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International tax

Russia Highlights 2013

Investment basics:

Currency – Russian Ruble (RUB)

Foreign exchange control – Some exchange control restrictions are placed on Russian residents (including legal entities), but none apply to the repatriation of profits to a nonresident entity. Residents and nonresidents can hold bank accounts in any currency.

Accounting principles/financial statements – Russian Accounting Standards apply and vary substantially from IFRS. Statements generally must be prepared quarterly and annually.

Principal business entities – These are the “open” and “closed” joint stock company, limited liability company, partnership, sole proprietorship and branch of a foreign entity.

Corporate taxation:

Residence – The taxation of an entity depends on whether it is incorporated under Russian or foreign law.

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

Taxable income – Profits tax is imposed on a company's profits, which consist of business/trading income, passive income and capital gains. Normal business expenses may be deducted in calculating profits provided they are economically justified, incurred in the generation of income and supported by adequate documentation.

Taxation of dividends – Dividends received by a Russian entity from both Russian and foreign entities generally are subject to tax at 9%. (See under “Participation exemption,” below.)

Capital gains – Capital gains are taxed as ordinary income at the normal corporate rate. Gains realized on the sale of unquoted shares and participations in Russian companies, and quoted shares in high-technology Russian companies that are acquired after 1 January 2011 and held for more than five years, are exempt.

Losses – Losses may be carried forward for 10 years (except for losses derived from activities subject to a 0% profits tax rate).

Rate – 20%

Surtax – No

Alternative minimum tax – No

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

Participation exemption – To qualify for the participation exemption, which applies only to dividend income, the Russian company must hold a participation of at least 50% and the interest must have been held for at least one year. A foreign investee must not be a resident in a "black list" country.

Holding company regime – No

Incentives – A reduction in the rate of profits tax of up to 6.5%, along with other benefits, is available for investment projects in certain regions. A 10-year profits tax exemption applies to the Skolkovo Innovation Center. Technology and software companies may also receive some tax concessions. A profits tax exemption also applies to a range of educational and medical services. A 150% deduction for profits tax purposes is available for qualifying R&D expenditure.

Withholding tax:

Dividends – Dividends paid (net of dividends received in the same tax period) to another Russian entity or to a Russian resident individual are subject to withholding tax at a rate of 9%. Dividends paid to a foreign entity or to a nonresident individual are subject to a 15% withholding tax, unless the rate is reduced under a tax treaty.

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

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

Technical service fees – No

Branch remittance tax – No

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

Other taxes on corporations:

Capital duty – No

Payroll tax – No

Real property tax – Tax is levied at rates up to 1.5% of the cadastral value per annum.

Social security – The employer is required to make pay-related contributions to pension, social and medical insurance funds. The rate is 30% of remuneration up to RUB 512,000, plus 10% of any excess over this amount.

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

Transfer tax – No

Other – Property tax is a regional tax imposed under local legislation. The maximum rate is 2.2%. The tax base includes immovable fixed assets and certain movable fixed assets owned by the taxpayer, excluding land, and is calculated based on the depreciated book value of the assets as of the balance-sheet date.

Anti-avoidance rules:

Transfer pricing – Comprehensive transfer pricing provisions, which are substantially in line with OECD principles, apply. The rules include detailed documentation requirements and allow for the possibility of obtaining an advance pricing agreement.

Thin capitalization – The thin capitalization rules restrict the deductibility of interest on loans to related legal entities and apply where the lender is:

- A foreign company that owns directly or indirectly more than 20% of the charter capital of a Russian company; or

- A Russian company that is an affiliate of such a foreign company; or
- Any company to which such Russian-affiliated or foreign company itself undertakes to act as a guarantor or to secure in any other way the discharge of the loan by the Russian borrower.

The maximum debt-to-equity ratio is 3:1 for related legal entities in general, and 12.5:1 for banks and leasing companies. Excess interest is recharacterized as a dividend distribution and is nondeductible by the borrower for Russian profits tax purposes and subject to dividend withholding tax.

Controlled foreign companies – No

Disclosure requirements – No

Administration and compliance:

Tax year – Calendar year

Consolidated returns – As from 1 January 2012, Russian companies forming a group with 90% (or more) direct or indirect ownership, may file a consolidated tax return if the following conditions are satisfied for the preceding calendar year: tax payments of more than RUB 10 billion, together with revenue and assets of more than RUB 100 billion and RUB 300 billion, respectively, calculated according to Russian Accounting Standards. The tax losses of any company before joining the group cannot be offset against group profits.

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

Penalties – Generally 20% of the relevant tax or 40% if the default is intentional, plus fixed penalties. Criminal sanctions also may apply.

Rulings – Rulings generally are not granted, but there is the possibility of obtaining an advance pricing agreement under the transfer pricing rules.

Personal taxation:

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

Residence – An individual is resident if he/she spends more than 183 days in Russia during the 12-month period that corresponds to the calendar year.

Filing status – There is no joint filing or assessment for spouses.

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

Capital gains – Gains realized on the sale of unquoted shares and participations in Russian companies, and quoted shares in high-technology Russian companies that are acquired after 1 January 2011 and held for more than five years, are exempt. Other gains realized on the sale of shares and securities are subject to income tax. The sale of other types of property by a Russian resident is exempt after a three-year holding period.

Deductions and allowances – Subject to certain restrictions, resident taxpayers may be able to claim deductions for pension, insurance, medical and educational costs, and a standard deduction applies to those with very low income. A one-time deduction of RUB 2 million is granted on the acquisition of a residence, as well as for mortgage interest payments.

Rates – A flat rate of 13% applies to Russian residents on most types of income, and 30% to nonresidents on Russian-source income. Dividends from Russian companies are fully taxed at source: 9% for residents and 15% for nonresidents.

Other taxes on individuals:

Capital duty – No

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

Capital acquisitions tax – No

Real property tax – Tax is imposed at rates up to 2% of the cadastral value per annum.

Inheritance/estate tax – No

Net wealth/net worth tax – No

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

Administration and compliance:

Tax year – Calendar year

Filing and payment – Tax on employment income is withheld by the employer and remitted to the tax authorities. In certain cases, individuals should report their income by filing a tax return no later than 30 April following the year of assessment, with any tax outstanding due by 15 July. Foreign nationals leaving Russia must submit a departure tax return no later than one month before departure, and pay any tax due within 15 days of the filing date.

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

Value added tax:

Taxable transactions – VAT is levied on the sale of goods, the provision of work/services deemed to be supplied in the Russian territory (including the continental shelf and exclusive economic zone), the transfer of property rights and the import of goods.

Rates – The standard VAT rate is 18%, with a reduced rate of 10% and a zero rate.

Registration – An exemption from VAT may be applied for if sales do not exceed RUB 2 million in the previous three months. A foreign entity cannot register for VAT purposes only.

Filing and payment – A quarterly schedule applies on an accruals basis only.

Source of tax law: Tax Code of the Russian Federation

Tax treaties: Russia has concluded 77 income tax treaties.

Tax authorities: Federal Tax Authority

International organizations: CIS, G8, Customs Union with Kazakhstan and Belarus

Deloitte contact
Elena Solovyova
E-mail: esolovyova@deloitte.ru