictions.

As far as global best practices, environmental protection has never been so high on the Russian business agenda. Massive changes made to the environmental legislation encourage the companies to take on a greater social responsibility and to improve their waste management practices. A well-thought system of environmental duties is now in place to incentivise greener behaviours.

If this is your first time with Doing Business in Russia, you will find it a useful companion and supportive guide throughout your journey in the Russian business terrain.

If you have followed our reports for a while now, you will appreciate the updates, highlighting the most important changes, presented in the familiar format.

Enjoy your reading!
Types of business presence
The Russian legislation provides for 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 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 assets 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 a 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. A representative office can only represent the interests of a legal entity, and this normally limits its activities to those of a non-commercial nature, such as marketing or the gathering of information.

Because of the wider 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 an appropriate government organisation. This organisation 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, representative offices of foreign banks are accredited by the Central 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 and Industry
- Accreditation and incorporation into the State Register of Accredited Foreign Representative Offices/Branches and registration with the tax authorities
- Registration with the State Statistics Committee and registration with social insurance funds

The entire process typically takes approximately two to three months from the date that the documents are submitted to the state authorities.

**Legal entities**

The two most common types of commercial legal entities in Russia 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 laws 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. incurring 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 percent by another corporate entity (wherever it is incorporated), which is itself a 100-percent subsidiary of another shareholder. In other words, a 100-percent holding company of a Russian company must have more than one shareholder or participant.

Joint stock company

In accordance with the current Russian legislation, joint stock companies are subdivided into “public” and “non-public” 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 the 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 (PAO)

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
- There are no limits on 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 five members
- The functions of the registrar and the counting commission are performed by an independent organisation that has an appropriate licence
- 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 functions to the general meeting of shareholders that are not listed by the Civil Code and the JSC Law

Non-public joint stock company

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, unless the number of shareholders is 50 or more
- 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 functions to the general meeting of shareholders that are not listed by the Civil Code and the JSC Law
Limited liability company (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 the 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 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.

The charter of an LLC may provide for the optional right of any participant to withdraw from the LLC without the consent of the other participants. In this case, the share of the withdrawing participant is transferred to the LLC, which shall pay the “actual value” of the share to the withdrawing participant. The “actual value” is calculated as the part of the LLC’s net assets proportional to the share of the withdrawing participant.

An LLC may be required to pay the “actual value” of share to a participant leaving the company in some other cases directly listed in the LLC Law.

Registration process

The registration procedure for legal entities is made up of the following stages:
• State and tax registration
• 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 Central Bank of Russia, which increases the time required for registration by one to two months.

Anti-monopoly approval

In some specific cases, depending on the procedure of charter capital payment, the assets or sales revenue of the founder(s), and some other factors, prior approval of the Federal Antimonopoly Service may be required before a Russian company can be established. Getting preliminary approval from this body normally takes about two months.

Simple partnership or joint activity agreement (JAA)

Foreign companies may enter into a JAA with another party, normally 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 assigned the responsibility for bookkeeping and statutory reporting.

Depending on the activities of a foreign company in a JAA, the foreign company may still need to register separately with the Russian authorities, for example as a branch or representative office.
Accounting environment
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 entities. While much of the conceptual framework and many of the underlying principles of RAS are similar to IFRS’s, RAS are more like a summary of IFRS. Although RAS provide for multiple uses, they are mostly used to accommodate the tax accounting needs.

The primary users of Russian statutory financial statements that companies prepare 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.

According to the federal Law “On accounting”, RAS are developed and approved in accordance with the programme for their development for 2017-2019. State and non-state accounting regulatory bodies submit their proposals on amending RAS to the Ministry of Finance of the Russian Federation.

**Accounting systems**

Most companies in Russia maintain their accounting records using IT systems tailored to the 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, interfaced into the global ERP system (if required).

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

Management reporting is also often RAS-based, 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.

**Digitisation of fiscal reporting continues**

**Tax reporting**

The tax authorities are steadily encouraging taxpayers to migrate to digital reporting. Currently, taxpayers with a headcount of 100 employees or more are obliged to file their tax returns electronically. Submitting a VAT return in paper form is now treated as a failure to submit, which may result in the tax authorities freezing the taxpayer’s bank accounts. For social security funds, the threshold for mandatory electronic reporting is 25 employees.

**Communication with tax offices**

Electronic channels for receiving queries and delivering information are gaining prevalence over hard-copy communications. The tax authorities are allowed to send requests both in hard copy to the entity’s registered address and electronically via telecommunications channels. The taxpayer must acknowledge the receipt of an electronically sent request/query within six calendar days. Otherwise, the taxpayer’s bank accounts can be blocked by the tax authorities.

Furthermore, according to the new law “On accounting”, supported by other relevant laws, hard copies and electronic copies of documents are equally valid.

**Digital documents** – since 2012, there has been steady progress in the introduction of electronic statutory documents, including VAT-invoices, primary accounting documents, customs returns, labour documents, and some others. As for their validity, there are some requirements to be met, e.g. electronic documents should (1) carry a digital signature of certain type, (2) be prepared in an xml-template, and (3) be sent via certified e-operators. The strictest requirements apply to VAT-invoices and customs declarations.

**Digital document formats** – while there are no limitations on the use of free-form digital documents, there is a trend towards introducing fixed formats for various business documents. For example, fixed formats already exist for VAT-invoices, shipment bills, custom declarations, statements of services rendered and sick leave documents, while the formats for statements of discrepancy and contracts are on the way.
The tax authorities are supporting the simplification of document flow: a new format for VAT invoices has been released, combining the VAT invoice proper and the primary accounting document – the so-called Universal Transfer Document (UTD). This allows for the number of documents per sale transaction to be decreased. The UTD can be followed by a Corrective Universal Transfer Statement (CUTS), which is used to document retrospective changes to the UTD.

Digital signature – foreign digital signatures are recognised under Russian legislation, but official guidelines on their practical use are still missing. Domestic digital signatures can be of three types, depending on the security level: simple signature, cryptographic signature, and qualified cryptographic signature. The last one is considered equal to a signature made by hand, confirming the validity of any digital document and used only in B2G (business to government) document exchange. The other two are permitted for certain types of digital documents (e.g. contracts, primary accounting documents) and require some additional safeguards to be considered valid signatures.

Digital systems – apart from electronic documents, some digital fiscal controls have come to life, like electronic VAT registers to be submitted with VAT returns, an alcohol traceability system (now expanded to wholesale trade) and a medicine traceability system (the pilot has recently been launched), which is intended for combined use with the digital documents systems. The integration of the tax and customs authorities’ systems has been announced, which might impact taxpayers’ related processes in the medium-term. This focus on digitisation and integration is sustainable and driven by the government’s commitment to increasing the fiscal transparency of business.

Organisation of accounting

According to the Federal Law “On accounting,” which has been in effect since 2013, Russian companies are obliged to appoint a chief accountant or other authorised person responsible for maintaining the company’s accounting records, or to outsource the service to an external provider (except for credit institutions, where having a chief accountant is mandatory).

Small and medium-sized enterprises (SMEs) are exempt from this rule, and may delegate this role to another individual (e.g. the CEO). To qualify as a small or medium-sized enterprise, the company must meet a number of requirements, including the following: (a) foreign ownership may not exceed 49 percent; (b) ownership by other companies that are not SMEs themselves may not exceed 49 percent.

The position of the chief accountant or other employee responsible for maintaining the company’s accounting records can be filled by a foreign national who temporarily or permanently resides in the Russian Federation and satisfies the requirements of the applicable Russian legislation.

According to the Federal Law “On accounting”, entities whose financial statements are subject to compulsory audit are obliged to organise and exercise internal control over their accounts and to prepare financial statements. The practical implementation of this requirement, however, has given rise to multiple questions from the business community.

As a response, the Ministry of Finance released a letter on setting up an internal control system, giving recommendations on each element of internal control, including the management culture and the staffing requirements, risk assessment, authorisation of transactions and operations, verification of data, information and quality control information, etc.

According to the Ministry of Finance, internal control, apart from helping the company attain its business goals, is meant to prevent deviations 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 on 31 December.

The format and content of financial statements are determined by the Ministry of Finance, including the chart of accounts and the recommended accounting entries for typical transactions. The mandatory financial statements are a balance sheet, statement of financial results, statement of changes in equity, statement of cash flows, statement on the 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 obliged to maintain RAS accounting records, providing that they properly account for income and expenses in accordance with the Russian tax legislation.

According to the current legislation, only annual accounting statements are now obligatory; they must be sent to both the Federal Tax Service and the Federal Statistics Service. Annual RAS financial statements must be submitted to the tax authorities within three months after the end of the calendar year.
Certain entities, including open joint-stock companies, banks and other credit institutions, 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 credit institutions, insurance companies, credit bureaus, pension and investment funds, participants in the securities’ market, and stock exchanges
- Developers operating under FZ 214 (residential projects financed with pre-construction investments) – starting with the financial statements for 2017
- 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 the financial statements for 2016, micro-lenders must submit audit reports on their annual financial statements to the Central Bank of Russia.

Publicly traded companies, banks, insurance companies, non-governmental pension funds, and companies that are more than 25-percent state-owned must be audited by an audit firm and not by an independent auditor.

Audits in Russia are to be performed in accordance with the International Standards on Auditing as issued by the International Federation of Accountants and officially adopted in Russia.

According to the regulatory requirements, auditors must inform the owners and management of audit clients of any findings related to corruption and/or other legal offences and of risk indicators related to such offences. If the representatives of the audit client do not take appropriate action within 90 days, the auditor must inform the relevant state authorities.

**Harmonisation 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 harmonising RAS with IFRS. In recent years, significant progress has been made towards this goal. In 2011, the Ministry of Finance issued the Plan for the development of RAS based on IFRS for 2012-2015. Several new procedures for revising and adapting RAS, based on IFRS, came into effect in 2013. Furthermore, new accounting standards have been introduced for construction contracts, correcting fundamental errors, provisions, contingent assets and liabilities, segment reporting, and cash flow statements. In 2014, the Russian Ministry of Finance issued an order on the adoption of IFRS documents related to the accounting treatment of acquisition of interests in joint operations and methods of depreciation and amortisation.

A special law on consolidated financial reporting was adopted. Companies in the banking sector have already begun submitting financial statements in almost total compliance with IFRS to the Central Bank of Russia, as well as consolidated financial statements under IFRS.

The Russian Ministry of Finance also published the Conceptual Framework for Financial Reporting under IFRS. The document sets out 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, insurance and clearing companies, and non-commercial pension funds. Other entities that have issued securities by way of public offering, or by means of private placements for 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 Central 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,” regulate 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 disclosure of consolidated financial statements to participants in entities, including shareholders, as well as their obligatory publication. Since 2012, IFRS have been the only standards applicable when preparing consolidated financial statements in the Russian Federation.

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

Currently, the accounting policies for commercial and non-commercial organisations (with the exception of public sector organisations) are governed by 24 Russian Accounting Standards (RAS), 41 International Financial Reporting Standards (IFRS), and 26 IFRS Interpretations.

**Accounting treatment of employee compensation at lending institutions**

On 1 January 2016, the Industry Standard for the Accounting Treatment of Employee Compensation at Lending Institutions No. 465-P came into effect.

The document establishes the guidelines for the accounting treatment of employee compensation at credit institutions, including base pay, performance bonuses, benefits and 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 the termination of employment, other long-term benefits and severance pay).

**Archiving requirements for documentation on tax settlements**

The Russian Ministry of Finance summarised the key archiving requirements for financial and tax documentation in Letter No. PZ-13/2015. According to the current legislation, financial and accounting documentation (such as supporting documents, financial statements, and auditor’s reports) should be kept on file for at least five years. Documentation that supports tax settlements (such as supporting documents for income and expense recognition) should be kept for four years.

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

**Accounting standards for non-credit financial organisations**

A new Unified Chart of Accounts (UCA) and new industry-specific IFRS-based accounting standards (IAS) for non-credit financial organisations have been developed and partially implemented.

Starting 1 January 2017, the UCA and IAS must be applied by insurance organisations, non-commercial pension funds, joint-stock investment funds, credit bureaus, and some other non-credit financial organisations. Implementation is to be completed in 2018 and 2019.

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

The 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 of the IFRS provisions, nor allow for IFRS’s priority on controversial matters. Consequently, differences between the industry standards and IFRS may arise concerning the recognition, measurement, and disclosure of the elements of financial statements.

**Qualification requirements for internal auditors**

In Order No. 398n of 24 June 2015, the Russian Ministry of Labour issued a standard describing the role and qualifications of internal audit specialists.

The document defines the principal professional responsibilities of internal auditors and sets the requirements for their education and experience. The requirements are recommended for use by companies in developing their talent management policies and 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 recognised 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.”

**Recognition of foreign companies as Russian tax residents**

Starting from 1 January 2015, a foreign organisation may be recognised as a Russian tax resident if its place of effective management is 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 organisation 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 recognised 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 the 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 sea/river 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 an issuer of traded eurobonds, and the share of income from such activities is not less than 90 percent.

Voluntary claim of Russian tax resident status
A foreign company has the right to opt for Russian tax residency, 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 established procedure and format.

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

The recognition of a foreign company’s PE in Russia
The Tax Code defines the term “permanent establishment” (PE) as a branch, 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 1 hereto.

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 pay profit tax on a monthly basis.

Generally, PEs should calculate their profit tax using the direct method (i.e., gross income net of allowable deductions) to arrive at their taxable income. However, when a foreign entity has a PE because it conducts preparatory and auxiliary activities in Russia in favour of third parties on a free-of-charge basis, the PE will be deemed to have taxable income equal to 20 percent 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 the PE to deduct overhead expenses incurred by the head office, but relating to the PE, e.g. management and administrative costs. The tax authorities may require documentary support and justification of any amounts allocated.

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

Russia does not impose a “branch profit” 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 PE’s real estate in accordance with the corporate property tax rules applicable to Russian legal entities (please 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 (dividends, interest, and royalties) is the most common type of Russian-sourced non-business income.

An FLE whose activities do not constitute a PE pays property tax only on its real estate 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 real estate depending on whether it is owned by a foreign legal entity or a Russian legal entity.

The real estate 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
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 a FLE with a registered PE), which makes a payment to a FLE that does not have a Russian PE, nor is recognised as a Russian tax resident (please refer to the chapter entitled “Taxation of foreign presences” for more details).

Failure to withhold tax may lead to fines of up to 20 percent of the tax due, 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 Russian-sourced income of foreign legal entities
- Royalties
- Income from the sale of shares (participatory rights) in a company, if more than 50 percent of its assets directly or indirectly consist of real estate 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 real estate 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 the lease and sub-lease of property used in Russia (including ships and aircraft)
- Income from international freight transportation, including demurrage and other related payments
- Fines and penalties due from Russian parties for breaking contractual obligations
- Other similar types of income

Income generated from the sale of goods, performance of work, and 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, real estate, 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 the 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 party 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 for Russian-sourced income, the foreign legal entity must provide written confirmation to the payer, that:

- It is a tax resident of that foreign country; and
- It is the beneficial owner of the income

The written confirmations must be provided prior to the payment date.
**Tax residency certificate**

The 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 the 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 publicly available data.

**Beneficial ownership of passive income**

On 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 (or an unincorporated foreign entity) 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 (unincorporated foreign entity) is entitled to use the income received. In this case, all the functions carried out by such persons as well as the risks borne should be taken into consideration. A person with limited powers to dispose of income, acting as an intermediary in favour of another person (unincorporated foreign entity), not performing any 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.

In addition, a “look-through” approach to 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, or 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 (zero or 13 percent) and such dividends would not be included in the tax base of the Russian-resident beneficial owner.

* 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 whose benefit the rights to securities are exercised; for corporate income tax purposes – the jurisdictions of tax residency of organisations that are “actual recipients of income”.

It should be noted that in cases when a depository 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 depository in relation to income paid on the following types of securities, accounted for in the depository account of the foreign nominee holder, foreign authorised holder, or depositary programme:

- State and municipal securities, which centralised storage is obligatory
- Securities with a state registration date or identification number assignment date of 1 January 2012 or later, which have been issued by Russian organisations and which centralised storage is obligatory
- Other securities issued by Russian organisations, except for those with a state registration date or identification number assignment date that is earlier than 1 January 2012 and for which centralised storage is obligatory

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

The main treaty tax rates for Russian-sourced income are shown in the Appendix 1 on pages 85-88.

**Table 1**

<table>
<thead>
<tr>
<th>%</th>
<th>Type of income</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>Income from international freight transport, rental of assets involved in international shipping, and 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 percent of the company's assets directly or indirectly consist of real estate located in Russia, or from the sale of real estate 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 sufficient supporting documentation, a rate of 20 percent 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 percent is applied to the total value of the sale.</td>
</tr>
<tr>
<td>30</td>
<td>Income on (i) state and municipal securities, (ii) Securities with a state registration issue date or identification number assignation of 1 January 2012 or later, which have been issued by Russian organisations, (iii) other securities issued by Russian organisations, except for securities with a state registration issue date or identification number assignation date that is earlier than 1 January 2012, paid by a depository in relation to securities accounted for in the depository account of a foreign nominee holder, foreign authorised holder, or depository 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 depository acting as a tax agent.</td>
</tr>
</tbody>
</table>
Controlled foreign companies
As of 1 January 2015, controlled foreign company (hereinafter, “CFC”) rules have been included in the Russian tax legislation.

Criteria for CFC

A CFC is defined as a foreign organisation or unincorporated foreign entity 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 percent
• Exceeds 10 percent (including the holdings of spouses and minor children, in the case of individuals), where the overall amount of shareholding by the Russian tax residents exceeds 50 percent

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 criteria 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), and 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 unincorporated foreign entities 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 percent (for individuals) or 20 percent (for legal entities) if the CFC’s profit exceeds 10 million roubles (certain exceptions apply).

The profit of the CFC that is taxable in Russia can be reduced by the amount of dividends or profit (for unincorporated entities) distributed by the CFC.

It should be noted that the CFC rules apply to profits from 2015 onwards. 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 the 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 interests 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) organisations (excluding dividends) recognised in the CFC’s financial reports under the laws of the CFC’s jurisdiction (according to its accounting policy)
• Adjustments for expenses on provisions and income from restoring provisions

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 five 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 organisation 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 it) and the effective tax rate of the CFC amounts to at least 75 percent of the weighted average tax rate that would apply in Russia (for example, in the case of a CFC whose only income is dividends, the effective rate should be at least 9.75 percent)
• The CFC is an active foreign company or an active foreign holding/subholding company as defined by the Russian Tax Code
• The CFC is a licensed 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 financial 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 a notification about the respective CFC to the tax authorities by 20 March of the year following the year of the inclusion of the CFC income into the tax base.

The CFC notification should include, among other things, the reporting period, the name and registration number of the CFC, the last date of the CFC’s reporting period, the closing date and the auditor’s report on the CFC’s financial statements (if applicable), the taxpayer’s interest in the CFC, the basis for recognising the taxpayer as a controlling party, as well as the grounds for the exemption of the CFC’s profits from taxation (if applicable).

CFC reporting

Along with the tax return, a taxpayer who 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 they have been audited)
• Source 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 RUB 100,000 per CFC
• Failure to provide the financial documentation of a CFC will result in a fine of RUB 100,000
• Non-payment of tax due to non-inclusion of the CFC’s income in the tax base will result in a fine of 20 percent of the unpaid tax amount, but not less than RUB 100,000 (applicable from 2018)

In some cases, criminal liability may be applicable. 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
Doing business in Russia 2017

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 the criteria stated by the Russian Tax Code (please refer to the chapter entitled “Taxation of foreign organisations” for more details).

A Russian legal entity must be registered with the office of the tax inspectorate 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 organisations” and “Russian-sourced income of foreign companies” for details about the taxation of foreign legal entities (FLEs), and the chapter entitled “Tax Incentives” for information on profit tax reductions and exemptions.

Tax rate

The maximum profit tax rate is 20 percent:

- 2 percentage points (3 percentage points for the period 2017-2020) payable to the federal budget
- 18 percentage points (17 percentage points for the period 2017-2020) 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 roubles 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 their 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 percent 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 capital contribution, 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 unlisted shares and participation in Russian companies and of listed shares in high-tech Russian companies acquired after 1 January 2011 and held for at least five years, are exempt from profit tax.

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

Recognition of income and expenses

There are two alternative methods for recognising income and expenses depending on the level of income. The accrual basis must be used by taxpayers with an average income exceeding RUB 1 million per quarter for the previous four quarters, while taxpayers falling short of this threshold may 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, statements, 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 30, 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 utilisation 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:
\[
\frac{1}{\text{useful life in months}} \times \text{historic cost of asset}
\]

Under the reducing balance method, the monthly depreciation is calculated as:
\[
\text{Net book value of asset group} \times \text{depreciation rate in percent}
\]

The net book value, on which the monthly depreciation is based, thus reduces every month. The depreciation rates shown in Table 2 on page 30 are, in certain cases, adjusted by coefficients, for example:
- For fixed assets that are used in a demanding environment1, belong to residents of 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 percent (30 percent 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.

1 Applicable to fixed assets put into operation before 1 January 2014.

**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 recognised is the excess of the price paid over the net asset value of the company. If the price paid is lower than the net asset value, the buyer recognises the difference as income at the moment when the property rights are registered.

**Expenses subject to limitation**

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

**Advertising**

Expenses on advertising, including in the press, on the radio, 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 one percent 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 four percent of a taxpayer’s total payroll cost in the reporting period.
Doing business in Russia 2017

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 percent 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 recognised 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 on the right):

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 capitalisation

The thin capitalisation rules restrict the deductibility of interest charged on “foreign controlled debt.” The rules apply to loans (and other debts) owed:
- To a foreign entity that is a related party to the taxpayer (individuals and businesses acknowledged as controlled for transfer pricing purposes according to the provisions of the Tax Code), if this foreign entity directly or indirectly holds shares in the taxpayer’s charter capital
- To an entity that is acknowledged as a related party of the above foreign entity
- A debt obligation secured by any of the above mentioned individuals or businesses

However, there are some exceptions. Particularly, these debts are not recognised as controlled:
- Debt owed to a Russian affiliate of the foreign company, if such Russian affiliate, in turn, owes no comparable debt to the taxpayer’s foreign mother company or its affiliates in the reporting period
- Debt owed to a non-related bank (including foreign banks), which is guaranteed by a foreign mother company or its affiliates, provided such debt was not paid off by the guarantor (effective from 1 January 2016)
- Debt originating from bond issue (Eurobonds) by a foreign company, if the Russian company does not act as a withholding agent with respect to the interest on such debt

The deductibility of interest is restricted to the extent that the cumulative controlled debt exceeds net assets by more than three times, or 12.5 times for banks and leasing companies. Interest on excess debt is non-deductible and treated as a dividend subject to withholding tax.

2 Please refer to the chapter entitled “Transfer pricing” for more details.

<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 zero to 180 percent of the Russian Central Bank key rate (from 1 January 2015 to 31 December 2015)</td>
<td>From 75 percent of the Russian Central Bank refinancing rate to 180 percent of the Russian Central Bank key rate (from 1 January 2015 to 31 December 2015)</td>
</tr>
<tr>
<td></td>
<td>From 75 percent to 125 percent of the Russian Central Bank key rate (starting from 1 January 2016)</td>
<td></td>
</tr>
<tr>
<td>EUR</td>
<td>From EURIBOR + 4 percent to EURIBOR + 7 percent (EURIBOR for EUR)</td>
<td></td>
</tr>
<tr>
<td>CNY</td>
<td>From SHIBOR + 4 percent to SHIBOR + 7 percent (SHIBOR for CNY)</td>
<td></td>
</tr>
<tr>
<td>GBP</td>
<td>From LIBOR + 4 percent to LIBOR + 7 percent (LIBOR for GBP)</td>
<td></td>
</tr>
<tr>
<td>CHF and JPY</td>
<td>From LIBOR + 2 percent to LIBOR + 5 percent (LIBOR for the respective currency)</td>
<td></td>
</tr>
<tr>
<td>Other currencies</td>
<td>From LIBOR + 4 percent to LIBOR + 7 percent (LIBOR for USD)</td>
<td></td>
</tr>
</tbody>
</table>
If 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 percent of the invoice value for debts outstanding for a period of 45-90 days and 100 percent of the invoice value when that period is exceeded.

The maximum value of provisions for doubtful debts booked at the end of a reporting period amounts to 10 percent of the revenues for the current reporting period or to 10 percent of the revenues for the previous fiscal period, whichever is higher. Special rules apply to banks and licensed dealers in securities.

**Loss carry forward**

Starting from 2017, there is no time limitation on utilisation of losses; however, the utilisation of losses accrued since 2007 is temporarily limited. In 2017-2020, the amount of utilised loss carry-forwards cannot exceed 50 percent of the tax base for the current period.

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 percent — at the source — for dividends paid by one Russian company to another (unless the zero 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 percent — at the source — for dividends paid by Russian companies to foreign companies
- 13 percent for dividends paid by foreign companies to Russian companies (unless the zero rate below applies).

Where a double tax treaty applies, a credit for any withholding tax suffered can be claimed against this liability

- Zero 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 percent of the company for at least 365 consecutive days. Dividends from foreign companies registered in certain “low tax” jurisdictions are excluded from this rule

Please note that, starting from 1 January 2017, a documentary confirmation of the foreign company’s beneficial ownership of income needs to be provided to substantiate the lower tax rate under a double tax treaty.

**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 28 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 28 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, percent</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 the regional allocation of profit tax from 17 percent to 12.5 percent (with a minimum overall tax rate of 15.5 percent, including the 3 percent owed to the federal government) and provide a reduced rate or exemption from property tax chargeable at the maximum rate of 2.2 percent 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 loans at subsidised interest rates). Such exemptions are normally conditional on meeting specific investment criteria in the region.

Movable property items recognised as fixed assets on the company's balance sheet are not, starting from 1 January 2013, subject to corporate property tax (except for items acquired as a result of the reorganisation or dissolution of legal entities, or acquired in any other way from affiliated parties). However, starting from 1 January 2018, this tax incentive for movable property will be available only if the respective region adopts relevant legislation.

Regional incentives might bring tangible benefits to companies making significant investments and/or posting large taxable profits during the period when the incentives are applied (usually, the first three to eight years).

The cities of Moscow and St. Petersburg, the Leningrad and Moscow regions, among many others, offer such incentives.

Special economic zones

The legal framework for special economic zones (SEZs) provides for broad tax and other concessions. The 20 zones currently established have geographical boundaries and are one of four types: Manufacturing, Technology & Innovation, Tourism & Recreation, and Port & Logistics. All are established 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 now, with more than 500 investors, including foreign ones, now involved in them.

Russian legal entities registered at an SEZ without external branches or representative offices may apply for a reduced profit tax rate which can even be zeroed (instead of the standard rate of 20 percent), depending on the type of SEZ and its location.

SEZ residents also benefit from reduced rates for social contribution payments: 14 percent for the annual compensation of up to RUB 755 thousand (approx. USD 12.5 thousand), 12 percent for the amounts between RUB 755 thousand and RUB 876 thousand (approx. USD 14.5 thousand), and 4 percent on the amounts exceeding RUB 876 thousand. Organisations working in the financial, insurance, wholesale and retail sectors are not eligible for these incentives.

Other potential incentives include accelerated depreciation (for Manufacturing and Tourism SEZs only), a VAT exemption (for Port & Logistic SEZs only), and access to a free customs zone (except Tourism SEZs). The approval process may be complex.

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

Regional investment projects (RIPs)

One of the tax concessions the investor may take advantage of is a reduced profit tax rate:

- A zero tax rate for the first five years after the resident makes a profit and 10 percent for the following five years – for RIPs in Siberia or the Far East;
- 10 percent starting from the year in which the total amount of tax incentives received equals the amount of capital investments – for RIPs in any region other than Siberia and the Far East.

In addition, companies that engage in a RIP may apply for a reduction in the mineral extraction tax rate. The terms for the RIP regime vary significantly from region to region.
To be eligible for most of the incentives, the investor should provide a stable amount of capital investment, with an average minimum threshold of RUB 50 million (the actual amount depends on the region, the chosen incentive, and other conditions). Territory-specific incentives require the establishment of a production facility in the specified territory or the meeting of certain other special conditions (e.g. carrying out a certain eligible activity in a particular industry).

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, 13 TASEGs have been established. Each TASEG will retain this special status for 70 years. TASEG residents are eligible for the following benefits:
1. A declarative procedure for VAT refunds;
2. A profit tax rate reduction from 20 percent to zero (organisations working in the financial, insurance, wholesale and retail sectors are not eligible for these incentives) for the first five years after the resident makes a profit, and to 12 percent for the following five years;
3. A property tax exemption for the first five years and a reduced tax rate of 0.5 percent over the following five years;
4. A reduced social insurance contributions rate (7.6 percent) for 10 years.

Research & Development tax incentives: 150 percent profit tax deduction

Companies conducting eligible R&D activities can apply for a 150-percent super-deduction of respective costs (including labour costs, contractor expenses, depreciation of equipment, and certain other expenses). The total tax savings from this incentive may amount to 10 percent of the qualifying costs.

Notably, the deduction applies even if the R&D activities do not result in the development of a new product or service. The list of eligible R&D activities provides a wide range of opportunities for claiming the 150-percent profit tax deduction in any industry, including high-tech, retail, banking, manufacturing and others.

The Free Port of Vladivostok

Established in 2015, the Free Port of Vladivostok provides a special customs, taxation and investment regime for investors in the city of Vladivostok and 19 surrounding municipalities. Residents of the Free Port may receive the following benefits:
1. A declarative procedure for VAT refunds;
2. A profit tax rate reduction from 20 percent to zero (organisations working in the financial, insurance, wholesale and retail sectors are not eligible for these incentives) for the first five years after the resident makes a profit, and to 12 percent for the following five years;
3. A property tax exemption for the first five years and a reduced tax rate of 0.5 percent over the following five years;
4. A reduced social insurance contributions rate (7.6 percent) for 10 years.

Skolkovo

Launched 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 activities 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. A reduced social contribution rate of 14 percent for the annual remuneration of up to RUB 876 (approx. USD 14.5k) and an exemption for the remuneration exceeding that cap;
5. Cash grants covering eligible research activities.

In the majority of cases, the total tax burden will be limited to social contributions at the 14-percent rate. There are also generous revenue and profit thresholds in place before tax exemptions expire.

Starting in 2019, Skolkovo residents will not be permitted to have branches or representative offices outside of the Skolkovo area or they will lose their Skolkovo residency and the relevant tax and social insurance contribution (SIC) incentives.

Reduced social insurance contributions

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 contribution rates.
Companies engaged in software development qualify for reduced social insurance contribution rates (until 2023): 14 percent on the annual remuneration of up to RUB 755 thousand (approx. USD 12.5 thousand); 12 percent on the annual remuneration between RUB 755 thousand and RUB 876 thousand (approx. USD 14.5 thousand); 4 percent on the annual remuneration exceeding RUB 876 thousand.

There are various opportunities to reduce the social insurance contributions (SIC) 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 pp (the maximum overall rate is 8.5 percent) 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 of the company's working conditions. Depending on the assessment's outcome, this option could eliminate the additional SIC rates.

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

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**Zero profit tax rate**

A zero 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 (18-percent import VAT normally applies). Applying this regime may improve the working capital positions for a VAT-payer, or reduce equipment costs for VAT non-payers.

- **Exemption from import customs duties**

  Exemptions from import customs duties are provided for goods imported by foreign investors as a capital contribution to their Russian subsidiaries.

- **Accelerated depreciation**

  Accelerated depreciation can apply to fixed assets used in R&D activities. However, the definition of R&D for the 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 three years starting from the date of the asset's commissioning, with no preapproval from the tax or any other authorities required. 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 to the winning bidders in 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 the company’s investment in the project matches the amount of funds granted. Project implementation timelines range from one to three years, with grants amounting to between USD 1 and 5 million.

- **Subsidies provided by federal target programmes** (the size of subsidies and project timelines depend on the programme):
  - “Pharmaceutical Industry 2020”;
  - “Research and Development in Strategic Areas of Science and Technology 2014-2020”, covering a broad range of research projects. The structure of the programme 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
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 Russia is a member state). The rules applying to goods imported from other member states of the Eurasian Economic 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 commercialisation of the results of this work.

The following organisations shall not be deemed to be VAT payers and are entitled to simplified tax registration with the Russian tax authorities by way of notification (subject to certain conditions):
• FIFA (Fédération Internationale de Football Association), subsidiaries of FIFA, confederations, national football associations, FIFA media outlets 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 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 in the Russian 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 is 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
• Leasing 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
• E-services delivered over the Internet or similar electronic networks that are automated and rely on information technologies 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 in the Russian 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 VAT rates, depending on the nature of the supply:

A zero rate applies to the sale of goods exported outside the Russian Federation. The zero rate also applies to the following list of services:

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

A set of documents must be prepared for each type of service in order for the zero rate to be applied.

The zero VAT rate additionally applies to the supply of goods (work, services) and property rights to the following organisations:

- FIFA and subsidiaries of FIFA, as well as suppliers of goods (work, services) and property rights in connection with the organisation of events for confederations, the Organizing Committee for the 2018 FIFA World Cup Russia, subsidiaries of the Organising Committee for the 2018 FIFA World Cup Russia, national football associations, the Russian football union, FIFA media outlets, 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”.

Particular rules on the application of the zero VAT rate to the above suppliers in connection with the FIFA World Cup have been established by the Russian government.

The 10-percent rate applies to certain food products, children’s goods, medical and pharmaceutical products, pedigree livestock, and certain books and periodicals.

The 18-percent rate applies to all other taxable sales of goods, work, and services.

There are also computed VAT rates (10/110 and 18/118), which apply 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:

- 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 for 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
Doing business in Russia 2017

• Sale of land, residential buildings, and commercial premises, or any interest in such property
• Certain research and development activities
• 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 is 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 first be performed when the prepayments are received and again when the goods are dispatched, work or services performed or property rights transferred. Thus, VAT accrued on prepayments may subsequently be offset against the full amount of VAT due after dispatch, etc.

On the date of the shipment of goods, performance of work or services or transfer of property rights, VAT should be applied to the full transaction price (excluding VAT).

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

In addition, various other payments are subject to VAT. These include funds received in addition to sales revenues and relating to VATable sales, as well as interest (or discounts) on promissory notes received as consideration for VATable supplies, and interest on trade loans with rates in excess of rates set by the Central Bank of Russia. Certain insurance premiums are also subject to VAT.

Moreover, the payment (provision) of premiums (incentives) 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 to be paid by the seller or the VAT recovery amounts for the buyer, except when such 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 the tax authorities is determined as the difference between the VAT calculated on transactions subject to VAT, including those subject to the 10-percent or zero rates (“output VAT”), and the VAT incurred on purchases subject to VAT (“input VAT”).

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

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

Taxpayers are entitled to claim 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 in which it is charged.

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

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

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

Taxpayers must maintain separate accounting records for VATable and non-VATable operations. Failure to do so may result in the disallowance of VAT, either as an offset or as a deduction for profit tax purposes. There is no requirement for separate accounting records for periods when the total expenditure on the purchase, production and/or supply of non-VATable goods, work, services and property rights does not exceed 5 percent of the total expenditure. Subject to meeting 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 the zero-rated supply of goods (except raw goods) can be claimed when the general conditions for VAT recovery are met. Input VAT relating to the zero-rated supply of raw goods 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 input VAT related to the export of raw goods, 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 raw 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-VATable 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, a 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 that specific information 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 authorised 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, the value of goods, work, services, or property rights supplied, as well as the VAT rate and amount, are not grounds for denying VAT recovery.

Suppliers should issue amended VAT invoices to buyers 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. 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 amended VAT invoice. If there is a decrease, the reverse applies.

**Reverse charge**

If foreign companies that are not registered in Russia for tax purposes supply goods, work, or services in Russia and these supplies are deemed to have taken place in Russia according to the place of supply rules, the VAT is remitted 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 percent 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.
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.

VAT rules for e-services

Starting from 1 January 2017, foreign providers and intermediaries rendering electronic services must assess and pay Russian VAT on services sold to Russian individual consumers (other than individual entrepreneurs) in Russia.

E-services are services delivered over the Internet or similar electronic networks that are automated and rely on information technologies, in particular:
- The provision of the right to use software (including online games) and databases through the Internet, including updates to them and additional functions
- The provision of rights to use e-books/other e-publications, information/educational materials, images, music with or without lyrics, and audio-visual content through the Internet
- Advertising services provided on the internet, including the use of web-based software and databases and the provision of advertising space on the Internet
- Services for placing offers for the acquisition (sale) of goods, work, services, and property rights on the Internet
- Data storage and processing, where a person who has provided data has access to the data through the Internet
- The provision of domain names and hosting services
- The provision of web-based platforms for establishing contacts and concluding transactions between buyers and sellers
- Others

Foreign e-service providers or intermediaries should apply for tax registration with the Russian tax authorities. The reporting period is the calendar quarter. The VAT return should be submitted and VAT paid by the 25th of the month following the reporting period. A special VAT return for e-services rendered by foreign providers to Russian individual consumers has been introduced.

A register of operations must also be kept to confirm that the place of supply of services is Russia. The register of operations is not submitted to the tax authorities alongside with the VAT return; it should be provided if requested by the tax authorities during a tax audit.

The tax point is the last day of the quarter in which the payment is received. Foreign currency payments should be converted into RUB at the Central Bank of Russia’s exchange rate effective on the last day of the quarter. The VAT rate applied is 15.25 percent of the VAT-inclusive service fee.

For further details on the application of the VAT rules for e-services, please refer to: 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 a zero rate, subject to documentary support based on 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 is generally payable by the 20th day of the month in which the imported goods are booked in the importer’s accounts.

The place of supply of work and services is also subject to documentary support based on 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

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 reorganisation, liquidation of the legal entity or transfer of property, including the purchasing of property by affiliated parties. It should be noted that starting on 1 January 2018, the powers to apply such tax benefits in the regions will be delegated to the regional authorities and will require the adoption of relevant regional laws.

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 amortisation groups (i.e. fixed assets with a short useful life) in accordance with the classification of fixed assets approved by the Government of the Russian Federation, are tax-exempt.

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

The cadastral value of real estate is the tax base for property tax for the following types of property:
- Administrative business centres, shopping centres, and premises within these buildings
- Non-residential premises used as offices, shops, catering services and to provide consumer services, or those intended for such 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 organisations and various types of public organisations is tax exempt.
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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 percent, 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 level of 2 percent.

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, so 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 use it. 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 percent 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 percent 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 vehicle owners are subject to transport tax. For the purposes of Russian legislation, vehicles are not limited to cars, motorcycles, motor scooters or buses, but include other means of transport, such as aircraft, helicopters, yachts, snowmobiles, etc. However, aircraft, ships, and river vessels owned by companies whose main activity is the transportation of passengers or freight are exempt, as are vehicles used in agricultural production.

Tax base and rates

The tax base for vehicles subject to transport tax depends on the type of the vehicle. The tax rates are set out in the Tax Code, with those for motorised transport vehicles ranging from RUB 1 to 50 per horsepower. Regional authorities have the right to increase or reduce these rates by a multiple of no more than 10 for certain types of motorised transport vehicles. Special tax rates are established for luxury cars.

Tax allowances

The Tax Code provides benefits that are available to owners of vehicles weighing more than 12 tonnes:

- The amount of transport tax assessed by a legal entity on heavy goods vehicles as of the end of a fiscal period is reduced by the amount of the road toll paid in respect of such vehicles in the same fiscal period
- Individuals are exempted from the transport tax levied on heavy goods vehicles if the road toll payments equal or exceed the assessed transport tax
- The taxpayers using a simplified tax system are granted the right to recognise road toll payments as deductible expenses
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 has to 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 situations when the stamp duty is charged. The main ones 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 other securities placed through subscription
- State registration of a mutual investment fund
- Obtaining of a licence to conduct certain activities
- Notarial services
- Vehicle registration

Other

Producers and importers are required to pay an environmental duty on goods that must be disposed of at the end of their useful life. Alternatively, producers and importers can dispose of waste on their own, but such disposal requires a special licence.

In 2015, Platon, a toll-collection system for vehicles with a gross weight above 12 tonnes, was put into operation. The revenues thus collected from tolls and fines are earmarked for the maintenance and repair of the federal roads.

A one-percent levy applies to computers, mobile phones, and other recording equipment and 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, licence fees for the use of sub-soil resources, pollution levies, and timber duties.
Customs duties
World Trade Organisation

In August 2012, Russia became a full member of the World Trade Organisation (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 abolition 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 among Russia, Belarus, Kazakhstan, Armenia, and Kyrgyzstan. The EEU is formed on the basis of the Customs Union among 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 for import customs duties are available in Russia— in the majority of cases, they are 5 percent, 10 percent, and 15 percent. Certain goods are exempt from import customs duties. The rate of the import customs duty depends on the exact nature of the goods being imported. Goods are classified according to the Harmonised System of the EEU into 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 planned average applied tariff in 2017 is around 5.1 percent. 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>Group</th>
<th>Import customs duty rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developing countries</td>
<td>75 percent of the basic rate applies</td>
</tr>
<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 zero rate of import customs 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 localisation is met. The required level of localisation varies according to the type of goods and type of operation.
Taxation of individuals
**Personal income tax**

**Taxpayers**

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

Russian tax residency is established if an individual is physically present in Russia for at least 183 calendar days during a 12-month rolling period. This 12-month period is not interrupted by brief trips outside Russia (i.e. lasting less than six months) for the purposes of medical treatment or study. The 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-percent rate applies to most types of income, i.e. other than income subject to an alternative rate
- A 35-percent rate applies to certain prizes, interest on bank deposits that exceeds specific limits, and income deemed to be received from low-interest loans (except loans used to acquire real estate in Russia if the owner of the real estate has the right to a property tax deduction on this real estate)

**Non-residents**

A 30-percent 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-percent rate, and the tax is withheld at 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 is considered a “Highly Qualified Specialist” if he or she is in Russia on the basis of a work visa and work permit, receives a salary/remuneration that amounts to 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 percent 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 received or deemed to have been received by a taxpayer and that is subject to the taxpayer’s discretionary disposal.

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

- Compensation for employment and hired services, in cash or in kind
- “Imputed income” such as any benefit from low-interest loans or discounted goods, labour or services, and securities
- Payments made by an employer on behalf of an employee
- Payments made by an employer on behalf of an 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 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
- Gifts made to an employee in cash or in kind exceeding RUB 4,000 per year
- The proceeds or, in some cases, the gains from the sale of certain types of property
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- 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 types of property distributed during the privatisation of an enterprise
- Pension income payable to individuals from private retirement pension funds, in certain circumstances
- Certain gifts received from individuals

Deductions and exemptions

The 13-percent tax rate applies to taxable income after the following five types of deduction:
- Standard deductions
- Social deductions
- Property deductions
- Professional deductions
- Investment deductions

These deductions are not available to non-residents.

Standard deductions

Parents and guardians receive a standard deduction of RUB 1,400 for their first and second children, RUB 3,000 for their third and subsequent child, and RUB 12,000 for children with disabilities for each month in the calendar year until their cumulative income for that year exceeds RUB 350,000.

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

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 a voluntary life insurance agreement valid for a period of not less than five years (as of 2017)
- Payments for passing an independent professional qualification assessment

In addition to the total 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 limit of RUB 50,000 per child
- Charitable donations (in cash only) to charitable organisations; scientific, cultural, educational, health or social security organisations that are partially or wholly financed from federal, regional or local budgets; and to religious organisations, but limited to 25 percent of the taxpayer’s total income taxable at 13 percent
- “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 real estate; 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 depends on the type of property and the holding period. Excluding securities, exemptions apply to income from the sale of property owned for:
- Five years or more (applicable to property obtained after 1 January 2016)
- Three years (applicable to property obtained before 1 January 2016 and to property received as a gift from close relatives or by inheritance, or obtained as a result of former privatisation or under a life care contract)

The following applies when the ownership period is less than three/five years:
- The deduction from the proceeds of 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 of the sale of other property, except securities, is the greater of: RUB 250,000 or the documented cost of the property
If the income from the sale of real estate is lower than 70 percent of the cadastral value of the item as at 1 January of the year of sale, the personal income tax is calculated as the cadastral value of the property × 0.7.

Regions of the Russian Federation can establish their own rules:
• The percentage of the cadastral value of the item used for comparison with the seller's income and the calculation of personal income tax can be reduced
• The five-year period of tenure established by the Russian Tax Code for the exemption of proceeds from the sale of property to apply can be reduced

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 real estate (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 up to a value of RUB 3,000,000. If a mortgage contract was signed before 2014, there is no limit on 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 percent 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 or FITTs. The following types of investment deductions are possible:
• The amount of proceeds from the sale of securities owned by an individual for more than three years
• Funds moved by an individual to his or her 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 organisations and individual entrepreneurs with a total value of up to RUB 4,000 per year
• Foreign currency compensation paid to certain state employees working abroad
• The value of additional shares or replacement shares issued as a result of the statutory revaluation of fixed assets and foreign currency items. This includes the value of shares issued as a result of a merger or reorganisation
• Interest and other receipts from Russian federal and regional bonds and other securities
• Income from the sale of residential real estate and other property (other than securities) owned for three years or more (please refer to the section on “Property Deductions”)
• Bank interest within limits (applicable to deposits with Russian banks only). 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 percent per annum:
• State allowances, including maternity leave and unemployment benefits
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• 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
• Income from loyalty programmes involving bank or discount cards (with certain limitations)

In 2017-2018, self-employed individuals have the right not to pay personal income tax. This group includes individuals who provide services for personal, household or other analogous needs (nurses, tutors, housekeepers, etc.)

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

Filing procedures

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

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

If a foreign national leaves Russia prior to the end of the calendar year, he must file a departure tax return covering the income received up until the date of departure. The return must be filed no later than one month prior to departure.

Russian legislation prescribes how income can be exempt from taxation under a double tax treaty via a tax agent, i.e. if tax on such income is subject to tax at source. Russian legislation requires that the relevant claim and supporting documents be submitted to the tax agent or the tax authorities (for the refund of the tax withheld).

Individual entrepreneurs and private notaries must also file personal tax returns.

Overpaid tax may either be reimbursed by the tax authorities or by an individual's tax agent. Excessive tax withheld by an employer due to a change in an employee's tax residency status from non-resident to resident should strictly be refunded by the tax authorities based on an annual tax return. However, if an employer is aware of a change in an employee's tax residency status within a calendar year, it is permissible to credit the overwithheld tax amount against future tax withholdings during the current calendar year. At the year end, any excessively withheld tax should be refunded by the tax authorities based on an annual tax return.

In case of the opposite situation – when the tax is not withheld in full and the tax authorities are informed of this by the tax agent, the additional tax not withheld by the tax agent represents the individual's tax liability, which should be paid by 1 December of the year following the reporting year on the basis of a special notification issued by the tax authorities after the tax agent informs the tax authorities of the impossibility of paying the tax in full.
The penalty for the late filing of a tax return is 5 percent of the tax not paid by the deadline established for the tax payment (i.e., 15 July) for each month past due, but no more than 30 percent 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 payment is made in cash
- The day following the day of cash payment
- The day following the day of tax withholding if the income was paid in kind or is considered imputed income

Generally, the individual taxpayer is solely responsible for meeting his or her income tax obligations and employer cannot pay tax on behalf of employee from its own funds.

Recent changes in legislation open the way for third party payments of an individual’s taxes, starting from 2017. At the same time, there are a number of ambiguities associated with these provisions and their future application.

**Social insurance contributions**

**Overview**

Effective 1 January 2017, almost all social security contributions (except obligatory accident insurance) are administered by the Russian Federal Tax Service.

Social contributions are payable to the Russian tax authorities in respect of individuals engaged under employment or services contracts.

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.

“Self-employed individuals” have the right not to pay social contributions in 2017-2018 (please also see the section “Exemptions” above).

**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 percent. Earnings up to this cap are subject to an overall rate of 30 percent. The rates and caps for each employee are shown in the table below.

Decreased contribution rates of 7.6-20 percent apply to certain limited categories of taxpayers (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 percent does not apply to such categories of taxpayer. Russian employers (including foreign companies with a registered presence in Russia) are required to pay insurance 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 Russian tax authorities 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 exempt from making pension and social insurance contributions. There is an exception for foreign nationals holding a residence permit, who are required to make employer’s pension and social security contributions.

The earnings of certain categories of individuals depending on the duties performed (for instance, underground work, exploration activities, etc.) are subject to additional payments to the Russian tax authorities at special rates (up to 9 percent for 2016) without a cap.

Obligatory Accident Insurance contributions are calculated and paid separately, to the Social Insurance Fund. The rates vary from 0.2 percent to 8.5 percent 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 percent.

**Base for calculating insurance contributions**

Insurance contributions are calculated based on the remuneration received by individuals in cash or in kind under employment or services 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 mortgages
- Financial 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

**Payments and reporting**

The calculation period for insurance contributions is the calendar year, and the reporting period is each calendar quarter. 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>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension insurance</td>
<td>22% + 10% of remuneration exceeding cap</td>
</tr>
<tr>
<td>Social insurance</td>
<td>2.9% of remuneration up to cap</td>
</tr>
<tr>
<td>Medical insurance</td>
<td>5.1% of remuneration</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>24.9% remuneration up to cap + 10% of remuneration exceeding cap + 5.1% of remuneration</strong></td>
</tr>
<tr>
<td>Cap in RUB k (Pension insurance)</td>
<td>796</td>
</tr>
<tr>
<td>Cap in RUB k (Social insurance)</td>
<td>718</td>
</tr>
<tr>
<td>Cap in RUB k (Medical insurance)</td>
<td>—</td>
</tr>
<tr>
<td>Maximum liability per employee in RUB k</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 organisations, and Russian and foreign legal entities.

An employment relationship is defined in the Russian Labour Code as the personal performance of an employment function by an individual in return for remuneration. Employment relationships are distinguished from civil law service agreements.

If a civil law service agreement includes aspects that can be construed as an employment relationship, the mandatory provisions of Russian employment law will apply.

Employment contract

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

The general power to sign an employment contract lies with the general director of the employer. Employment contracts with employees of branches and representative offices of foreign companies are usually signed by the head of the 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 Labour Code. An employment contract is deemed to be entered into for an indefinite term if no time period is indicated in the agreement. Employees are entitled to enter into employment contracts with several different employers.

Probation

The probation 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 employees, for example mothers with children under 18 months old, cannot 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 under federal law (currently RUB 7,500), although higher limits may apply at a regional level. Salaries must be paid locally in monetary form, in roubles, and in no fewer than two monthly installments on the dates established by the employer’s internal polices or 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. The minimum annual paid vacation is 28 calendar days. An employee is entitled to receive pay during periods of sickness, and the employer is compensated for this with a reduction in its social insurance liability.

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

In addition, women are entitled to leave 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 based on 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 two weeks’ written notice by the employee alone.

The specific grounds for termination by an employer are listed in the Labour 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 his or her poor health, the employer should transfer the 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 days' written notice.

**Liability for violating the Labour Code**

Violations of the Labour Code and labour protection requirements may result in liability for both the legal entity and its officials.

Depending on the type of the violation, the fine for a legal entity may be up to RUB 200,000.

Officials of a legal entity may be subject to a fine in the amount of up to RUB 40,000 or disqualification for a period of up to three years.

If the company's official is a foreign national who is brought to administrative liability for an administrative offence committed in Russia more than once within a three-year period, the 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.

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 Russia for business purposes. Work permits for foreign employees are issued through the employer by the Russian Ministry of Internal Affairs (MIA).

**Work permits – usual procedure**

A Russian company, or the branch or representative office of a foreign company, can employ a foreign "visa national" (i.e. a foreign national requiring a visa) only if:

- The employer has obtained a corporate permit to employ foreign nationals
- The employer has obtained an individual work permit for the employee

These requirements do not apply to certain limited categories of foreign employees, for example, employees of foreign equipment manufacturers who perform installation services in Russia, journalists, and some others. Furthermore, these requirements do 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:

- Obtaining quota positions for employing foreign nationals (although some work positions, such as the head of a representative office, fall outside of the quota requirement)
- Obtaining confirmation from the local employment centre
- Obtaining a corporate permit to employ foreign nationals from the MIA
- Obtaining an individual work permit for each foreign national

Visa-free nationals may work in Russia on the basis of a special patent obtained 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 one month to one 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 seven working days of arrival in Russia (or arrival at a new location within Russia for a stay of more than seven days). Employers risk heavy fines in the event of a default. Deregistration is performed by the MIA when the foreign national crosses the Russian border, or registers in a new location in Russia.

Most foreign employees are obliged to confirm their knowledge of Russian language, history, and the basics of the law to obtain or renew a work permit. A foreign employee has to submit either a Russian school or high-school diploma to the migration authorities, or a current special certificate confirming the required knowledge (such certificates are valid for five years). This must be done within 30 days after the work permit is issued, or the permit will be cancelled. This requirement does not apply to highly qualified specialists and some other limited categories of foreign nationals.

**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. A reduced minimum salary requirement applies to certain limited categories of foreign nationals; no minimum salary requirement applies to foreign nationals working in the Skolkovo Innovation Center.

Eligible employers include Russian commercial legal entities, registered branches and representative offices of foreign legal entities, and some categories of nonprofit organisations.

The benefits of the HQS procedure include:

- No quota restrictions
- No requirement to obtain approval from the local employment centre or corporate permits to employ foreign nationals
- 14 working days for the approval/rejection of an application
- Work permit validity for up to three years (and possible extension for a further three years)
- Work permits 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 up to 90 days (or up to 30 days in other location(s) within Russia)

The employer of the HQS should notify the Russian migration authorities of payments made to the HQS on a quarterly basis. Such reports may be used to verify the employer’s compliance with the salary payment obligations.
Liability for violating immigration legislation

Violations of immigration law may result in significant liabilities. When the employer lacks the necessary corporate permit to employ foreign nationals and/or employs them without a work permit or fails to submit certain notifications to the MIA, the employer risks fines of up to RUB 800,000 or the suspension of its activities for up to 90 days. The employer’s officials may face fines of up to RUB 50,000.

A foreign national can also be fined up to RUB 5,000, depending on the type of offence, and may be deported from the Russian Federation. In case of deportation, the foreign national will not be allowed to enter Russia for a period of five years.

If violations of migration law were committed in Moscow, St. Petersburg, Moscow Region, or Leningrad Region, more severe sanctions may apply. In particular, the amount of the administrative fines for the employer may be up to RUB 1,000,000 and up to RUB 70,000 for the employer’s officials. Personal fines imposed on foreign nationals may be up to RUB 7,000, and an obligatory deportation from the Russian Federation may follow.

The administrative fines imposed on the employer are applied with respect to each foreign national individually, i.e. if a violation is committed with respect to several foreign nationals, the fine will be multiplied by the number of foreign nationals who worked without a work permit or in violation of another provision of the immigration legislation.

Secondment

From 1 January 2016, secondment arrangements are generally prohibited under Russian legislation, except in cases specifically provided for by the law. Such exemptions include the provision of personnel (“secondment”) 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 should be set under legislation which has not been adopted yet).

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
- The entry into a relevant addendum to the existing employment agreement supporting secondment in compliance with Russian legislation
- Work under secondment arrangements shall be performed in the interests and under the control of a person that is not the employer of the secondee (i.e. by the “recipient” of the personnel under the secondment arrangement)
- As a general rule, the work of a secondee should be of a temporary nature (for example, 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 “recipient” of the personnel under the secondment arrangement shall be obliged to meet the labour protection requirements in accordance with the Russian legislation in respect of secondees

Although the new regulations on secondment that took effect on 1 January 2016 provided for an option to establish a specific procedure for obtaining work permits for foreign nationals working under secondment arrangements, as of today such a procedure has not been adopted.

In practice, the Russian migration authorities do not issue work permits based on secondment agreements; only a direct labour contract between a foreign national and employer in Russia may serve as the legal basis for obtaining a work permit.
Currency control
Doing business in Russia 2017

Currency control

Overview

The national currency of the Russian Federation is the rouble. Historically, strict currency control regulations were used to protect the rouble against devaluation and discourage capital flight. Later, the Central Bank of Russia (CBR) and the federal government began a programme of currency liberalisation, with the most significant amendments introduced in 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 rouble 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 roubles 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 organisations, and
(vi) the Russian Federation itself, its regions and municipal units.

Non-residents are defined as
(i) individuals who are not defined as residents
(ii) legal entities and other organisations registered under the legislation of a foreign country and located outside the Russian Federation
(iii) organisations (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 organisations accredited in the Russian Federation
(v) international and intergovernmental organisations, 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 organisations located in the Russian Federation

Authorised 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, roubles or internal securities.

Regulations on currency operations

Between residents

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

Between non-residents

Non-residents have the right to open and operate both foreign currency and rouble bank accounts at an authorised 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 authorised banks. Transactions involving internal securities between non-residents are permitted but subject to compliance with the 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. However, such operations may still be subject to certain formalities.

Currency formalities and 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 at 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 roubles and foreign currency received from such activities to their Russian bank accounts, subject to certain exceptions.

Liability for infringements

Administrative liability

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

The Russian Code of Administrative Offences defines an “illegal currency operation” as an operation directly prohibited by the Russian currency control regulations or an operation performed in violation of these regulations.

Criminal liability

Criminal liability may apply to residents failing to repatriate funds under contracts entered into with non-residents for an amount exceeding RUB 9 million (per transaction or within a one-year period) to the Russian Federation. This violation may result in the imprisonment of the head of the legal entity for up to three years (or up to five years, if the non-repatriated amount exceeds RUB 45 million).
Transfer pricing
Transfer pricing

Overview

The current transfer pricing rules were introduced on 1 January 2012. The key changes included an 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. Russia is not an OECD member and taxpayers should not explicitly rely on the OECD’s transfer pricing guidelines in developing their Russian transfer pricing policies and supporting documentation, which needs to be tailored to the Russian transfer pricing rules. Existing interpretations of the rules are few in number, mostly represented by Russian Federal Tax Service communications and court decisions concerning the application of the transfer pricing rules. Below we summarise the key provisions of the Russian transfer pricing rules.

Related parties

There are 11 categories of related parties. Holding a stake of more than 25 percent in a company is one of the main related party criteria, although the parties can be recognised as related by court on grounds other than those mentioned in the law, while taxpayers can likewise claim to be affiliated on other grounds.

Transfer pricing methods

There are five permitted transfer pricing methods:
1. The comparable uncontrolled price method
2. The resale-minus method
3. The cost-plus method
4. The comparable profitability method
5. The profit-split method

The legislation provides detailed guidelines on the application of each method. The comparable uncontrolled price (CUP) method 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 in 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

- A transaction is considered a related-party transaction
- If the transactions between two related parties in a calendar year exceed RUB 1 billion
- If the transactions between two related parties in a calendar year exceed RUB 60 million and one of the following conditions 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 zero rate
  - 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 and one of the parties pays unified tax on imputed income or unified agricultural tax.
The 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 larger Russian companies in 2012.

Sources of information

The information required to determine market price/profitability should be obtained from domestic and foreign stock and commodity exchanges, customs data relating to Russian overseas trade, and other domestic and foreign publicly available 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 the local Russian benchmark should be run first.

Corresponding adjustments

Self-initiated corresponding adjustments are allowed starting from 2015.

Advanced pricing agreements (APAs)

Russian transfer pricing legislation contains an opportunity for larger taxpayers to enter into an APA, by following a special procedure. An APA may be signed for a period not exceeding three years and is, generally, effective from 1 January of the calendar year following the year in which it was signed.

Transfer pricing audit and penalties

Please refer to the chapter entitled “Tax Administration”.

Transfer pricing compliance

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 prepared in a special form disclosing the detailed information about the controlled transactions that took place during the reporting period (e.g. the type, the amount, contract details, contractor’s data etc.). Detailed instructions on filling in the notification form were specified by the Federal Tax Service in Order No. MMV-7-13/524@ of 27 July 2012.

The tax authorities may request transfer pricing documentation relating to the taxpayer’s controlled transactions during a calendar year no earlier than 1 June of the following year. Companies should provide the transfer pricing documentation within 30 days of receiving a request from the tax authorities. In Letter No. OA-4-13/14433@ of 30 August 2012, the Federal Tax Service set out the requirements towards the content of transfer pricing documentation and its structure, generally following the OECD’s standards. The documentation must be prepared in Russian.

Country-by-country reporting and three-tier documentation requirements

In March 2017, a new draft law was published, introducing key requirements towards the documentation that participants of multinational enterprise groups must submit to the tax authorities. It includes the requirements for notifications of participation in multinational enterprise groups, for global and national documentation, and for country-by-country reporting. Plans call for the new requirements to be applicable for the tax periods starting from 1 January 2017. Voluntary filing for 2016 will be possible when the procedure for such filing is introduced.
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 inspectorates 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 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.

Tax evasion committed by legal entities

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

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

Evasion of tax payments by individuals

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

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

An individual is exempt from criminal liability for tax evasion if it is a first-time 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 held liable for a criminal violation, with fines ranging from RUB 200,000 to 500,000 or imprisonment for up to five years. A ban on 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 percent of the world’s proven oil reserves and around 24 percent 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 the Russian economy’s 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 licence for the use of subsoil resources, including expenses on the assessment of natural resource deposits, feasibility studies, obtaining geological information, etc. should be included in the cost of the relevant licence, treated as an intangible asset, and amortised on a straight-line basis over its useful life. The costs of participation in a licence tender may, alternatively, be treated as production and sale expenses and amortised over a period of two years at the taxpayer’s request. If no licence is obtained, the expenses are amortised over a period of two years following the month of the relevant tender.

- Expenses relating to the exploration (successful or not) and assessment of natural resource deposits should be deducted on a straight-line basis over a 12-month period following the completion of the works. Separate tax accounting is required for each exploration project.

- Expenses relating to the preparation of land plots for the extraction of natural resources and cleaning up the environmental damage caused during the construction and operation of extraction plants are deductible evenly over a two-year period following the completion of the works (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.

Expenses for 2016 relating to the exploration of natural resources can be deducted no earlier than the date of sale of the first new offshore hydrocarbon field located on the subsurface area or the date when the taxpayer decided to terminate the works on the area for economic, geological or other reasons. Starting from 1 January 2017, this requirement is cancelled.

If the right over the use of the subsurface area terminated in 2016, the taxpayer may not deduct more than one third of the total sum of the expenses relating to the exploration of natural resources incurred on the area. Starting from 1 January 2017, this requirement is cancelled.
Starting from 1 January 2017, taxpayers incurring expenses relating to the exploration, assessment, and (or) prospecting of new offshore hydrocarbon fields within the licensed area may deduct them, applying a multiplier of 1.5.

No provisions for future abandonment costs are allowed, and thus these costs become 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.

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

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

### Mineral extraction tax
The mineral extraction tax (MET) is imposed on legal entities and private entrepreneurs in relation to the extraction of minerals, including oil and gas, from subsoil deposits and production waste. To be permitted to extract minerals commercially, an appropriate licence 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 mineral resources extracted and their selling price, 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 volume based on their production costs. The value must be calculated based on the tax accounting records maintained for profit tax purposes and the procedures provided by tax legislation.

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

The following formula is used to calculate the MET rate on oil:

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

*Only the straight-line method is applicable in relation to fixed assets used by a taxpayer who carries out activities associated exclusively with the extraction of hydrocarbons on new offshore fields regardless of the 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.

### Depreciation

<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, computers and peripheral equipment, office machinery</td>
<td>Only the straight-line method is applicable in relation to fixed assets used by a taxpayer who carries out activities associated exclusively with the extraction of hydrocarbons on new offshore fields regardless of the depreciation group.</td>
</tr>
<tr>
<td>3</td>
<td>3 – 5</td>
<td>Elevators, forestry tractors, automobiles, light trucks (with a capacity of under 3.5 tonnes)</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>5 – 7</td>
<td>Office furniture, television equipment, clocks, tank trucks</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>7 – 10</td>
<td>Oil/gas collection systems, oil wells, heavy trucks (with a capacity of 3.5-12 tonnes and over 12 tonnes)</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>10 – 15</td>
<td>Gas pipelines, fibre-optic communication systems, railway transport infrastructure</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></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 a taxpayer who carries out activities associated exclusively with the extraction of hydrocarbons on new offshore fields regardless of the depreciation group.*
where:

<table>
<thead>
<tr>
<th>Base rate</th>
<th>is RUB 857 per tonne in 2016 and RUB 919 per tonne for 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cp</td>
<td>A coefficient representing world oil prices</td>
</tr>
<tr>
<td>Em</td>
<td>A coefficient representing oil extraction factors. Em is calculated based on the following formula: ( Em = C_{met} \times Cp \times (1 - Cd \times Cr \times C_{de} \times C_{rd} \times C_{can}) - Cc ), where</td>
</tr>
<tr>
<td>C_{met}</td>
<td>is equal to 559 from 2016</td>
</tr>
<tr>
<td>Cd</td>
<td>represents the level of depletion of a given site's reserves</td>
</tr>
<tr>
<td>Cr</td>
<td>represents the quantity of a given site's reserves</td>
</tr>
<tr>
<td>C_{de}</td>
<td>represents the difficulty of extraction</td>
</tr>
<tr>
<td>C_{rd}</td>
<td>represents the level of depletion of a particular hydrocarbon deposit taken separately</td>
</tr>
<tr>
<td>C_{can}</td>
<td>reflects the quality of oil and the region of extraction. It equals zero for oil produced on sites that are located wholly or partially within the borders of the Republic of Sakha (Yakutia), Irkutsk Region, Krasnoyarsk Territory, to the north of the Arctic Circle, in the Sea of Azov, the Sea of Okhotsk, the Black Sea, the Caspian Sea, in the Nenets Autonomous District or on the Yamal Peninsula in the Yamal-Nenets Autonomous District</td>
</tr>
<tr>
<td>Cc</td>
<td>is a new coefficient. Its value for 2017 is set at RUB 306, for 2018 at RUB 357, and for 2019 at RUB 428.</td>
</tr>
</tbody>
</table>

The tax rate for natural gas should be determined as: \( MET \text{ rate} = 35 \times Usf \times Cdf + Ctr \), where 35 is RUB 35 per 1,000 cubic meters of extracted gas, Usf is the unit of equivalent fuel, Cdf is a coefficient reflecting the difficulty of gas production, Ctr is an indicator of transport expenses.

The calculation of the MET rate for gas condensate is based on the following formula: \( MET = 42 \times Usf \times Cdf \times Ccm \), where 42 is RUB 42 per tonne for gas condensate, Usf is the base value of a unit of standard fuel, Cdf is the extraction complexity factor, Ccm is the adjusting coefficient, which is equal to 5.5 in 2016, 3.6 in 2017, 4.6 in 2018, and 4.5 in 2019. 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.

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 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 production of 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 6**

<table>
<thead>
<tr>
<th>Type of excisable goods</th>
<th>2016 (1 January-31 March)</th>
<th>2016 (1 April-31 December)</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gasoline:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Class 5</td>
<td>7 530</td>
<td>10 130</td>
<td>10 130</td>
<td>10 535</td>
<td>10 957</td>
</tr>
<tr>
<td>Other classes</td>
<td>10 500</td>
<td>13 100</td>
<td>13 100</td>
<td>13 100</td>
<td>13 100</td>
</tr>
<tr>
<td>Diesel fuel</td>
<td>4 150</td>
<td>5 293</td>
<td>6 800</td>
<td>7 072</td>
<td>7 355</td>
</tr>
<tr>
<td>Motor oils</td>
<td>6 000</td>
<td>6 000</td>
<td>5 400</td>
<td>5 400</td>
<td>5 400</td>
</tr>
<tr>
<td>Straight-run gasoline</td>
<td>10 500</td>
<td>13 100</td>
<td>13 100</td>
<td>13 100</td>
<td>13 100</td>
</tr>
<tr>
<td>Benzol, paraxylene, orthoxygen, and jet kerosene</td>
<td>3 000</td>
<td>3 000</td>
<td>2 800</td>
<td>2 800</td>
<td>2 800</td>
</tr>
</tbody>
</table>

The taxpayer may offset the 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 the prescribed procedures.

Goods derived from blending other excisable goods are not subject to additional duties, 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 Russian civil aviation operators and holding 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 orthoxygen should have a special certificate to recover excise tax. Please see Table 7 below.

**Table 7**

<table>
<thead>
<tr>
<th></th>
<th>2016 (1 January-31 July)</th>
<th>2016 (1 August-31 December)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Straight-run gasoline</td>
<td>1.60</td>
<td>1.40</td>
</tr>
<tr>
<td>Benzol, paraxylene and orthoxygen</td>
<td>2.84</td>
<td>2.84</td>
</tr>
<tr>
<td>Jet kerosene</td>
<td>1.84</td>
<td>1.84</td>
</tr>
</tbody>
</table>

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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 8

<table>
<thead>
<tr>
<th>Urals prices (P) (USD per tonne)</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) for 2017</td>
</tr>
</tbody>
</table>

Export duty was set at 40 percent (in 2016) and is now 30 percent (from 2017) of the duty on crude oil applicable to light petroleum products (with the exception of gasoline).

Export duty was set at 82 percent (in 2016) and is now 100 percent (from 2017) of the duty on crude oil applicable to dark petroleum products.

Export duty was set at 61 percent (in 2016) and is now 30 percent (from 2017) of the duty on crude oil applicable to gasoline (excluding straight-run gasoline). The rate for straight-run gasoline was lowered to 71 percent in 2016 and 55 percent in 2017.

The rate of export duty on natural gas is currently approximately 30 percent of the customs value; a zero 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:

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

where

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

\[
K \text{ is a coefficient dependent on the year (0.2 in 2016, 0.3 in 2017, 0.4 in 2018, etc.).}
\]

The Russian Government was granted the right to establish special formulae for export duties on:

- High-viscosity oil for a period of 10 years, but no later than 1 January 2023:

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

where

\[
\text{Ret is the export duty rate}
\]

\[
P \text{ is the average Urals price (Rotterdam and Mediterranean) for the monitoring period}
\]

- Crude oil with specific physical and 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 tonnes (if an application for the tax benefit was submitted in 2013) or 5 million tonnes (if the application was submitted in 2014 or later), and the accumulated volume of oil extraction should be less than 5 percent. The rate on this crude oil should not exceed the rate calculated in accordance with the following formula:

\[
\text{Ret} = (P - 182.5) \times C \times 0.57 - P \times 0.14
\]

where

\[
\text{Ret is the export duty rate}
\]

\[
C \text{ is a coefficient, which equals 36 percent for 2016 and 30 percent for 2017}
\]

\[
P \text{ is the average Urals price (Rotterdam and Mediterranean) for the monitoring period}
\]

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

Continental shelf

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

- New terms and definitions in the taxation of hydrocarbon extraction on the continental shelf, including a new type of taxpayer: operator of new hydrocarbon fields
- Assessment of VAT, profit tax, and MET on activities related to hydrocarbon extraction on the continental shelf, including the specifics of tax accounting, the procedure for determining the tax base (with more advantageous rules for tax deduction), and the conditions for the application of reduced and zero tax rates
- Property tax incentives, with transport tax exemptions for stationary and floating sea platforms, mobile drilling rigs, and drilling vessels
Doing business in Russia 2017

• Exemption from customs duties of oil and gas exports from new marine hydrocarbon fields

Some 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 licences for exploration and production are subject to the payments described below.
• Regular payments for the right to prospect and assess oil and gas deposits. The rate is set by the State Fund of Subsurface Resources within the range of RUB 120 to RUB 540 per square kilometer of the area being prospected and appraised. For the continental shelf and Russia’s exclusive economic zone, the rate varies from RUB 50 to RUB 225
• Regular payments for the right to explore deposits (i.e. the stage following prospecting and assessment). The rate is also set by the State Fund of Subsurface Resources within the range of RUB 5,000 to RUB 20,000 per square kilometer of explored area. For the continental shelf and Russia’s exclusive economic zone, the rate is between RUB 4,000 and RUB 16,000
• One-off payments for the use of subsurface resources. Set individually in the relevant licences, they should not be lower than 10 percent of the estimated annual MET. They may be one of the most significant costs related to obtaining and developing a licenced area

• Fees for participation in a tender/auction. The fee is determined based on the costs of preparing for, holding, and evaluating the tender/auction plus the fees paid to experts.

Production-sharing regime

Legislative framework

Production Sharing Agreements (PSAs) are governed by a special 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. 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 cases where a tender was previously held and later declared invalid due to a lack of bidders interested in the opportunity under the general tax regime. PSA legislation has proved to be a significant obstacle to the establishment of new agreements.

Under the direct method, the investor is entitled to a share of up to 68 percent of the total quantity of mineral resources 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 PSAs currently in effect (Kharyaga, Sakhalin 1, and Sakhalin 2) were signed before the existing PSA regime came into effect. Those PSAs were “grandfathered” according to a special legislative exception, freezing the contractual terms. For example, the profit tax rate established for investors under Sakhalin 2 is now higher (at 32 percent) than under the general tax regime. In addition, VAT and customs duty exemptions may apply to investors.
Mining taxation
Overview

This chapter relates to taxpayers engaged in the extraction of mineral resources 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 percent¹</td>
</tr>
<tr>
<td>Concentrates and other intermediate products</td>
<td>6 percent</td>
</tr>
<tr>
<td>containing gold</td>
<td></td>
</tr>
<tr>
<td>Concentrates and other intermediate products</td>
<td>6.5 percent</td>
</tr>
<tr>
<td>containing precious metals (other than gold)</td>
<td></td>
</tr>
<tr>
<td>Standard ores of non-ferrous metals (other than</td>
<td>8 percent</td>
</tr>
<tr>
<td>nephelines and bauxites)</td>
<td></td>
</tr>
<tr>
<td>Diamonds and other precious and semi-precious</td>
<td>8 percent</td>
</tr>
<tr>
<td>stones</td>
<td></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 volume based on their production costs. Certain rates of MET are shown in Table 9.

Starting from 1 January 2017, a specific MET rate of RUB 730/t is set for the taxation of multicomponent ore extraction in Krasnoyarsk Krai.

Participants of the exclusive economic zone of 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 authorised banks are not subject to VAT. 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
• Sales of precious metals and precious stones by the CBR and authorised banks
• Sales of raw precious stones, excluding unprocessed diamonds, for processing and subsequent export sale
• Sales of unprocessed diamonds to processing companies

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

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 percent</td>
</tr>
<tr>
<td>Diamonds</td>
<td>7102</td>
<td>6.5 percent</td>
</tr>
<tr>
<td>Precious and semi-precious stones (excluding diamonds)</td>
<td>7103</td>
<td>6.5 percent</td>
</tr>
<tr>
<td>Copper, various types</td>
<td>7401-7403; 7405</td>
<td>5 percent or 10 percent</td>
</tr>
<tr>
<td>Copper waste and scrap</td>
<td>7404</td>
<td>EUR 30, but no less than EUR 252 for 1,000 kg</td>
</tr>
<tr>
<td>Nickel waste and scrap</td>
<td>7503</td>
<td>EUR 16.66, but no less than EUR 400 for 1,000 kg</td>
</tr>
<tr>
<td>Aluminium alloys</td>
<td>7601</td>
<td>2.5 percent</td>
</tr>
<tr>
<td>Aluminium waste and scrap</td>
<td>7602</td>
<td>EUR 30, but no less than EUR 228 for 1,000 kg</td>
</tr>
<tr>
<td>Lead waste and scrap</td>
<td>7802</td>
<td>EUR 22, but no less than EUR 77 for 1,000 kg</td>
</tr>
<tr>
<td>Zinc waste and scrap</td>
<td>7902</td>
<td>EUR 22, but no less than EUR 132 for 1,000 kg</td>
</tr>
</tbody>
</table>
Appendix 1
## Withholding tax rates (percent) 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><strong>Dividends</strong></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 percent</td>
</tr>
<tr>
<td>Argentina</td>
<td>10</td>
<td>15</td>
<td>25 percent</td>
</tr>
<tr>
<td>Armenia</td>
<td>5</td>
<td>10</td>
<td>25 percent</td>
</tr>
<tr>
<td>Australia</td>
<td>5</td>
<td>15</td>
<td>10 percent &amp; AUD 700,000</td>
</tr>
<tr>
<td>Austria</td>
<td>5</td>
<td>15</td>
<td>10 percent &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 percent</td>
</tr>
<tr>
<td>Brazil</td>
<td>10</td>
<td>15</td>
<td>20 percent</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 percent</td>
</tr>
<tr>
<td>Chile</td>
<td>5</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>China</td>
<td>5</td>
<td>10</td>
<td>25 percent &amp; EUR 80,000</td>
</tr>
<tr>
<td>Croatia</td>
<td>5</td>
<td>10</td>
<td>25 percent &amp; USD 100,000</td>
</tr>
<tr>
<td>Cuba</td>
<td>5</td>
<td>15</td>
<td>25 percent</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 percent &amp; USD 100,000</td>
</tr>
<tr>
<td>France</td>
<td>5/10 exemption; 5/10 exemption;</td>
<td>15</td>
<td>5 percent if FRF 500,000 &amp; dividend is met</td>
</tr>
<tr>
<td>Germany</td>
<td>5</td>
<td>15</td>
<td>10 percent &amp; EUR 80,000</td>
</tr>
<tr>
<td>Greece</td>
<td>5</td>
<td>10</td>
<td>25 percent</td>
</tr>
</tbody>
</table>
### Doing business in Russia 2017

<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>Hong Kong</td>
<td>5</td>
<td>10</td>
<td>15 percent</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 percent &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 percent</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 percent &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 percent &amp; USD 100,000</td>
</tr>
<tr>
<td>Kuwait</td>
<td>0</td>
<td>5</td>
<td>25 percent 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 percent &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 percent &amp; USD 100,000</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>5</td>
<td>15</td>
<td>10 percent &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 percent &amp; EUR 100,000</td>
</tr>
<tr>
<td>Mexico</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>Moldova</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>Mongolia</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
</tr>
</tbody>
</table>
### Doing business in Russia 2017

<table>
<thead>
<tr>
<th>Country of recipient</th>
<th>Dividends</th>
<th>Interest</th>
<th>Royalties</th>
</tr>
</thead>
<tbody>
<tr>
<td>Montenegro, Serbia (former Yugoslavia DTT)</td>
<td>5</td>
<td>15</td>
<td>25 percent &amp; USD 100,000</td>
</tr>
<tr>
<td>Morocco</td>
<td>5</td>
<td>10</td>
<td>USD 500,000</td>
</tr>
<tr>
<td>Namibia</td>
<td>5</td>
<td>10</td>
<td>25 percent &amp; USD 100,000</td>
</tr>
<tr>
<td>Netherlands</td>
<td>5</td>
<td>15</td>
<td>25 percent &amp; EUR 75,000</td>
</tr>
<tr>
<td>New Zealand</td>
<td>15</td>
<td>15</td>
<td>N/A</td>
</tr>
<tr>
<td>Norway</td>
<td>10</td>
<td>15</td>
<td>N/A</td>
</tr>
<tr>
<td>Philippines</td>
<td>15</td>
<td>15</td>
<td>N/A</td>
</tr>
<tr>
<td>Poland</td>
<td>10</td>
<td>15</td>
<td>N/A</td>
</tr>
<tr>
<td>Portugal</td>
<td>10</td>
<td>15</td>
<td>25 percent &amp; 2 years</td>
</tr>
<tr>
<td>Qatar</td>
<td>5</td>
<td>5</td>
<td>N/A</td>
</tr>
<tr>
<td>Romania</td>
<td>15</td>
<td>15</td>
<td>N/A</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>0</td>
<td>5</td>
<td>Direct state ownership</td>
</tr>
<tr>
<td>Singapore</td>
<td>5</td>
<td>10</td>
<td>15 percent</td>
</tr>
<tr>
<td>Slovak Republic</td>
<td>10</td>
<td>15</td>
<td>N/A</td>
</tr>
<tr>
<td>Slovenia</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>South Africa</td>
<td>10</td>
<td>15</td>
<td>30 percent &amp; USD 100,000</td>
</tr>
<tr>
<td>Spain</td>
<td>5/10 exemption;</td>
<td>15</td>
<td>5 percent if EUR 100,000 &amp; dividend</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>10</td>
<td>15</td>
<td>25 percent</td>
</tr>
<tr>
<td>Sweden</td>
<td>5</td>
<td>15</td>
<td>100 percent (30 percent in JV) &amp; USD</td>
</tr>
<tr>
<td>Switzerland</td>
<td>0/5</td>
<td>15</td>
<td>20 percent &amp; CHF 200,000</td>
</tr>
<tr>
<td>Syria</td>
<td>15</td>
<td>15</td>
<td>N/A</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>5</td>
<td>15</td>
<td>25 percent</td>
</tr>
</tbody>
</table>

---

1. If the beneficial owner of dividends is the Government of the other State, any political subdivision or local authority, or the Central Bank.
2. Zero effective for a pension fund, the Government of the other State, any political subdivision or local authority, or the Central Bank.
<table>
<thead>
<tr>
<th>Country of recipient</th>
<th>Dividends</th>
<th>Interest</th>
<th>Royalties</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thailand</td>
<td>15</td>
<td>N/A</td>
<td>10/15</td>
</tr>
<tr>
<td>Turkey</td>
<td>10</td>
<td>N/A</td>
<td>10</td>
</tr>
<tr>
<td>Turkmenistan</td>
<td>10</td>
<td>N/A</td>
<td>5</td>
</tr>
<tr>
<td>Ukraine</td>
<td>5</td>
<td>USD 50,000</td>
<td>10</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>10</td>
<td>If dividends are subject to tax</td>
<td>0</td>
</tr>
<tr>
<td>United States</td>
<td>5</td>
<td>10 percent</td>
<td>0</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>10</td>
<td>N/A</td>
<td>0</td>
</tr>
<tr>
<td>Venezuela</td>
<td>10</td>
<td>10 percent &amp; USD 100,000</td>
<td>10/15</td>
</tr>
<tr>
<td>Vietnam</td>
<td>10</td>
<td>USD 10,000,000</td>
<td>15</td>
</tr>
</tbody>
</table>
Appendix 2
### Appendix 2

**A brief summary of tax, statistical, and ecological reporting requirements for representative offices and branches of foreign legal entities for 2017**

<table>
<thead>
<tr>
<th>Tax</th>
<th>Tax Base</th>
<th>Rate</th>
<th>Deadline for tax payment</th>
<th>Filing obligations</th>
<th>Filing deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual activity report (submitted with an explanatory note to profit tax declaration)</td>
<td></td>
<td></td>
<td></td>
<td>Annually</td>
<td>No later than 28 March of the year following the reporting year.</td>
</tr>
<tr>
<td><strong>Profit tax</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actual profit for the quarter on a cumulative basis.</td>
<td>20 percent including: 3 p.p. — federal budget; 17 p.p. — regional budget.</td>
<td>For quarterly payments: no later than the 28th day of the month following the reporting quarter.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividend income received by foreign legal entities from Russian legal entities.</td>
<td>15 percent</td>
<td>For the final tax payment for the year: no later than 28 March of the year following the reporting year.</td>
<td></td>
<td>Annual tax return</td>
<td></td>
</tr>
<tr>
<td><strong>Withholding tax on Russian-sourced income payable to a FLE (Foreign Legal Entity)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income that is not related to the permanent establishment of this FLE in Russia, including (but not limited to): • Dividends • Interest on loans • Royalties • Rental income • Leasing and freight operations • Income from international shipments.</td>
<td>20 percent — general rate 15 percent — on dividends 10 percent — 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 one day following the payment of income to the FLE. For dividends, tax must be paid within one day.</td>
<td>Quarterly reports  The procedure is the same as for the profit tax.</td>
<td>Quarterly — no later than the 28th day 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>
<td></td>
</tr>
</tbody>
</table>

---

1. Please note that we summarised the most common statutory, taxation, statistical and ecological reporting requirement for FLEs, not taking into account special taxation regimes and special types of activities (financial institutions, insurance companies, organisations engaged in mining, agriculture etc).  
2. If a statutory deadline falls on a non-working day (weekend or public holiday), it is transferred to the first working day following the due date.  
3. An explanatory note is recommended by the Moscow tax authorities, it should contain the detailed information on the FLE's activity in Russia. The tax authorities of other regions can have similar requirements, which needs to be clarified on a case-by-case basis.  
4. Regional rates can be reduced by a decision of the regional authorities, but not more than by 4.5 p.p.  
5. Please note that these rates can be reduced according to the relevant double tax treaty.  
6. To be withheld by the tax agent from the amount of income due to a FLE. Please note, that the reports should be submitted to the tax authorities even if the income paid is not subject to tax.  
7. Please note that these rates can be reduced according to the relevant double tax treaty.
### Taxation in Russia 2017

<table>
<thead>
<tr>
<th>Tax</th>
<th>Tax Base</th>
<th>Rate</th>
<th>Deadline for tax payment</th>
<th>Filing obligations</th>
<th>Filing deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td>VAT</td>
<td>Value of goods (works, services) sold in Russia, transfer of goods (works, services) for own needs, installation and construction works for own use. VAT, payable to the tax authorities, is determined as the difference between the VAT charged to customers and the VAT paid to suppliers of goods and customs. Some types of activities are VAT-exempt (medical, educational and cultural services).</td>
<td>18 percent — standard rate 10 percent — for certain foodstuffs, goods for children, medicines, books and periodical literature. 0 percent — exports, international passenger transportation.</td>
<td>One third of the tax amount payable is due no later than the 25th day of each month of the quarter following the reporting quarter.</td>
<td>Quarterly tax returns VAT returns must be submitted to tax authorities electronically.</td>
<td>Quarterly — no later than the 25th day of the month following the reporting quarter.</td>
</tr>
<tr>
<td>Withholding VAT tax on revenue payable to a FLE</td>
<td>Income paid to a FLE, not registered as a taxpayer in Russia, for services provided in Russia.</td>
<td>18 percent — standard rate 10 percent</td>
<td>VAT withheld is due to the budget on 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 day of the month following the reporting quarter.</td>
</tr>
</tbody>
</table>

---

8 Companies are entitled to an exemption from VAT if the amount of net sales revenues for three successive months is no more than RUB 2,000,000. To obtain the exemption, confirmation documents to the tax authorities no later than the 20th day of the month, when the exemption is applied for 12 months consecutively.

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

10 To be withheld by the tax agent from income due to an FLE.
### Doing business in Russia 2017

<table>
<thead>
<tr>
<th>Tax</th>
<th>Tax Base</th>
<th>Rate</th>
<th>Deadline for tax payment</th>
<th>Filing obligations</th>
<th>Filing deadline</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 subject to property tax; for other entities — the value of immovable property determined by special state authorities</td>
<td>Rates are established by the regional authorities&lt;sup&gt;11&lt;/sup&gt;.</td>
<td>Payment deadlines are established by the regional authorities.</td>
<td>Annual tax return.</td>
<td>Quarterly — no later than the 30&lt;sup&gt;th&lt;/sup&gt; day of the month following the reporting quarter. Annually — no later than 30 March of the year following the reporting year.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Moscow — 2.2 percent</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>For certain types of real estate, the tax base is determined as the cadastral value as of 1 January for the tax period. From 1 January 2016, advance tax payments based on cadastral value are calculated for each quarter separately.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>For fixed assets based on cadastral value: Moscow and other regions — 2 percent</td>
<td>Moscow: Quarterly — no later than the 30&lt;sup&gt;th&lt;/sup&gt; day of the month following the reporting quarter Annually — no later than 30 March of the year following the reporting year</td>
<td>Moscow: Interim (quarterly) and final (annual) tax returns.</td>
<td></td>
</tr>
<tr>
<td><strong>Transportation tax</strong></td>
<td>Engine horsepower of vehicle</td>
<td>Rates are established by regional authorities.</td>
<td>Deadlines for payments are established by the regional authorities.</td>
<td>Annual tax return</td>
<td>Annually — no later than 1 February of the year following the reporting year.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Moscow: Rates vary from RUB 7 to RUB 2,000, depending on the type of the vehicle and its engine power.</td>
<td>Moscow: Once a year, no later than 5 February of the year following the reporting year.</td>
<td>Moscow: annual tax return</td>
<td></td>
</tr>
<tr>
<td><strong>Land tax</strong></td>
<td>The cadastral value of a plot of land determined in compliance with the Russian land legislation, 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)&lt;sup&gt;13&lt;/sup&gt;.</td>
<td>Deadlines for payments are established by local authorities.</td>
<td>Annual tax return.</td>
<td>Annually — no later than 1 February of the year following the reporting year.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Moscow: Rates vary from 0.025 percent to 1.5 percent, 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. Annually — no later than 1 February of the year following the reporting year.</td>
<td>Moscow Annual tax return</td>
<td></td>
</tr>
</tbody>
</table>

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<sup>11</sup> According to the recent amendments to the Russian Tax Code, the movable property put on the books after 2013 will not be subject to property tax.

<sup>12</sup> The tax rate cannot exceed 2.2 percent. The regional authorities can also establish varied tax rates in accordance with the categories of taxpayers and property.

<sup>13</sup> Tax rate cannot exceed 0.3 - 1.5 percent depending on the category of a land plot. The local authorities, Moscow and St. Petersburg laws can also establish varied tax rates.
<table>
<thead>
<tr>
<th>Tax</th>
<th>Tax Base</th>
<th>Rate</th>
<th>Deadline(^a) for tax payment</th>
<th>Filing obligations</th>
<th>Filing deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales duty</strong> (effective in Moscow from 1 July 2015)</td>
<td>Number of sales outlets/sales area.</td>
<td>Rates are established by the local authorities (regional laws for the cities of Moscow and St. Petersburg).</td>
<td>Not later than the 25(^{th}) day of the month following the tax period (quarter).</td>
<td>Registration and de-registration of sales tax payers is done based on a notification provided by the company/individual entrepreneur.</td>
<td>Within five business days of the date when the taxable sales point is created.</td>
</tr>
<tr>
<td><strong>Personal income tax (PIT)(^{14})</strong></td>
<td>FLEs acting as tax agents are obliged to withhold PIT and pay it to the budget, based on salaries and benefits in kind paid or provided to employees and other individuals.</td>
<td>13 percent — for tax residents(^{15}) and highly qualified specialists(^{14}) 35 percent — for bonuses, insurance, receipts and interest with certain conditions 13 percent — for dividends, received by tax residents from Russian or foreign corporations 30 percent — for non-residents 15 percent — for dividends, received by non-residents from Russian corporations</td>
<td>On a monthly basis, no later than the day following the day of salary payment. For sick leaves and vacations payments – no later than the end of the month.</td>
<td>Annual report with information of income and PIT of individuals received income from FLE (2-NDFL form)(^{17}). Quarterly report with calculation of PIT (6-NDFL)</td>
<td>Electronic 2-NDFL forms must be filed no later than 1 April of the year following the reporting year. Quarterly (1,2,3) – no later than the last day of the month following the reporting quarter Annually (for 4(^{th}) quarter) — no later than 1 April of the year following the reporting year.</td>
</tr>
<tr>
<td><strong>Personal information of employees (full name, taxpayer's ID (INN), social security number card (SNILS))</strong></td>
<td>Monthly report to the Pension Fund (from 1 April 2016)</td>
<td>Monthly report – no later than the 15 day of the month following the reporting month</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

\(^{15}\) Individuals (both Russian and foreign), who spend more than 183 days in Russia during a 12-month rolling period (not interrupted by academic or medical leaves of up to six months).

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

\(^{17}\) If the employer provides any benefits in kind to the employees and cannot withhold and pay the applicable amount of tax, information regarding the benefits in kind received by the employees should be provided to the tax authorities. In such cases, the taxpayer files his reports twice: no later than 1 March and no later than 1 April of the year following the reporting year.
<table>
<thead>
<tr>
<th>Report</th>
<th>Filing obligations</th>
<th>Filing deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information about Average Number of Employees</td>
<td>Annual report to the tax authorities</td>
<td>Annual report — no later than 20 January of the year following the reporting year</td>
</tr>
<tr>
<td>Confirmation of the main type of company’s activity</td>
<td>Annually report to the Social Security Fund.</td>
<td>Annually — no later than 15 April of the year following the reporting year</td>
</tr>
</tbody>
</table>
## Tax / Contribution

<table>
<thead>
<tr>
<th>Tax / Contribution</th>
<th>Tax Base</th>
<th>Rate</th>
<th>Payment deadline</th>
<th>Filing obligations</th>
<th>Filing deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pension insurance contributions</strong>&lt;sup&gt;18&lt;/sup&gt;</td>
<td>Payroll (salary, bonuses, and other employee benefits). Pension insurance contributions are calculated for insured persons registered with the Pension Fund. In 2017 the tax base is capped at RUB 876,000&lt;sup&gt;19&lt;/sup&gt;.</td>
<td>22 percent for the tax base capped at RUB 876,000, and 10 percent of any amount exceeding the cap.</td>
<td>Compulsory monthly payments must be paid no later than the 15&lt;sup&gt;th&lt;/sup&gt; day of the month, following the month when contributions are accrued by the employer.</td>
<td>Quarterly reports on pension insurance contributions, on medical insurance contributions, on social security contributions in case of temporary disability or due to maternity leave must be submitted to the tax authorities.</td>
<td>Quarterly — no later than the 30th day of the month following the reporting quarter.</td>
</tr>
<tr>
<td><strong>Medical insurance contributions</strong>&lt;sup&gt;18&lt;/sup&gt;</td>
<td>Payroll (salary, bonuses and other employee benefits).</td>
<td>5.1 percent</td>
<td>Same as for Pension insurance contributions.</td>
<td>Quarterly reports on pension insurance contributions, on medical insurance contributions, on social security contributions in case of temporary disability or due to maternity leave must be submitted to the tax authorities.</td>
<td>Quarterly — no later than the 30th day of the month following the reporting quarter.</td>
</tr>
<tr>
<td><strong>Social security contributions</strong>&lt;sup&gt;18&lt;/sup&gt;</td>
<td>For 2017 the tax base is capped at RUB 755, 000&lt;sup&gt;20&lt;/sup&gt;.</td>
<td>2.9 percent</td>
<td>Same as for Pension insurance contributions.</td>
<td>Quarterly reports on pension insurance contributions, on medical insurance contributions, on social security contributions in case of temporary disability or due to maternity leave must be submitted to the tax authorities.</td>
<td>Quarterly — no later than the 30th day of the month following the reporting quarter.</td>
</tr>
<tr>
<td><strong>Accident insurance contributions</strong>&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). Rates vary from 0.2 percent to 8.5 percent and are assigned on an annual basis bySSF depending on the type of RLE activity in Russia.</td>
<td>Monthly, depending on salary payment dates, but no 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 reports to the Social Security Fund.</td>
<td>Quarterly — no later than the 20th day (for reports in hard copy) and the 25th day (for electronic reports) of the month following the reporting quarter.</td>
</tr>
</tbody>
</table>

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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 (except for accident insurance contributions to the Social Insurance Fund that are accrued for all employees).

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

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

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

<table>
<thead>
<tr>
<th>Documents to be submitted to tax authorities</th>
<th>Criteria for controlled transactions</th>
<th>Filing deadline</th>
</tr>
</thead>
</table>
| Notification on controlled transactions[^22] | **01. For transactions between interdependent entities that are residents of the Russian Federation:**  
A. The volume of transactions (including those performed through a chain of intermediaries) exceeded RUB 1 billion.  
B. The volume of transactions exceeded RUB 60 million in a calendar year, and:  
   i. It involves operations with mineral resources subject to payment of the ad valorem part of the mineral extraction tax (MET), and one of the parties is an ad valorem MET tax payer, or  
   ii. One of the parties does not pay the profit tax or pays it at a zero rate (Skolkovo resident), or  
   iii. One of the parties is a member of the regional investment project which pays the corporate income tax at a zero rate to the federal budget and (or) at a reduced tax rate to the regional budget, or  
   iv. One of the parties is a member of a regional investment project or a participant of a free economic zone, therefore entitled to the corporate income tax benefits, while (the) other party(-ies) to the transaction is not a resident of this special economic zone / participant of a free economic zone (the Crimean economic zone project), or  
   v. One of the parties is a license-holder or an operator on a new offshore hydrocarbon deposit, with a special accounting regime for income (expenses) for the corporate income tax purposes, while the other party is not a license holder or an operator of a new offshore hydrocarbon deposit, or it is a license holder or an operator of a new offshore hydrocarbon deposit, but it does not record the income (expenses) from such transaction for corporate income tax purposes according to a special procedure, set forth in the law  
C. The volume of transactions exceeded RUB 100 million in a calendar year and one of the parties pays the unified tax on imputed income or the unified agricultural tax.  
**02. For transactions with foreign organisations:**  
A. Transactions with interdependent entities (including through a chain of intermediaries).  
B. Transactions with a counterparty registered/domiciled/having tax residency in an offshore zone, if the transaction amount exceeds RUB 60 million.  
C. Foreign trade transaction in oil and oil products, ferrous and non-ferrous metals, mineral fertilisers, precious metals and jewellery, if the transaction amount exceeds RUB 60 million.  | No later than 20 May of the year following the calendar year when the controlled transactions were conducted.  |                                                                                                                                                                                                                                                                                   |

[^22]: Please find the detailed information for notifications on controlled transactions in Article 105.16 of the Tax Code

| Ecological levy[^97] | 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).  | Annually — reporting no later than 10 March and payment no later than 1 March, following the reporting year. |

[^97]: Please find the detailed information for notifications on controlled transactions in Article 105.16 of the Tax Code
Documents to be submitted to tax authorities

<table>
<thead>
<tr>
<th>Environmental duty</th>
<th>Criteria for controlled transactions</th>
<th>Filing deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental duty</td>
<td>Special reporting forms for recyclable goods/packaging. The duty has graduated rates (depending on the type of goods or their packaging)(^{24}).</td>
<td>Annually — Calculation form of the amount of the environmental fee and payment no later than 15 April, following the reporting year. Annually — Declaration of goods and packaging no later than 01 April of the year, following the reporting year. Annually — Report on the implementation of standards of waste disposal from use of the goods subject to disposal after loss of consumer properties no later than 1 April of the year, following the reporting year.</td>
</tr>
</tbody>
</table>

Statistical reporting\(^{25}\)

The structure of reporting package depends on the type of activity and size of a company\(^{26}\)

| Form P-4: Monthly — for entities with more than 15 employees Quarterly — for entities with less than 15 employees | Form 1-Enterprise: Annually for all entities (except small-scale businesses, banks, insurance and financial organizations) | Form 1-ES for entities with foreign participation Form 1-T Form P-1 for entities with more than 15 employees Form P-3: monthly and quarterly — for entities with more than 15 employees; Form P-6 for entities receiving/making foreign investments Form 1-DA for an entity working in the service sector | Monthly — no later than the 15th day of the month, following the reporting month Quarterly — no later than 15th day of the month, following the reporting quarter Annually — no later than 1 April of the year, following the reporting year Annually — no later than 24 March of the year, following the reporting year Annually — no later than 20 January of the year, following the reporting year Monthly — no later than the 4th day of the month, following the reporting month Monthly — no later than 28th day of the month, following the reporting month Quarterly — no later than 30th day of the month, following the reporting quarter Quarterly — no later than 20th day of the month, following the reporting quarter Quarterly — by the 15th day of the second month after the reporting quarter |

If you have any questions, please contact Deloitte professionals in the Moscow-based Business Process Solutions group at +7 (495) 787 06 00.

\(^{23}\) The Ecological Levy is not considered a tax payment and is regulated by Rostekhnadzor, the state ecological, technological, and nuclear oversight authority. The applicability and procedures for reporting and payment should be negotiated with this organisation.

\(^{24}\) If the goods or their packaging are no longer usable, they must be recycled, or the manufacturer or importer must pay an environmental duty. Exported goods/goods not intended for domestic use in Russia are not subject to the environmental duty.

\(^{25}\) 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. Please enquire about the full list of reports with the local statistics 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.
Doing business in Russia 2017

Rules for electronically supplied services, effective from 1 January 2017.

VAT accounting and compliance

The law applies to foreign providers of electronically supplied services ("ESS" or "e-services") and foreign intermediaries involved in supplying e-services. These entities are required to apply for Russian tax registration, assess and pay VAT by on the e-services provided to private customers. The first reporting period is the first quarter of 2017, i.e. 1 January 2017 – 31 March 2017. The VAT return for 1Q2017 should be filed and VAT paid by 25 April 2017. The form of the VAT return was approved and officially published. It also contains the requirement to keep a register of operations to confirm that the place of supply of services is Russia. The register of operations is not submitted to the tax authorities alongside with the VAT return; it should be provided if requested by the tax authorities during a tax audit. The format of the register has not been finalised yet.

Keep transaction registers

- Create a table listing transactions deemed to be supplied in Russia for each calendar quarter
- Indicate if conditions are met for recognising Russia as the place of supply of services to private customers
- Indicate service fees in RUB (fees received in foreign currency to be converted into RUB)
- To be submitted only if requested by the tax authorities

Determine tax point

- The last day of the quarter in which the payment is received
- Foreign currency payments to be converted into RUB at the Central Bank of Russia’s exchange rate effective on the last day of the quarter

Calculate VAT liability

- Multiply VAT-inclusive service fees in RUB by the 15.25 percent VAT rate (no reduced rates envisaged)

Prepare your VAT return and file it with tax authorities

- Special ESS VAT return form
- Submit on a quarterly basis by the 25th day of the month following the reporting quarter
- No Russian input credit or refund

Pay VAT liability

- Pay in RUB by the 25th day of the month following the reporting quarter

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Svetlana Borisova
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Appendix 3
## Calendar of statutory financial, taxation, statistical, and ecological reporting for Russian legal entities in 2017

### Financial reporting

<table>
<thead>
<tr>
<th>Report</th>
<th>Description/comments</th>
<th>Filing deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statutory financial</td>
<td>Annual reporting package:</td>
<td>No later than three calendar months after the end of the reporting year.</td>
</tr>
<tr>
<td>statements</td>
<td>• Balance Sheet;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Statement of Financial Performance;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Supplements to the Balance Sheet and Statement of Financial Performance.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Financial reports are filed with the tax authorities on an annual basis.</td>
<td>No later than three calendar months after the end of the reporting year.</td>
</tr>
<tr>
<td></td>
<td>The annual reporting package is also submitted to the state statistics authority.</td>
<td>No later than three calendar months after the end of the reporting year.</td>
</tr>
<tr>
<td></td>
<td>If the Russian legal entity (RLE) is subject to obligatory audit, the audit report is</td>
<td></td>
</tr>
<tr>
<td></td>
<td>submitted to both the tax and statistics authorities.</td>
<td>The audit report is submitted on the same date as the annual statutory financial</td>
</tr>
<tr>
<td></td>
<td></td>
<td>statements or within 10 working days of the day following the date of the audit</td>
</tr>
<tr>
<td></td>
<td></td>
<td>report (in any event, not later than 31 December of the year following the</td>
</tr>
<tr>
<td></td>
<td></td>
<td>reporting year).</td>
</tr>
</tbody>
</table>

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1 Please note that we summarised the most common statutory, taxation, statistical and ecological reporting for RLEs, not taking into account the special taxation regimes and specially regulated types of activities (financial institutions, insurance companies, organisations engaged in mining, agriculture, etc.).
## Tax reporting

<table>
<thead>
<tr>
<th>Tax</th>
<th>Tax base</th>
<th>Rate</th>
<th>Payment deadline</th>
<th>Filing obligations</th>
<th>Filing deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Profit tax</strong></td>
<td>Profit year-to-date</td>
<td>20 percent, including: 3 p.p. to the federal budget 17 p.p. to the regional budget</td>
<td>Payment procedures depend on the filing frequency. For filing on a monthly basis: • no later than the 28th day of the month following the reporting month • no later than 28 March of the year following the reporting year – for the final payment for the year. For filing on a quarterly basis: • Monthly advance payment: payable during the reporting period, not later than the 28th day of each month of the reporting quarter • Monthly tax payment: no later than the 28th day of the month following the reporting quarter • Final tax payment for the year: no later than 28 March of the year, following the reporting year.</td>
<td>The taxpayer is free to choose between filing on a monthly and a quarterly basis. For monthly filing, interim monthly tax returns and a final annual tax return are required. For quarterly filing, interim quarterly tax returns and a final annual tax return are required.</td>
<td>Depends on the reporting frequency. For the monthly basis, monthly returns are submitted no later than the 28th day of the month following the reporting month; the annual return — no later than 28 March of the year following the reporting year. For the quarterly basis, quarterly returns – no later than the 28th day of the month following the reporting quarter; the annual return — no later than 28 March of the year following the reporting year.</td>
</tr>
<tr>
<td><strong>Dividend income received by the RLE from Russian and foreign legal entities.</strong></td>
<td></td>
<td>13 percent, payable to the federal budget. 0%, if the RLE receives dividends from a company where it has owned at least a 50 percent stake for over 365 days.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Interest income from some municipal and state bonds.</strong></td>
<td></td>
<td>15 percent, payable to the federal budget.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

3 If the statutory deadline falls on a non-working day (weekend or public holiday), it is moved to the first working day following the due date.
4 The regional budget tax rate can be reduced by the regional authorities (by no more than 4.5 p.p.).
5 Payments on a quarterly basis without advance monthly payments are possible if certain criteria are met. In this case, the payment deadline is the 28th day of the month following the reporting quarter.
## Withholding tax from income payable to FLE from sources in Russia

<table>
<thead>
<tr>
<th>Tax</th>
<th>Tax base</th>
<th>Rate</th>
<th>Payment deadline¹</th>
<th>Filing obligations</th>
<th>Filing deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Withholding tax</td>
<td>Income that is not related to the permanent establishment of the FLE in Russia, including (but not limited to):</td>
<td>20 percent for ordinary income&lt;br&gt;15 percent for dividends&lt;br&gt;10 percent² for income paid from rent, leasing, freight of ships, aircraft, trailers, and other transportation equipment, used on international routes.</td>
<td>Tax should be withheld and paid within one day of the payment of income to a Foreign Legal Entity (FLE). For dividends, tax payment must be made within one day.</td>
<td>Similar to profit tax. Tax agent submits reports on a monthly/quarterly basis and the final annual report.</td>
<td>Depends on the filing basis. On a monthly basis, <strong>monthly returns</strong> — no later than the 28th day of the month following the reporting month; the <strong>annual return</strong> — no later than 28 March of the year following the reporting year. On a quarterly basis, <strong>quarterly returns</strong> — no later than the 28th day of the month following the reporting quarter; the <strong>annual return</strong> — no later than 28 March of the year following the reporting year.</td>
</tr>
</tbody>
</table>

### VAT

<table>
<thead>
<tr>
<th>Tax</th>
<th>Tax base</th>
<th>Rate</th>
<th>Payment deadline¹</th>
<th>Filing obligations</th>
<th>Filing deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td>VAT</td>
<td>The value of goods (works, services) sold in Russia, transfer of goods (works, services) for own use, installation and construction works for own use. VAT payable to the tax authorities is determined as the difference between VAT charged to customers (output VAT) and VAT paid to suppliers of goods (works or services) and to the customs authorities (input VAT), provided that certain criteria are met.</td>
<td>18 percent — the standard rate.&lt;br&gt;10 percent — the rate for certain foodstuffs, goods for children, medicines, books, and periodicals.</td>
<td>1/3 of the tax amount payable is due on the 25th day of each month of the quarter following the reporting quarter.</td>
<td>Quarterly VAT returns, must be submitted to the tax authorities electronically.</td>
<td>Quarterly, no later than the 25th day of the month following the reporting quarter.</td>
</tr>
<tr>
<td></td>
<td>For imported goods, the taxable base is determined as their customs value plus the import duties and excises, where applicable.</td>
<td>18 percent — the standard rate.</td>
<td>VAT for import operations is paid to the customs authorities during customs clearance. Input VAT is later off-set against output VAT.</td>
<td>No special obligations.</td>
<td></td>
</tr>
</tbody>
</table>

---

7 Companies are entitled to an exemption from VAT if the amount of net sales for the three previous successive months was no more than RUB 2 million. Obtaining a VAT exemption requires the submission of confirmation documents to the tax authorities, no later than on the 20th day of the month when the exemption is expected to apply. The exemption will be valid for the next 12 months.

8 In this 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 no input VAT will be offset.
<table>
<thead>
<tr>
<th>Tax</th>
<th>Tax base</th>
<th>Rate</th>
<th>Payment deadline¹</th>
<th>Filing obligations</th>
<th>Filing deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Withholding VAT from revenue payable to an FLE⁹</td>
<td>Income paid to an FLE, not registered as a taxpayer in Russia, for services provided in the country.</td>
<td>18 percent — the standard rate 10 percent</td>
<td>VAT withheld is due to the budget on the day income is paid 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 day of the month following the reporting quarter.</td>
</tr>
<tr>
<td>Property tax</td>
<td>The average annual net book value of taxable fixed assets.¹⁰</td>
<td>Rates are established by the regional authorities.</td>
<td>Deadlines for payments are established by the regional authorities.</td>
<td>The annual tax return. Quarterly reports are to be established by regional authorities.</td>
<td>Quarterly — no later than the 30th day of the month following the reporting quarter.</td>
</tr>
<tr>
<td></td>
<td>For certain assets, the tax base is determined as their cadastral value as of 1st January of the tax period. From 1 January 2016, advance tax payments based on cadastral value are calculated for each quarter separately.</td>
<td>Moscow — 2.2 percent For fixed assets based on cadastral value: Moscow and other regions — 2 percent</td>
<td>Moscow: Quarterly — no later than the 30th day of the month following the reporting quarter Annually — no later than 30 March of the year following the reporting year.</td>
<td>Moscow: Interim quarterly and final annual tax returns.</td>
<td>Annually — no later than 30 March of the year following the reporting year.</td>
</tr>
<tr>
<td>Transportation tax</td>
<td>Vehicle’s engine capacity.</td>
<td>Rates are established by the regional authorities.</td>
<td>Deadlines for payments are established by the regional 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></td>
<td>Moscow: Rates vary from RUB 7 to RUB 2,000, depending on the type of vehicle and its engine capacity.</td>
<td>Moscow: The tax is paid once a year, no later than 5 February of the year following the reporting year.</td>
<td>Moscow: The annual tax return.</td>
<td></td>
</tr>
<tr>
<td>Land tax</td>
<td>The cadastral value of a plot of land determined in compliance with Russian land legislation as of 1 January of the tax period (year).</td>
<td>Rates are established by the local authorities (regional laws for the cities of Moscow and St. Petersburg).¹²</td>
<td>Deadlines are established by the 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></td>
<td>Moscow: Rates vary from 0.025 percent to 1.5 percent, 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. Annually — no later than 1 February of the year following the reporting year.</td>
<td>Moscow: The annual tax return.</td>
<td></td>
</tr>
</tbody>
</table>

⁹ To be withheld by the tax agent from the income paid to an FLE.
¹⁰ Property tax is to be paid based on the net book value of fixed assets which are put in operation. The value of real estate will also be included in calculations if it meets the criteria of Accounting Regulation 6/01.
¹¹ The tax rate cannot exceed 2.2 percent. The regional authorities can also establish varied tax rates in different categories of taxpayers and/or property.
¹² The tax rate cannot exceed 0.3-1.5 percent depending on the category of a plot of land. The local authorities, as well as Moscow and St. Petersburg legislation, can also establish varied tax rates.
<table>
<thead>
<tr>
<th>Report</th>
<th>Filing obligations</th>
<th>Filing deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unified (Simplified) Return</td>
<td>Quarterly tax returns.</td>
<td>Quarterly — no later than the 20th day of the month following the reporting quarter.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Submitted if a taxpayer has a “zero” tax base for Profit Tax, VAT and Property tax and has not made any transfers to/from his bank accounts.</td>
</tr>
</tbody>
</table>
### Duty Charged on Rate Deadline for duty payment Filing obligations Filing deadline

<table>
<thead>
<tr>
<th>Duty</th>
<th>Charged on</th>
<th>Rate</th>
<th>Deadline for duty payment</th>
<th>Filing obligations</th>
<th>Filing deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales duty</strong>&lt;br&gt;(effective in Moscow from 1 July 2015)</td>
<td>Number of sales outlets/sales area.</td>
<td>Rates are established by the local authorities (regional laws for the cities of Moscow and St. Petersburg).&lt;br&gt;Moscow:&lt;br&gt;Rates vary from RUB 21,000 to RUB 81,000 per quarter per outlet when the tax base is set based on the number of outlets, and from RUB 50 to RUB 1,200 per quarter per square meter when the tax base is set based on the sales area.</td>
<td>Not later than the 25th day of the month following the period of taxation (a quarter).</td>
<td>Registration and de-registration of sales tax payers is carried out based on the notification provided by the entity/individual entrepreneur.</td>
<td>Within five business days of the date when the taxable object is set up.</td>
</tr>
<tr>
<td><strong>Payroll-related taxes and contributions</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Tax / Contribution</strong>&lt;br&gt;(Pension insurance contributions&lt;sup&gt;14&lt;/sup&gt;)&lt;br&gt;(Social Security Contributions&lt;sup&gt;15&lt;/sup&gt;)</td>
<td>Tax Base</td>
<td>Rate</td>
<td>Deadline for tax payment</td>
<td>Filing obligations</td>
<td>Filing deadline</td>
</tr>
<tr>
<td>Pension insurance contributions&lt;sup&gt;14&lt;/sup&gt;</td>
<td>Payroll (salary, bonuses and other employee benefits).&lt;br&gt;For 2017, the tax base is capped at RUB 755,000.&lt;sup&gt;15&lt;/sup&gt;</td>
<td>5.1 percent.&lt;br&gt;2.9 percent</td>
<td>Same as for pension insurance contributions.&lt;br&gt;The same as for pension insurance contributions.</td>
<td>Quarterly reports on Pension insurance contributions, on Medical insurance contributions, on Social Security contributions in case of temporary disability and due to maternity must be submitted to the Tax authority.&lt;br&gt;Quarterly reports on Pension insurance contributions, on Medical insurance contributions, on Social Security contributions in case of temporary disability and due to maternity must be submitted to the Tax authority.</td>
<td>Quarterly — no later than the 30th day of the reporting quarter.</td>
</tr>
</tbody>
</table>

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13 Insurance contributions are not payable in respect of the foreign nationals temporarily staying in Russia if they hold the status of a highly qualified employee (except for accident insurance contributions to the Social Insurance Fund that are accrued for all employees).

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

15 The cap is adjusted by the Government on an annual basis.
## Accident insurance 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>Filing deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accident insurance contributions</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 percent to 8.5 percent and are determined annually by the SSF depending on the type of RLE's activity in Russia.</td>
<td>Monthly, depending on salary payment dates, but no 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 day (for reports in hard copy) or the 25th day (for electronic reports) of the month following the reporting quarter.</td>
</tr>
</tbody>
</table>

## Personal income tax (PIT)\(^17\)

<table>
<thead>
<tr>
<th>Tax</th>
<th>Tax base</th>
<th>Rate</th>
<th>Deadline for tax payment</th>
<th>Filing obligations</th>
<th>Filing deadline</th>
</tr>
</thead>
</table>
| Personal income tax (PIT)\(^17\)       | RLEs acting as tax agents are obliged to withhold and pay the tax, based on salaries and benefits in kind, paid or provided to employees and other individuals. | 13 percent — for tax residents\(^18\) and highly qualified specialists\(^19\).  
35 percent — for certain benefits in kind.  
13 percent — for dividends, received by tax residents from Russian corporations.  
30 percent — for non-residents.  
15 percent — for dividends, received by non-residents from Russian companies. | On a monthly basis, no later than the day following the day of salary payment. For sick leaves and vacations payments, no later than the end of the month.  
PIT on advance salary payments may not be withheld. | An annual report with information on income and PIT of employees as per special form (2-NDFL).         | Quarterly report with calculation of PIT (6-NDFL) — no later than the last day of the month following the reporting quarter.  
Annually (Q4) — no later than 1 April of the year following the reporting year. |

## Personal information about employees (full name, INN (Taxpayer's ID), SNILS (social security number))

<table>
<thead>
<tr>
<th>Tax</th>
<th>Tax base</th>
<th>Rate</th>
<th>Deadline for tax payment</th>
<th>Filing obligations</th>
<th>Filing deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal information about employees</td>
<td></td>
<td></td>
<td>Monthly report to the Pension fund</td>
<td>Monthly report — no later than the 15th day of the month following the reporting month.</td>
<td></td>
</tr>
</tbody>
</table>

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

18 Individuals (Russian and foreign citizens) who have spent more than 183 days in Russia during a 12-month period (not taking into account the breaks for academic leaves, medical care and business trips/assignments to offshore hydrocarbon deposits outside of Russia that do not exceed six months).

19 Highly qualified specialists are eligible for the 13 percent personal income tax rate (i.e. the rate applicable for tax residents) on income received from their 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 “employment income of highly qualified specialist”, including only the salary, bonuses, and business trip allowance.

20 If the employer provides any benefits in kind to the employees, but 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. In such cases, the taxpayer files reports twice: no later than 1 March and no later than 1 April of the year following the reporting year.
<table>
<thead>
<tr>
<th>Report</th>
<th>Filing obligations</th>
<th>Filing deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Headcount Report</td>
<td>An annual report to the tax authorities.</td>
<td>Annual report — no later than 20 January of the year following the reporting year.</td>
</tr>
<tr>
<td>Confirmation of the main type of company's activity</td>
<td>Annually report to the Social Security Fund.</td>
<td>Annually — no later than 15 April of the year following the reporting year.</td>
</tr>
</tbody>
</table>
Transfer pricing regulations

<table>
<thead>
<tr>
<th>Documentation to Tax authorities</th>
<th>Criteria for controlled transactions</th>
<th>Filing deadline</th>
</tr>
</thead>
</table>
| Notification on controlled transactions | 01. Transactions between interdependent entities that are residents of the Russian Federation:  
A. The volume of transaction (including those performed through a chain of intermediaries) exceeded RUB 1 billion.  
B. The volume of transaction exceeded RUB 60 million in a calendar year and:  
   i. It involves operations with mineral resources subject to the ad valorem component of the mineral extraction tax (MET), and one of the parties is a MET tax payer at the ad valorem rate, or  
   ii. One of the parties does not pay profit tax or qualifies for a zero rate (Skolkovo resident), or  
   iii. One of the parties is a member of the regional investment project which does not pay corporate income tax to the Federal budget and (or) pays it at a reduced tax rate to the Regional budget, or  
   iv. One of the parties is a member of a regional investment project or a participant of the free economic zone, therefore receiving special benefits concerning the corporate income tax, while the other party(ies) to the transaction is not a resident of this special economic zone / participant of a free economic zone (Crimean economic zone project), or  
   v. One of the parties is a licence holder or an operator of a new offshore hydrocarbon deposit, recording the income (expenses) on such transaction for corporate income tax purposes according to a special procedure, set forth in the law, while the other party is not a licence holder or an operator of a new offshore hydrocarbon deposit, or it is a licence holder or an operator of a new offshore hydrocarbon deposit, but it does not record the income (expenses) from such transaction for corporate income tax purposes according to a special procedure, set forth in the law  
C. The volume of transaction exceeded RUB 100 million in a calendar year and one of the parties pays the unified tax on imputed income or the unified agricultural tax.  
02. Transactions with foreign organizations:  
A. Transactions with interdependent entities (including through a chain of intermediaries).  
B. Transactions with a counterparty whose place of registration or place of living or place of tax residence is an offshore zone, if the transaction amount exceeds RUB 60 million.  
C. Foreign trade transactions in the following commodities: oil and oil products, ferrous and non-ferrous metals, mineral fertilisers, precious metals and jewellery, if the transaction amount exceeds RUB 60 million. | No later than 20 May of the year following the calendar year when controlled transactions were carried out. |

21 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>Filing deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ecological levy</strong>&lt;sup&gt;22&lt;/sup&gt;</td>
<td>Special reports on different pollution types: atmospheric pollution, water pollution, waste disposal, noise, and others. The levy has multiple rate brackets (depending on the type of pollution).</td>
<td>Annually — reporting no later than 10 March and payment no later than 1 March, following the reporting year.</td>
</tr>
<tr>
<td><strong>Environmental duty</strong></td>
<td>Special reports on goods and packaging. The duty has multiple rate brackets (depending on the type of goods or their packaging)&lt;sup&gt;23&lt;/sup&gt;.</td>
<td>Annually — a calculation form of the amount of the environmental fee and payment no later than 15 April of the year following the reporting year&lt;br&gt;Annually — a declaration of goods and packaging no later than 1 April of the year following the reporting year&lt;br&gt;Annually — a report on the implementation of standards of waste disposal from use of the goods subject to disposal after loss of consumer properties no later than 1 April of the year following the reporting year</td>
</tr>
<tr>
<td><strong>Statistical reporting</strong>&lt;sup&gt;24&lt;/sup&gt;</td>
<td>Form P-1 for entities with more than 15 employees&lt;br&gt;Form P-2&lt;br&gt;Form P-3: monthly and quarterly — for entities with more than 15 employees;&lt;br&gt;Form P-4: Monthly — for entities with more than 15 employees&lt;br&gt;Quarterly — for entities with fewer than 15 employees&lt;br&gt;Form 1-Enterprise: Annually for all entities (except small-scale businesses, banks, insurance and financial organizations)&lt;br&gt;Form P-5 for entities with fewer than 15 employees&lt;br&gt;Form P-6 for entities receiving or making foreign investments&lt;br&gt;Form 1-T&lt;br&gt;Form 1-DA for for entities working in the service sector&lt;br&gt;Form 1-VES for entities with foreign participation</td>
<td>Monthly — no later than the 4th day of the month following the reporting month&lt;br&gt;Quarterly — no later than the 20th day of the month following the reporting quarter&lt;br&gt;Monthly — no later than the 28th day of the month following the reporting month&lt;br&gt;Quarterly — no later than the 30th day of the month following the reporting quarter&lt;br&gt;Monthly — no later than the 15th day of the month following the reporting month&lt;br&gt;Quarterly — no later than the 15th day of the month following the reporting quarter&lt;br&gt;Annually — no later than 1 April of the year following the reporting year&lt;br&gt;Quarterly — no later than the 30th day of the month following the reporting quarter&lt;br&gt;Annually — no later than 20 January of the year following the reporting year&lt;br&gt;Annually — no later than 24 March of the year following the reporting year&lt;br&gt;Quarterly — by the 15th day of the second month, following the reporting quarter</td>
</tr>
</tbody>
</table>

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<sup>22</sup> The Ecological levy is not considered to be a tax payment and is regulated by Rostekhnadzor, the state technical safety body. Payment and reporting requirements need to be clarified with it.

<sup>23</sup> 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 the environmental duty.

<sup>24</sup> Please note that these reports do not provide for any taxes and levies to be paid, but only disclose the overall accounting figures concerning various activities of an entity. The full list of reports should be confirmed with the local statistics office.

<sup>25</sup> 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.
If you have any questions, please contact Deloitte professionals from the Moscow-based Business Process Solutions group at +7 (495) 787 06 00.

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